

INITIATING COVERAGE

Share Data

Market Cap	Rs. 264.17 bn
Price	Rs. 1166.3
BSE Sensex	15,092
Reuters	RLCP.BO
Bloomberg	RCFT IN
Avg. Volume (52 Week)	0.84 mn
52-Week High/Low	Rs. 1166.30/ 402.50
Shares Outstanding	226.5 mn

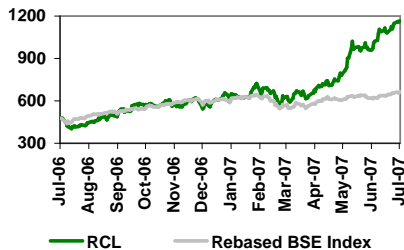
Valuation Ratios

Year to 31 March	2008E	2009E
EPS (Rs.)	49.8	74.6
+/- (%)	61.9%	50.0%
PER (x)	23.4x	15.6x

Shareholding Pattern (%)

Promoters	52
FII's	31
Institutions	2
Public & Others	15

Relative Performance



RELIANCE CAPITAL LTD

Buy

Poised for Exponential Growth

Reliance Capital (RCL) is one of the fastest growing private players in financial sector in India. It has presence in high potential businesses like Mutual Fund, Insurance, and Infrastructure Lending. While RCL has largest AUM in India, the Company has acquired close to 5% market share in Life Insurance and 10% market share in General Insurance in a short span of time. The Company would invest Rs. 20 bn in insurance business in coming few years to accelerate its growth. Besides, the Company has huge plans for retail broking and consumer finance. We expect the EPS to grow to Rs. 49.8 for FY08E driven by strong growth in existing business and launch of new business.

Key Figures

Year to March	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs mn, except per share data) (FY07-09E)					
Total Income	9,471	21,579	32,368	48,552	50.0%
Net Profit	5,810	6,996	11,329	16,993	55.8%
Gross Direct Premium	1,630	9,120	27,360	68,400	173.9%
Annual Equivalent Premium	853	7,219	25,266	63,166	195.8%
AUM	246,700	463,070	694,605	1,041,908	50.0%
Per Share Data (Rs.)					
EPS	26.5	30.7	49.8	74.6	55.8%
PER (x)	44.0x	38.0x	23.4x	15.6x	

- Considering the expected growth in Gross Direct Premium in General Insurance, First year Premium in Life Insurance Business, & AUM and launch of new business, we expect the total Income to grow to Rs. 32.3 bn and profit to increase to Rs. 11.3 bn in FY08E.
- RCL is trading at the forward PE of 23.4x for 2008E and 15.6x 2009E.
- We value the RCL based on SOTP and initiate coverage with a Buy. Our one year target price is Rs. 1,327 which represents an upside of 14% from the current level.

Investment rationale

Dynamic Leadership

RCL is posting strong growth under the leadership of Anil Ambani. The Company is working towards the vision of becoming one stop shop for all the financial products. Considering the ability to plan and execute quickly we expect the Company to achieve considerable reach and scale in its business in next 2-3 years.

Rs. 500 bn Asset Under Management

Market Leader in AUM

Indian Mutual Fund Industry is set to grow strongly considering the low AUM as a % of GDP at 9% compared to 74% in US, and 31% in UK. Reliance Mutual Fund is set to take the bigger pie of this growth through its wide presence, product differentiation, return performance and brand equity. Reliance Mutual Fund has current AUM in excess of Rs. 500 bn, largest amongst Indian mutual Funds leaving behind large players like UTI MF, Prudential ICICI MF, HDFC MF and Franklin Templeton MF. Besides, the Company has increased its market share in Total AUM from 11% in FY2006 to 13% in FY2007.

Huge Opportunity in Insurance Business

Scaling up Insurance Business

Insurance industry is witnessing phenomenal growth in India based on low penetration, attractive demographics, robust economic growth and increasing awareness. In order to fuel growth, RCL is planning to invest Rs. 20 bn in Insurance business. Reliance Life Insurance is the fastest growing Insurance Company amongst the private players and its new business premium increased exponentially at 380% to Rs. 9.3 bn in FY07. The Company is aggressively expanding its branches and agents network in order to achieve wider presence and increase market share among all the private players from the current 5%.

Also, Reliance General Insurance has shown stupendous growth of 462% in Gross Direct Premium to Rs. 9.1 bn in FY07. This business is likely to increase its market share further from current 10% driven by increased focus on retail business and expansion of distribution franchise.

