Initiating Coverage | 16 November 2017
Sector: Financials

Aditya Birla Capital

Perfect blend

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Aditya Birla Capital

BSE Sensex	S&P CNX
33,034	10,225

CMP: INR190 **TP: INR231 (+22%)** **Buy**

Stock Info

Bloomberg	ABCAP IN
Equity Shares (m)	2,201
52-Week Range (INR)	264/174
1, 6, 12 Rel. Per (%)	-5/-/-
M.Cap. (INR b)	418
M.Cap. (USD b)	6.4
Avg Val, INRm	1253
Free float (%)	27.2

Financial Snapshot (INR b)

Y/E March	2018E	2019E	2020E
PBT Break-up			
NBFC	11.6	15.1	19.6
Housing	0.1	1.4	2.9
AMC	4.9	6.9	9.9
Life Insurance	1.6	1.9	2.1
Consol PBT	16.3	23.5	33.6
Consol PAT Post MI	8.4	12.6	18.7
Growth (%)	52.9	44.6	43.0
RoE (%)	12.5	12.3	13.6

Shareholding pattern (%)

As On	Sep-17
Promoter	72.8
DII	7.4
FII	7.9
Others	11.9

FII Includes depository receipts

Aditya Birla Capital

Perfect blend of growth and quality

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Perfect blend of growth and quality

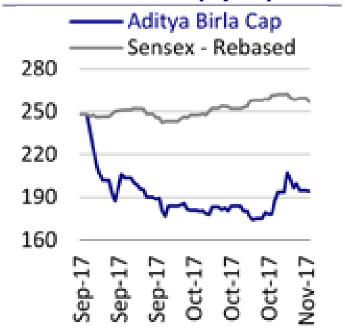
A large diversified conglomerate in the making

- **Aditya Birla Capital (ABCL) is one of the most diversified financial services entities in India, operating under a single brand, with a presence in non-bank financing, housing finance, asset management, insurance and advisory businesses. In its major businesses, it is among the top-5 private players in terms of market share.**
- **ABCL was a 100% subsidiary of erst-while Aditya Birla Nuvo. Post AB Nuvo's merger with Grasim, ABCL was carved out as a separate entity. Grasim, the flagship company of the Aditya Birla group, owns ~57% and other promoter group entities own ~17% in ABCL. The management team is led by Mr Ajay Srinivasan, who has rich experience of over three decades, of which a decade has been within the group. With a strong management team at the helm, we expect ABCL to emerge as a strong play on financialization of savings and low penetration across financial services businesses.**
- **We use SOTP to value the company. We value the NBFC at 3.2x BV (~30% AUM CAGR, with PAT CAGR of ~33%, RoE of ~15%), HFC at 2x BV (loan book of INR232b v/s INR48 in 1HFY18; RoA of 1.1% v/s 0.5% in FY18 - in investment phase), AMC at 30x earnings (AUM CAGR of ~27%; RoE of 30%+; implied 4.5% of FY20 AUM) and Insurance at 2.2x EV (10% premium to last deal valuation - based on IEV reporting).**
- **The lending business contributes 70% of the SOTP valuation (in line with the share in net worth), followed by the AMC business (>18%) and the insurance business (~10%). The company has been aggressively seeding investments in businesses like insurance broking and investment advisory. However, considering their nascent stage, we have not assigned any value to them. The implied valuation multiples work out to 3.5x FY20E consolidated BV and 30x FY20E consolidated EPS.**

Fastest-growing NBFC business – expect ~30% loan CAGR

ABCL's non-bank financing (NBFC) business – ABFL (Aditya Birla Finance) – has seen a strong CAGR of 60% over FY12-17 (at INR389b as of 1HFY18). It is present across the spectrum, with a diversified loan book – retail and SME loans constitute 32%, mid-corporate loans 16%, large corporate loans 40%, and other loans 12%. Despite migration of NPL recognition to 90dpd and economic downturn, the company's GNPA has remained at 0.5-1.2% (credit cost of 0.5% including standard asset provisioning). We factor in loan CAGR of ~30% over FY17-20, and expect healthy RoA (2%+) and asset quality (GNPA less than 1%). We believe internal accruals (RoE of 15%) are unlikely to keep pace with the growth capital requirement and factor in capital infusion of ~INR25b over FY18-20. This business contributes almost 63% to our SOTP.

Stock Performance (1-year)



AMC business in a sweet spot

ABCL's asset management subsidiary, ABSLAMC is the fourth-largest AMC in India, with AUM of USD35b (26% CAGR since March 2013), of which 30% is in equities. It has a strong base of 4.3m investor folios. ABSLAMC has gained 350/130bp market share in equity AUM/total AUM to 9%/10.7%. The AMC business in India is highly concentrated, with the top-5/10 players controlling 57/81% of AUM. Due to higher upfront commission rates on sourcing for equity schemes, near-term profitability is under pressure. Stickiness of this AUM is the key for strong operating leverage, going forward. As the AUM matures, we expect ROAUM to improve from the current 11bp to 15bp. We expect PAT CAGR of 43% against AUM CAGR of 27% over FY17-20. We value ABSLAMC at 30x FY20E EPS. The AMC business contributes 18% of our SOTP value (implied 4.5% of FY20 AUM).

Banca tie-up to rejuvenate life insurance business

Absence of a strong bancassurance partnership and regulatory changes (high share of ULIPs distributed by agents) led to a significant individual business market share loss for ABCL's life insurance subsidiary, ABSLI over FY10-17. With open architecture, ABSLI has recently tied up with large banks like HDFCB, DBS and LVB. It also has tie-ups with DB, DCB and KVB. With larger banking partners and a higher focus on the direct channel (online, MRs), we expect growth to pick up. Given muted profitability and strain of the back book, we value ABSLI at a PEV of 2.2x (50% discount to large players and 10% premium to the last stake sale to Sunlife). This business merged with the parent on 23 March 2017. Hence, from FY18, it will be properly reflected in consolidated earnings. The life insurance business contributes 10% of our SOTP.

Housing finance – at a nascent stage, but huge opportunity

Over the last three years, the housing finance subsidiary has scaled up its loan book to INR58b, with a presence across segments. It has a diversified portfolio, with 59% as housing loans, 11% as construction finance loans, and 30% as LAP/LRD. The company's focus is on the larger-ticket-size and better-yield self-employed segment. It plans to aggressively scale up in LAP and affordable housing. ABCL is growing through a B2B2C business model, with tie-ups with developers and builders. With strong macro tailwinds and significant investment in distribution, we expect AUM to reach to INR232b by FY20. We factor in INR12b of additional growth capital infusion in this business by FY20. The housing finance business contributes ~8% of our SOTP.

Diversified conglomerate with blend of quality and growth

With a strong management team at the helm of affairs, we expect ABCL to be a strong play on financialization of savings and low penetration across financial services business. The company is expected to report a 45%+ PAT CAGR, driven by strong traction in the lending and asset management businesses. Lending (>70%) and AMC (~18%) businesses are also the key valuation drivers. At the group level, we have assumed capital infusion of INR35b by FY20. The company can raise debt capital to fund growth (CIC structure at parent level – 30% statutory capital requirement). The AMC, with RoE of ~30%, is also likely to return capital to the parent. Better-than-expected performance on growth can drive valuation higher. Ventures like insurance broking, money management advisory and PE are at a nascent stage, and their profit contribution is likely to be marginal in the near term. **Initiate with a Buy rating and an SOTP-based target price of INR231 (implied 3.5x FY20E BV and 30x FY20E EPS).**

Exhibit 1: SOTP (FY20E based)

	Stake (%)	Value (INR B)	Value (USD B)	INR per share	% To Total	Rationale
NBFC	100	349	5.4	145	63	3.2x PBV
HFC	100	46	0.7	19	8	2.0x PBV
AMC	51	100	1.5	42	18	30x Earnings; Implied 4.5% of AUM
Life Insurance	51	57	0.9	24	10	2.2x EV; 10% premium to last stake sale
ABML		5	0.1	2	1	CMP
Target Value		**557**	**8.6**	**231**	**100**	
Current market cap.		418	6.4	190		
Upside (%)		**21.6**	**21.6**	**21.6**		

Source: MOSL, Company

Exhibit 2: Lending and AMC to contribute ~90% of PBT going forward (INR Million)

Y/E MARCH	2015	2016	2017	2018E	2019E	2020E
NBFC	4,108	6,264	8,319	11,600	15,147	19,586
Housing	-56	-302	-155	112	1,434	2,875
AMC	1,816	3,136	3,371	4,895	6,887	9,899
Life Insurance	0	0	0	1,600	1,850	2,100
Other Businesses	-291	-331	-534	-1,450	-1,313	-341
Consolidation Adjustments	-388	-78	-343	-500	-500	-500
Consolidated PBT	**5,190**	**8,688**	**10,658**	**16,258**	**23,505**	**33,619**
Taxes	2,101	3,446	3,746	5,690	8,227	11,767
Tax Rate (%)	40.5	39.7	35.1	35.0	35.0	35.0
Consolidated PAT	**3,089**	**5,242**	**6,912**	**10,567**	**15,279**	**21,852**
Minoirty Interest	696	1,436	1,612	2,200	2,640	3,168
Consolidated PAT Post MI	**2,393**	**3,806**	**5,300**	**8,367**	**12,639**	**18,684**
% of Total PBT						
NBFC	79.2	72.1	78.1	71.4	64.4	58.3
Housing	-1.1	-3.5	-1.5	0.7	6.1	8.6
AMC	35.0	36.1	31.6	30.1	29.3	29.4
Life Insurance	0.0	0.0	0.0	9.8	7.9	6.2
Other Businesses	-5.6	-3.8	-5.0	-8.9	-5.6	-1.0
Consolidation Adjustments	-7.5	-0.9	-3.2	-3.1	-2.1	-1.5
Consolidated PBT	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source:

Among the largest diversified NBFCs in India

Strong growth coupled with excellent asset quality

- **Aditya Birla Finance Limited (ABFL) is one of the fastest growing NBFCs in India. Its AUM has grown at a CAGR of ~60% CAGR FY12-1H18 from INR37b to INR389b.**
- **Unlike many other NBFCs that are mono-line players, ABFL has a wide product suite ranging from retail consumer lending to large corporate wholesale financing.**
- **Despite strong loan book growth, ABFL has maintained pristine asset quality. GNPL has been less than 50bp over the past few years. Even credit costs (incl. std. asset provisions) have averaged 30bp over the past four years, the lowest among peers.**

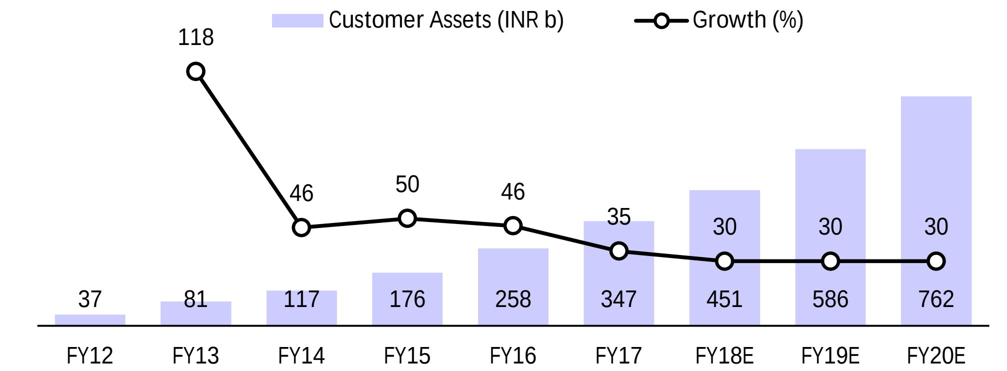
44% AUM CAGR over FY13-17 driven by wide product suite

Strong AUM growth led by product diversification

Since inception of diversification in 2011, ABFL has emerged as one of the leading diversified asset mix NBFCs in India. It reported AUM CAGR of 60% over FY12-17 to INR389b (1HFY18). In terms of asset size, it is among the top-5 NBFCs in India (ex HFCs and state-owned entities). Focus on product and customer diversification, rub-off of the strong Aditya Birla brand, effective use of technology platform, superior turnaround time (90% of back-end operations are automated), cross-selling, and continued customer engagements have been the drivers of its strong growth. ~80% of ABFL's book is directly sourced and ~58% of its book comes from the western region. We expect ABFL to report 30%+ AUM CAGR, with higher focus on retail, SME and mid-corporate segments along with new location additions.

