



Prabhudas  
Lilladher

Fulfilling investors' needs since 1944

Kiranjot Kahlon  
91-22-6632 2234

Associate Analyst  
KiranjotKahlon@PLIndia.com

Meeting  
Update

# Reliance Capital

Not Rated

Rs 773

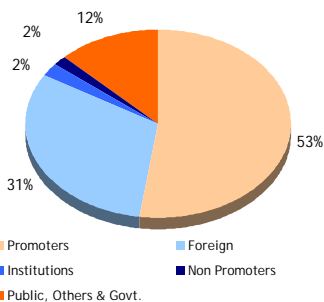
May 8, 2007

## 'Ensured' growth...

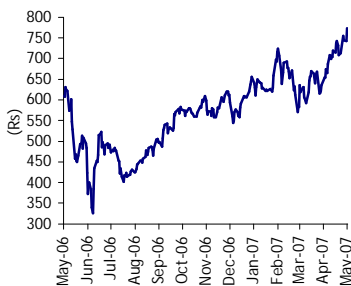
### Company Details

Market Cap:	Rs 190,235m
52 Week High/Low:	Rs 779 / 320
Bloomberg Code:	RCFT@IN
Reuters Code:	RLCP.BO / NS
Shares O/s:	246m
Average Volume (3 months):	1.2m

### Share Holding Pattern



### Price Chart



### Price Performance

(%)	1m	3m	12m
Absolute	18.1	6.8	27.2
Relative to Sensex	13.6	12.9	17.2

(Stock price as on May 8, 2007)

### We recently met the management of Reliance Capital

#### Following are the key takeaways:

- Reliance Capital is one of the leading financial service providers in the country. It offers the entire gamut of financial services covering mutual fund, insurance, portfolio management and the newly started equity/commodity broking and distribution of consumer loans.
- It has presence in 625 cities with a network of 2270 outlets. Post the launch of Reliance Money, it has acquired 36000 clients and expects the base to increase to 1mn in next 15-18 months.
- The insurance segment, both life as well as general insurance have grown by 3.8x and 4.6x respectively in FY07. During FY08, the company expects the life insurance premium to grow by 150% to Rs.25bn and general insurance business to double from the current levels.
- Reliance Capital plans to enter two new business segments; Consumer finance-where it expects to disburse Rs.50bn during FY08. It plans to foray into Asset reconstruction business in the later half of FY08.
- On broad basis, the fair value per share works out to be Rs. 709.7 discounting FY08. We are in the process of finalizing the financials and will soon release a detailed report.

### Key Figures

Y/e March	FY04	FY05	FY06	FY07
Revenues (Rs m)	4,376	5,435	9,663	21,396
EBITDA (Rs m)	3,498	3,068	7,054	8,499
<i>Margins (%)</i>	<i>79.9</i>	<i>56.4</i>	<i>73.0</i>	<i>39.7</i>
PAT (Rs m)	1,223	1,238	5,819	7,032
EPS (Rs)	5.0	5.0	23.6	28.6
PER (x)	155.5	153.7	32.7	27.1
EV / E (x)	58.9	66.0	27.0	22.4
EV / Sales (x)	47.0	37.3	19.7	8.9
<i>RoCE (%)</i>	<i>9.8</i>	<i>9.2</i>	<i>14.1</i>	<i>16.7</i>
<i>RoE (%)</i>	<i>8.0</i>	<i>8.3</i>	<i>14.0</i>	<i>16.9</i>



## Business Segment

### Reliance Money

Reliance Capital ventured into equity broking by opening 2270 outlets across the country. Since the formal launch on 11th April till date, the company has acquired 36000 clients. The average daily volumes are around Rs 2bn. In next 15-18 months, the company expects its customer base to grow to 1mn.

Apart from the traditional way of trading (offline), reliance money offers trading through online as well as introduced the concept of KIOSK (presently 2500). It offers prepaid cards, which have a predetermined transaction value and charges brokerage of 1 paisa. With an established network it also forayed into distributing consumer loans, insurance and mutual fund products across the companies.

### Life Insurance

After acquiring AMP Sanmar for around Rs.1bn in October 2005, Reliance capital has grown the premium income by 8.8x to Rs. 9321mn by FY07. ULIP constitute 88% of its sales in FY07. It distributes life insurance products through 217 branches and 106,000 agents.

Reliance capital has already got approval by IRDA to open another 130 branches, taking the total branches to 347. It also plans to increase its agent's base to 200,000 agents by the end of this fiscal.

For FY08, the company expects the premium income to grow to Rs. 25bn. Forecasting more than 100% growth; the company would require further funding of Rs.13-15bn.

### General Insurance

Reliance capital offers motor, fire, engineering, marine, liability and health insurance products under the general insurance umbrella. Reliance capital is the third largest general insurer based on premium underwritten in FY07. The gross premium income for FY07 has increased four fold to Rs. 9122mn. Of the total premium income, retail constitutes 55% and rest is corporate. The general insurance industry is expected to grow by 25-30% in FY08 and the company expects the business to grow by atleast 2x during FY08.

### Asset Management

Reliance Mutual fund is the largest asset management company in the country with total assets under management of Rs. 463.1bn in March'07. Of the total funds, 40% is equity while 60% is debt. By FY08 the company expects its branch network to increase from 123 braches to 200 branches.

## New Business Segments

Reliance Capital plans to enter the consumer finance segment by the first half of FY08. It expects to disburse around Rs. 50bn during the fiscal.

