kotak® Institutional Equities

Reliance Capital (RCFT)

Financial Services

REDUCE

July 02, 2009

INITIATING COVERAGE

Sector view: Attractive

Price (Rs): 938

Target price (Rs): 875

BSE-30: 14,645

Diversified financial services play. Reliance Capital is focused on businesses across the spectrum of financial services, including life insurance, asset management, retail broking and distribution. We expect its strong parentage and large capital base to help it achieve a substantial market share over time. However, we believe that the current market price is somewhat ahead of its fundamentals and we therefore initiate coverage with a REDUCE rating.

Life insurance and asset management businesses add most value to our SOTP

Our SOTP-based target price of Rs875 for Reliance Capital (RCAP) suggests 7% downside from current levels. Life insurance (Rs453) and asset management businesses (Rs199) account for 74% of our target price though we expect the fair value of other businesses to appreciate over time.

Focus on wide reach, superior pricing strategy across businesses

RCAP's market position in asset management and life insurance has remained strong despite the slowdown in the industry during FY2009. After setting up a large network for broking and distribution, RCAP has begun to focus on asset reconstruction, private equity and institutional equities. Despite its late entry into most segments, we believe it can become a sizeable player over time given its (1) focus on expanding beyond metros (which have relatively less competition), (2) technology support and (3) superior pricing strategy.

Financials: Core profitability yet to be demonstrated

Most of RCAP's businesses are currently in nascent stages and reporting losses / marginal profits. Capital gains from its large equity investment book (Rs19 bn in March 2009) have largely supported earnings in the past. However, RCAP's reported profits will likely decline by 16% CAGR in FY2009-11E due to lower capital gains, even as the earnings of its core businesses increase.

Key risks. Execution, competition

(1) RCAP is yet to establish itself as a sizable player and demonstrate long-term profitability. (2) The company will likely face competition from banks (that have lower costs of funds and the ability to cross sell) and established NBFCs (niche-focused players with proven performance for several business cycles). However, RCAP's large capital base and parentage of ADAG (support an 'AAA' rating) are comforting.

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Important disclosures appear at the back

Company data and valuation summary

Company data	Stock data	High	Low	Price performance	1M	3M	12M
REDUCE	52-week range (Rs)	1,475	274	Absolute (%)	(4.2)	143.0	7.3
	Priced at close of:		July 1, 2009	Rel. to BSE-30 (%)	15.1	16.9	89.0
Current price (Rs)							
938	**Capitalization**			**Forecasts/valuation**	**2009**	**2010E**	**2011E**
	Market cap (Rs bn)		230.5	EPS (Rs)	39.3	29.0	28.9
	2009 RoE (%)		15.3	Growth in EPS (%)	(5.6)	(26.2)	(0.5)
	Free float (%)		46.6	P/E (X)	23.9	32.3	32.5
	Shares outstanding (mn)		246.2	P/B (X)	3.4	3.2	2.9

Source: Company data, Kotak Institutional Equities estimates.

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The prices in this report are based on the market close of July 1, 2009

OVERVIEW: DIVERSIFIED FINANCIAL SERVICES PLAY

We expect RCAP to emerge as a sizable player in the financial services space and, over time, capture substantial market share in most businesses that it operates in. Buoyed by its large capital, RCAP has been scaling-up business across the financial services spectrum (including insurance, asset management, broking, financial distribution and consumer finance) though growth took a breather in 2HFY09 due to challenging macro conditions. The company is yet to demonstrate long-term profitability in these businesses. We initiate coverage with a REDUCE rating and a sum-of-the-parts based price target of Rs875/ share.

Valuation: SOTP based price target provides 7% downside

We initiate coverage on Reliance Capital (RCAP) with a REDUCE rating and price target of Rs875 /share (Exhibit 1). RCAP's established business—life insurance and asset management currently contribute to about 70% to its SOTP. R-Money, the retail brokerage and distribution business, is still small but gaining momentum and its value will likely appreciate over time. RCAP's new ventures—institutional equities and asset reconstruction among others, will also likely contribute to the SOTP over the long term. RCAP's large treasury—book currently contributes a large chunk; this will likely reduce over time as core businesses gather momentum.

Exhibit 1: Life insurance and AMC business have a large contribution to the target price
Sum-of-parts-based valuation for Reliance Capital based on FY2011E

	Valuation (Rs mn)	Value per share (Rs)	Comments
Reliance Life Insurance	111,501	453	Based on NPAB analysis, 10% holding company discount
Reliance Capital Asset Management	49,040	199	Based on DCF, 4.4% of AUMs FY2011E, 10% holding company discount
Reliance Money	15,715	64	15X PER FY2011E, 10% holding company discount
Reliance General Insurance	5,735	23	1X PBR FY2011E, 10% holding company discount
Consumer lending business	13,545	55	1X PBR FY2011E, 10% holding company discount
Properitery investments			
Networth excl. inv in NBFC and subsidiaries	20,433	83	1X PBR FY2011E
Total	**215,969**	**877**	

Source: Kotak Institutional Equities

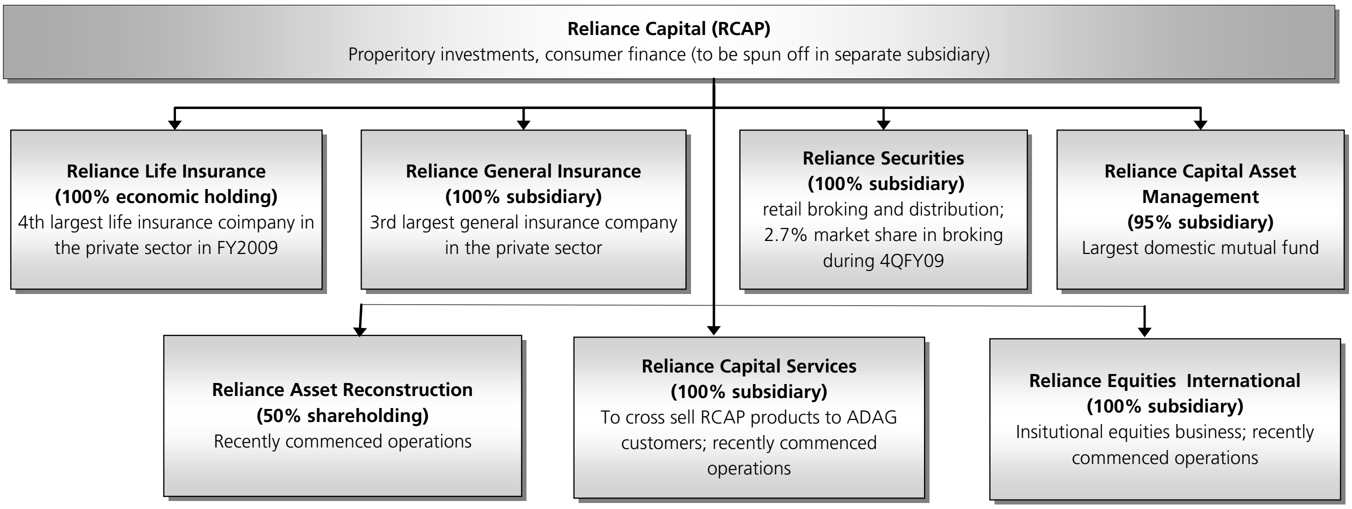
Higher NBAP margin assumption will provide 15% upside from the current levels

We believe that Reliance Life Insurance's structural value will increase by Rs200/ share (value of insurance business at Rs653/ share versus our current estimate of Rs453/ share) if we assume NBAP margin of 21% for FY2011E (as reported for FY2009) versus about 14% (currently factored by us). The higher NBAP margin will result in fair value of Rs1,075/ share for the stock i.e. 15% upside from the current levels. We believe that the company assumptions factor income tax rate of 14% versus our assumption of 34% - the key reason for higher reported margins.

Aiming to be a financial powerhouse

RCAP provides services across the entire gamut of financial services with the ultimate intention to be a financial powerhouse. The company is directly or indirectly (through subsidiaries or associates) engaged in several activities – life and general insurance, asset management, broking, distribution of financial products, retail lending etc. RCAP proposes to eventually operate all its businesses through subsidiaries/ associate and function as a holding company. Its large proprietary investment book can be divested to fund growth in these businesses.

Exhibit 2: Reliance Capital operates businesses across several business lines
Key companies and major businesses of RCAP



Source: Company

RCAP scores on wide branch network

Most of RCAP's businesses are focused beyond the major metros and have expanded their distribution reach to smaller towns and cities. We believe this strategy will help RCAP gain market share due to the limited presence of large private and foreign players in the interiors.

- Reliance Life Insurance (RLI) increased its branches to about 1,145 in March 2009 from 736 in December 2007. This is in line with the larger players—ICICI Prudential Life (1,050 large branches, 950 micro branches, total 2,000) and Bajaj Allianz (1,164 branches). The alternative (non-retail) channel contributes about 35% of RLIs business, somewhat lower than 40% for Bajaj Allianz and 55% for ICICI Pru Life.

- RCAP's mutual fund business operates about 300 business outlets, including 182 resident representative offices, significantly higher than most large players that have focused on the Top 8 cities.

- In a short span of six quarters, R-Money has set up a network of about 10,000 branches (mainly franchisees), significantly higher than most peers whose branches range between 600 and 1,300.

It may appear that a large, often overlapping, branch network will likely inflate costs for RCAP. The management, however, believes that businesses are currently being established and may require independent networks; it would consider rationalization over time.

Investment book to fund life insurance and growth in other businesses

RCAP's surplus funds (equity investments of Rs19 bn as on March 2009) can be liquidated over time to support its core businesses. We believe that some of its business (consumer finance and general insurance) will likely generate low RoEs and may at some point begin to require frequent capital infusion.

We expect Rs20 bn of net worth as of March 2011E to be available to fund future growth in its core businesses. We factor (a) aggregate net worth of Rs79 bn as on March 2011E, (b) equity capital of Rs13 bn for the NBFC businesses and (c) Rs44 bn of capital for life and general insurance (incl. Investments made through group companies) and broking businesses. As of March 2009, RCAP made investments of Rs2.2 bn in Reliance Life Insurance and the balance (about Rs29 bn) was made through various holding companies of the group. We expect RCAP to transfer the entire investment in Reliance Life (at par) to itself and liquidate its current investment book by a similar amount in addition to a further infusion of Rs6-7 bn between FY2009 and FY2011E.

Third-party investment in various businesses

Media reports suggest that RCAP proposes to infuse capital in its life insurance and NBFC/ housing finance businesses. Reliance Life is the only 100% Indian private sector insurance company and will likely offer an attractive route for foreign insurance companies to enter India.

The NBFC business is currently hosted in the balance sheet of the parent company. RCAP has already received regulatory clearance for an independent NBFC and housing finance company. The current loan book of Rs85 bn will be transferred to these companies.

In FY2008, Eton Park, a hedge fund, invested Rs5 bn in the AMC businesses for a 5% stake, thus valuing the business at Rs100 bn i.e. 13% of current AUMs.

Highlights of key businesses

- **Reliance Life Insurance (RLI) – Still growing, capturing market share.** RLI adjusted premium (APE) increased by 56% to Rs29 bn in FY2009 on the back of management's aggressive expansion plan and high commission payment strategy. We are factoring moderate growth of 15% in FY2010E on the back of slowdown in insurance industry and management decision to pause branch expansion plans for now. We are factoring 20% growth in FY2011E on the moderate base. We estimate RLI's blended margins to settle at about 13% which is similar to other players. We believe that RLI's products like Reliance Super Invest Assure have high margins due to the high allocation charges though the persistency and long-term growth prospects on this product will likely be lower.