In our view, the company can continue to deliver 30%+ AUM CAGR over the medium term

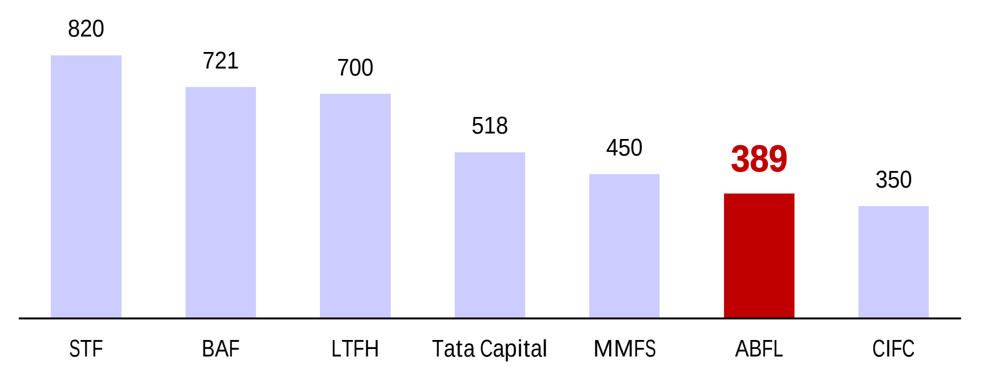
Exhibit 3: ~60% AUM CAGR over the past five years



Source: MOSL, Company

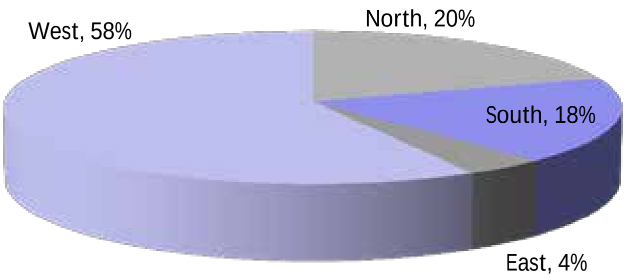
ABFL is one of the ten largest NBFCs in India

Exhibit 4: Among the largest private-sector NBFCs in India (INR b)



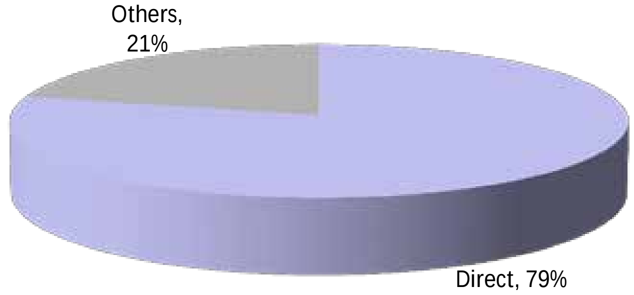
Source: MOSL, Company; Note: ABFL loan book is ex-HFC

Exhibit 5: Bulk of the business comes from West India



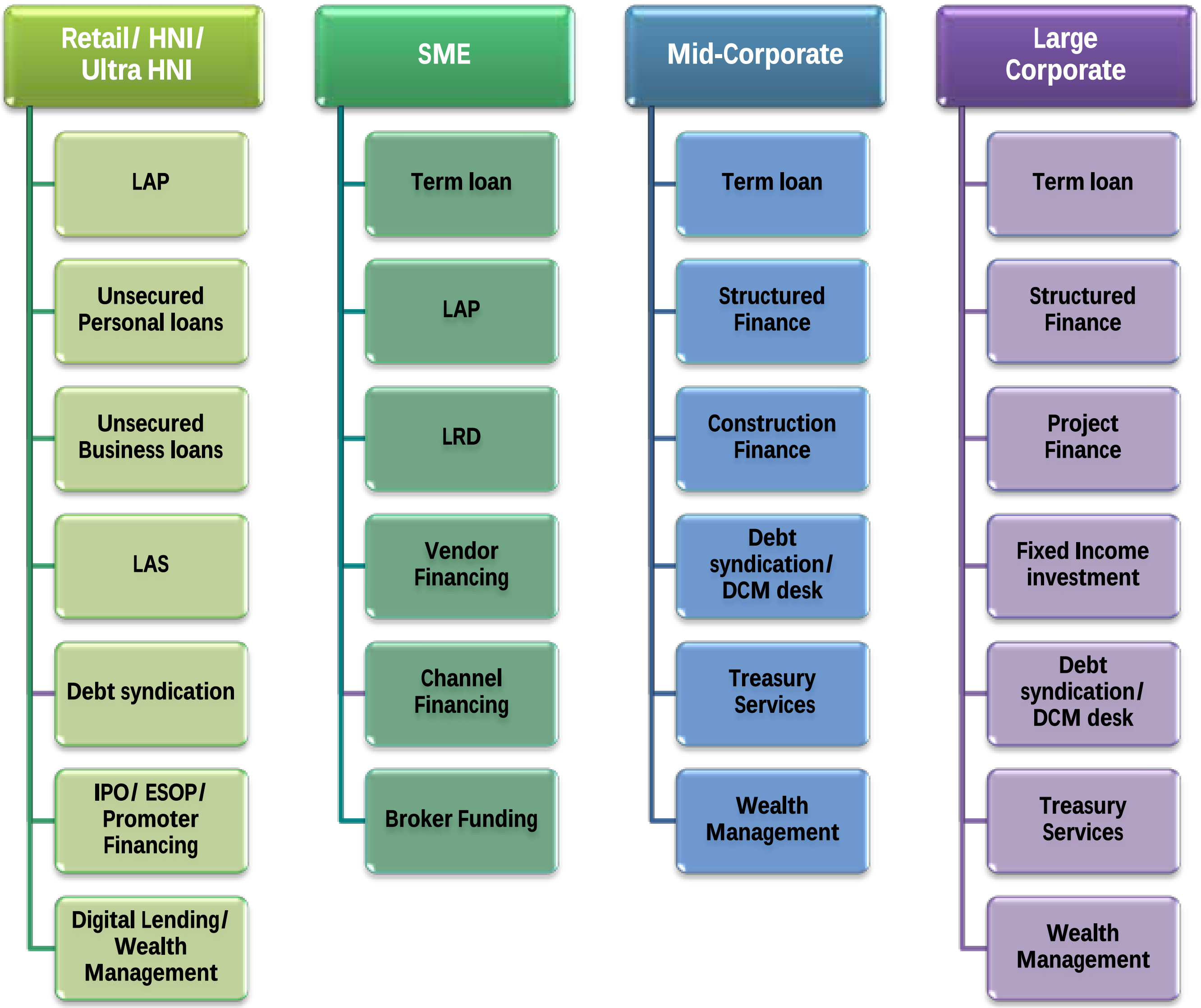
Source: MOSL, Company

Exhibit 6: Bulk of the sourcing is direct



Source: MOSL, Company

Exhibit 7: Wide array of products across business segments



Source: MOSL, Company

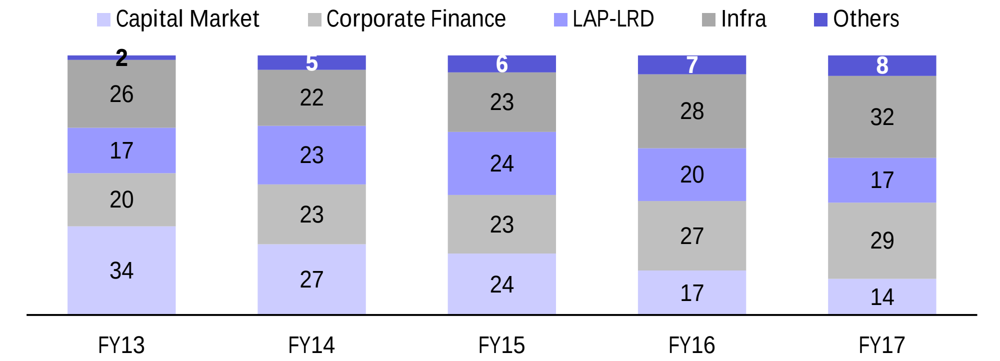
Share of retail and SME lending to increase from 33% to 50% over the medium term

Retail and SME segment – a key focus area

ABFL started with capital market linked lending and has since diversified significantly both in terms of products and customer segments. Capital market related lending, which accounted for 34% of the loan book in FY13, accounted for only 14% of the loan book in FY17. Over the same period, the share of corporate finance and infrastructure lending increased from 21% and 26%, respectively to 29% and 32%.

In terms of loan size classification, SME (24%) and retail (10%) loans have been ABFL's key focus areas and it plans to increase their share to 50% of the overall portfolio. Within retail, it has higher focus on digital and unsecured loans (3% of overall) and plans to increase the share unsecured loans (both personal and business) to 10%. It also plans to add education loans and consumer durables loans.

Exhibit 8: Share of infra lending on the rise



Source: MOSL, Company

In the SME segment, ABFL has been focusing on vendors across the value chain for the Aditya Birla group. In the mid-corporate segment, its focus is largely on providing customized solutions and on SME relationships that are becoming big. Term loans, construction and structured finance, and syndication are some of the key offerings in this segment.

Mid-corporate and ultra-HNI segment – 25% of loan book

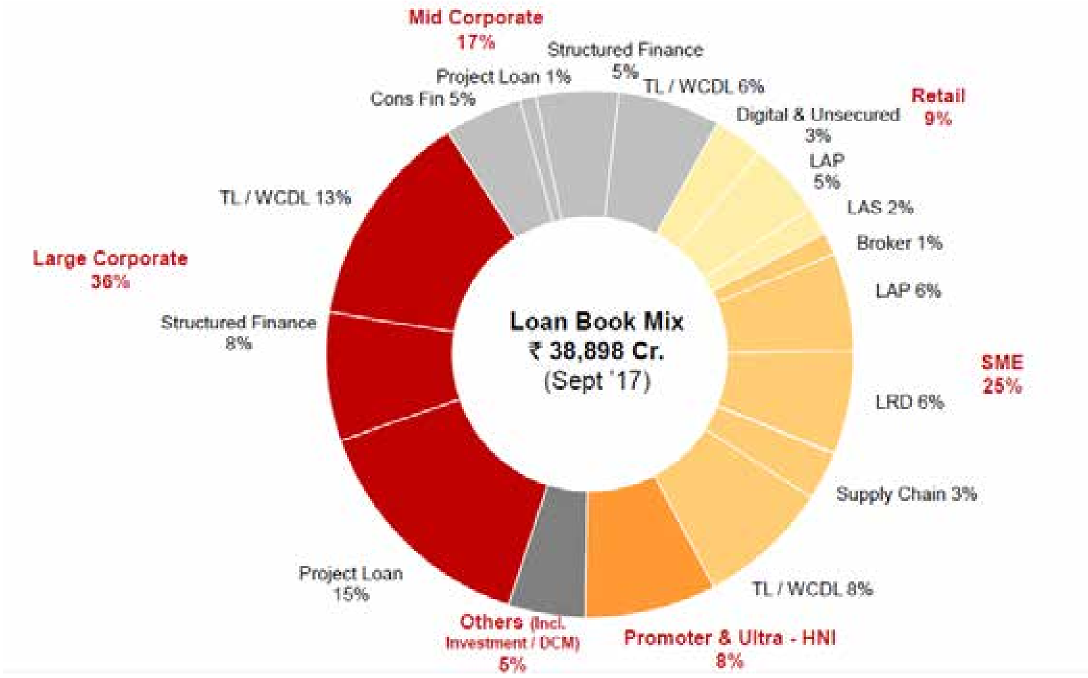
Ultra HNIs (8%) and mid-corporates (17%) now constitute ~25% of ABFL's overall book. In each of the focus areas, the company has product offerings across the spectrum. Further, customized solutions help ABFL to get in roads with customers in a highly competitive environment. The ultra-HNI segment also includes promoter financing and such relationships can be leveraged upon.

95% of project finance is to operational projects

Corporate loans – 40% of loan book

ABFL is sector-agnostic to grow its book and has exposure across infra, construction, hospitality, education, healthcare, etc. Book growth has been opportunistic and selective (high quality corporates/groups – targets top-150 corporates). Term loans, debt syndication, and structured financing are some of the key products. The company also provides project financing to large corporates by underwriting solutions for mid-sized projects and syndication for large-size projects. Note that 95% of project lending is to operational projects.

Exhibit 9: 53% of the loan book is in large and mid-corporate lending



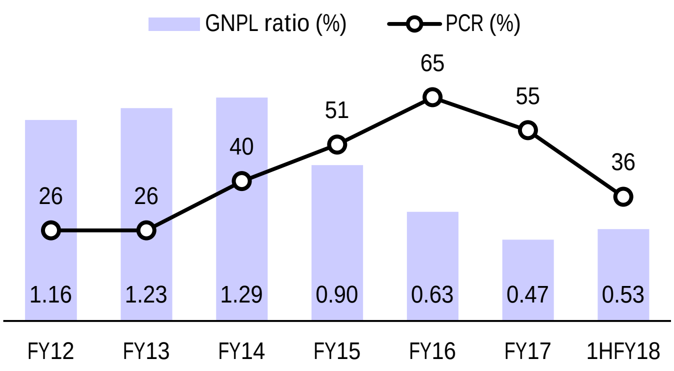
Source: MOSL, Company

Average GNPL ratio of 90bp and average credit cost of 50bp over the past five years

Asset quality – best in the sector

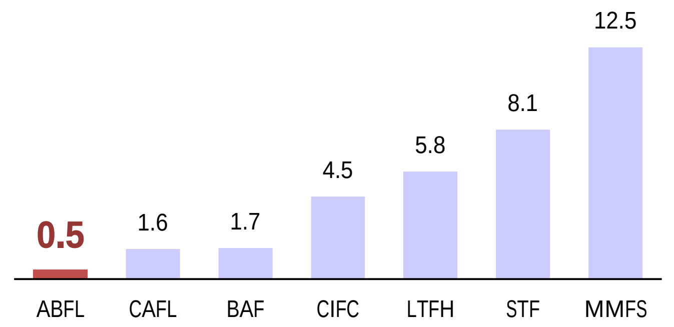
ABFL has a strong track record of asset quality, with GNPA of 0.5-1.3% and NNPA of 0.3-0.8% over the last five years. Despite reduction in DPD recognition and stress in the overall economy, ABFL has managed to contain GNPA at ~0.5% and NNPA at ~0.3% over the last two years. ABFL has separate sourcing and underwriting teams for each product. Regular monitoring including early warning signals, effective diversification, customized product offering, and cash flow-based lending are some of the key factors driving its strong asset quality performance.