The company also plans to enter the asset reconstruction business. Reliance capital would hold 49% in the venture, the rest being held by GIC, Corporation Bank, Indian Bank and a couple of FII's



## Valuation of business segments

Based on our initial understanding, we have tried to value the different business segments.

### Valuation of business segments

(Rs m)

Business Valuations	FY06	FY07	FY08E	Value per Share
<b>Life Insurance</b>				
New Business Premium	1,936	9,321	25,000	
<i>yoy gr. (%)</i>		<i>381.5</i>	<i>168.2</i>	
<i>NBAP Margin (%)</i>			<i>18.0</i>	
Multiple (x)			18.0	
Value of Insurance Business			81,000	329.1
<b>General Insurance</b>				
Premium collected	1,623	9,122	27,366	
<i>yoy gr. (%)</i>		<i>462.0</i>	<i>200.0</i>	
<i>PAT Margin (%)</i>			<i>7.0</i>	
Multiple (x)			3.0	
Value of Gen Insurance			5,747	23.4
<b>Asset Management</b>				
AUM	246,700	463,100	648,340	
<i>yoy gr. (%)</i>		<i>87.7</i>	<i>40.0</i>	
Valuation @ of 5%			32,417	131.7
<b>Investment Book</b>				
Book value		24,343		
Unrealised Gain		27,200		209.4
<b>Broking</b>				
Avg. Daily Volume			3,500	
Brokerage			0.0001	
Customer Base			360,000	
A/C Opening Income (Rs. 750/Ac)			270	
One time card inc (Rs.500/Ac)			180	
Recharge Income			150	
Broking Income			88	
Share of Reliance (2/3rd of broking income)			59	
Total Operating Income			659	
PAT Margin 40%			264	
Multiple (x)			15	
Value of Broking Business			3,953	16.1
<b>Fair Value per Share</b>				<b>709.7</b>



## Income Statement

(Rs m)

Y/e March	FY04	FY05	FY06	FY07
Interest Income	2,826	2,109	1,682	-
Profit on sale of Investment	55	335	4,572	-
Dividend Income	178	185	204	-
Income from Leasing	481	447	439	-
Other Commission Income	515	1,917	1,872	-
Fee Income	321	443	895	-
<b>Total Operating Income</b>	<b>4,376</b>	<b>5,435</b>	<b>9,663</b>	<b>21,396</b>
Employee Expense	131	223	446	1,472
<i>% of Revenue</i>	<i>3.0</i>	<i>4.1</i>	<i>4.6</i>	<i>6.9</i>
Operating & Administration Expenses	464	863	942	5,592
<i>% of Revenue</i>	<i>10.6</i>	<i>15.9</i>	<i>9.7</i>	<i>26.1</i>
Miscellaneous Expenses	284	1,281	1,222	5,833
<i>% of Revenue</i>	<i>6.5</i>	<i>23.6</i>	<i>12.6</i>	<i>27.3</i>
Total Operating Expenses	878	2,368	2,609	12,897
<b>EBIDTA</b>	<b>3,498</b>	<b>3,068</b>	<b>7,054</b>	<b>8,499</b>
<i>EBIDTA Margin (%)</i>	<i>79.9</i>	<i>56.4</i>	<i>73.0</i>	<i>39.7</i>
Interest	1,993	1,511	452	427
Depreciation	431	453	489	140
Other Income	204	263	41	183
<b>PBT</b>	<b>1,279</b>	<b>1,366</b>	<b>6,154</b>	<b>8,115</b>
Tax	56	128	336	1,083
<i>ETR (%)</i>	<i>4.4</i>	<i>9.4</i>	<i>5.5</i>	<i>13.3</i>
<b>PAT</b>	<b>1,223</b>	<b>1,238</b>	<b>5,819</b>	<b>7,032</b>



## Balance Sheet

(Rs m)

Y/e March	FY04	FY05	FY06
<b>SOURCES OF FUNDS:</b>			
Share Capital	1,280	1,278	2,234
Reserves Total	13,969	13,653	39,385
Total Shareholders Funds	15,249	14,931	41,619
Minority Interest	336	351	387
Secured Loans	-	-	1,675
Unsecured Loans	16,335	13,136	744
Total Loan Funds	16,335	13,136	2,419
<b>Total Liabilities</b>	<b>31,920</b>	<b>28,418</b>	<b>44,425</b>
<b>APPLICATION OF FUNDS:</b>			
Gross Fixed Assets	5,484	5,521	3,906
Less: Accumulated Depreciation	2,825	3,114	2,463
Net Block	2,659	2,407	1,443
Lease Adjustment	(46)	(203)	327
Capital Work in Progress	190	131	131
Investments	17,418	17,560	23,938
<b>Current Assets</b>			
Inventories	4,028	3,061	62
Sundry Debtors	716	137	777
Cash and Bank Balance	314	362	2,016
Loans and Advances	12,223	6,358	18,428
Total Current Assets	17,282	9,917	21,282
Total Current Liabilities & Provisions	5,649	1,449	2,750
Net Current Assets	11,633	8,468	18,532
Miscellaneous Expenses not written off	85	69	62
Net Deferred Tax	(17)	(14)	(9)
<b>Total Assets</b>	<b>31,920</b>	<b>28,418</b>	<b>44,425</b>

This document has been prepared by the Research Division of Prabhudas Lilladher Pvt. Ltd. Mumbai, India (PL) and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security. The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accept any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein. Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor. Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication. We may from time to time solicit or perform investment banking or other services for any company mentioned in this document.