- **Reliance Capital Asset Management (RCAM) – Already #1.** RCAM is the largest mutual fund in India with over Rs1 tn of asset under management as of May 2009. With an aggressive branch expansion plan, focus on small retail investors, RCAM has delivered 105% CAGR in AUMs during FY2005-FY2009. The company retained its #1 market position (in terms AUMs) despite a fall in AUMs—down 11% yoy in FY2009. We factor 33% growth in FY2010E on this low base and 21% growth in FY2011E.

- **Reliance Money (retail broking and distribution)—a financial supermarket.** We expect Reliance Money (R- Money) to capture about 4-5% market share by March 2011E. Within a short span of six quarters, the company scaled up to achieve a market share of about 3% in broking. R-Money follows a unique model—flat pricing in broking, focus on franchisees to drive business. This model is novel in the Indian brokerage sector and RCAP will need to demonstrate its long-term profitability given (a) most successful brokerages are currently operating through company-owned branches; franchisee branches have not been as successful in third party distribution, (b) we believe that RCAP's experience till date is not very different—according to our estimates, in FY2009, 9,450 franchisees contributed 40% of its business and 250 company operated branches accounted for the balance.

- **Consumer finance- Low profitability over the medium term.** RCAP is focusing on retail lending business across various segments—auto, personal and SME loans. We believe the profitability of this business will remain low over the medium term due to competition from banks. RCAP has currently reduced disbursements due to challenges on the borrowings side coupled with NPL concerns. The company proposes to scale up disbursements in construction equipment finance in FY2010E though growth in the overall loan book will likely be low (Rs100 bn in FY2011E, Rs90 bn in FY2010E from Rs85 bn in FY2009) due to high loan repayments.

- **Reliance General Insurance (RGI) –consolidating operations.** RGI has emerged as the third largest player in the private sector after two years of strong growth and expansion. However, since FY2008, RGI is going slow given the hostile business environment—gross premiums were down 2% yoy in FY2009 versus 9% industry growth and 12% growth reported by the private players. With complete de-tariffing from 2009, we believe that fierce competition will continue to pull down general insurance tariffs though likely lower income on investments will push established players to price products more rationally. We continue to expect industry-wide pressure on margins and profitability the next few quarters.

Financials do not reflect business performance

We expect RCAP's reported profits to decline by 16% CAGR between FY2009 and FY2011E due to lower capital gains, likely higher tax rate and lower income from finance business. Note that the reported financials of the company do not indicate the accurate profile of its business on account of the following:

- RCAP's standalone financials incorporate its consumer finance business and its treasury.

- The company has a large net worth (Rs67 bn) in March 2009—historically deployed in investments but can be liquidated to fund growth. In the past, capital gains from its equity investments have largely supported earnings (73%,95% and110% of PBT in FY2007, FY2008 and FY2009, respectively). However, with the correction in equity markets, the company did not have any unrealized gains as of March 2009.

- RCAP's most businesses are currently in nascent stages and reporting losses / marginal profits. R-Money (till FY2008) and Reliance Life Insurance are not reflected in the consolidated accounts. RCAP holds 100% economic interest in Reliance Life Insurance businesses, its stake is held through its group companies. Eventually, RCAP proposes to function as a holding company and operates all its businesses through a subsidiary. It proposes to liquidate some of its investments to fund growth in its core businesses.

Key risks: Effective execution in current environment, competition

Execution risk. RCAP is rapidly gaining market share but most of its businesses are currently reporting losses or marginal profits. Profitability may not be high in the medium term as most businesses have scaled up rapidly and may need to stabilize. A likely slowdown in the GDP growth, reduction in capital market activity will affect financial services in general and delay break-even period for newly established businesses.

Competition. RCAP will likely find it challenging to deliver high profitability in light of strong market position of the incumbent players. With severe competition and strong long-term growth potential, several banks have opted to pursue market share over margins. This has pulled down profitability across the sector and made it challenging for new players to gain traction. Banks enjoy a lower cost of funds due to their CASA deposits and are better placed to withstand competition while most NBFCs have focused on niche segments (which have limited competition) to deliver high profitably.

Background

Reliance Capital Ltd (RCAP), the flagship NBFC of the Reliance—Anil Dhirubhai Ambani Group (Reliance ADAG). Its current businesses include insurance, retail finance, broking, asset management, asset reconstruction etc. Capitalized in FY2006 after reorganization of the Reliance Group, the company proposes to grow across various segments of financial services.

Mr Anil Ambani is the executive chairman of the RCAP and Mr Sam Ghosh is the group CEO. Each of the businesses is controlled by the respective CEOs. (Exhibit 3).

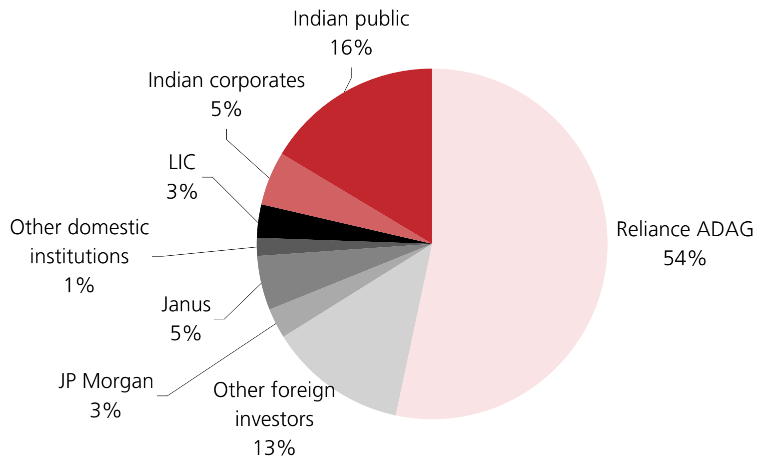
Exhibit 3: RCAP- profile of senior management

Name	Designation	Background
Anil Ambani	Chairman, ADAG	
Amit Jhunjhunwala	VC, Reliance ADAG	
Sam Ghosh	Group CEO	Former MD of Bajaj Allianz
Sandeep Sikka	CEO, Reliance Capital Asset Management	Previously with ICICI Bank
K.A. Soma Sekharan	CEO, Reliance General Insurance	Formerly with United India Insurance, 33 yrs in the industry
Sudip Bandyopadhyay	CMD, Reliance Securities	Previously with ITC finance
K.V. Srinivasan	CEO, Reliance Consumer Finance	Previously with ICICI Bank

Source: Company

Promoters (Reliance ADAG) hold 54% stake in the company while 21% is held by foreign investors (including Janus [5%] and JP Morgan [3%]). (Exhibit 4).

Exhibit 4: RCAP—shareholding pattern as on March 2009



Source: NSE

VALUATION: SOTP IS THE MOST APPROPRIATE FRAMEWORK

We initiate coverage on Reliance Capital with a REDUCE rating and price target of Rs875/share using a sum-of-the-parts (SOTP) framework. The life insurance business contributes the maximum value (Rs453/share) followed by its mutual fund business (Rs200/share). R-Money, a recently set-up financial services platform, could provide significant value over time though currently its contribution to SOTP is low. General insurance and consumer finance will likely remain subdued, in our view, given their moderate profitability over the long term.

Reliance Life Insurance—still growing, capturing market share

Reliance Life Insurance contributes Rs453/ share or 52% to our SOTP-based valuation. Our fair value estimate, based on appraisal value (embedded value + structural value)—Rs124 bn implies a multiple of 5X EV FY2011E—somewhat higher than other players on the back of high growth traction. We are using a multiple of 17X on FY2011E NBV to calculate RLI's structural value—the multiple factors 20% growth in year 1, 12% annual growth between year 2 and 10 and 3% terminal growth. 100% ownership in insurance business against other domestic players who own stakes of 50-75% is also an important value driver for the stock (Exhibit 5-8).

Exhibit 5: High NBV to fair value reflects strong growth potential
Valuation of Indian insurance companies, March fiscal year-ends, 2010-2011E

	2010 EV (Rs bn)	2011 EV (Rs bn)	Fair value 2010 (Rs bn)	Fair value 2011 (Rs bn)	Fair value to EV 2010 (X)	Fair value to EV 2011 (X)
HDFC Standard Life	26	28	81	92	3.2	3.3
ICICI Prudential	63	80	165	198	2.6	2.5
Reliance Life	**20**	**30**	**102**	**124**	**5.0**	**4.2**
SBI Life	44	52	116	131	2.6	2.5

Source: Kotak Institutional Equities

Exhibit 6: EV low for now, structural value has large contribution
Appraisal value calculation, March fiscal year-ends, 2008-2011E (Rs mn)

	2008	2009E	2010E	2011E
Paid-up capital brought f/wd	6,640	11,477	23,477	28,477
New capital infusion	4,837	12,000	5,000	2,000
End-of-the-year capital	11,477	23,477	28,477	30,477
Less accumulated deficit	(8,871)	(17,871)	(21,871)	(21,871)
Total shareholders fund (a)	**2,606**	**5,606**	**6,606**	**8,606**
Opening balance of VIF business (b)	1,113	3,653	7,880	13,741
New business premium income	19,141	29,941	34,432	41,319
NBAP margin	0.13	0.13	0.14	0.13
New Business value (NBV) (c)	2,393	3,743	4,817	5,537
Inforce-business unwinding (@ 13.25%) (d)	147	484	1,044	1,821
Estimated VIF at close of the year = e = (b+c+d)	3,653	7,880	13,741	21,098
EV (a + e)	**6,259**	**13,486**	**20,347**	**29,704**
NBV (Rs mn) (f)	2,393	3,743	4,817	5,537
NBM (X) (g)	17	17	17	17
Structural value (h = f X g)	**40,674**	**63,625**	**81,891**	**94,125**
Appriasal value (EV + structural value)	**46,933**	**77,111**	**102,238**	**123,829**
Fair value to EV (X)	7	6	5	4
EV to fair value (%)	13	17	20	24

Note
(b) VIF = value-in-force
(d) We have discounted the cash flows by 13.25% in the NBAP calculation, now rollling back

Source: Kotak Institutional Equities estimates

Exhibit 7: Reliance Life- sensitivity to valuation based on FY2011E

Structural value (Rs bn) = NBV * multiple						
	Margin (%)					
Multiple (X)	12.9	13.4	13.9	14.4	14.9	15.5
14	75	78	81	83	86	89
16	85	89	92	95	99	102
17	91	**94**	98	101	105	109
18	96	100	104	107	111	115
20	107	111	115	119	123	128
Appraisal value (Rs bn) = Structural value + Embedded value						
	Margin (%)					
Multiple (X)	12.9	13.4	13.9	14.4	14.9	15.5
14	104	107	110	113	116	119
16	115	118	122	125	128	132
17	120	**124**	127	131	135	138
18	126	129	133	137	141	145
20	136	141	145	149	153	157
Contribution to sum-of-parts assuming full value for 100% (Rs per share)						
	Margin (%)					
Multiple (X)	12.9	13.4	13.9	14.4	14.9	15.5
14	382	392	403	414	425	436
16	421	433	445	458	470	482
17	440	**453**	466	480	493	506
18	460	474	487	501	515	529
20	499	514	530	545	560	576

Source: Kotak Institutional Equities

Exhibit 8: Our NBV multiple of 17X factors moderate APE growth
Calculation of RLI's APE multiple

Key assumptions	
Premium in base year	100
Discount rate (%)	13
Margin (%)	12.4

Year	0	1	2	3	4	5	6	7	8	9	10	Terminal Year
Premium (Rs)	100	120	134	151	169	189	211	237	265	297	333	3,646
Growth (%)		20	12	12	12	12	12	12	12	12	12	3
NBAP margin (%)	12	11	11	11	10	10	9	9	9	9	8	
NBV (Rs)	12	14	15	17	18	20	20	22	25	28	28	306
PV of NBV	12.4	12.1	12.0	11.9	10.8	10.7	9.5	9.5	9.4	9.3	8.2	90.2
Value	206											
Multiple	**17**											

Source: Kotak Institutional Equities

Reliance Asset Management valued at 4.4% of AUMs

We value Reliance Capital Asset Management (RCAM) at Rs200/ share i.e. based on a discounted cash flow model (Exhibit 9). At our fair value estimate, the business will be valued at 4.4% of FY2011E AUMs.