Exhibit 10: Asset quality has consistently been good



Source: MOSL, Company

Exhibit 11: GNPL ratio v/s peers (1HFY18, %)

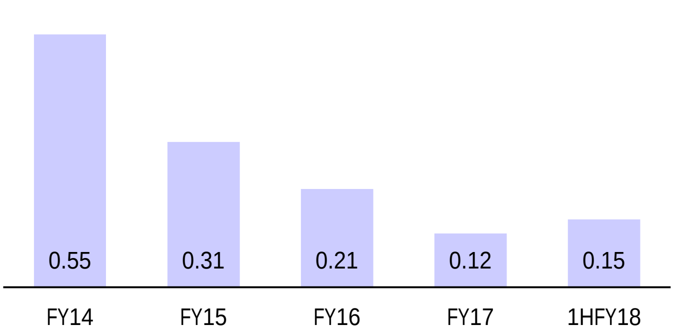


Source: MOSL, Company; Note: STF at 120dpd, Others at 90dpd

95% of project loans are against operational projects

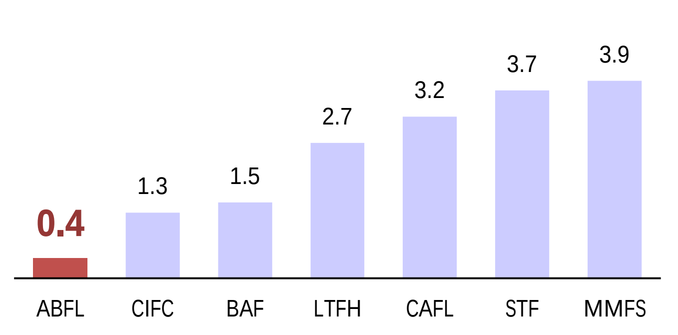
ABFL's key success factors have been effective risk management and customer selection. It lends largely to companies with strong promoter backing. Even in the infrastructure segment, focus is on operational projects. Project loans constitute 15% of overall loans and 95%+ of the project loans are to operational projects. Average credit rating (internal) for corporate loans stands at A+. Average credit cost in the balance sheet over the last four years has been ~0.30%.

Exhibit 12: Credit costs have consistently been benign (%)



Source: MOSL, Company

Exhibit 13: Credit costs (FY17, %) v/s peers



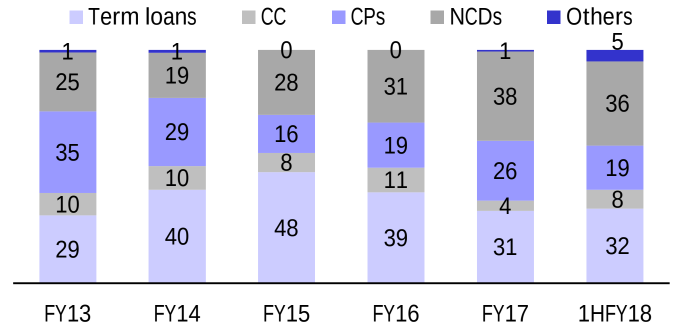
Source: MOSL, Company; Note: Including std. asset provisions

Dependence on term loans has been reducing gradually

Diversification of liability profile

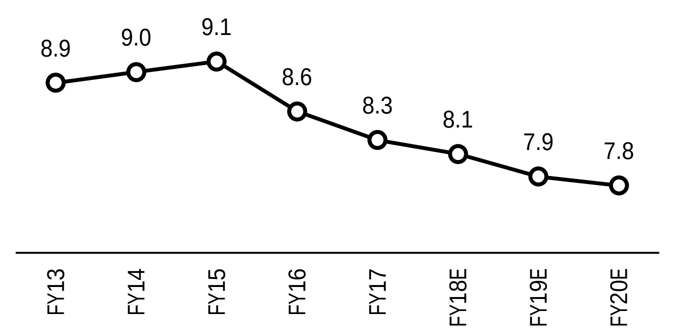
ABFL has a strong treasury team, with focus on ALM and minimizing borrowing cost. It has effectively leveraged the parent brand, which helps to effectively lower cost of funds and diversify liability profile. Led by easy liquidity scenario, the share of CPs has gone up in recent times. In November 2017, ABFL's long term issuer rating was upgraded to AAA by India Ratings. ABFL also has a short-term rating of A1+ from ICRA.

Exhibit 14: Dependence on term loans reducing (%)



Source: MOSL, Company

Exhibit 15: Scope for further reduction in cost of funds



Source: MOSL, Company

Calculated margins have been steady at 3.7-4%

Healthy profitability despite heavy investments in business

With no legacy issues, ABFL has been able to leverage on technology and relationships (lower sourcing commissions), keeping costs low. In FY17, technology-related upfront cost and amalgamation of wealth management business increased the cost-to-income ratio. We expect operating leverage to play out, going forward. Further, margins have remained largely stable at 4.4-5% (reported; ~4% calculated). With expertise in debt syndication, ABFL has higher share of fees in overall profitability (20% of PBT). RoA (calculated) has been ~1.9% over FY14-17.

Exhibit 16: Margins (%) to remain stable

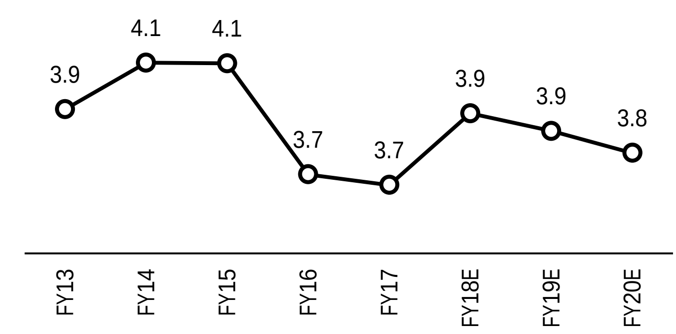
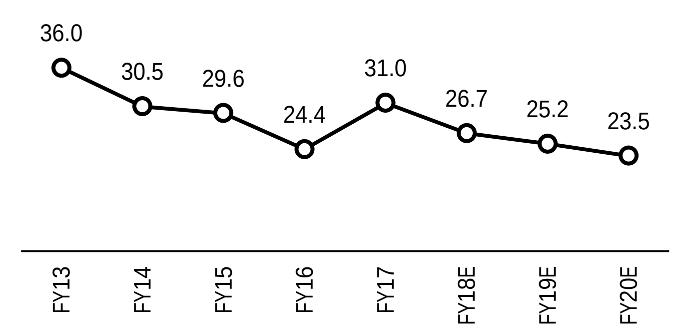
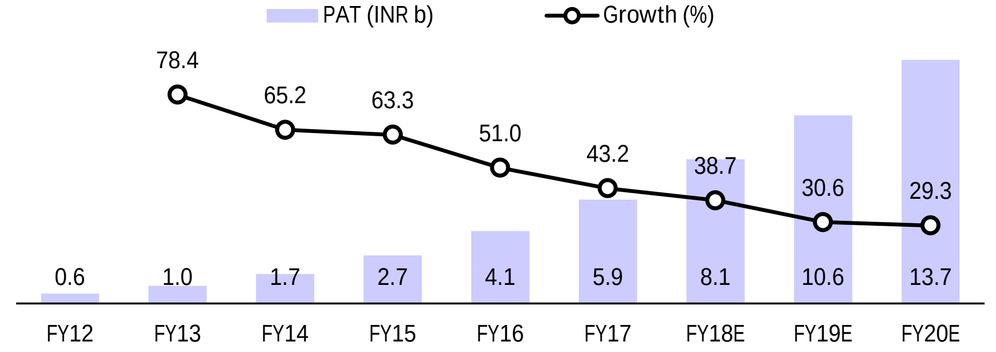


Exhibit 17: Operating leverage benefits to lower C/I ratio (%)



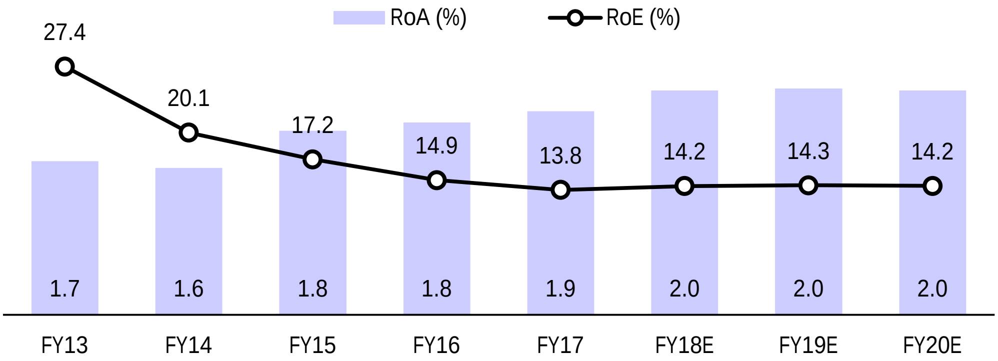
35%+ PAT growth expected over the medium term

Exhibit 18: Profit growth robust – 33% PAT CAGR over FY17-20E



Source: MOSL, Company

Exhibit 19: Marginal improvement in return ratios



Source: MOSL, Company

INR27b capital infusion expected in this business over FY18-20

Growth to outpace internal accruals

ABFL has a CAR of 17.3% versus regulatory requirement of 15%. We expect it to report RoE of ~15% over the next few years. We are not factoring in positive delta from (a) expected benefit from shift in loan book to retail and SME, (b) increasing share of unsecured loans in overall mix and (c) operating leverage. Average equity leverage on the balance sheet has remained at ~7x (in line with requirement of rating agencies). We expect leverage to remain at the same level and accordingly factor in further capital of INR25b by FY20 in the NBFC business. Over the last five years, the parent has infused ~INR27b in the business (50% of net worth).

Leverage at the holdco level remains low (net worth of INR46b and debt of INR5b); hence, ABCL can infuse capital in ABFL without dilution. Regulations allow a CIC to have 30% CAR (hence, 3.3x debt:equity). Besides, ABCL already has an enabling resolution to raise an additional 3% equity (INR12b based on market cap).

ABFL: Financials and valuations

INCOME STATEMENT						(INR Million)
Y/E MARCH	**2015**	**2016**	**2017**	**2018E**	**2019E**	**2020E**
Net interest income	**6,017**	**8,002**	**11,044**	**15,639**	**19,992**	**25,440**
Change (%)	48.1	33.0	38.0	41.6	27.8	27.3
Operating Expenses	**1,993**	**2,305**	**4,188**	**4,920**	**5,806**	**6,851**
Change (%)	42.2	15.6	81.7	17.5	18.0	18.0
Operating Profits	**4,747**	**7,126**	**9,308**	**13,496**	**17,222**	**22,284**
Change (%)	48.8	50.1	30.6	45.0	27.6	29.4
Total Provisions	**639**	**862**	**989**	**1,896**	**2,075**	**2,698**
% to operating Profis	13.5	12.1	10.6	14.0	12.1	12.1
PAT	**2,707**	**4,086**	**5,852**	**8,120**	**10,603**	**13,710**
Change (%)	63.3	51.0	43.2	38.7	30.6	29.3

BALANCE SHEET						
Y/E MARCH	**2015**	**2016**	**2017**	**2018E**	**2019E**	**2020E**
Networth	**19,848**	**35,108**	**49,813**	**64,449**	**83,784**	**108,919**
Borrowings	**145,937**	**214,090**	**289,132**	**379,111**	**492,844**	**643,401**
Change (%)	51.3	46.7	35.1	31.1	30.0	30.5
Other liabilities	**13,783**	**13,042**	**15,254**	**18,285**	**21,922**	**26,286**
Change (%)	26.5	-5.4	17.0	19.9	19.9	19.9
Total Liabilities	**179,569**	**262,239**	**354,199**	**461,844**	**598,549**	**778,605**
Customer assets	**175,882**	**257,552**	**347,032**	**451,142**	**586,485**	**762,430**
Change (%)	49.9	46.4	34.7	30.0	30.0	30.0
Other assets	**3,687**	**4,687**	**7,166**	**10,702**	**12,065**	**16,175**
Change (%)	115.8	27.1	52.9	49.3	12.7	34.1
Total Assets	**179,569**	**262,239**	**354,199**	**461,844**	**598,549**	**778,605**

RATIOS						
Y/E MARCH	**2015**	**2016**	**2017**	**2018E**	**2019E**	**2020E**
Spreads Analysis (%)						
Avg. Yield on loans	11.7	10.8	10.5	10.7	10.5	10.3
Avg. Cost of funds	9.1	8.6	8.3	8.1	7.9	7.8
Interest Spreads	2.5	2.2	2.3	2.6	2.6	2.6
Net Interest Margins	4.1	3.7	3.7	3.9	3.9	3.8
Asset Quality						
GNPA %	0.9	0.6	0.5	0.5	0.6	0.8
NNPA %	0.3	0.2	0.2	0.2	0.3	0.4
PCR %	50.9	64.5	55.0	55.0	55.0	55.0
Credit Cost (incl. std asset prov) %	0.4	0.4	0.3	0.5	0.4	0.4
DuPont Analysis (% of Avg Assets)						
NII	4.03	3.62	3.58	3.83	3.77	3.69
Non Interest Income	0.48	0.65	0.80	0.68	0.57	0.54
Non interest to Total Income	10.7	15.1	18.2	15.08	13.18	12.68
Total Income	**4.51**	**4.27**	**4.38**	**4.51**	**4.34**	**4.23**
Operating Expenses	**1.33**	**1.04**	**1.36**	**1.21**	**1.10**	**0.99**
Cost to Income %	29.6	24.4	31.0	26.7	25.2	23.5
Operating Profits	**3.18**	**3.23**	**3.02**	**3.31**	**3.25**	**3.24**
Provisions	0.43	0.39	0.32	0.46	0.39	0.39
Profit Before Tax	**2.75**	**2.84**	**2.70**	**2.84**	**2.86**	**2.84**
Taxes	0.94	0.99	0.80	0.85	0.86	0.85
ROA	**1.81**	**1.85**	**1.90**	**1.99**	**2.00**	**1.99**
Leverage	9.47	8.04	7.26	7.14	7.15	7.15
ROE	**17.16**	**14.87**	**13.78**	**14.21**	**14.31**	**14.23**

