



ENAM Securities
India Research

Rs 746

Target Price: Rs 860

Potential Upside: 15%

Sector avg. upside: 0% to 10%
(mkt cap wtd)

Reliance Capital

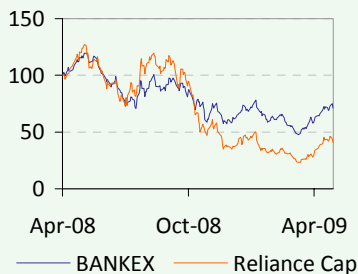
Relative to sector: **Outperformer**

Analyst: **Praveen Agarwal**
Email: praveen.agarwal@enam.com
Tel: 91 22 6754 7609

Sumit Agrawal
Email: sumit.agrawal@enam.com

Rajiv Pathak
Email: rajiv.pathak@enam.com

Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares : 246mn
Market cap : Rs 183 bn
52 week high/low : Rs 1,066/ Rs 274
Avg. daily vol. (6mth) : 7.2 mn shares
Bloomberg code : RCFT IB
Reuters code : RLCP.BO

Shareholding (%) Sep-09 QoQ chg

| Shareholder | Shareholding (%) | QoQ chg |
|-------------|------------------|---------|
| Promoters | 53.5 | 0.0 |
| FIs | 20.7 | (1.7) |
| MFs / UTI | 1.7 | 0.9 |
| Banks / FIs | 3.7 | 0.2 |
| Others | 20.4 | 0.6 |

CONSOLIDATING ITS POSITION

Reliance Capital (RCAP) reported 11% YoY growth in total income but a 32% decline in net profit to Rs 1.55 bn. Sequentially, net profit increased 4%. However, these results do not clearly represent the performance of key businesses, as they include premiums received from the non-life insurance business, but not life insurance figures.

Key highlights

- Reliance MF has maintained its leadership position with domestic AUM increasing 9% sequentially to Rs 1,181 bn. Net profit for this business increased 16% YoY and 4% QoQ to Rs 389 mn.
- New business premiums in the life insurance business declined 19% YoY to Rs 7.42 bn. However, growth in renewal premiums was strong at 113% YoY, albeit at a small base. New business achieved profit (NBAP) for 1HFY10 was Rs 2.3 bn, translating into an NBAP margin of 20.32%.
- General insurance premiums increased 14% YoY but declined 12% QoQ. Combined ratio (with pool) deteriorated YoY to 111% (107% in Q2FY09). Profitability in this business remains weak as it continues to make underwriting losses.
- Consumer finance disbursements fell 29% YoY to Rs 14 bn while the loan book was flat at Rs 82.9 bn. While mortgage accounts for 39% of total loans, share of unsecured personal loans is 10%.
- Revenue in broking & distribution business fell 35% YoY and 11% QoQ to Rs 609 mn. Net profit was down 77% YoY and 59% QoQ. Average daily turnover also fell 6% QoQ and 32% YoY to Rs 15 bn.

Valuations

A major part of net profit continues to come from profits in treasury investments. However, there is renewed focus on "profitable growth" and the management is taking conscious efforts at cost-rationalization/ restructuring. Value un-locking in life insurance business will be a key trigger for the stock. We have sector **Outperformer** rating on the stock with a target price of Rs 860 based on sum of the parts valuation.