Notably, Reliance MF was valued at Rs100 bn i.e. 13% of AUMs in 3QFY08 i.e. at a significant premium to other mutual funds that have been valued in the range of 5-8% of AUMs (Exhibit 10). We do not have direct listed comparables for RCAM. However, over the long term, RCAM will trade at a premium to other mutual funds due to its ability to outperform peers and higher focus on equity assets. We value ICICI Prudential AMC at 3% of AUM and HDFC Standard Life AMC at 4% of AUMs in our SOTP calculation for ICICI Bank and HDFC respectively. A higher share of equity AUMs and consequently higher profitability of RCAM and HDFC AMC is the key reason for the higher valuation multiples.

Exhibit 9: RCAM's DCF-based valuation at Rs199 per share
Discounted cash-flow model for RCAM, March fiscal year-ends, 2008, 2020E

		2008	2009E	2010E	2011E	2012E	2018E	2019E	2020E	Terminal year
Discount rate (%)	**13%**									
Terminal growth (%)	**8%**									
AUMs (Rs bn)		908	804	1,069	1,293	1,565	NA	NA	NA	
YoY(%)		96	(11)	33	21	21	NA	NA	NA	
Net profit / average AUMs (%)		0.22	0.15	0.17	0.16	0.16				
Net profit + depreciation (Rs mn)		1,547	1,316	1,699	1,918	2,295	5,158	5,673	6,241	125,398
YoY(%)		*207*	*(15)*	*29*	*13*	*20*	*10*	*10*	*10*	
Present value (Rs mn)		1,547	1,316	1,699	1,918	2,033	2,213	2,157	2,102	37,435
Fair value (Rs bn)		57								
(% of AUM)		4.4								
Value per share of RCAP		**199**								

Source: Kotak Institutional Equities

Exhibit 10: Mutual funds have been typically valued between 4-6% of AUMs
List of major MF deals

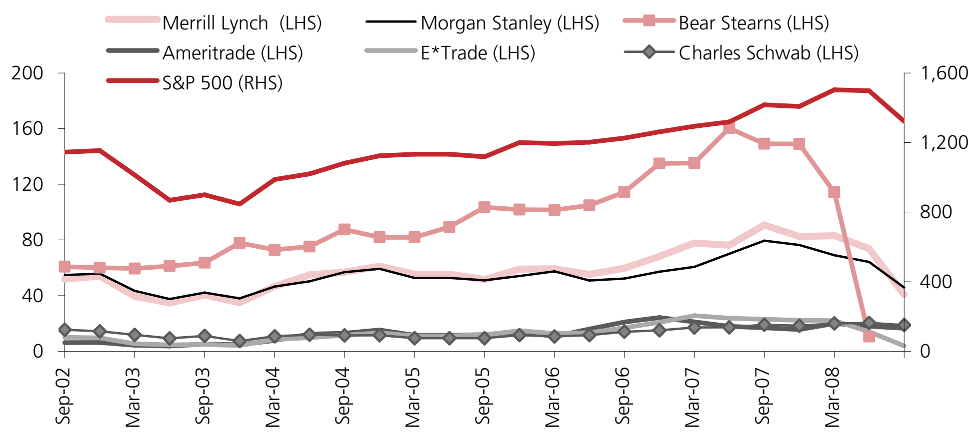
Date	Acquirer	Target	AUM (Rs mn)	Valuation of AMC (Rs mn)	Valuation (% AUM)
Jan-02	Standard Life	HDFC AMC	40,000	2,880	7.2
Mar-02	Franklin Templeton	Pioneer ITI	40,000	2,400	6.0
Jun-03	Standard Life	HDFC AMC	119,610	3,400	2.8
Jun-03	Principal	IDBI Principal	23,000	1,880	8.2
Jun-03	HDFC AMC	Zurich Financial	33,320	1,650	5.0
Jul-03	Principal	Sun F&C	5,000	200	4.0
Jul-04	Seciety General	SBI MF	61,000	4730	7.8
Mar-07	Rebecco	Canara Fund	5,750	230	4.0
Nov-07	Eton Park	Reliance MF	76,000	10,000	13.2
Feb-08	IDFC	Standard Chartered MF	146,429	8,200	5.6
Jul-08	Various funds	JM Mutual Fund	110,000	9,310	8.5
Nov-08	Religare	Lotus AMC	50,000	500-1000	1-2%

Source: Newspapers

R-Money—Retail broking and distribution does not yet add significant value

We value Reliance Money (R-Money)—RCAP's retail broking and financial distribution platform at Rs64/share i.e. on 15X PER FY2011E i.e. at the mid-cycle PE multiple of the Sensex (which trades at 12-18X 1-year forward PER). International comparisons show that securities firms are valued on a one-year forward PER linked to the market. Stock prices generally move in line with the indices (Exhibits 11,12 and 13). Note that the brokerage business is cyclical in nature with significant short-term swings in line with market volumes which in turn have a significant co-relation with market indices (Exhibit 14). Earnings volatility therefore is high given the high operating leverage, impacting the company's stock price performance. Historically, Indian markets have mostly traded in the range of 12-18X 1-year forward PER (Exhibit 15)—hence, we believe this will be an appropriate multiple to capture value across the life cycle of a brokerage business.

Exhibit 11: Brokerage stocks move in line with the markets
US brokerages (prices US$- LHS) and S&P 500 (RHS), September 2002-June 2008



Note.
(1) The stock price movements in 2HCY09 (till date) have been exceptionally sharp and not considered in our analysis.

Source: Bloomberg

Exhibit 12: Valuation - US brokerages

	Price	Market cap.	PAT (US$ mn)			P/E (X)			P/B (X)			RoE (%)		
	(US$)	(US$ bn)	2007	2008	2009E	2007	2008	2009E	2007	2008	2009E	2007	2008	2009E
Charles Schwab	18	20.3	2,407	1,212	882	8.4	16.8	23.1	5.5	5.0	4.2	55	31	21
Ameritrade	18	10.2	645	803	624	15.8	12.7	16.3	5.0	3.7	3.4	33	31	21
Morgan Stanley	29	38.6	3,209	1,707	2,191	12.0	22.6	17.6	1.0	2.2	1.9	10	5	5

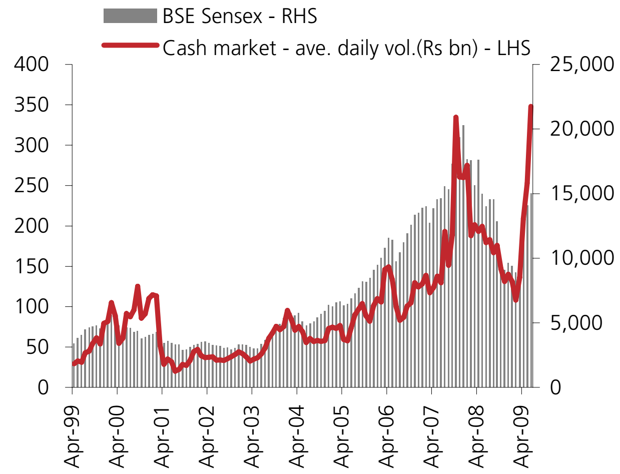
Source: Bloomberg, BST estimates

Exhibit 13: Valuation- Asian security firms

	Price (local currency)	Market cap. (local currency-bn)	Mkt. cap. (US$ bn)	(local currency)			P/E (X)			EPS growth (%)		RoE (%)		
				2007	2008	2009E	2007	2008	2009E	2008	2009E	2007	2008	2009E
Korea	**KRW**													
Woori Inv. & Securities	15,800	2,093	1.7	1,502	2,298	1,287	10.5	6.9	12.3	53.0	(44.0)	10.0	14.0	7.5
Daewoo Securities	19,700	3,744	3.0	2,318	1,743	887	8.5	11.3	22.2	(24.8)	(49.1)	23.8	17.0	7.0
Mirae Asset	20,100	2,936	2.3	3,475	6,659	3,187	5.8	3.0	6.3	91.6	(52.1)	15.5	21.0	8.0
Japan	**JPY**													
Nomura	810	2,162	22.4	92	(35)	(364)	8.8	(23.1)	(2.2)	(138.0)	NA	8.0	(3.0)	(40.0)
Taiwan	**TWD**													
Polaris securities	17	21	0.7	1	(1)	1	11.8	(13.9)	34.1	(185.4)	(140.7)	11.0	(10.0)	4.2
Fubon financials	32	258	8.0	2	1	1	17.0	22.6	22.6	(25.1)	0.0	NA	NA	7.9

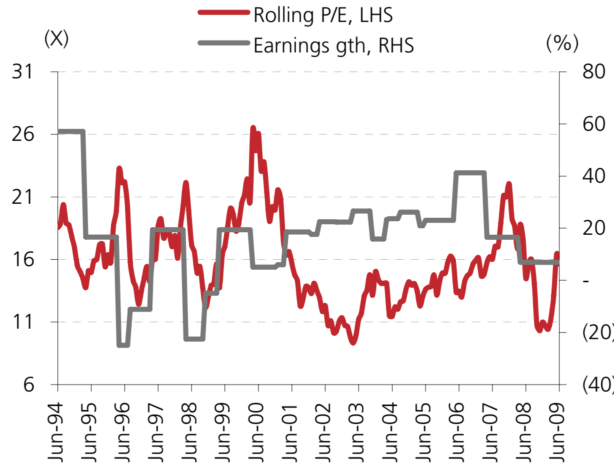
Source: Bloomberg, BST estimates

Exhibit 14: Exhibit 16: Equity market volumes have strong correlation with Sensex
Cash market volumes on BSE and NSE (Rs bn - LHS) and Sensex (RHS), April 1999- June 2009



Source: BSE and NSE

Exhibit 15: Exhibit 17: Sensex has been generally trading in the range of 10-18X 1-year forward PER
Rolling PER (1-year forward) for Sensex (X- LHS) and earnings growth (%- RHS)



Source: Kotak Institutional Equities

Currently, R-Money is not directly comparable with other players

Nascent operations. Despite capturing relatively high market share (2.7% in 4QFY09) in a short period of five quarters, R-Money generated low PBT (Rs581 mn) during FY2009. The market share has been volatile over the past four quarters, 2.7-3.9% unlike other large established players that reported marginal (0.25-0.5% swing in market share).

Unique business model—yet to be proven. R-Money has focused on a network of large franchisees (about 9,800 in September 2008) and a flat pricing strategy (brokerage at 60% discount of competition). Amongst the established players, India Infoline, the only player with large position in third-party distribution, has focused on company operated branches. Other players like Religare and Motilal Oswal have expanded through franchisees but have not seen much traction in third-party distribution.

Exhibit 16: Valuation - Indian brokerages

	CMP	Market Cap.	EPS (Rs)			EPS growth (%)			PER (X)			RoE (%)		
	(Rs)	(Rs mn)	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E
Edelweiss	376	28,163	40	25	40	79	(38)	61	9	15	9	28	9	14
India Infoline	132	46,218	6	5	6	86	(10)	16	24	26	23	18	11	12
Motilal Oswal	155	21,999	16	6	9	117	(60)	38	10	25	18	NA	12	13
Sensex	**14,645**		**864**	**895**	**906**	**19**	**4**	**1**	**17**	**16**	**16**	**17**	**16**	**15**

Source: Bloomberg, BST estimates, Kotak Institutional Equities estimates

Consumer finance business adds Rs52/share

RCAP's consumer finance business, valued at 1X PBR FY2011E, adds Rs52/share to our SOTP. We believe that the company will generate RoE of about 12-13% over the medium term when it achieves optimum scale; as such assigning a lower multiple to this business. The prime objective of RCAP seems to be to build expertise in the asset gathering business—as a precursor to the banking business. The company has reduced the pace of disbursements on account of borrowing-side pressures; it will resume business as the debt market scenario improves.