Housing Finance: At a nascent stage

Increasing presence across the spectrum

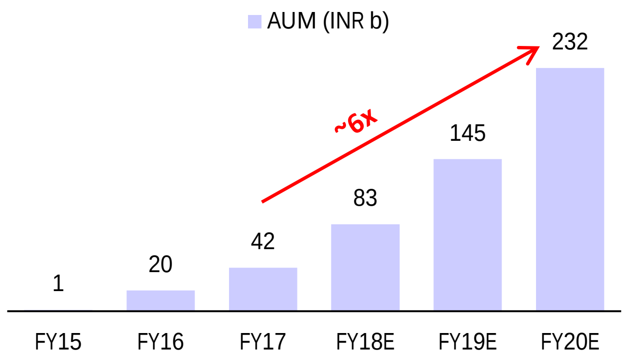
- **Aditya Birla Housing Finance Ltd. (ABHFL) began operations in October 2014 and has turned profitable in seven quarters of full operations.**
- **Its focus is on the B2B2C business model, with tie-ups with developers and builders.**
- **We expect gradual cost reduction over time, driven by operating leverage coupled with greater share of lending through own channels. Consequently, RoE should improve from -5% in FY17 to 11-12% in FY20.**

The company has scaled up the housing loan book to INR48b in three years since inception

Strong growth – presence across the spectrum

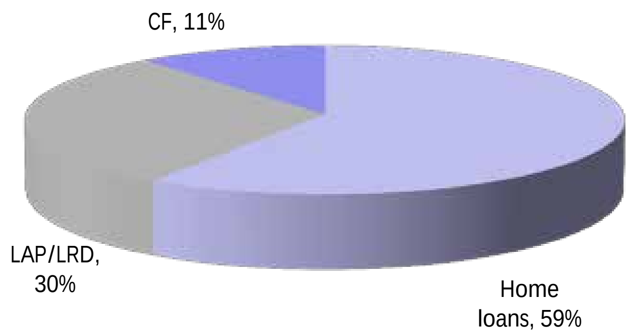
Over the last three years, ABCL's housing finance subsidiary, ABHFL has scaled up its loan book to INR58b, with presence across segments. Its portfolio is diversified, with 58% as housing loans, 11% as construction finance loans, and 31% as LAP/LRD. Its focus is on the larger-ticket-size and better-yield self-employed segment. It plans to aggressively scale up in LAP and affordable housing. The company is banking on government flagship schemes, PMAY, Housing for All, smart cities, etc. It is targeting to increase its presence in Tier II and III cities. While its ticket size is higher than most peers due to its urban presence, we expect it to gradually decline as business from semi-urban locations picks up. We expect AUM to reach to INR232b by FY20.

Exhibit 20: Loan book has ramped up significantly



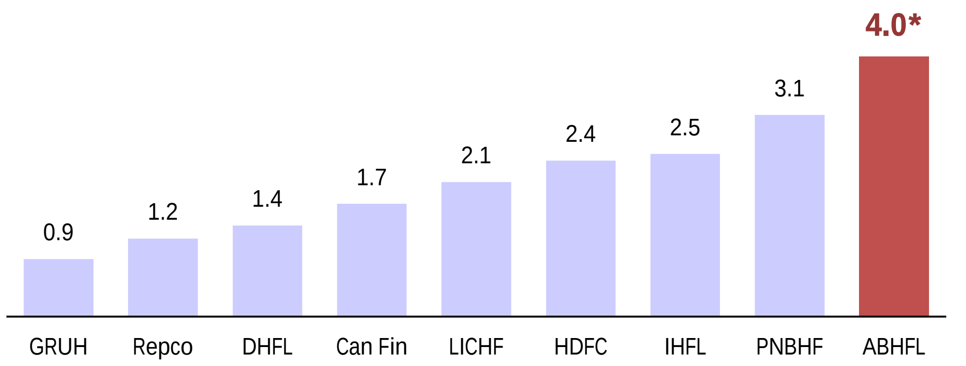
Source: MOSL, Company

Exhibit 21: High share of non-core home loans (1HFY18)



Source: MOSL, Company

Exhibit 22: Average ticket size in home loans (INR m)



Source: MOSL, *: Based on channel checks

ABHFL is an urban LAP player

Exhibit 23: Major LAP players among NBFCs and HFCs

Company	AUM (INR b)	Geography	Ticket size (INR m)
Indiabulls	219	Urban	7-8
LICHF	182	Urban	1-2
DHFL	141	Rural	4-5
Shriram City Union	127	Rural	0.8
HDFC	98	Largely Urban	4-5
Cholamandalam	96	Largely semi-urban and rural	5
Bajaj Finance	84	Largely Urban	10
Capital First	83	Largely urban	8
PNBHF	75	Urban	5
ABHFL	**15**	**Urban**	**10**

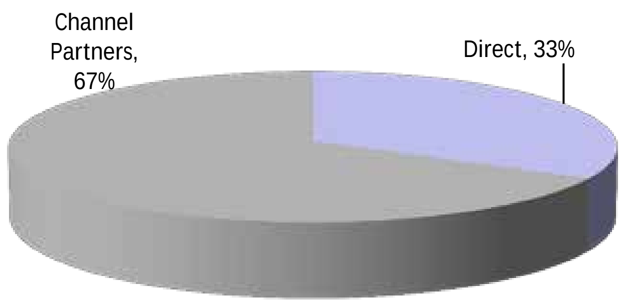
Source: MOSL, Company

ABHFL has 40 branches across 34 locations; it is increasing its presence in Tier 2/3 cities

Scaling up distribution network

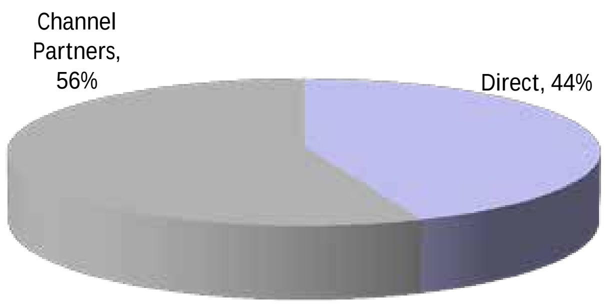
In a short time, ABHFL has increased its presence across 42 branches (16 states and 35 locations) and has 1,900 channel partners. It is also increasing its presence in Tier II and III cities to capitalize on the opportunity provided by government schemes (started pilot in 21 locations). The company plans to use the hub-and-spoke model for affordable housing segment (covering 30km). 44% of the sourcing is happening through direct channels and the rest via channel partners.

Exhibit 24: Share of direct sourcing (FY16)...



Source: MOSL, Company

Exhibit 25: ...increased meaningfully by 1HFY18



Source: MOSL, Company

Moderate margins – upside to accrue with lower cost of funds

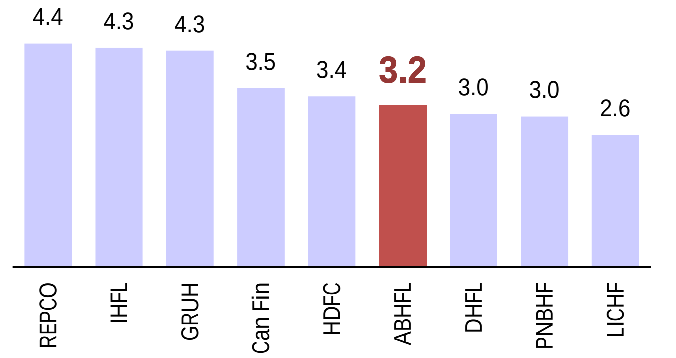
With ~40% of the loan book towards non-housing loans, ABHFL is able to earn a healthy yield. However, the company still has elevated cost of funds compared to some of its larger peers. Its NIM of 3.2% (FY17) lies in the middle of the margin spectrum. While we forecast stable margins going forward, we believe there is upside to our estimates if the decline in cost of funds is sharper than we expect.

Average ticket size of INR260m in the Top 20 exposures

Risk management of paramount importance

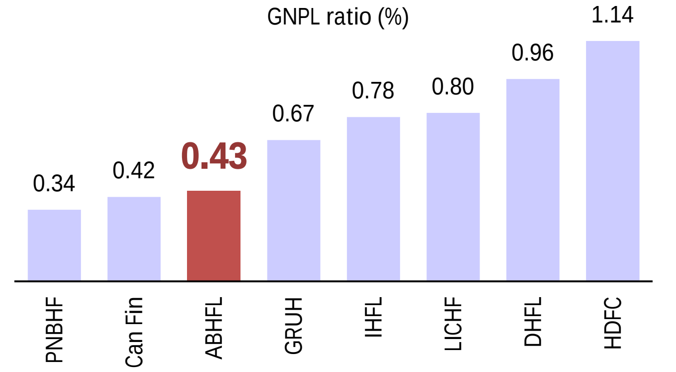
ABHFL's board of directors oversees its risk management framework. The risk management committee of the board ("RMC") is headed by an independent director and reviews compliance with risk policies, monitors risk tolerance limits, reviews and analyzes risk exposure, and oversees risk across the organization. In construction finance, which is perceived to be the highest risk segment, the company's average ticket size, in our view, is INR150-200m. **The top-20 borrowers accounted for INR5.2b exposure (as of FY17), which implies an average ticket size of ~INR260m per account.** The low ticket size in construction finance, when compared to other HFCs, implies that ABHFL is taking lesser risk on its book.

Exhibit 26: Reported margin performance average (FY17, %)



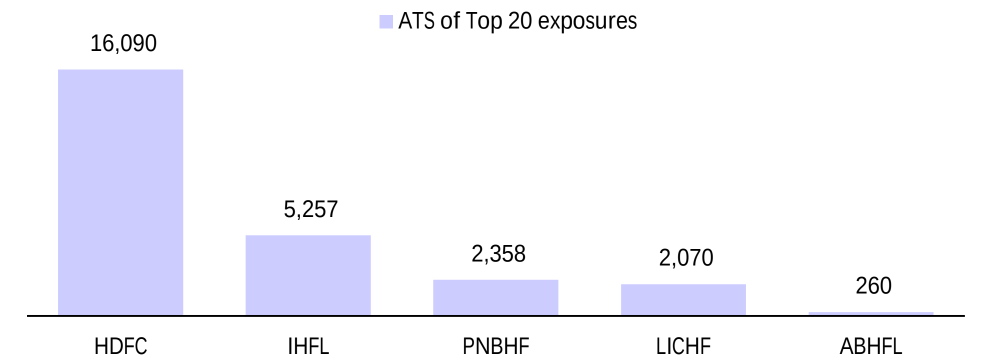
Source: MOSL, Company

Exhibit 27: Superior risk management leads to lower NPLs



Source: MOSL, Company

Exhibit 28: Average ticket size of Top 20 exposures for ABHFL is much lower than peers



Source: MOSL, Company

While return ratios are set to improve dramatically, they would still be modest

Near-term profitability to be under pressure

ABHFL is in expansion mode, which would keep cost-to-income ratio elevated. Further, its leverage levels are higher than other similar-sized HFCs, which would keep margins under pressure. We expect capital infusion of INR12b by FY20. We factor in marginal improvement in spreads from 1.8% to 2% and improvement in RoA/RoE to 1.1/11% in FY20.

ABHFL: Financials and valuations

INCOME STATEMENT						(INR Million)
Y/E MARCH	**2015**	**2016**	**2017**	**2018E**	**2019E**	**2020E**
Net interest income	**12**	**298**	**865**	**1,568**	**3,293**	**5,287**
Change (%)			*190.6*	*81.3*	*110.0*	*60.6*
Operating Profits	**-48**	**-203**	**-20**	**362**	**1,891**	**3,631**
Change (%)			*-90.3*	*-1,930.4*	*423.1*	*92.0*
Total Provisions	**8**	**99**	**135**	**249**	**457**	**756**
% to operating Profis			*-684.6*	*68.9*	*24.2*	*20.8*
PAT	**-56**	**-302**	**-155**	**79**	**1,004**	**2,013**
Change (%)			*-48.7*	*-150.8*	*1,176.1*	*100.5*

BALANCE SHEET						
Y/E MARCH	**2015**	**2016**	**2017**	**2018E**	**2019E**	**2020E**
Networth	**458**	**2,048**	**3,675**	**8,303**	**14,531**	**23,250**
Borrowings	**923**	**15,055**	**35,869**	**72,838**	**128,594**	**207,587**
Change (%)			*138.3*	*103.1*	*76.5*	*61.4*
Other liabilities	**79**	**2,866**	**2,303**	**2,764**	**3,317**	**3,980**
Change (%)			*-19.6*	*20.0*	*20.0*	*20.0*
Total Liabilities	**1,460**	**19,969**	**41,847**	**83,905**	**146,442**	**234,817**
Customer assets	**1,434**	**19,790**	**41,517**	**83,035**	**145,311**	**232,498**
Change (%)			*109.8*	*100.0*	*75.0*	*60.0*
Other assets	**25**	**179**	**329**	**870**	**1,131**	**2,319**
Change (%)			*84.3*	*164.2*	*29.9*	*105.1*
Total Assets	**1,460**	**19,969**	**41,847**	**83,905**	**146,442**	**234,817**