Financial Summary

| Y/E Mar | PAT (Rs. m) | FDEPS (Rs. m) | EPS change (%) | P/E (x) | BV (Rs.) | Adj. BV (Rs.) | P/BV (x) | P/Adj. BV (x) | RoE (%) | RoA (%) |
|---------|----------------|------------------|-------------------|------------|-------------|------------------|-------------|------------------|------------|------------|
| 2008 | 10,102 | 41 | 44 | 18 | 269 | 269 | 2.8 | 2.8 | 16.9 | 8.9 |
| 2009 | 10,230 | 41 | 1 | 18 | 303 | 303 | 2.5 | 2.5 | 14.5 | 5.4 |
| 2010E | 7,870 | 32 | (22) | 23 | 332 | 332 | 2.2 | 2.2 | 10.1 | 3.6 |
| 2011E | 7,657 | 31 | (2) | 24 | 360 | 360 | 2.1 | 2.1 | 9.0 | 3.4 |

Source: Company, ENAM estimates

Result Update (Consolidated)

| (Rs mn) | Quarter ended | | | | | 12 months ended | | |
|------------------------------|---------------|---------------|-------------|---------------|------------|-----------------|---------------|------------|
| | Sep-09 | Sep-08 | % Chg | Jun-09 | % Chg | Mar-09 | Mar-08 | % Chg |
| Total Income | 14,664 | 13,159 | 11 | 14,681 | (0) | 60,124 | 49,192 | 22 |
| Income from Operations | 14,471 | 13,051 | 11 | 14,527 | (0) | 59,498 | 47,927 | 24 |
| Other misc income | 193 | 108 | 79 | 154 | 25 | 625 | 1,265 | (51) |
| Total Expenditure | 12,399 | 10,281 | 21 | 13,049 | (5) | 48,104 | 37,035 | 30 |
| Staff costs | 1,399 | 1,387 | 1 | 1,282 | 9 | 5,541 | 4,032 | 37 |
| Other expenditure | 3,420 | 2,619 | 31 | 3,549 | (4) | 11,853 | 13,319 | (11) |
| Reinsurance premium ceded | 1,705 | 1,369 | 25 | 2,158 | (21) | 6,776 | 7,665 | (12) |
| Claims incurred | 2,113 | 1,856 | 14 | 2,246 | (6) | 10,729 | 7,507 | 43 |
| Interest & financial charges | 3,608 | 2,921 | 24 | 3,672 | (2) | 12,638 | 4,100 | 208 |
| Depreciation | 154 | 130 | 19 | 143 | 8 | 567 | 412 | 38 |
| Profit before tax | 2,265 | 2,877 | (21) | 1,632 | 39 | 12,020 | 12,157 | (1) |
| Taxation | 681 | 562 | 21 | 111 | 516 | 1,811 | 2,055 | (12) |
| Current tax | 816 | 440 | 85 | 334 | 144 | 1,976 | 1,929 | 2 |
| Deferred tax | (135) | 122 | (210) | (223) | (40) | (165) | 126 | (231) |
| Profit after Tax | 1,584 | 2,315 | (32) | 1,521 | 4 | 10,208 | 10,102 | 1 |
| Minority Interest | (25) | (23) | 5 | (27) | (8) | (55) | (62) | (10) |
| Share of P/L in Associates | (1) | 3 | (126) | 4 | (119) | 4 | 25 | (85) |
| Net Profit (Reported) | 1,559 | 2,294 | (32) | 1,499 | 4 | 10,156 | 10,070 | 1 |

Source: Company, ENAM Research

Sum of the parts valuation

| Sum of the parts | Valuation basis | RCAP's stake | Value per share | Total value (Rs bn) |
|--|-------------------------------|--------------|-----------------|---------------------|
| Life insurance | 16x FY11E NBAP (17%) + EV | 100% | 490 | 120.3 |
| Asset management | 5% of current AUM | 95% | 228 | 56.1 |
| Consumer finance | 1x net worth | 100% | 42 | 10.4 |
| Broking & distribution | 10x FY11E earnings | 100% | 12 | 2.9 |
| General insurance | 10x FY11E normalized earnings | 100% | 21 | 5.1 |
| Investments | 1x cost of investments | 100% | 68 | 16.7 |
| Unrealized gains on listed investments | As at Q2FY10 | 100% | 16 | 4.0 |
| Value per share to Reliance Capital | | | 860 | 211 |

Source: Company, ENAM Research

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