Over time, this business will trade at a discount to other NBFCs

We believe that RCAP's consumer finance business is comparable with NBFCs operating in retail finance—auto, personal and consumer loans. However, most listed NBFCs operate in niche segments where they command higher yields and consequently are more profitable (RoEs generally in the range of 18% to 25%—Exhibit 17) despite having a relative disadvantage in borrowings (RCAP enjoys a 'AAA' rating on the back of Reliance ADAG's parentage, while most of these NBFCs are rated AA). As such, we expect RCAP's retail lending business to be valued at the lower end of the NBFCs trading band, i.e. 1-2.5X PBR FY2009E (Exhibit 18).

Exhibit 17: NBFCs generally RoEs of 18-25%

Du Pont analysis of NBFCs, March fiscal year-end, 2008

ROA decomposition (% of avg. assets)	Bajaj Auto Finance	Chola DBS	HDFC	Indiabulls Financial Services	LIC Housing Finance	Mahindra Finance	Shriram Transport	Comments
Net interest income	8.40	10.15	3.7	8.27	3.0	9.9	8.1	Higher for NBFC's focused in sub prime lending on account of higher yields
Loan loss provisions	3..0	2.54	0.0	1.03	0.6	3.7	1.6	
Net other income	0.60	0.01	1.2	4.54	0.3	1.7	0.2	Low for most players
Operating expenses	5.20	5.82	0.4	3.57	0.6	3.8	2.5	Linked to ticket size of loan
(1- tax rate)	68.70	65.28	72.2	70.83	72.8	65.1	64.3	
ROA	**0.60**	**1.18**	**3.2**	**5.80**	**1.8**	**2.7**	**2.7**	
Average assets / average equity (X)	3.60	11.42	8.6	4.22	12.5	6.4	10.0	
ROE	**2.00**	**13.42**	**27.8**	**24.50**	**22.9**	**16.9**	**26.9**	

Source: Bloomberg, Company, Kotak Institutional Equities estimates

Exhibit 18: Valuation - Indian NBFCs

	Reco.	Target Price (Rs)	Mkt. price (Rs)	Market cap. (Rs bn)	Market cap. (US$ bn)	EPS (Rs) 2008	EPS (Rs) 2009E	EPS (Rs) 2010E	APBR (X) 2008	APBR (X) 2009E	APBR (X) 2010E	RoE (%) 2008	RoE (%) 2009E	RoE (%) 2010E	Asset base (Rs bn) 2009	Major business
Non banks																
HDFC	REDUCE	2,025	2,373	667	13.9	85.8	80.2	91.6	5.6	5.1	4.5	27.8	18.2	18.3	851	Large mortgage lender
IDFC	ADD	110	134	172	3.6	5.7	5.8	7.0	3.1	2.8	2.5	17.6	12.9	14.1	209	
Mahindra Finance	ADD	250	264	22	0.5	20.8	22.4	27.5	2.0	1.8	1.6	16.9	15.4	16.9	68	Auto finance in rural India
Power Finance Corporation	SELL	160	195	224	4.7	11.4	13.0	16.5	2.2	2.0	1.8	12.8	13.4	15.3	644	
Shriram Transport	ADD	300	295	50	1.0	19.2	30.1	32.5	3.4	2.7	2.4	26.9	29.6	27.0	227	CV finance - used vehicles

Source: Kotak Institutional Equities, Bloomberg

General Insurance – valued at 1X PBR

We are valuing RCAP's general insurance business at Rs23/ share i.e. at 1X PBR FY2011E. There are no direct comparables for this business as domestic general insurance companies are not yet listed. Internationally, most companies are valued at 0.9-4.0X PBR 2009E for RoEs of 9-20% (Exhibit19). Potential earnings growth and profitability are the key parameters considered in assigning the valuation multiples. Given its high combined ratio and reported losses, we are valuing RCAP's general insurance business at 1XPBR—in line with the multiple assigned to ICICI Lombard in our SOTP-based valuation for ICICI Bank. The company is currently going slow and will unlikely deliver high ROE even in the medium term.

Exhibit 19: Valuation—General insurance companies

	Price (local currency)	Market cap (mn local currency)	Market cap (US $ bn)	EPS (local crrncy) 2007	EPS (local crrncy) 2008	EPS (local crrncy) 2009	PER (X) 2007	PER (X) 2008	PER (X) 2009	PBR (X) 2007	PBR (X) 2008	PBR (X) 2009E	RoE (%) 2007	RoE (%) 2008E	RoE (%) 2009E
United States	**(US$)**														
ACE Ltd	44.23	14,856	15	7.8	3.6	7.6	5.7	12.4	5.8	0.9	1.0	0.9	17.0	17.7	16.5
Allstate Corp	24.24	13,087	13	7.8	(3.0)	2.5	3.1	(8.1)	9.7	0.6	1.0	0.9	21.2	(9.7)	15.3
Chubb Corp	39.89	14,042	14	7.1	5.0	4.1	5.6	8.0	9.6	1.0	1.0	1.0	19.8	12.9	12.9
Progressive	15.11	10,290	10	1.7	(0.1)	1.4	9.1	NA	10.8	2.1	2.4	2.0	20.0	(0.5)	21.5
Travelers	41.05	21,026	21	7.0	4.9	5.0	5.8	8.4	8.2	1.0	0.9	0.9	17.9	11.3	11.4
China	**(HKD)**														
Ping An	52.45	417,970	54	2.6	0.0	1.8	20.1	NA	29.8	3.4	4.6	4.0	23.6	0.3	18.0
PICC	5.35	59,608	8	0.3	0.0	0.3	19.8	NA	19.1	2.3	2.7	2.4	12.8	0.2	10.0

Source: Bloomberg, BST estimates

KEY RISKS: EXECUTION, STRONG COMPETITION

RCAP's businesses are currently in nascent stages and are yet to deliver high profitability. Its newly established business will find it challenging to stabilize if financial markets retain the current momentum. A highly competitive market dominated by aggressive private and foreign players is a major risk over the long term.

Execution risk—most business yet to demonstrate long-term profitability

We believe that the business prospects of RCAP's newly established businesses are highly vulnerable to a financial slowdown and delay the achievement of optimum profitability levels if the current momentum is not sustained.

- A slowdown in capital markets and tightening of liquidity in 2HFY09 affected most segments of financial services. RCAP AUMs declined by 11% yoy in FY2009 though the fund has maintained its market position in certain businesses (#1 in mutual fund business (in terms of AUMs). RLI's APE growth was healthy at 56% yoy growth in FY2009 significantly above industry—private players reported 1% growth in FY2009. But growth in general insurance came off (2% decline in FY2009 versus 9% industry growth)—in line with its strategy to focus on loss reduction. The consumer finance business has stopped disbursements in 2HFY09 in light of borrowings as well as asset side challenges though the company has selectively commenced disbursements over the past 2-3 months.

- Most businesses are setting up their independent marketing networks which may result in duplication of costs. Management has indicated that it would be difficult to rationalize the branch networks since most businesses are just being set up; they can consider the same over the medium term.

Strong competition in financial services sector

RCAP will likely face competition from private and foreign banks/ NBFCs. In the past, several players have focused on volumes and market share resulting in low earnings and profitability for the sector. This affected the prospects of all the players in the industry, for e.g. ICICI Bank captured a large market share in auto finance in FY2006 and FY2007, which resulted in lower profitability across the sector.

- **Structurally, NBFCs have a relative disadvantage in finance businesses.** We believe banks are relatively better placed to withstand competition on account of their low cost of funds. Unlike RCAP, most NBFCs operate on niche segments with limited competition from other players. Consequently, RCAP's ROEs may be low at 13-15%. Since it proposes to continue its growth focus (20-30% annual growth) over the long term, RCAP may need to frequently infuse capital in this business.

- **R-Money –Advantage over other distributors?** R-Money's business model is primarily dependent on low brokerage commissions and channelizing business through franchisees, thus functioning like a super distributor. This, in our view, could again translate into low earnings despite a strong market position.

- **Mutual fund business—low margins a major concern.** Margins (PAT/ AUMs) in the asset management business will likely remain low at 10-16 bps in the absence of performance fees and high commission payouts to distributors.

- **Rising delinquencies of the consumer finance business.** Reliance Consumer Finance has reported sharp rise in NPLs—according to our estimates, gross NPLs have risen to about 3.6% as of March 2009 from 0.9% as on June 2008. The company has attributed the sharp rise in delinquencies to its unsecured lending business, which is currently going slow. The trend needs to be monitored over the next few quarters.

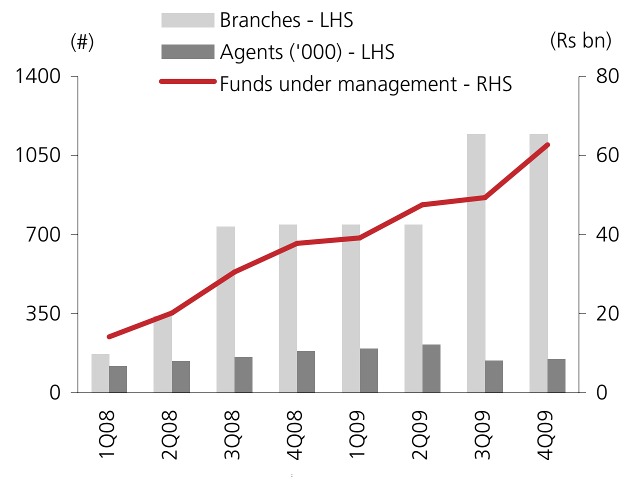
RELIANCE LIFE INSURANCE—STILL GROWING, CAPTURING MARKET SHARE

Reliance Life Insurance is rapidly growing its business post acquisition of AMP Sanmar's business in FY2006. Despite its late entry, the company was ranked fourth in the private sector (based on APE) in FY2009. Its recent strategy of low fund allocation will likely drive business in the near term though long-term persistency will likely be lower.

Rapid traction in business

We expect Reliance Life Insurance (RLI) to deliver APE growth of 15% in FY2010E and 20% in FY2011E on the back of 105% CAGR in APE between FY2007-2009 supported by its aggressive marketing strategy and rapid expansion (Exhibit 20-23). Consequently, its market share in the private sector increased to 11% in FY2009 from 7% in FY2008.

Exhibit 20: RLI has expanded rapidly over the last two years
Branches and distributors for RLI, quarterly data, March fiscal year-ends, 2008-2009



Source: Company

Exhibit 21: RLI has higher branches than most competitors
Branches and sales agents, March fiscal year-end, 2009

	Branches (#)	Sales agents ('000)
Reliance Life	**1,145**	**143**
ICICI Pru Life	2100 (a)	277
HDFC SL	602	201
Birla Sun Life	600	150

Note.
(a) includes 1,050 micro branches.

Source: Company

Exhibit 22: RLI's growth rate has been very high
Growth in individual business, March fiscal year-ends, 2005-2008, monthly data April 2008-March 2009 (%)

	2005	2006	2007	2008	1Q09	2Q09	3Q09	4Q09	2009
Reliance Life	21	160	813	168	171	140	30	25	58
Private sector	**122**	**81**	**100**	**86**	**63**	**30**	**(13)**	**(22)**	**1**
LIC	3	18	88	0	(30)	(43)	(3)	(12)	(22)

Source: IRDA

Exhibit 23: ..resulting in higher market share
Market share in individual business, March fiscal year-ends, 2005-2008, monthly data April 2008-March 2009 (%)

	2004	2005	2006	2007	2008	1Q09	2Q09	3Q09	4Q09
Reliance Life	0.2	0.2	0.4	1.7	3.6	5	7	7	6
Private sector	**13.6**	**25.3**	**34.2**	**35.5**	**50.5**	**55**	**57**	**51**	**46**
LIC	86.4	74.7	65.8	64.5	49.5	45	43	49	54

Source: IRDA

Focus on low fund allocation products: short-term positive, long-term negative

RLI's management has highlighted that the share of low allocation products has increased during the past few months. Most of RLI's policies charge expenses of about 20-80% of the first year premium (Exhibit 24)—this is higher than competition, which typically charges about 20-25%.