RATIOS						
Y/E MARCH	**2015**	**2016**	**2017**	**2018E**	**2019E**	**2020E**
Spreads Analysis (%)						
Avg. Yield on loans		8.4	9.7	9.5	9.5	9.3
Avg. Cost of funds		7.5	8.3	8.0	7.5	7.3
Interest Spreads		1.0	1.4	1.5	2.0	2.0
Net Interest Margins		2.8	2.8	2.5	2.9	2.8
Asset Quality						
GNPA %			0.3	0.4	0.4	0.5
NNPA %			0.3	0.3	0.3	0.3
PCR %			17.4	25.0	30.0	30.0
Credit Cost (incl std asset prov) %			0.4	0.4	0.4	0.4
DuPont Analysis (% of Avg Assets)						
NII		2.78	2.80	2.49	2.86	2.77
Non Interest Income		1.12	0.55	0.43	0.32	0.25
Non interest to Total Income		*28.8*	*16.4*	14.69	10.10	8.16
Total Income		**3.90**	**3.35**	**2.92**	**3.18**	**3.02**
Operating Expenses		**5.80**	**3.41**	**2.35**	**1.54**	**1.12**
Cost to Income %		*148.5*	*101.9*	*80.3*	*48.4*	*36.9*
Operating Profits		**-1.89**	**-0.06**	**0.57**	**1.64**	**1.90**
Provisions		0.93	0.44	0.40	0.40	0.40
Profit Before Tax		**-2.82**	**-0.50**	**0.18**	**1.25**	**1.51**
Taxes		0.00	0.00	0.05	0.37	0.45
ROA		**-2.82**	**-0.50**	**0.13**	**0.87**	**1.06**
Leverage		8.55	10.80	10.50	10.09	10.09
ROE		**-24.12**	**-5.42**	**1.31**	**8.79**	**10.65**

AMC: On a strong footing

Financialization of savings – a key growth driver

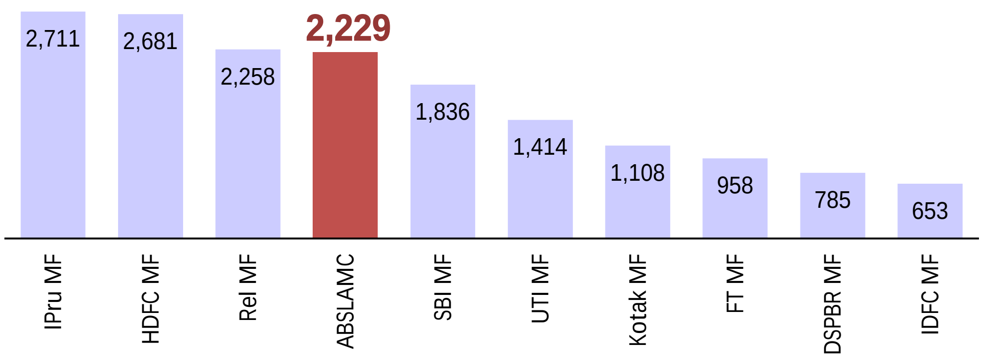
- **Driven by its consistent fund performance and increasing distribution reach, Aditya Birla Sun Life Asset Management Co. (ABSLAMC) has been sustainably gaining market share. Over FY13-17, its equity market share has increased 350bp to 9%, while its overall market share has expanded 130bp to 10.7%.**
- **The company is the fourth largest AMC in the country. In terms of fixed income AUM, it is the second largest AMC in India.**
- **Employing a capital-light model, the company has consistently generated RoE north of 20% over the past five years. In FY17, RoE stood at 26%. With an increasing share of equity AUM, we expect RoE to improve further hereon.**

While ABSLAMC is the fourth largest MF in India, it is the second largest in terms of fixed income AUM

An asset management Goliath

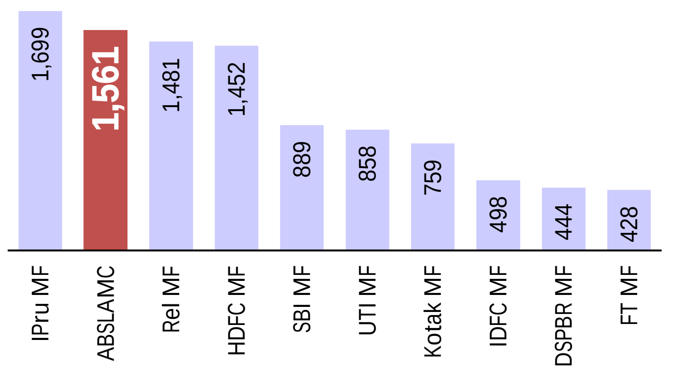
ABSLAMC is India's fourth largest mutual fund in terms of domestic assets under management (INR2.2t as of September 2017), with a market share of 10% (source: AMFI). In the fixed income segment, it is the second largest asset manager. In the equity segment, it is the fourth largest asset manager in the country, with an equity base of INR686b (as of 2QFY18).

Exhibit 29: Among the top-5 AMCs in the country (Total AUM, INR b, as of Sep 30th, 2017)



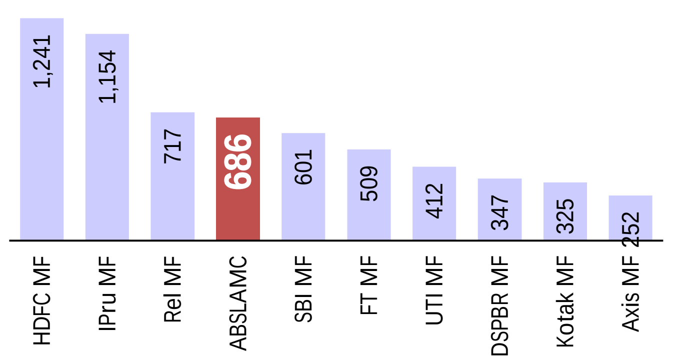
Source: MOSL, AMFI

Exhibit 30: 2nd largest debt mutual fund (INR t) in India



Source: MOSL, AMFI, Note: as of Sep 30, 2017

Exhibit 31: Largest equity mutual funds (INR t) in India

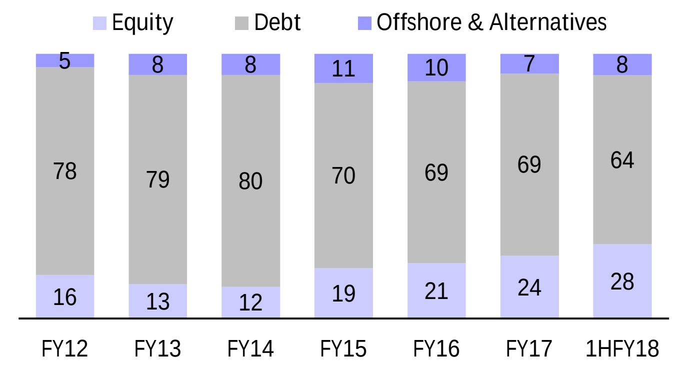


Source: MOSL, AMFI; Note: Average AUM as of Sep 30, 2017

Presence across multiple products and distribution channels

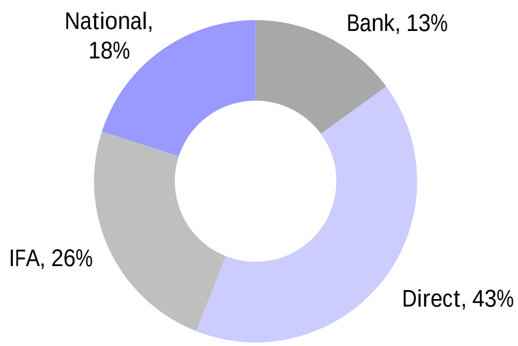
The company has presence across equity, debt and liquid funds in the domestic segment. This apart, it provides services for fund of funds schemes, as well as management and advisory services, for offshore and real estate funds. For HNI customers, it provides PMS services (AAUM of INR42b). Apart from its owned 150 branches (82 in 2013), 230 investor service centers and 78 market representatives, the company has roped in IFAs (57k+ empanelled), NDs and banks as distribution partners. Direct channels contribute 43% of its AAUM.

Exhibit 32: Share of equity up significantly in past 3 years



Source: MOSL, Company

Exhibit 33: Distribution channel mix

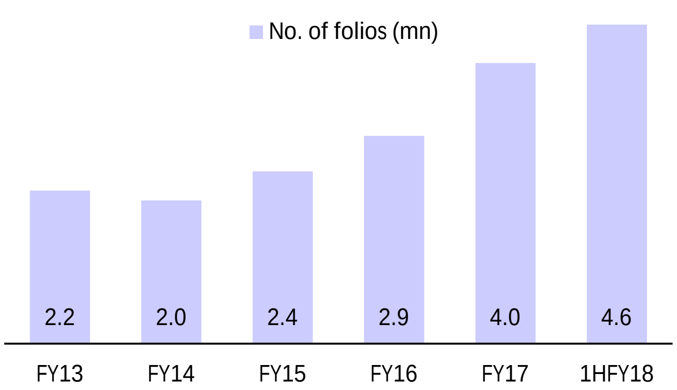


Source: MOSL, Company

Strong growth in AAUM

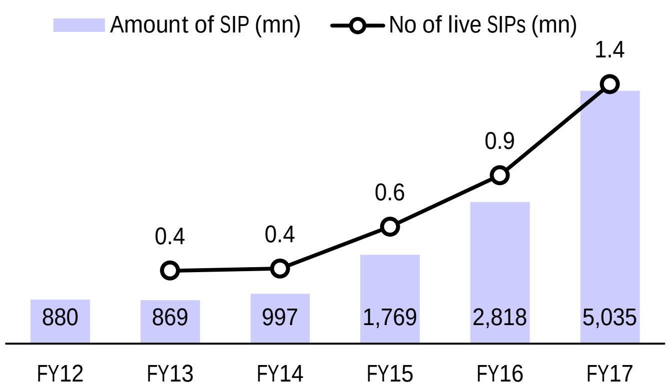
ABSLAMC recorded AAUM CAGR of 27% over FY13-17. Its market share has expanded from 5.5% to 9% in the equity market, and from 10.7% to 11.4% in debt market. Its overall market share improved from 9.4% in 2013 to 10.7% in Sep 2017. This has been driven by a sharp increase in the number of folios, especially in the past two years, from 2.4m in FY15 to 4.6m in 1HFY18. The largest equity fund of the company accounts for ~30% of the company AAUM and ~3% of industry AAUM. 11 funds of the company are now >USD1b. The BSL dynamic bond fund is one of the largest bond funds, with INR130b of AAUM (~1% of industry AAUM). The SIP book increased from INR870m in FY13 to ~INR7b in Sep 2017 (13.7% market share).

Exhibit 34: Increase in number of folios…



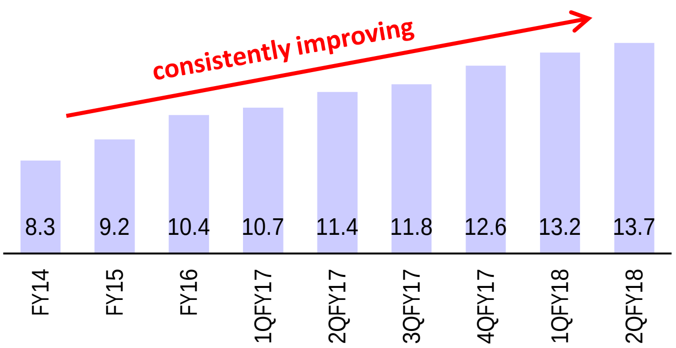
Source: MOSL, Company

Exhibit 35: … and improvement in SIP traction..



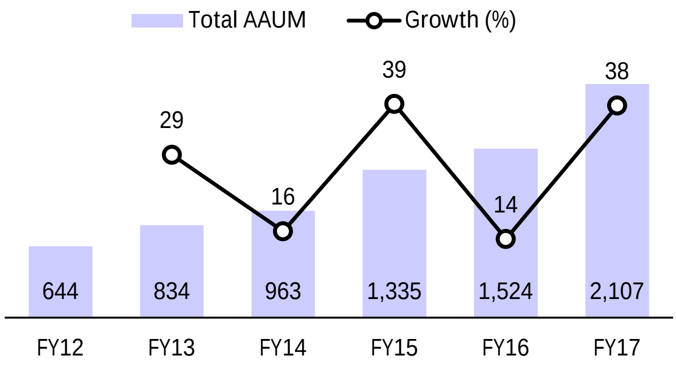
Source: MOSL, Company

Exhibit 36: ..Improving market share in SIPs...



Source: MOSL, Company

Exhibit 37: ...leading to strong pick-up in AUM

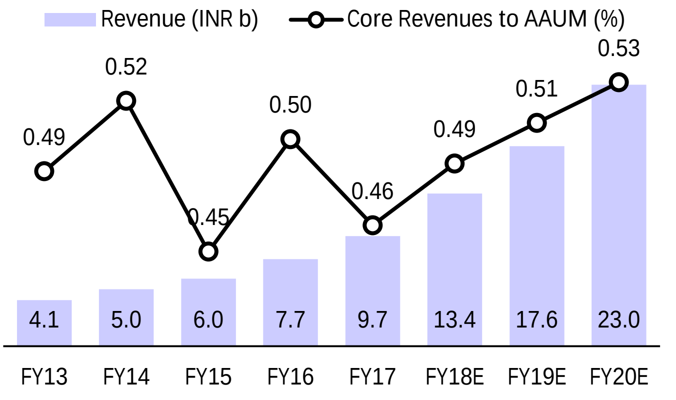


Source: MOSL, Company

Expect healthy top-line and PAT CAGR as operating leverage plays out

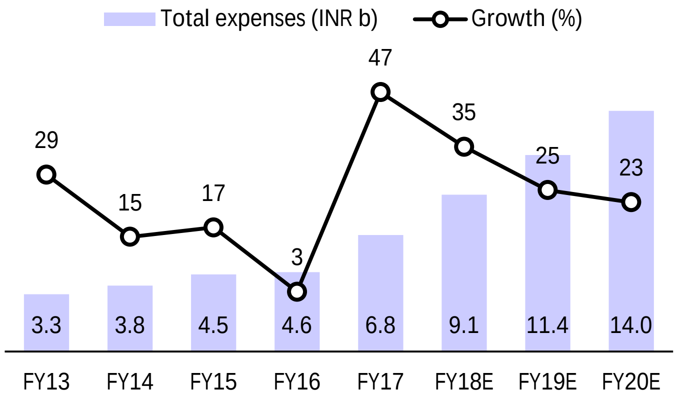
Over FY13-17, the company reported CAGR of 24% in total income and 32% in PAT. Lower PAT CAGR can be partially ascribed to up-fronting of commission expenses in the open-ended schemes. The company, on average, has earned RoAUM of 10bp over the past five years. With a net worth of INR9.4b, the company enjoys a healthy RoE of 26% (as of FY17). Operating leverage in this business is very high, and with strong growth and sticky new inflows, we expect the inherent profitability to improve. We forecast 33% revenue CAGR over FY17-20, with core revenues as % of AAUM increasing back to FY14 levels of 53bp. As operating leverage in this business plays out, we expect opex CAGR of only 27% over FY17-20, leading to a 4bp improvement in the profit margin (PAT/avg. AUM) to 15bp.