Leveraging on retail presence through RCOM

RCL is likely to exploit the huge retail presence of group company Reliance Communication through Reliance Web world across 700 plus cities through 1,650 stores. Moreover, after the launch of Reliance Money and rollover of extensive financial outlets, it will be selling brokerage, insurance, and Mutual Fund products through a one stop shop.

Entry into Stock Broking and Consumer Finance

New Business Ventures

In order to target the low level of retail penetration in Indian retail financial market, RCL is launching low priced broking and related services under the umbrella brand of Reliance Money. The Company is planning to launch pre-paid cards for trading on exchanges in denominations of Rs 500, Rs 1,350 and Rs 2,500 and is expected to drastically reduce the brokerage charges. Moreover, the Company would set up more than 10,000 web-enabled kiosks across the country by March 2008 to facilitate easy retail trading. RCL is also foraying into the consumer finance by end of 2007 and would offer housing loan, personal loans and credit cards. Besides, the Company would also start investment and merchant banking advisory services.

Substantial Unrealised gains in equity investments

Strong Investment Portfolio

The Company has invested more than Rs. 15 bn in quoted and unquoted equity investments. According to our calculations current Market Value of quoted investments is Rs. 43 bn (Rs. 192 per share). RCL has several investments through private equity and proprietary investment route in listed companies like Adlabs Films, Global Broadcast, IDFC etc. In addition, the Company has substantial investment in group companies like RNRL, RCOM, REL and RIIL. Of late, the Company is offloading its stake in the group companies at the prevailing market prices and booking significant profits.

Key Risks

Market fluctuations

RCL has close to Rs. 11 bn in quoted investments which are exposed to fluctuations in stock prices. Any decline in the prices of these investments may

affect financial position of RCL. Other than this, the Company's Investment and Brokerage business is also dependent on the movement and volume at the Capital Market.

*Performance dependent
on buoyancy of Capital
Markets*

Regulatory Risk

The Company operates in highly regulated financial systems in India. Its Investment and Brokerage business come under the regulation of SEBI (Securities Exchange Board of India) and Insurance business is regulated by IRDA (Insurance Regulatory Development Authority). Regulatory hurdles can hamper the fast growth plans of the Company. For example, SEBI suspended Reliance Share and Stock Broking (RSSB) for four months for violations of brokers' regulations in December 2006. Moreover, RCL is not allowed to get banking license or take over a bank due to RBI regulation to cap an Industrial group's stake in a bank to 10%.

*Late Entry into Insurance
Business*

Execution Risk

The Company is expected to launch brokerage and Consumer Finance business in FY08. Other business of the RCL like Life and General Insurance are yet to achieve scale and are at a nascent stage. We have factored in valuation of new business in our Rating. It is vulnerable to execution risk and can be lower in case RCL fails to achieve sufficient volume in these businesses.

Late entrant in Insurance Business

RCL is a late entrant in the business which has long gestation period of 5-7 years. The Company entered this business in 2005 while Private Players have been present since last five years. However, the Company is among the fastest growing insurance companies in the Country in terms of new business premium and has recently moved to 4th rank in the General Insurance and 5th rank in the Life Insurance.

Outlook

RCL is on the fast growth track and gaining market share in all the lines of business. We expect the growth in Insurance business to get additional push through investment of Rs. 20 bn. Besides, the Company is likely to garner substantial market share in Stock broking on account of low pricing strategy and Consumer finance leveraging the group wide retail presence. However, high proprietary investment in equity can be a risk and can affect the financial performance negatively in adverse market movement.

*Target Price of Rs. 1,327
based on SOTP*

We value the Company based on SOTP. We expect the AUM to grow 50% y-o-y to Rs. 694.6 bn and value it at Rs. 305 per share considering valuation at 10% of AUM. The value for General Insurance business works out Rs. 180 per share assuming Gross Direct Premium growth of 200% for FY08E, PAT margin of 10% & PE of 15x. Life Insurance business and Broking business are valued at Rs. 266 per share and Rs. 15 per share respectively. Besides, we value Lending business Rs. 359 per share at PB of 2x and BV of Rs. 40.9 bn for FY08E. RCL's investment portfolio is valued at Rs. 202 per share including both quoted and unquoted equity investments. Our final SOTP valuation works out Rs. 1,327. It represents an upside of 14% from current level. We initiate coverage with a Buy for the Company.

Company Profiles

Reliance Capital Ltd is a part of the Reliance - Anil Dhirubhai Ambani Group. The Company is one of India's fastest growing private sector financial services companies, and ranks among the top 3 private sector financial services and banking companies, in terms of the net worth.

Reliance Capital has interests in asset management and mutual funds, life and general insurance, private equity and proprietary investments, stock broking and other activities in financial services. The Company is also venturing out in consumer finance in FY07.

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