Low fund allocation products provide an incentive to distributors. The average ticket size of RLI's policy reduced by 28% yoy to Rs13,796 in FY2009. During the year, the average ticket size of most large players has reduced significantly due to the overall sluggishness in selling insurance products though the decline is higher for RLI (Exhibit 26). Against this backdrop, low fund allocation product (with higher sales commissions) attracted distributor interest and resulted in higher business for RLI.

Lower cost overruns and capital requirements. RLI's cost overruns will likely be lower on account of the low allocation products, consequently reducing the accounting losses and hence capital requirements in the near term. The company has currently infused Rs26 bn in the business (Rs12 bn in FY2009) and will likely invest additional Rs4-5 bn in FY2010E. Insurance companies need capital to fund (a) expansion (b) marketing cost overruns and (c) solvency margins. RLI's branch expansion has been put on hold and the company is currently focusing on enhancing its productivity. Low-allocation products are relatively more capital efficient as the cost overruns are lower. Thus, the capital will likely be required primarily to maintain solvency margins.

Expansion efforts paused, focus on productivity. The direct sales channel contributes to about 65% of RLI's business, the balance being corporate agents like Reliance Money, Saraswat Bank etc. RLI has put on hold its branch expansion in light of the slowdown in the insurance sector. The company has now initiated several measures to reduce costs and improve productivity:

- It has re-negotiated rentals for its branches at lower levels.
- Despite a 121% yoy rise in the number of policy sold during FY 2009, the company has reduced its sales managers to about 11,000 from 16,000 earlier. The company will continue to scale up its network of agents even as the sales force reduces. It proposes to achieve a ratio of 15-16 agents per sales managers over the next few quarters, up from 13 currently.

Margins will likely be higher than peers

We are factoring 15% APE growth in FY2010E, somewhat at the higher end of our estimate (-10 to +15%) for private players. A focus on low fund allocation products will results in lower expense and higher margins though the persistency of these products will also likely be lower as the policyholder has relatively stake in the fund management account. The reported persistency for RLI and most players has already declined considerably during FY2009, possibly due to the slowdown in equity markets (Exhibit 27).

We believe RLI will, at some point, need to shift its strategy and focus on products that will drive better persistency to retain its strong position in the market. As such, we are factoring margins of about 13% in FY2011E (somewhat in line with other players) and 14% for FY2010E. Our key assumptions for calculation of NBAP margins are given in Exhibit 28. Our margin estimates are significantly below those reported by the company (21%) for 4QFY09 likely due to a higher income tax rate (34%) versus that (14%) factored by the company.

Exhibit 24: RLI's key products have low fund allocation
First year allocation expenses on annual premium of Rs20,000 for various policies

Plan	Allocation expenses
Reliance Super Automatic Investment Plan	25%
Reliance Super Market Return Plan	15-20%
Reliance Golden Years Plan	10%
Reliance Money Gurantee Plans	30%
Reliance Super Invest Assure	80%

Source: Company

Exhibit 25: RLI's margins are higher on low allocation products
NBAP margins across RLI's insurance products

	NBAP margins (% of annual premium)
Reliance Super Automatic Investment Plan	15
Reliance Super Market Return Plan	14
Reliance Money Gurantee Plans	11
Reliance Super Invest Assure	24

Source: Company

Exhibit 26: Average policy-size has declined significantly
Average ticket size of individual non-single policies issued, March fiscal year-ends, 2008-2009 (Rs'000)

	Mar-09 (Rs'000)	2008 (Rs'000)	2009 (Rs'000)	YoY (%)
Bajaj Allianz	15.8	15.3	15.0	(2)
Birla SL	14.9	30.1	19.9	(34)
HDFC SL	22.0	31.5	24.9	(21)
ICICI Pru Life	22.7	23.3	19.7	(16)
Reliance Life	**13.3**	**18.9**	**13.8**	**(27)**
SBI Life	34.5	33.5	33.6	—
Private sector	**19.6**	**21.2**	**18.7**	**(12)**
Total industry	**8.3**	**11.7**	**9.9**	**(15)**

Source: IRDA

Exhibit 27: Persistency ratio has declined sharply for most players in 2009
Persistency ratio of key players, March fiscal year-ends, 2007-2009 (%)

	2007	2008	2009
Bajaj Allianz	64	73	68
Birla Sun Life	73	75	54
HDFC Standard Life	89	86	65
ICICI Prudential Life	70	78	69
Max NewYork Life	78	83	NA
Reliance Life	**70**	**61**	**50**
SBI Life	52	40	NA

Note.
Persistency ratio is calcuated as :

$$\frac{\text{Renewal premium (current year)}}{\text{Non-single new business premium (previous year) + Renewal premium (previous year0}}$$

Source: Company

Exhibit 28: Key assumptions for NBAP margin calculations (%)

Allocation to equity fund (% of total)	60
Allocation to debt fund (% of total)	40
Persistency (over 10 years) (a)	50
Tax rate	35
IRR - equity funds	13
IRR - debt funds	8
Discount rate	13.25
Tenure of the product (years)	10

Note
(a) We have factored 50% persistency (over ten years) for all products except Reliance Super Invest Assure in which we assume 30% persistency (over 10 years).

Source: Kotak Institutional Equities estimates

RELIANCE ASSET MANAGEMENT—ALREADY #1

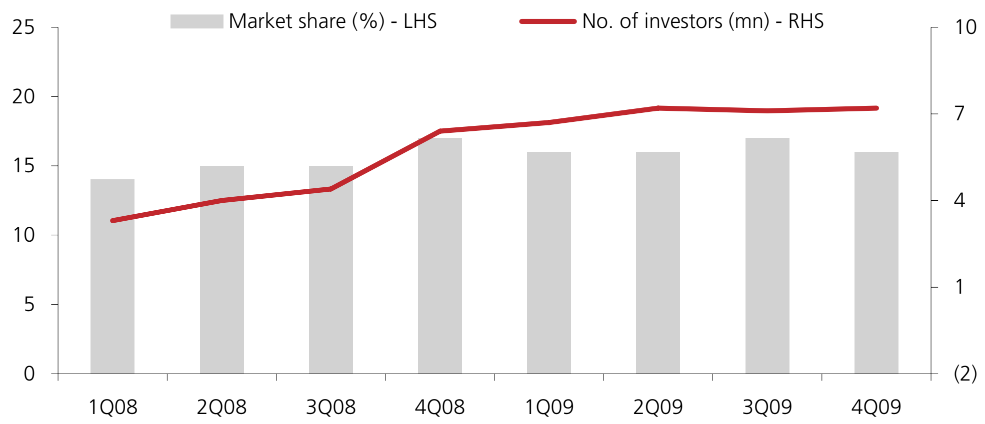
With a vast distribution network and a large retail base, we believe that Reliance Capital Asset management (RCAM) will retain a strong market position in the mutual fund industry. However, we remained concerned about the low profitability of the mutual fund model.

Widening reach, targeting retail investors

We expect RCAP's AUMs to grow by about 33% during FY2010E on the back of 11% decline in FY2009. Going forward, we are factoring about 20% annual growth between 2011E and 2013E.

RCAP has the first mover advantage in smaller towns. Most mutual funds have focused on HNI and affluent customers in top 8 cities. According to Mckinsey, about 75% of mutual fund AUMs are originated in Top 8 cities. In FY2007-2009. RCAP expanded its network across the country to focus on retail investors. It had a network of 124 branches and 182 resident representative offices as on March 2009. The company has used various strategies to cater to the small investor—focus on fixed maturity products (FMPs), small ticket SIP with capital guarantees. Currently, RCAP caters to about 7mn customers (Exhibit 29),75% of which had folio sizes of upto Rs75,000. Based on our discussion with industry participants, we note that other industry players are also scaling up their network in the interiors and will eventually compete with RCAM.

Exhibit 29: RCAM branch network and customer base increasingly rapidly
Branch locations (LHS), no. of investors in RCAM's mutual fund (RHS), March fiscal year-ends, 2008-2009



Source: Company

Alternative assets will improve profitability overtime

In the long term, RCAP proposes to scale up its alternative assets business which will likely improve profitability (PAT/ assets under management). The company is in the process on raising private equity funds of US$1 bn- not currently factored in our estimates. It currently advises an offshore fund of US$180 mn and its PMS has a corpus of US$680 mn (Rs31 bn as on March 2009). We are factoring 25-35% growth in alternate assets in FY2010 and FY2011E, which likely moderates to about 15% in the future.

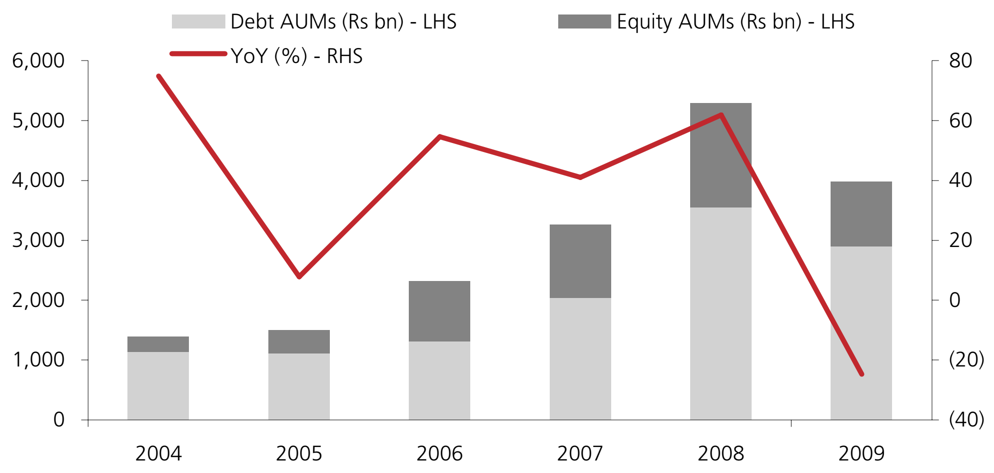
Large cash surplus but utilization not clear

RCAP has Rs7 bn of cash and liquid investments as of March 2008 on the back of recent equity infusion of Rs5 bn for a 5% stake in the company. Given the limited capital requirements in the business, we are not clear about the utilization of these funds—acquisitions are a possibility.

Indian mutual fund industry—moving up smartly after a challenging period

We believe that mutual fund assets have strong growth potential over the next few years as the retail financial sector picks up (See Exhibit 30 on historic growth). MF AUMs have delivered 16% MOM growth in May 2009 due to the rise in equity markets and excess liquidity in the system that flowed into debt mutual funds. The sharp growth is also on the back of subdued performance in 2HFY09 primarily due to crash in equity markets and outflows from debt funds. In October 2008, debt mutual fund AUMs declined by 31% MOM to Rs1,409 bn due to fears of asset quality. Investors appear to have shifted funds from mutual funds to banks deposits due to fears of delinquencies in mutual fund investments and possible asset liability mismatches.