Exhibit 38: 33% revenue CAGR driven by 27% AUM CAGR



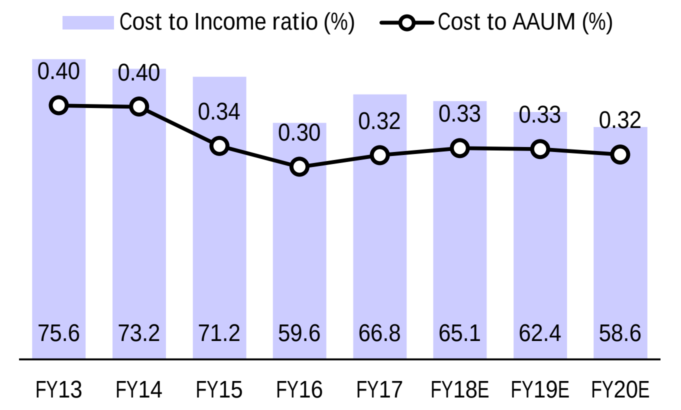
Source: MOSL, Company

Exhibit 39: Operating leverage to play out (27% opex CAGR)



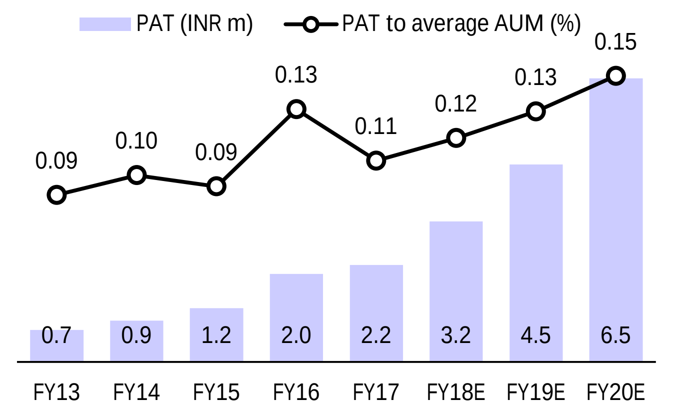
Source: MOSL, Company

Exhibit 40: Opex/AAUM to remain largely stable



Source: MOSL, Company

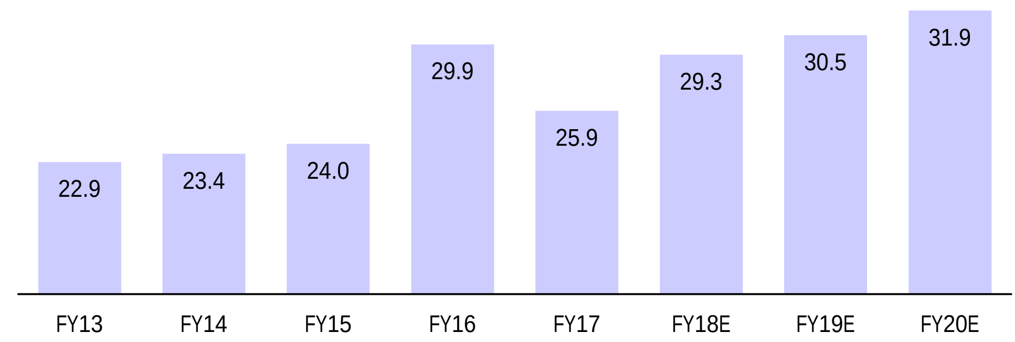
Exhibit 41: Profit margin to improve going forward



Source: MOSL, Company

Asset light model enjoys superior return ratios

Exhibit 42: Trend in RoE (%)



Source: MOSL, Company

AMC: Financials and valuations

INCOME STATEMENT						(INR Million)
Y/E MARCH	**2015**	**2016**	**2017**	**2018E**	**2019E**	**2020E**
Total Income	**6,302**	**7,758**	**10,145**	**14,017**	**18,306**	**23,893**
Change (%)	20.4	23.1	30.8	38.2	30.6	30.5
Operating Income	5,960	7,652	9,685	13,442	17,588	22,995
Other Income	342	106	460	575	718	898
Operating Expenses	**4,486**	**4,622**	**6,774**	**9,122**	**11,419**	**13,994**
Change (%)	17.1	3.0	46.6	34.7	25.2	22.6
Cost to Income (%)	71.2	59.6	66.8	65.1	62.4	58.6
Profit Before Tax	**1,816**	**3,136**	**3,371**	**4,895**	**6,887**	**9,899**
Change (%)	29.4	72.7	7.5	45.2	40.7	43.7
PBT Margins (%)	28.8	40.4	33.2	34.9	37.6	41.4
Tax	583	1,109	1,139	1,664	2,342	3,366
Tax Rate (%)	32.1	35.4	33.8	34.0	34.0	34.0
PAT	**1,233**	**2,027**	**2,232**	**3,231**	**4,546**	**6,533**
Change (%)	30.3	64.4	10.1	44.7	40.7	43.7
ROE (%)	**24.0**	**29.9**	**25.9**	**29.3**	**30.5**	**31.9**

BALANCE SHEET						
Y/E MARCH	**2015**	**2016**	**2017**	**2018E**	**2019E**	**2020E**
Networth	**5,759**	**7,794**	**9,416**	**12,646**	**17,192**	**23,725**
Borrowings	10	10	14	14	14	14
Change (%)			44.3	0.0	0.0	0.0
Other liabilities	**1,201**	**1,630**	**2,569**	**2,826**	**3,108**	**3,419**
Change (%)			57.6	10.0	10.0	10.0
Total Liabilities	**6,970**	**9,434**	**11,998**	**15,486**	**20,314**	**27,157**
Customer assets	3,859	3,601	3,249	4,874	7,310	10,965
Change (%)			-9.8	50.0	50.0	50.0
Other assets	3,111	5,833	8,749	10,612	13,003	16,192
Change (%)			50.0	21.3	22.5	24.5
Total Assets	**6,970**	**9,434**	**11,998**	**15,486**	**20,314**	**27,157**

AAUM Details						
Y/E MARCH	**2015**	**2016**	**2017**	**2018E**	**2019E**	**2020E**
AAUM	**1,334,700**	**1,524,270**	**2,107,420**	**2,743,367**	**3,448,597**	**4,338,659**
Change (%)	38.5	14.2	38.3	30.2	25.7	25.8
Equity	253,593	318,910	499,140	748,710	973,323	1,265,320
Debt	934,290	1,046,120	1,451,350	1,814,188	2,267,734	2,834,668
Offshore and Alternate funds	146,817	159,240	156,930	180,470	207,540	238,671
AAUM Mix						
Equity	19.0	20.9	23.7	27.3	28.2	29.2
Debt	70.0	68.6	68.9	66.1	65.8	65.3
Offshore and Alternate funds	11.0	10.4	7.4	6.6	6.0	5.5

Dupont (Bps of AAUM)						
Total Income	**47.2**	**50.9**	**48.1**	**51.1**	**53.1**	**55.1**
Operating Income	44.7	50.2	46.0	49.0	51.0	53.0
Other Income	2.6	0.7	2.2	2.1	2.1	2.1
Operating Expenses	**33.6**	**30.3**	**32.1**	**33.3**	**33.1**	**32.3**
Profit Before Tax	**13.6**	**20.6**	**16.0**	**17.8**	**20.0**	**22.8**
Taxes	4.4	7.3	5.4	6.1	6.8	7.8
Profit after Tax	**9.2**	**13.3**	**10.6**	**11.8**	**13.2**	**15.1**

Life Insurance – Banking on Banca tie-up

Tie-up with HDFC Bank to be key value driver

- **In absence of large bancassurance partnerships, ABSLI underperformed peers in the past in terms of size and growth. Its market share was 7% in FY17.**
- **However, the recent partnership with HDFC Bank under the open architecture regime provides a strong platform for ABSLI to scale up its operations to the next level. We expect growth to pick up meaningfully over the medium term.**
- **The company recently reported embedded value under the IEV method.**

Absence of large banca partners has hurt ABSLI's growth prospects in the past

Banca to add strength to distribution

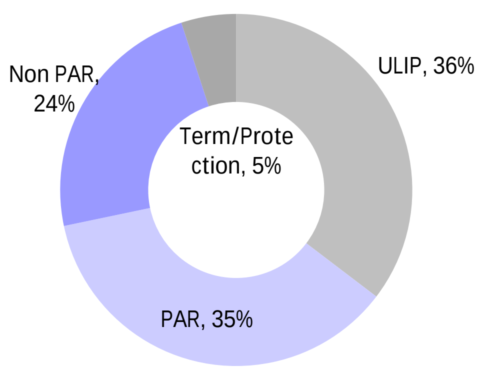
Absence of a strong banca partner and changes in regulations (high share of ULIP distributed by agents) led to a significant market share loss for ABSLI over FY10-17. However, ABSLI has now tied up with large banks like HDFCB, DBS and LVB under the open architecture model. The company has also partnered with DB, DCB and KVB. With alliances with larger banking partners and an increased focus on the direct channel (online, MRs), we expect growth to pick up, going forward.

Non-linked products account for 65% of total business. PAR is 36% of business

Green shoots of growth recovery with focus on traditional products

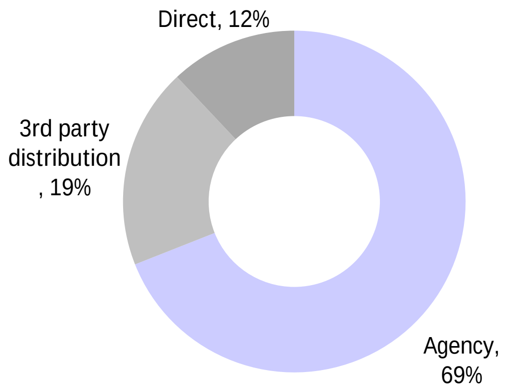
In FY17, the company reported strong individual APE growth of 35%. Pre-2011, it was more dependent on ULIPs (79% share), but now it has shifted its focus to traditional products (70% v/s 60% in FY14). Non-PAR and term insurance are the key growth drivers, in our view. The company's share in overall first-year premium has increased to 40%+ v/s 20% a year ago. The share of pure protection has increased to 4%. With banca tie-up in place, we expect ULIP's share to rise as well.

Exhibit 43: Well-balanced product mix



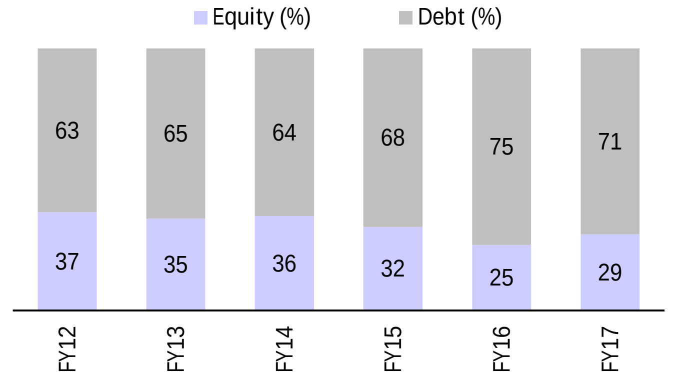
Source: MOSL, Company

Exhibit 44: Largely agency channel driven model (2QFY18)



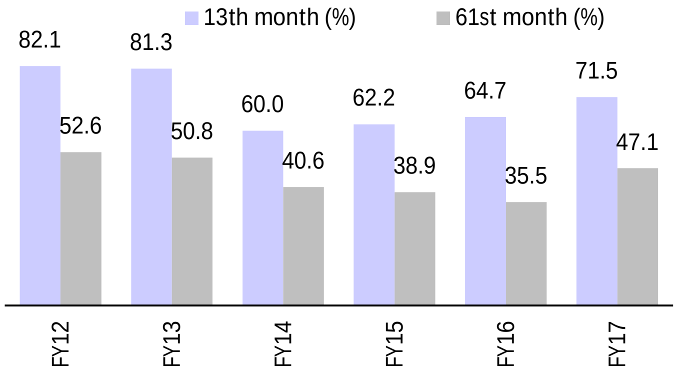
Source: MOSL, Company

Exhibit 45: Share of equity in total AUM declining (%)



Source: MOSL, Company

Exhibit 46: Persistency picked up after 3 sluggish years

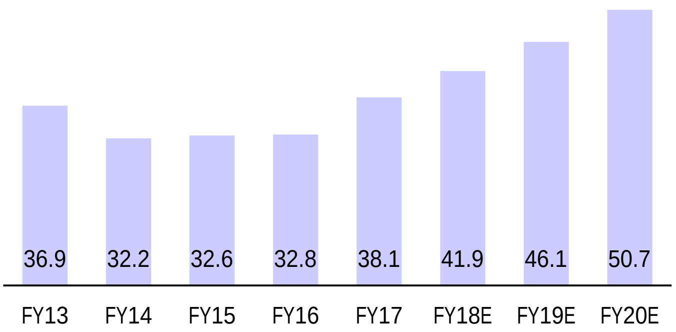


Source: MOSL, Company

Significant low hanging fruits

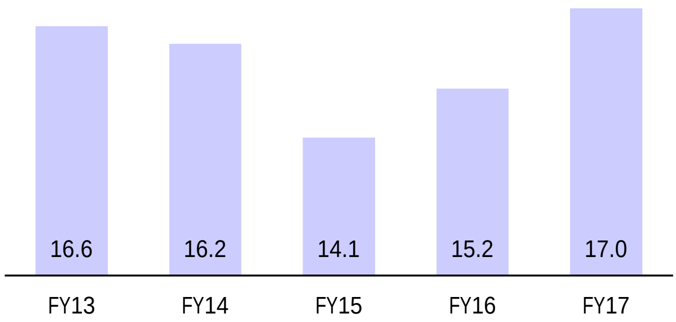
ABSLI has one of the lowest VNB margins (pre cost overrun) in the industry. The company is trying to correct this by a) improving operating efficiency and b) increasing the share of high-margin traditional products. VNB margins (post cost overruns) are negative for the company. With the aforementioned initiatives, management is targeting to break even in the next three years. Benefits of the cost realignment exercise and improving agent productivity are visible in the cost ratio, which is on declining trend over the past few years.