Exhibit 30: MF AUMs have delivered high growth
AUMs of Indian MFs (LHS), YoY growth (RHS), March fiscal years, 2004-2009

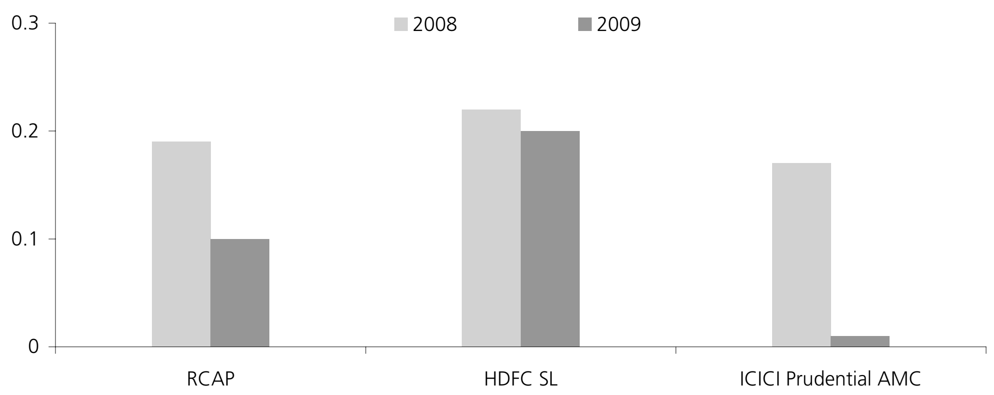


Source: MFI explorer

Limited profitability in mutual fund business

Profitability of mutual fund business in India has been low (0.10 to 0.22% of AUMs) in the absence of performance fees, high commissions paid out to distributors. RCAP's reported profitability (0.19% of AUMs in FY2008 and 0.1% of AUMs in FY2009) is somewhat higher than peers due to the large proportion of equity assets (40% in 2009 versus about 30% for other large players) and its PMS business. Going forward, we believe mutual funds will need to capitalize on their infrastructure to focus on more profitable products like alternative assets which will generate higher profitability for them.

Exhibit 31: Profitability of AMCs is low
PAT/ average AUMs (%), March fiscal-years, 2008-2009



Source: Company

Provident funds—large fund management opportunity but limited earnings

In the first leg of reforms, to open up the provided fund (PF) assets to the private sector, the Employees Provident Fund Organization (EPFO), the largest provided fund in the country, has mandated RCAP, HSBC and ICICI Prudential AMC to advise PFs. As of March 2009, RCAP had AUMs of Rs276 bn—its overall share is about Rs600 bn. However, it appears these investments will be primarily in debt instruments and AMCs will earn low fees (about 1 bps) for advising them. Note that the finance ministry has recently permitted PFs to deploy upto 15% of their incremental assets in equities (versus 5% earlier) but the EPFO is unlikely to be comfortable in equity investments. As such, funds are unlikely to be directed to the equity market in the immediate term.

Exhibit 32: Reliance Asset Management : Earnings model , March fiscal year-ends, 2006-2011E

	2006	2007	2008	2009E	2010E	2011E
AUMs and branches						
AUMs (Rs bn)	247	463	908	804	1,069	1,293
Equity	150	175	316	173	216	270
AUM growth (%)	159	88	96	(11)	33	21
Offshore AUMs (Rs bn)	—	4.28	9.00	8.10	10.94	14.76
PMS AUMs (Rs bn)	—	30	69	30	38	45
Branches (#)	81	123	269	319	319	349
Key ratios						
MF fees / AUM (%)	0.45	0.49	0.60	0.41	0.45	0.39
Fees for offshore fund / AUM (%)	—	1.85	1.85	1.20	1.85	1.85
PMS fees (%)	—	—	0.69	0.70	1.20	1.50
EBITDA margins (%)	51.56	39.16	48.08	46.22	48.92	48.52
Tax rate(%)	33.68	32.98	27.14	25.40	26.00	26.00
Net profit / average AUMs (%)	0.17	0.14	0.22	0.15	0.17	0.16
Income Statement						
Total income	934	2,037	4,741	4,546	5,862	6,519
Invest. mgmt and advisory fees	773	1,788	4,247	3,645	4,377	4,815
Portfolio mgmt fees	121	136	286	270	405	619
Interest	1	17	24	24	24	24
Dividend on long term inv.	32	37	39	599	1,045	1,045
Div/ profit on sale of investments	5	59	145	—	—	—
Carry from PMS	—	—	—	5	7	10
Carry from Offshore fund	—	—	—	3	4	6
Operating expenses	473	1,283	2,562	2,737	3,523	3,883
Salaries and benefits to employees	210	442	873	1,206	1,447	1,664
EBIDTA	461	754	2,179	1,809	2,340	2,636
Depreciation	11	20	50	59	62	62
PBT	438	721	2,054	1,685	2,212	2,508
Tax	147	238	557	428	575	652
Net profit	290	483	1,497	1,257	1,637	1,856
YoY(%)	140	66	210	(16)	30	13
PBT excluding investment income	—	608	1,912	1,128	1,208	1,504
Adj for tax	—	408	1,281	756	809	1,008
% of AUMs	—	0.11	0.19	0.09	0.09	0.09

Source: Company, Kotak Institutional Equities estimates

R-MONEY—FINANCIAL SUPERMARKET

Reliance Money (R- Money), RCAP's retail financial services platform, will be a sizable player in domestic broking (about 4% by FY2011E) and distribution of financial products on the back of its massive franchisee network. Key challenge: while RCAP has rapidly scaled up its network, its model is new and needs to demonstrate resilience over the long term.

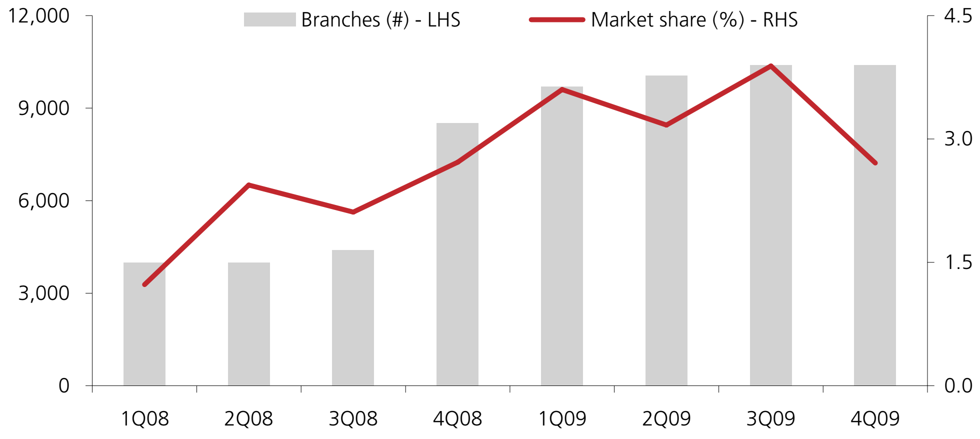
R-Money, a unique broking model

R- Money, the retail financial services offering, provides online brokerage services and distributes third party products like mutual funds and life insurance polices. It currently operates through a network of about 9,800 franchisees and 250 company owned branches across the country. R-Money captured about 3% share of equity market volumes on BSE and NSE in FY2009.

Key features

Rapid scale-up of franchisees Set-up in May 2007, R-Money has set-up the largest network of branches in the financial services sector in a short period (Exhibit 33 and 34).

Exhibit 33: R-Money has rapidly increased branch network and market share
R-Money's market share and branch network, March fiscal year-ends, 2008-2009



Source: Company

Exhibit 34: R-Money and other brokers—a comparison

	Share (%)	Branches (#)	Comments
R-Money	**3.3%**	**10,050**	**Largely franchisee driven**
Edelweiss (agency business)	4.0%	90	Primarily insitutional equities, HNI segment contributes about 20% of overall volumes
India Infoline	3.60%	543	543 company operated branches contribute to about 85-90% of the business.
Motilal Oswal	4.70%	1,290	Company owned branches are about 30

Source: Company, Kotak Institutional Equities

Focus on distribution of third party financial products. R-Money proposes to capitalize on its large distribution network to distribute third party products like insurance, mutual funds, gold coins etc. In FY2009, about 50% of the business was contributed by non-broking revenues. Distribution of financial products (insurance, mutual funds) contributed about 25% of the sales and balance 25% was on account of sale of over-the-counter products like gold coins and forex services.

Small branches will likely drive lower volumes. Most of R-Money's branches are small (about 500-600 sq.ft of operations versus 1000 sq. ft + for most other brokerages) with significantly lower scale of operations (monthly turnover of Rs0.5-0.6 mn versus Rs1.5-2 mn for branches of other brokerages).

Business model resilience untested

R-Money's franchisee-driven model appears unique in India and will need to stand the test of time.

- **Lower volume in competitor's franchisee branches.** We understand that company-owned branches are key drivers of market share for most brokerages. Based on our discussions with other brokerages, company-owned branches do higher business than franchisee branches. This is more pronounced in the case of brokerages that are actively distributing third party products.
- **R-Money's captive branches also report better business.** R-Money's company-operated branches contributed about 60% to its revenue in FY2009 despite their relatively small numbers (about 270 out of 10,200 branches). R-Money's management believes that the franchisee branches are still new and will pick up business over the next few quarters.
- **R-Money's model akin to super-distributor.** R-Money shares almost 50% revenue from sale of third-party products with its franchisees. R-Money's franchisees can tie-up with other super-distributers (in their personal capacities) to distribute third party products. As such, R-Money will need to pass-on a significant portion of its commissions to retain them in the system. The company would thus operate akin to a super-distributor; it will need to demonstrate high volumes to earn large commissions from the originator.

An online broking model with low commissions. R-Money earns about 2-2.5 bps of average commissions, significantly lower than most other players in the industry (Exhibit 35). The company sells prepaid broking cards in denominations of Rs500, Rs1,000 etc which enable customers to buy and sell securities for a specified limit. R-Money broking model is primarily web-based though customers have a choice of call-in-trade or can send a transaction request slip to the branch (which is executed by the franchisee) for which they are charged Rs12 per transaction. The company shares about one-third of the revenue from cards with franchisees. Additionally, the franchisee retains fees for transactions executed by him.

Exhibit 35: R-Money charges considerable lower brokerage
Commission rates of Reliance money (R Money) and other brokers

	Delivery based			F&O / Intraday	
	Current charges		R Money	Current charges	R Money
	Low	High			
Brokerage charges	0.18%	0.30%	0.05%	0.03%	0.001%
Transaction charges (exchange) (b)			0.0035%		0.002%
IPF charges (b)			0.00001%		0.00001%
Stamp duty (b)			0.01%		0.002%
SEBI charges (b)			0.01%		
Services tax	0.02%	0.04%	0.01%	0.004%	0.000%
STT	0.1250%	0.1250%	0.1250%		0.017%
Total brokerage	**0.33%**	**0.46%**	**0.20%**	**0.03%**	**0.02%**

Note:
(a) Brokerage charges are derived from R-card of Rs500 that is valid for two months.
(b) Transaction charges, IPF charges, stamp duty, SEBI charges are generally included in the brokerage charges quoted.

Source: Market sources

New focus areas—overseas business and commodities

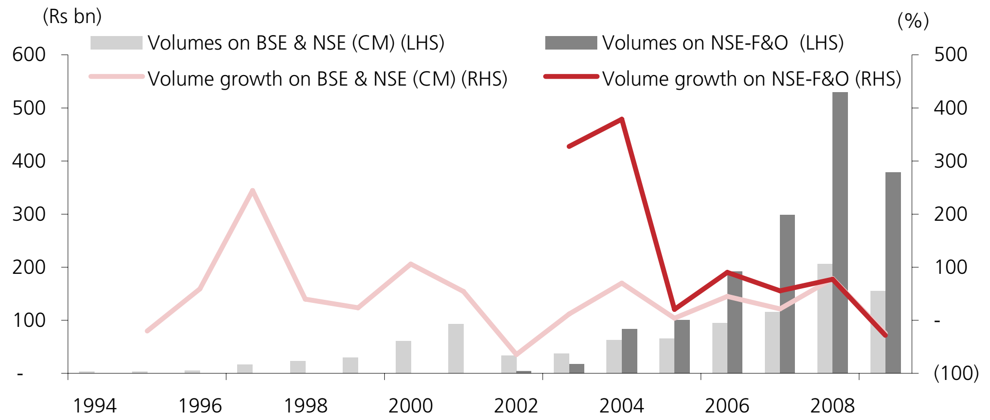
Aggressive overseas plans in the long-run. R-Money proposes to generate almost half its revenues from overseas business by FY2012E. The primary focus is on non-resident Indians (NRIs) and persons of Indian origin (PIOs). The company has recently commenced business in UK and Ireland and has tied-up with OptionsXpress, the third largest online broker in US. It also provides its broking services in Hong Kong and in the Middle-East. We have currently not factored the same in our estimates.

Institutional broking recently set up. RCAP has recently set-up an institutional desk—Reliance Equities. The company has recruited senior traders from Deustche Securities to head the business. We have not assumed any income from this segment in our estimates.

Equity market volumes—expect moderate growth over the long term

We expect R-Money's volumes to deliver about 35-40% growth primarily on the back of sharp rise in market volumes and marginal improvement in market share (about 3.7% in FY2010E versus 3.3% in FY2009). The overall market volumes will grow by about 15% over the long term (somewhat higher than the nominal GDP growth of 9-13%) though higher growth in FY2010E will likely be on the back of an 18% decline in FY2009. Average daily volumes have increased by about 40% between FY2009 and FY2010YTD. We would like to highlight that yoy growth has been volatile between -64% and +244% though it averaged 28% between 1994 and 2009 (Exhibits 36 and 37).

Exhibit 36: Equity market volumes have been volatile
Volumes on BSE and NSE, March fiscal year-ends, 994-2008



Source: BSE and NSE

Exhibit 37: Growth in volumes on BSE and NSE

	BSE	NSE (CM)	BSE + NSE (CM)	NSE-F&O	Total Volumes
FY1994-09 (CAGR)	18		28		39
FY2002-09(CAGR)	20	27	25	**91**	46
FY1995-01(CAGR)	39		57		58
Maximum YoY growth	140	1,524	244	379	**244**
Minimum YoY growth	(69)	(61)	(64)	(28)	**(60)**

Source: BSE and NSE

Exhibit 38: Reliance Money—key financial data, March fiscal year-ends, 2007-2011E

	2007	2008	2009E	2010E	2011E
Branches (#)	**2,200**	**8,512**	**10,000**	**10,000**	**10,000**
YoY(%)			17	—	—
Franchisees	2,125	8,312	9,730	9,730	9,730
Company owned	75	200	270	270	270
Brokerage					
Volumes					
Volumes in equity market (Rs bn/day)		729	594	832	957
R- Money's volumes (Rs bn/ day)		16	20	31	40
Market share (%)		2.2	3.3	3.7	4.2
Third party distribution					
Life insurance					
Premium collected		1500	1500	1800	2250
YoY(%)		—	—	20	25
Mutual fund distribution					
MF mobilisation		12500	12500	15000	18750
YoY(%)		—	—	20	25
Commission (%)		3.5	2.5	2.5	2.5
Other assumptions					
Share of company owned branches in broking (%)		50	60	50	50
Share of company owned branches in distribution(%)		60	75	60	60
Admin expenses/ income (%)		56	39	30	30
Profit and Loss Account					
Total income		**2,385**	**3,521**	**4,477**	**5,764**
Brokerage business		1,112	1,762	2,181	2,799
Gross income from sale of cards		1,112	1,762	2,181	2,799
Account opening charges		—	—	—	—
Income from third party distribution		1,062	879	976	1,315
Income from OTC products		211	880	1,320	1,650
Operating expenses		**2,384**	**2,940**	**3,004**	**3,945**
Commissions to franchisees		440	421	819	1,055
Brokerage		167	211	360	462
Distribution		255	220	459	593
Employee expenses		602	1,150	841	1,161
Administrative expenses		1,342	1,369	1,343	1,729
PBT		**1**	**581**	**1,474**	**1,819**
Tax		—	214	531	655
PAT		**1**	**367**	**943**	**1,164**

Source: Company, Kotak Institutional Equities estimates

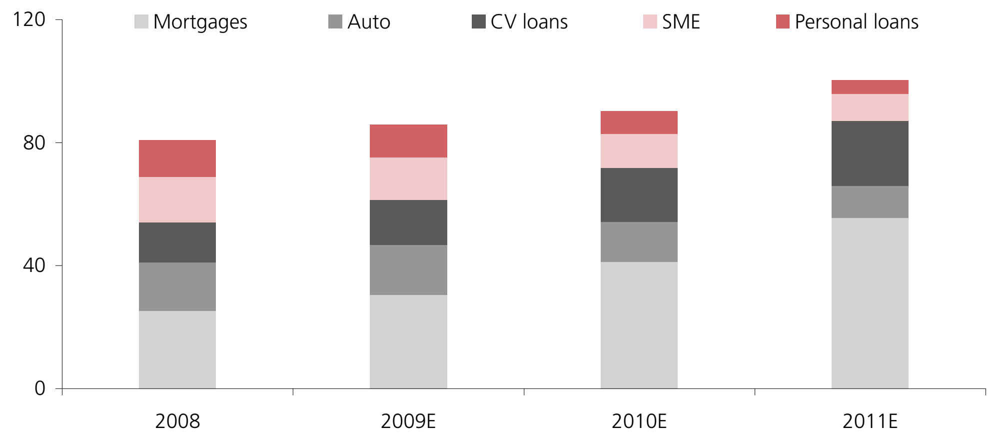
CONSUMER FINANCE—MODERATE PROFITABILITY OVER THE MEDIUM TERM

We expect RCAP to go slow in retail finance due to asset quality concerns (gross NPLs increased to 3.6% in March 2009 from 0.9% in September 2008) over the medium term. In FY2008, the company rapidly scaled up its businesses across various segments of retail finance—auto, personal and SME loans but took a breather in 2HFY09 due to the liquidity crunch. RCAP will likely focus on growth over the long term as the business environment improves though we believe that profitability of this business will remain low due to competition from banks in major markets (RCAP's focus segment).

Growth will likely remain moderate

We expect RCAP to grow its loan book by 8% CAGR over FY2009-11E as the company gradually focuses on new business. On the back of large disbursements (Rs95 bn of loans in first 12-14 months of operations), the company stopped disbursements in 2HFY09 due liability-side challenges—it carried a negative ALM gap and found it challenging to raise bank loans/ debt due to the liquidity crunch. RCAP has now commenced disbursements in select segments—construction equipment (likely exploiting it linkages with Reliance Infrastructure), home equity etc. The management remains concerned about unsecured loans and does not have any plans to scale up disbursements in this segment.

Exhibit 39: Loan growth will likely remain moderate
Loan book across categories, March fiscal year-ends, 2008-2011E (Rs bn)



Source: Kotak Institutional Equities.

Profitability will improve overtime but remain moderate

We expect the consumer finance business to deliver moderate RoEs of about 12% in a medium term (Exhibit 40).

Exhibit 40: We expect consumer finance business to deliver moderate profitability
Du Pont analysis of the consumer finance business (% of average assets), March fiscal year- ends 2008-2009

	2008	2009	Expected	Comments
Net interest income/ average assets	2.3	6.3	5.7	Reported NIM temperted by sharp rise in borrowings cost in 2HFY09
Provisions/ average assets	0.1	1.7	0.3	Provisions have been significantly higher than expectations due to sharp slippages during FY2009
Operating expenses / average assets	3.3	3.5	3.2	Operating cost ratio was likely lower in FY2009 as the company stopped disbursements for a part of the year and its cost cutting measures and absence
(1-tax rate)	0.7	0.7	0.7	Assuming full tax rate
RoA	**(0.7)**	**0.8**	**1.5**	
Levarege		6.8	8.0	Assuming equity of Rs13 bn in 2HFY2009
RoE		**5.3**	**11.8**	

Source: Company, Kotak Institutional Equities

Low yields pressure spreads. RCAP is focusing on the entire gamut of retail lending—mortgages, auto, personal and SME. The company operates from 250 towns and directly competes with banks and other established NBFCs. Consequently, RCAP offers competitive interest rates to its borrowers. A high investment grade credit rating (AAA) on the back of the Reliance ADAG's parentage helps the company access institutional funds at competitive rates.

Retail set-up pushes operating costs, expect some moderation overtime. RCAP proposes to achieve operating expenses ratio (operating expenses to average assets) of 3-3.2% as the business achieves optimum scale overtime versus the ratio of 3.5% in FY2009. The current network of 30 branches is still young and yet to be optimally utilized. Further, franchisees contribute over70% of the current business which will also likely reduce. Nevertheless, the normalized ratio (3-3.5%) is high when compared with its moderate spreads.

Trend in NPLs is crucial. We estimate RCAP's gross NPLs at 3.6% in March 2009, up from 0.9% in September 2008. The sharp rise can be attributed to a sharp rise in delinquencies and marginal decline in its loan book. The management has highlighted that a majority of the disbursements are in the unsecured loan segment in which they are currently going slow. Given the lack of historic data and relatively young portfolio, we find it challenging to predict this trend and remain cautious.

Exhibit 41: RCAP's NPLs have moved up sharply
Gross and net NPLs of RCAP, 2QFY09-4QFY09

	2Q09	3Q09	4Q09
Gross NPLs	854	1,568	3,093
Provisions	559	1,034	1,377
Net NPLs	285	534	1,716
Gross NPLs (%)	0.9	1.8	3.6
Net NPLs (%)	0.3	0.6	2.0

Source: Company, Kotak Institutional Equities estimates

FINANCIALS: CORE EARNINGS TO INCREASE OVER TIME

RCAP's businesses will likely improve their profitability and contribute meaningfully to its earnings over time as the businesses mature. However, reported profits are likely to decline by about 16% CAGR between FY2009 and FY2011E due to lower capital gains from investments and low profitability from core businesses that are in nascent stages of their operations. Some of the newly established businesses—institutional equities, asset reconstruction—will also support earnings; these are not factored in our estimates.

Capital gains—significant contribution to earnings

RCAP reported capital gains (Rs5.1 bn/ 70% of PBT in FY2007, Rs11 bn/ 96% of PBT in FY2008, Rs11 bn/ 109% of PBT in FY2009) on the back of its large equity investment book (Rs 15 bn as on March 2007 and Rs19 bn in March 2008 and March 2009). We have factored relatively lower capital gains in our estimates—Rs9.5 bn in FY2010E and FY2011E (standalone financials are given Exhibit 42 and 43). RCAP had also made debt investments which delivered 8-10% yields in FY2007-09. We have factored yield of 8% for FY2010E and FY2011E.

Note that the standalone financials include consumer finance business (though RCAP has recently proposed to transfer the businesses to an independent NBFC) and income from investment book. Key financials of R-Money and DCF model for RCAM is given in respective sections earlier. We have not made projections for life and general insurance companies.

RCAM and R-Money will deliver profits

We expect RCAP's large businesses (insurance, RCAM and R-Money) to generate significant revenues over the next few quarters though profitability may remain subdued.

- We expect RCAM to deliver net profit growth to rise by 30%in FY2010E on the back of a 33% rise in mutual fund AUMs and higher investments income. Despite the growth in earnings, its profitability (PAT/ average AUMs) is likely to remain low on account of low margins (15-16 bps of AUMs) from its mutual fund business.
- Life insurance business may not turn profitable in FY2010E due to high expense overrun. The company expects to breakeven in FY2011E. However, in case the company resumes its focus on growth and expansion, the break-even period could be deferred.
- With the competition in general insurance segment, we do not expect RGI to deliver significant profits in FY2010E.