Exhibit 47: Trend in Embedded Value (INR b)



Source: MOSL, Company; Note: FY17 onwards, EV is based on IEV method

Exhibit 48: VNB margins (%) on an uptick since FY15



Source: MOSL, Company; Note: Margins are pre-cost overrun

Seeding new ventures

Other businesses still at a very nascent stage

- **ABCL has also invested in several other smaller businesses, which are currently in a very nascent stage.**
- **These businesses include health insurance, financial advisory, securities broking, and insurance broking, among others.**
- **Some of these businesses could emerge as value drivers in the long term.**

Aditya Birla Health Insurance

The business was launched in November 2016. It is a JV (51:49) between ABCL and MMI Holdings, a diversified financial services leader of South Africa. The JV partner has strong experience in incentivised wellness and chronic care. ABHICL's current product portfolio includes Group Activ Health, Group Activ Secure, Retail Activ Health, and other unique offerings (such as chronic care and incentivized wellness). From a distribution perspective, the company has already tied up with HDFC Bank, Deutsche Bank, DCB Bank, AU SFB and RBL Bank. Currently, it is present in 34 cities, with 43 branches in India, over 8,800 agents and over 200+ brokers (87 retail and 112 group brokers). It has also tied up with 3,000+ hospitals in 465 cities. The company has forged alliances with 50+ online brokers, digital and tele-assisted partners. The key philosophy of ABHICL is to move from 'buy and forget' to 'buy and engage' by looking beyond funding for basic sickness. In 1HFY18, the company managed to generate insurance premium of INR960m as compared to INR540m in the whole of FY17. Till date, it has insured 600,000 lives.

Aditya Birla PE Advisors Ltd

Aditya Birla PE Advisors Private Limited provides financial advisory and management services, with a focus on managing venture capital funds and alternative investment funds. ABPE is appointed as an investment manager to two SEBI-registered domestic venture capital funds – Aditya Birla Private Equity - Fund I and Aditya Birla Private Equity – Sunrise Fund – under which it manages gross AUM of INR11.8b (INR6.9b net). These are the sector agnostic funds invested in 18 companies. So far, it has done six full exists and five partial exits, with multiple of at least 1.5x of initial investment. ABPE focuses on growth investments in mid-market companies, with India as the investment destination.

Aditya Birla Money Ltd

This is a listed company engaged in the business of securities broking. It offers a wide range of solutions, including broking, PMS, depository and e-insurance repository solutions, and distribution of other financial products. It also has Aditya Birla Commodities Broking Limited (ABCBL) as a subsidiary, which is engaged in the business of commodities broking. The company has a combined pan-India distribution network with over 40 branch offices. ABCL holds 75% of share capital of ABML, and the balance is held by public.

Aditya Birla My Universe Ltd

Aditya Birla MyUniverse Limited (ABMUL), through its online money management platform www.MyUniverse.co.in (MyUniverse), offers its customers account aggregation of all financial services in a highly secure environment. It is a rapidly growing platform; has ~4m (managing over INR200b+) registered customers, with 8-15% of them using the aggregation services. MyUniverse works with over 50 financial institutions to offer their services and products. The company has transformed into a multi-product transaction platform, with analytics-based integrated cross-sell capabilities. The company offers a wide range of financial products, such as mutual funds, personal loans, housing finance, education loans, life insurance, health insurance, equity, and credit cards.

Aditya Birla Insurance Brokers Ltd

The company provides general insurance broking and risk advisory solutions to companies and individuals. ABCL holds 50.01% of share capital of ABIBL. ABIBL is among the leading players in the retail industry, and enjoys a strong presence in the corporate business industry, where it provides solutions to a vast array of sectors, ranging from manufacturing and metals to financial services.

Aditya Birla ARC is another subsidiary of the company that has just received regulatory approvals.

SWOT analysis

Strength

- Presence in high-growth and scalable business segments
- Brand name gives it an edge in AMC and Life Insurance businesses
- Asset quality performance in the NBFC business has been best-in-class

Weaknesses

- Cost structure in the AMC business is higher than peers
- Post-overrun VNB margins still negative

Opportunities

- Operates in underpenetrated business segments with huge growth potential
- Tie-up with HDFC Bank in the Life Insurance business presents a huge growth opportunity

Threats

- High share of corporate loan exposure, especially in project finance
- Intense competition in the retail home loan segment could result in moderate return ratios

Valuation and view

Superior execution + strong growth + improving return ratio = premium valuations

- **With a strong management team at the helm of affairs, we expect ABCL to be a strong play on financialization of savings and low penetration across the financial services business. The company is expected to report ~50% PAT CAGR, driven by strong traction in the lending and asset management business.**
- **We value NBFC at 3.2x PBV (~30% AUM CAGR with PAT CAGR of ~33%; RoE of ~15%), HFC at 2x PBV (loan book of INR232b v/s INR58 in 1HFY18; RoA of 1.1% v/s 0.5% in FY18 – in an investment phase), AMC at 30x earnings (AUM CAGR of ~27%; RoE of 30%+; implied 4.5% of FY20 AUM) and Insurance at 2.2x EV (based on IEV reporting).**
- **On our SOTP, >70% of the valuation is contributed by the lending business (in-line with the share in networth), followed by the AMC business (>15%) and then the Insurance business (~10%). The company has been aggressively seeding investments in businesses like insurance broking and investment advisory. However, considering the nascent stage of the business, we have not assigned any value to them. Our implied PBV/PE on a consolidated basis works out to be 3.5x/30x FY20E.**

Lending business is key value driver – >70% of SOTP and >75% of PBT (pre-MI)

- The company is present across the lending spectrum which offers a strong highway to growth, especially for strong challengers. The company's share in system loans is small at 0.2%, and it is yet to introduce all products in the lending business. The existing product portfolio offers strong opportunities, especially in an environment where a major part of the system is struggling with capital and asset quality.
- ABCL has grown aggressively (60% CAGR over FY12-17), but not at the cost of profitability/asset quality. The company has pigheaded discipline of maintaining RoAs at ~2%+, despite aggressively investing in new product lines. Credit costs so far have remained at ~50bp. In order to maintain/improve the credit rating, ABCL plans to keep debt:equity at 6x. We expect the lending business to record 30% AUM CAGR, with a stable RoE of ~15%
- Despite being a new player in the system, ABCL remains confident about strong growth in the HFC business, driven by macro tailwinds and chosen product/customer segmentation. Profitability is likely to improve with scale, and RoAs are expected to improve to 1% by FY20 v/s 0.5% currently. On a steady state basis, it plans to keep RoAs at 1.5%, with an AUM mix of 60: 20: 20 – HL: LAP: Corporate.

AMC – asset light business; 25%+ of PBT (pre-MI)

- AMC business is all about scale, and it is highly concentrated, with top 5/10 players controlling 57/81% of AUM. The company is the fourth largest player with a market share of 9% in equities and 10.7% in overall asset management business, as of FY17. Strong brand name of the parent and outperformance of flagship funds are some of the key factors for this achievement.

- The company profitability is below peers due to a) strong growth in equities, where commission expenses are up-fronted and b) higher share of low-yielding debt funds in overall AUM. However, the share of the high-profit-making equities business in the domestic asset management business has increased to 24% v/s 17%. Further, the company has 6-7% of total AUM in the form of offshore and alternative assets, which are high-profit-making products
- This is capital light business. The company is well-capitalized, and generates RoE of 28%+. On the back of excessive capitalization, we expect the company to continue paying dividend to parent (started in FY17).

Other businesses – catalyst in place, but at a nascent stage

- Apart from the lending and AMC businesses, insurance is the major contributor to SOTP (~10%). Insurance has gone through a challenging period over the last five years due to changing regulations, absence of a bank assurance partner, and excessive reliance on ULIP products via agent-led distribution. With an open architecture in place and tie-ups with large banks, there is a ray of hope for a revival of this business. We have valued this business on 2.2x EV (marginally higher than that of the recent stake sale to the foreign partner).
- Other businesses (insurance broking, money management/advisory) are in a nascent stage and an investment phase. They operate in the areas that are highly scalable. However, considering their contribution is likely to be in low-single-digits, we have not assigned any value to these businesses.

Multi-year growth strong – Catch them young

- With a strong management team at the helm of affairs, we consider ABCL as a strong play on financialization of savings, and low penetration levels across the financial services business. The company is expected to report 45%+ PAT CAGR, driven by strong traction in the lending and asset management businesses. Over a medium-to-long term, we expect strong earnings and also other businesses to start contributing meaningfully.
- We value NBFC at 3.2x PBV (~30% AUM CAGR with PAT CAGR of ~33%; RoE of ~15%), HFC at 2x PBV (loan book of INR232b v/s INR58 in 1HFY18; RoA of 1.1% v/s 0.5% in FY18 – in an investment phase), AMC at 30x earnings (AUM CAGR of ~27%; RoE of 30%+; implied 4.5% of FY20 AUM) and Insurance at 2.2x EV (based on IEV reporting).
- On our SOTP, >70% of the valuation is contributed by lending business (in line with the share in net worth), followed by the AMC business (>15%) and then the Insurance business (10%). The company has been aggressively seeding investments in businesses like insurance broking and investment advisory. However, considering the nascent stage of business, we have not assigned any value to them. Our implied PBV/PE on the consolidated basis works out to be 3.5x/30x FY20E.

Exhibit 49: SOTP (FY20E based)

	Stake (%)	Value (INR B)	Value (USD B)	INR per share	% To Total	Rationale
NBFC	100	349	5.4	145	63	3.2x PBV
HFC	100	46	0.7	19	8	2.0x PBV
AMC	51	100	1.5	42	18	30x Earnings; Implied 4.5% of AUM
Life Insurance	51	57	0.9	24	10	2.2x EV; 10% premium to last stake sale
ABML		5	0.1	2	1	CMP
Target Value		**557**	**8.6**	**231**	**100**	
Current market cap.		418	6.4	190		
Upside (%)		**21.6**	**21.6**	**21.6**		

Source: MOSL, Company

Networth Break Up

Y/E MARCH	2015	2016	2017	2018E	2019E	2020E
NBFC	19,848	35,108	49,813	64,449	83,784	108,919
Housing	458	2,048	3,675	8,303	14,531	23,250
AMC	5,759	7,794	9,416	12,646	17,192	23,725
Life Insurance	0	0	18,047	19,647	21,497	23,597
Other Businesses	666	683	782	1,332	2,020	2,879
Consolidation Adjustments	6,040	6,472	3,739	3,239	2,739	2,239
Consolidated Networth	**32,771**	**52,105**	**85,472**	**109,617**	**141,762**	**184,608**
Minority Interest	3,069	7,557	19,518	21,718	24,358	27,526
Consolidated NW Post MI	**29,702**	**44,548**	**65,954**	**87,899**	**117,404**	**157,082**
% of Total Networth						
NBFC	60.6	67.4	58.3	58.8	59.1	59.0
Housing	1.4	3.9	4.3	7.6	10.3	12.6
AMC	17.6	15.0	11.0	11.5	12.1	12.9
Life Insurance			21.1	17.9	15.2	12.8
Other Businesses	2.0	1.3	0.9	1.2	1.4	1.6
Consolidation Adjustments	18.4	12.4	4.4	3.0	1.9	1.2
Consolidated Networth	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Change YoY %						
NBFC		76.9	41.9	29.4	30.0	30.0
Housing			79.5	126.0	75.0	60.0
AMC		35.3	20.8	34.3	35.9	38.0
Life Insurance					9.4	9.8
Other Businesses		2.7	14.4	70.3	51.6	42.6
Consolidation Adjustments		7.1	-42.2	-13.4	-15.4	-18.3
Consolidated PBT		**59.0**	**64.0**	**28.2**	**29.3**	**30.2**

Key risks

High share of corporate lending could pose asset quality risks

As of FY17, the share of mid and large corporate lending in the NBFC book stood at 54%. Project loans accounted for 14% of the loan book and structured finance another 15%. While asset quality has been pristine so far, there is a chance of a downturn in asset quality due to the high share of 'risky' lending in case of an economic downturn.

Housing finance is a difficult business to do

Over the past few years, several HFCs have opened shop across the country. In addition, PSU banks have become very competitive in retail lending, given the lack of opportunities in the corporate space. Against this backdrop, it could be tough for a new player like ABFL to scale up the loan book with healthy return ratios and strong asset quality.