Insurance, consumer finance will require capital

We expect RCAP to infuse about Rs6 bn in RLI over FY2010E and FY2011E. General insurance and consumer finance businesses will have long-term profitability of 12-15%, in over view. If RCAP maintains a high growth pace in this business, it will need to increase the capital required for this business.

Strong growth, several new businesses make projections a challenge

RCAP is commencing several new businesses—private equity, institutional equities etc. Most of its businesses are in a high growth phase—R-Money, consumer finance, mutual fund etc. As such, we find it challenging to make projections for these businesses. We have not included some of the new business in our estimates, these will likely provide an upside to estimates.

Exhibit 42: Reliance Capital, key financial ratios, March fiscal year-ends, 2008-2012E (%)

	2008	2009E	2010E	2011E	2012E
Growth rates (%)					
Profit and loss					
Gross total income	135	45	(7)	(2)	(2)
Interest expenses	857	203	(7)	(9)	14
Net income (pre-provisions)	99	7	(7)	4	(11)
Provisions and writeoffs	1,109	701	8	8	(10)
Operating expenses	353	18	20	20	20
PBT	60	(8)	(19)	(1)	(28)
PAT	59	(6)	(26)	(1)	(28)
EPS	59	(6)	(26)	(1)	(28)
Balance sheet					
Investments	94	89	(20)	5	(1)
Equity shares	53	58	11	10	—
Fixed assets	24	20	20	20	—
Current assets , loans and advances	2	(3)	(30)	—	—
Total Assets	141	33	(12)	7	13
Total borrowings	565	50	(22)	8	19
Networth	15	13	9	8	5
Key ratios (%)					
Yield on debt investments	10	8	8	8	8
Average yield on earning assets (inc div and cap gains)	26	27	24	27	26
Debt equity ratio (X)	2	2	1	1	2
Interest yield on consumer loans	9	15	13	13	13
Mortgages	—	13	12	12	12
Auto	—	14	13	13	13
CV	—	13	13	14	14
SME	—	18	16	17	17
Personal loans	—	18	18	18	19
Interest on investments	10	8	8	8	8
Dividend to investments	—	1	3	3	3
Capital gains to equity investments	48	32	50	50	35
Cost of borrowings	8	11	9	9	9
Spread on lending	**2**	**4**	**4**	**4**	**4**
Fees on consumer finance business/ loan book	2	1	1	1	1
Operating expenses to net total income	29	32	39	41	50
Operating expenses to Average assets	4	3	3	3	3
Debt equity ratio (X)	2	2	1	1	2
Tax rate	12	10	18	18	18
Dividend payout ratio	13	15	15	15	15
Du Pont analysis (% of average assets)					
Total revenues	**18**	**16**	**14**	**14**	**12**
Net lease income	—	—	—	—	—
Interest on investments	4	3	3	2	2
Dividend income	—	—	—	—	—
Capital gains	10	6	5	5	3
Interest expense	4	6	6	5	5
Net total income	**14**	**9**	**8**	**9**	**7**
Provisions/write offs	—	1	1	1	1
Operating expenses	4	3	3	3	3
(1-tax rate)	88	90	82	82	82
ROA	**9**	**5**	**3**	**4**	**2**
Average assets/ average equity (X)	2	3	3	3	3
RoE	**19**	**15**	**10**	**9**	**6**

Source: Company, Kotak Institutional Equities

Exhibit 43: Reliance Capital, key financials, March fiscal year-ends, 2008-2012E (Rs mn)

	2008	2009E	2010E	2011E	2012E
Income statement					
Interest income	**20,798**	**30,173**	**28,061**	**27,622**	**27,082**
Interest on investments	5,087	5,610	5,522	4,069	3,993
Interest from consumer loans	3,373	11,585	11,779	12,691	14,927
Fees from consumer finance business	558	416	660	762	913
Dividends	94	360	100	100	100
Capital gains	11,233	11,777	9,500	9,500	6,650
Miscellanous income	453	424	500	500	500
Lease income (net of depreciation)	**3.3**	**3.3**	**3.3**	**3.3**	**3.3**
Interest and finance cost	**4,081**	**12,368**	**11,506**	**10,446**	**11,881**
Net operational income (pre provisions)	**16,720**	**17,809**	**16,559**	**17,179**	**15,205**
Net bad debts and provisions	163	1,308	1,408	1,524	1,369
Net operational income (post provisions)	**16,557**	**16,501**	**15,151**	**15,655**	**13,836**
Operating expenses	**4,839**	**5,726**	**6,439**	**6,990**	**7,598**
Administrative expenses	4,668	5,514	6,227	6,778	7,385
Depreciation	171	212	212	212	212
PBT	**11,718**	**10,774**	**8,712**	**8,665**	**6,238**
Tax	1,460	1,090	1,568	1,560	1,123
Net profit	**10,258**	**9,684**	**7,144**	**7,105**	**5,116**
PBT excl capital gains	**1,747**	**3,410**	**3,707**	**3,000**	**3,628**
EPS (Rs)	**42**	**39**	**29**	**29**	**21**
BVPS (Rs)	**241**	**273**	**297**	**321**	**338**
DPS (Rs)	**5**	**6**	**4**	**4**	**3**
Balance sheet					
Assets					
Loan book - consumer finance	**71,700**	**85,800**	**90,195**	**100,326**	**127,839**
Mortgages	20,600	30,500	41,175	55,586	75,041
Auto	13,500	16,300	13,040	10,432	12,518
CV loans	13,100	14,600	17,520	21,024	25,229
SME	13,700	13,800	11,040	8,832	10,598
Personal loans	10,800	10,600	7,420	4,452	4,452
Investments	**47,154**	**89,027**	**71,570**	**75,269**	**74,665**
Equity investments	28,118	44,389	49,389	54,389	54,389
Reliance life insurance	2,210	14,210	19,210	24,210	24,210
Reliance general insurance	6,070	6,070	6,070	6,070	6,070
Reliance money	—	3,500	3,500	3,500	3,500
Prop. book	18,229	19,000	19,000	19,000	19,000
Others equity investments - affiliates	1,609	1,609	1,609	1,609	1,609
Government securities	1,964	1,964	786	314	126
Preference shares	3,316	3,316	1,658	829	414
Debentures and bonds	13,639	39,241	19,621	19,621	19,621
Others	117	117	117	117	117
Less: Provision for diminuition	—	—	—	1	2
Net fixed assets	**1,221**	**1,465**	**1,758**	**2,110**	**2,110**
Current assets, loans and advances	**43,392**	**41,904**	**29,332**	**29,332**	**29,332**
Total assets	**163,467**	**218,196**	**192,856**	**207,037**	**233,946**
Liabilities					
Total borrowings	**93,256**	**140,000**	**108,770**	**117,093**	**139,784**
Current liabilities and provisions	10,936	10,936	10,936	10,936	10,936
Total liabilities	**104,192**	**150,936**	**119,706**	**128,029**	**150,720**
Networth	**59,275**	**67,260**	**73,150**	**79,008**	**83,226**
Equity capital	2,462	2,462	2,462	2,462	2,462
Reserves and surplus	56,813	64,798	70,688	76,547	80,764
Warrants	—	—	—	—	—

Source: Company, Kotak Institutional Equities

"I, Nischint Chawathe, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report."

Kotak Institutional Equities Research coverage universe

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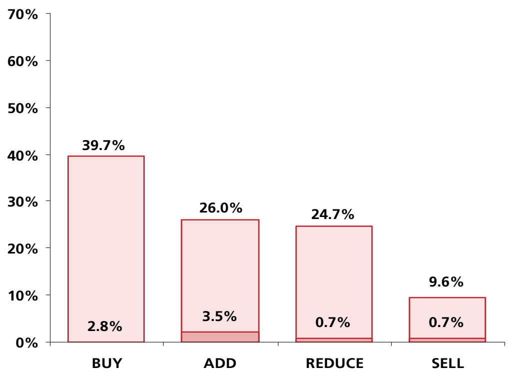


Percentage of companies covered by Kotak Institutional Equities, within the specified category.

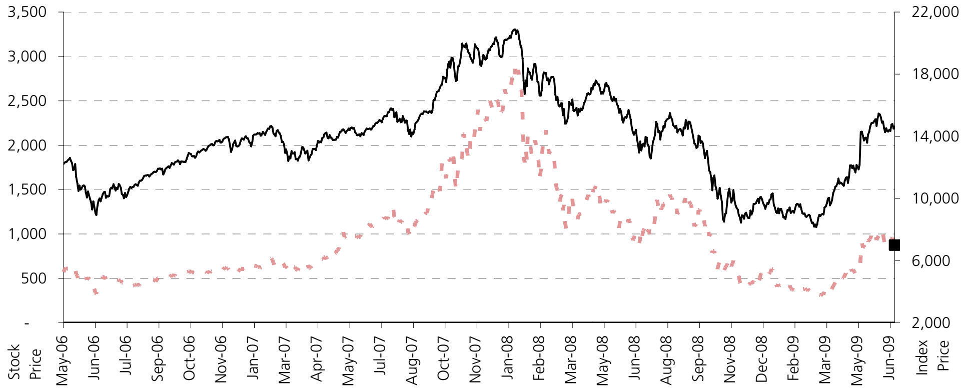
Percentage of companies within each category for which Kotak Institutional Equities and or its affiliates has provided investment banking services within the previous 12 months.

* The above categories are defined as follows: Buy = We expect this stock to outperform the BSE Sensex by 10% over the next 12 months; Add = We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months; Reduce = We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months; Sell = We expect this stock to underperform the BSE Sensex by more then 10% over the next 12 months. These ratings are used illustratively to comply with applicable regulations. As of 31/03/2009 Kotak Institutional Equities Investment Research had investment ratings on 146 equity securities.

Source: Kotak Institutional Equities As of March 31, 2009

Reliance Capital (RLCP.BO)

Kotak Institutional Equities rating and stock price target history



Source: Kotak Institutional Equities Research for ratings and price targets, Bloomberg for daily closing prices.

Rating — Covered by Nischint Chawathe
Price target — Not covered by current analyst
X Price target removal — BSE-30 Index (RHS)

The price targets shown should be considered in the context of all prior published Kotak Institutional Equities research, which may or may not have included price targets, as well as developments relating to the company, its industry and financial markets

Analyst coverage

Companies that the analyst mentioned in this document follow

Covering Analyst: Nischint Chawathe	
Company name	**Ticker**
Future Capital Holdings	FCHL.BO
HDFC	HDFC.BO
India Infoline	IIFL.BO
Infrastructure Developmnet Finance Company	IDFC.BO
LIC Housing	LICH.BO
Mahindra & Mahindra Financial Services	MMFS.BO
Power Finance Corporation	PWFC.BO
Reliance Capital	RLCP.BO
Rural Electrification Corp	RURL.BO
Srei Infrastructure Finance	SREI.BO
Sriram Transport Finance Corporation	SHTF.BO

Source: Kotak Institutional Equities Research

RATINGS AND OTHER DEFINITIONS/IDENTIFIERS

Definitions of ratings

BUY. We expect this stock to outperform the BSE Sensex by 10% over the next 12 months.

ADD. We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months.

REDUCE. We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months.

SELL. We expect this stock to underperform the BSE Sensex by more than 10% over the next 12 months.

Other definitions

Coverage view. The coverage view represents each analyst's overall fundamental outlook on the Sector. The coverage view will consist of one of the following designations: Attractive (A), Neutral (N), Cautious (C).

Other ratings/identifiers

NR = Not Rated. The investment rating and target price, if any, have been suspended temporarily. Such suspension is in compliance with applicable regulation(s) and/or Kotak Securities policies in circumstances when Kotak Securities or its affiliates is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.

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NA = Not Available or Not Applicable. The information is not available for display or is not applicable.

NM = Not Meaningful. The information is not meaningful and is therefore excluded.

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