System-wide contraction in liquidity

A system-wide contraction in liquidity could impact ABFL in several ways: (1) access to cheap cost of funds for the lending businesses could become more difficult and (2) there could be significant outflows from equity schemes in ABSLAMC, which would in turn impact profits.

Stickiness of equity AUM in AMC a key necessity

ABSLAMC has witnessed record equity inflows in the AMC business in the past 2-3 years. It has incurred several upfront distribution costs for the same. If there were a scenario wherein there are equity outflows, our operating leverage assumptions may not play out.

Slow scale-up of HDFCB partnership a risk to growth

If the new banca partnership with HDFC Bank is slow to scale up, there is a risk to our growth and EV assumptions going forward.

Company Background

- Aditya Birla Capital Limited (ABCL) is one of the largest financial services players in India with presence across protection, investment and savings business. Formerly known as Aditya Birla Financial Services Limited, ABCL is the holding company (received CIC license on 16th October 2015) of all the financial services businesses of the Aditya Birla Group.
- It has a strong presence across life insurance, asset management, private equity, corporate lending, structured finance, general insurance broking, wealth management, equity, currency and commodity broking, online personal finance management, housing finance, pension fund management and health insurance businesses. In most of the businesses, it is one of the top 5 players.
- Aditya Birla Capital serves millions of Indians in more than 400 cities through 1,300+ points of presence, anchored by 12,500+ employees, and supported by over 150,000 agents and channel partners.

Management details

Ajay Srinivasan - CEO

Ajay Srinivasan is the Chief Executive Officer of the company. He has experience of over 3 decades, with 16 years as a business leader. He joined the Aditya Birla Group in 2007. Before joining the Aditya Birla Group, he was Chief Executive - Fund Management at Prudential Corporation Asia, based in Hong Kong between 2001 and 2007. As a member of Prudential Corporation Asia's Board of Directors, Ajay also oversaw the development of Prudential's retirement business in Asia. Prior to his stint at Prudential, he was Deputy Chief Executive Officer and Chief Investment Officer for the India operations of ITC Threadneedle Asset Management. Ajay holds a B.A in Economics from St Stephens College an MBA from IIM Ahmedabad.

Pankaj Razdan – Deputy CEO, Financial Services

Pankaj Razdan has been with the Aditya Birla Group since July 2007 and currently serves as Deputy CEO, Financial Services. Prior to joining the Aditya Birla Group, he was with ICICI Prudential Asset Management Company since 1998, taking charge as the Managing Director in 2004. He has a B.Sc. degree in Electronics from Pune University and is a graduate in Electronics Engineering from Bombay University. He has undergone management development programmes from the Indian Institute of Management, Ahmedabad and leadership training from Centre of Leadership, USA.

Pinky Mehta – CFO

A qualified chartered accountant with 27 years of diversified experience, Pinky Mehta has been a part of the Aditya Birla Group since 1991. She has handled a number of portfolios including taxation, MIS, accounts, legal and secretarial. She spearheaded the management services division of the Aditya Birla Group from 2011 to 2015 and helped expand its services to new businesses overseas. Prior to joining ABCL, she was the Chief Financial Officer of ABNL.

Rakesh Singh – CEO, ABFL

Rakesh Singh has been the Chief Executive Officer of ABFL with effect from July 2011. He has over 24 years of experience and joined ABFL from Standard Chartered Bank where he spent 16 years, starting as Retail Assets (Mumbai and Kolkata) and moving on to become Head for Mortgages, India. His last assignment with Standard Chartered Bank was as General Manager & Head SME Banking, India and South Asia. He is an alumnus of the Harvard Business School and the IIM Calcutta and also holds a post-graduation degree in International Relations.

Tushar Shah – CEO, Project & Structured Finance, ABFL

Tushar Shah is the CEO for the Infrastructure, Project and Structured Finance vertical of ABFL since November 2011. Prior to ABFL, he was the Chief Operating Officer of IL&FS Financial Services. His responsibilities included asset and structured finance, DCM business and managing the structured mezzanine credit facility. He was with the IL&FS group for 16 years and has worked in the areas of capital markets, investment banking and corporate banking. He is a Chartered Accountant and holds an LLB degree.

A Balasubramanian – CEO, ABSLAMC

A. Balasubramanian is the Chief Executive Officer for Birla Sun Life Asset Management Company and has been with the organization since 1994. He has over 26 years of experience in the mutual fund industry as portfolio manager both in fixed income and equity. He is an AMP, IIM Bangalore and DFM in addition to BSc. in Mathematics. He also has a Masters in Business Administration from GlobalNxt University, Malaysia.

D Muthukumaran – CEO, ABPE

Prior to taking over as the CEO of Aditya Birla Private Equity, Mr. D Muthukumaran was the Head of Group Corporate Finance at the Aditya Birla Group for 12 years. Prior to that, he was in an international investment bank for a year and in a Big 4 Accounting firm for 8 years. He holds degree as a Chartered Accountant, a Cost & Works Accountant and bachelors of commerce from University of Madras.

Sandeep Dadia – CEO and Principal Officer, ABIBL

Sandeep Dadia joined ABIBL in April 2011. Prior to ABIBL, he was the Principal Officer at Enam Insurance Brokers Private Limited. He was the key person who pioneered Enam Insurance Brokers Private Limited and served five years in Enam. He has also worked with the renowned third party administrator TTK Healthcare Services as Head – Business Development. He has a work experience of almost 20 years in the insurance industry. He holds an MBBS degree and has insurance qualification.

Mayank Bathwal – CEO, ABHICL

Mr. Mayank Bathwal is Chief Executive Officer at ABHICL. Mayank has a rich experience of nearly 20 years in the industry. He joined the Aditya Birla Group in early 1994 and has worked closely in various units and projects of the group. Mayank 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).

Financials and valuations

CONSOLIDATED BALANCE SHEET						(INR Million)
Y/E MARCH	**2015**	**2016**	**2017**	**2018E**	**2019E**	**2020E**
ESC	7,570	7,960	12,322	22,550	23,255	24,072
Reserves and Surplus	10,556	19,212	53,632	87,067	118,508	160,536
Networth	**18,126**	**27,172**	**65,954**	**109,617**	**141,762**	**184,608**
Non Controlling Interest	3,069	7,557	19,518	21,718	24,358	27,526
Networth Post MI	**15,057**	**19,615**	**46,436**	**87,899**	**117,404**	**157,082**
Other Capital Instruments	**15,853**	**17,523**	**147**	**147**	**147**	**147**
Borrowings	**148,151**	**230,125**	**329,378**	**456,822**	**626,905**	**857,167**
Change (%)		55.3	43.1	38.7	37.2	36.7
Insurance Business Related	**0**	**0**	**333,888**	**399,689**	**478,673**	**573,371**
Change (%)				19.7	19.8	19.8
Other liabilities	**17,360**	**33,151**	**71,457**	**76,315**	**82,119**	**89,055**
Change (%)		91.0	115.5	6.8	7.6	8.4
Total Liabilities	**196,421**	**300,414**	**781,306**	**1,020,871**	**1,305,248**	**1,676,822**
Customer assets	**188,489**	**291,163**	**410,633**	**558,816**	**759,990**	**1,028,118**
Change (%)		54.5	41.0	36.1	36.0	35.3
Fixed Assets	**2,925**	**3,249**	**8,120**	**8,443**	**8,823**	**9,271**
Change (%)		11.1	149.9	4.0	4.5	5.1
Insurance Business Related	**0**	**0**	**345,959**	**411,863**	**491,710**	**587,401**
Change (%)				19.0	19.4	19.5
Other assets	**5,007**	**6,002**	**16,594**	**41,749**	**44,724**	**52,031**
Change (%)			176.5	151.6	7.1	16.3
Total Assets	**196,421**	**300,414**	**781,306**	**1,020,871**	**1,305,248**	**1,676,822**

Financials and valuations

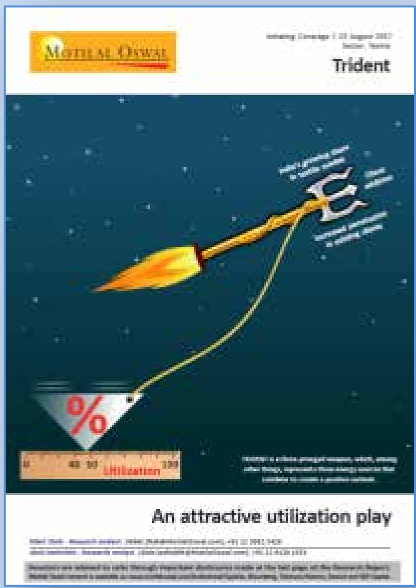
SEGMENT-WISE PROFIT						(INR Million)
Y/E MARCH	**2015**	**2016**	**2017**	**2018E**	**2019E**	**2020E**
NBFC	4,108	6,264	8,319	11,600	15,147	19,586
Housing	-56	-302	-155	112	1,434	2,875
AMC	1,816	3,136	3,371	4,895	6,887	9,899
Life Insurance	0	0	0	1,600	1,850	2,100
Other Businesses	-291	-331	-534	-1,450	-1,313	-341
Consolidation Adjustments	-388	-78	-343	-500	-500	-500
Consolidated PBT	**5,190**	**8,688**	**10,658**	**16,258**	**23,505**	**33,619**
Taxes	2,101	3,446	3,746	5,690	8,227	11,767
Tax Rate (%)	*40.5*	*39.7*	*35.1*	*35.0*	*35.0*	*35.0*
Consolidated PAT	**3,089**	**5,242**	**6,912**	**10,567**	**15,279**	**21,852**
Minoirty Interest	696	1,436	1,612	2,200	2,640	3,168
Consolidated PAT Post MI	**2,393**	**3,806**	**5,300**	**8,367**	**12,639**	**18,684**

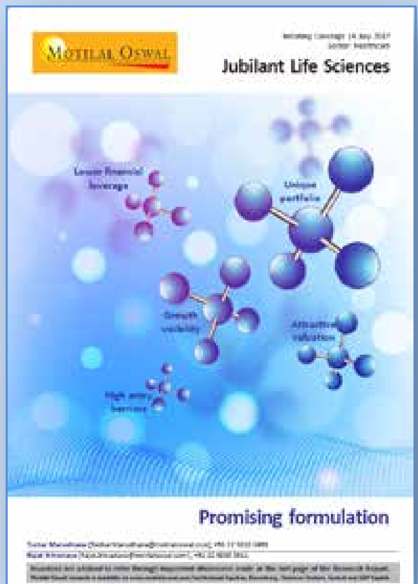
% of Total PBT						
NBFC	79.2	72.1	78.1	71.4	64.4	58.3
Housing	-1.1	-3.5	-1.5	0.7	6.1	8.6
AMC	35.0	36.1	31.6	30.1	29.3	29.4
Life Insurance	0.0	0.0	0.0	9.8	7.9	6.2
Other Businesses	-5.6	-3.8	-5.0	-8.9	-5.6	-1.0
Consolidation Adjustments	-7.5	-0.9	-3.2	-3.1	-2.1	-1.5
Consolidated PBT	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

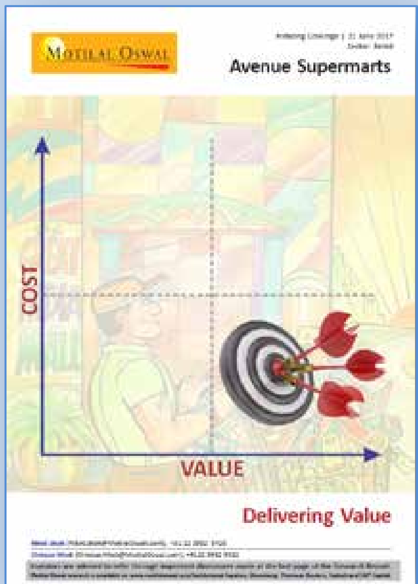
Change YoY %						
NBFC		52.5	32.8	39.4	30.6	29.3
Housing			-48.7	-172.5	1,176.1	100.5
AMC		72.7	7.5	45.2	40.7	43.7
Life Insurance					15.6	13.5
Other Businesses		13.9	61.3	171.5	-9.5	-74.0
Consolidation Adjustments		-79.9	338.8	45.8	0.0	0.0
Consolidated PBT		**67.4**	**22.7**	**52.5**	**44.6**	**43.0**
Taxes		64.0	8.7	51.9	44.6	43.0
Consolidated PAT		**69.7**	**31.9**	**52.9**	**44.6**	**43.0**
Minority Interest		106.3	12.3	36.5	20.0	20.0
Consolidated PAT Post MI		**59.1**	**39.3**	**57.9**	**51.0**	**47.8**

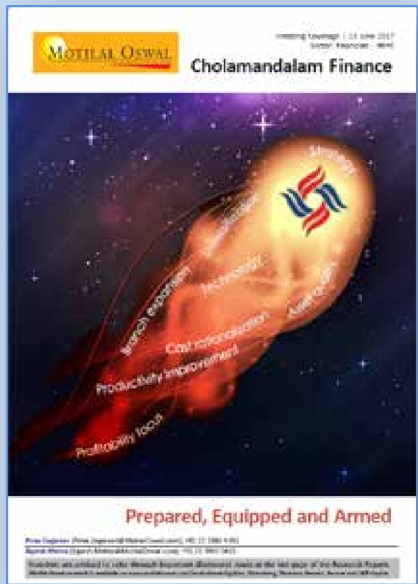
Valuations						
Consolidated BV				**39.0**	**50.5**	**65.3**
Change YoY					*29.5*	*29.3*
Con PBV				4.7	3.7	2.8
Consolidated EPS				**3.7**	**5.4**	**7.8**
Change YoY					*46.5*	*42.8*
Con PE				49.9	34.0	23.8
Consolidated ROE (Post MI)				**12.5**	**12.3**	**13.6**

RECENT INITIATING COVERAGE REPORTS









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