

Reliance Capital

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India
Financials/Diversified Financials

RCFT IN

Initiation
23 April 2009

SO WHAT? THE BNP PARIBAS ANGLE

INDUSTRY OUTLOOK: ↑

- We have a counter-consensus REDUCE call.
- First on the Street with detailed sensitivity analysis for NBAP margin.
- FY10E EPS 29% below the Street on muted prop book estimates and higher NPLs.

Net Profit 10..... INR6.3b

Diff from Consensus (29.2%)
Consensus (mean) INR8.9b
Consensus (momentum) ↑

Target Price INR400.00

Diff from Consensus (26.6%)
Consensus (median) ... INR545.00
Consensus (momentum) ↑

Current Price.... INR509.25
Upside/ (Downside)..... (21.5%)

REDUCE

Recs in the Market

Positive..... 7
Neutral..... 3
Negative 2
Consensus (momentum) ↑

Sources: Thomson One Analytics; Bloomberg; BNP Paribas estimates

- We initiate coverage on Reliance Capital with a REDUCE rating and a TP of INR400, at 1.3x our FY10E ABV.
- Growth and margin pressure in all core businesses – insurance, asset management, broking and investment book.
- Muted return on capital as the core businesses are still in a capital consumption mode.

Obstacle course for growth and margin

Initiate with REDUCE – valuation ahead of fundamentals
We initiate coverage on Reliance Capital (RCFT) with a REDUCE rating and a TP of INR400. While the long-term outlook for RCFT is attractive, we expect significant growth and margin pressure in the near to medium term. We expect all of its core businesses (insurance, asset management, general insurance, broking and consumer finance) to slow down. We believe the recent rally in the stock price is out of line with fundamentals and investors can find more attractive alternatives, given the overhang in the market.

Multiple pressures on growth and margins
RCFT's core business growth is tied to the outlook for equity and capital markets in India – in the form of unit-linked life insurance products, returns on its proprietary investment book, income from asset management and broking. We expect relatively muted equity markets in FY10 to impact RCFT's revenue growth. We expect RCFT (which has more than 95% of its life products in ULIPs) to clock life premium growth of 11% for FY10 compared to 40% y-y growth in FY09. We estimate RCFT's consolidated net revenue will decline by 4% y-y for FY10. We expect a sustainable NBAP margin for life insurance of 15% compared to management guidance of 18-19%. Based on our channel checks and analysis, we believe RCFT's insurance business growth was based on aggressive pricing, which is more evident in the general insurance business. In addition to margin pressures, RCFT's core businesses are still in a capital consumption mode and will impact ROE over FY10-11. RCFT is a high beta play and in addition to improvement in core businesses, we'll turn more positive on signs of a sustained market rally.

Valuation

We value RCFT at INR400 using a sum-of-the-parts approach. On a per share basis, we value life insurance at INR145 (8x FY10E NBAP), asset management at INR130 (3.5% to FY10E AUM), the standalone book along with consumer finance business at INR100 (0.8x FY10E ABV) and Reliance Money at INR25 (8.0x FY10E EPS). Our TP implies 15.5x and 1.3x price to FY10E consolidated EPS and ABV respectively.

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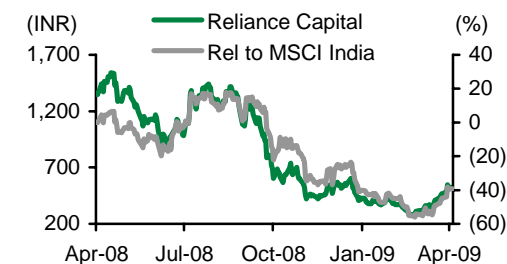
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Earnings Estimates And Valuation Ratios

YE Mar (INR m)	2008	2009E	2010E	2011E
Operating profit	12,157	9,460	7,904	9,420
Reported net profit	10,091	7,859	6,336	7,614
Recurring net profit	10,091	7,859	6,336	7,614
Recurring EPS (INR)	41.08	31.99	25.80	31.00
Rec EPS growth (%)	33.0	(22.1)	(19.4)	20.2
Recurring P/E (x)	12.4	15.9	19.7	16.4
Dividend yield (%)	1.1	0.9	0.8	0.9
Price/book (x)	1.9	1.7	1.6	1.5
Price/tangible book (x)	1.9	1.7	1.6	1.5
ROA (%)	7.81	3.83	2.68	2.95
ROE (%)	16.9	11.3	8.4	9.4

Sources: Reliance Capital; BNP Paribas estimates

Share Price Daily vs MSCI India



Next results/event	April 2009
Market cap (USD m)	2,473
12m avg daily turnover (USD m)	138.0
Free float (%)	46.5
Major shareholder	ADAG & associates (53.5%)
12m high/low (INR)	1,542.30/280.85
ADR (USD)	10.15
Avg daily turnover (USD m)	0.01
Discount/premium (%)	0.8
Disc/premium vs 52-wk avg (%)	(44.7)

Source: Datastream

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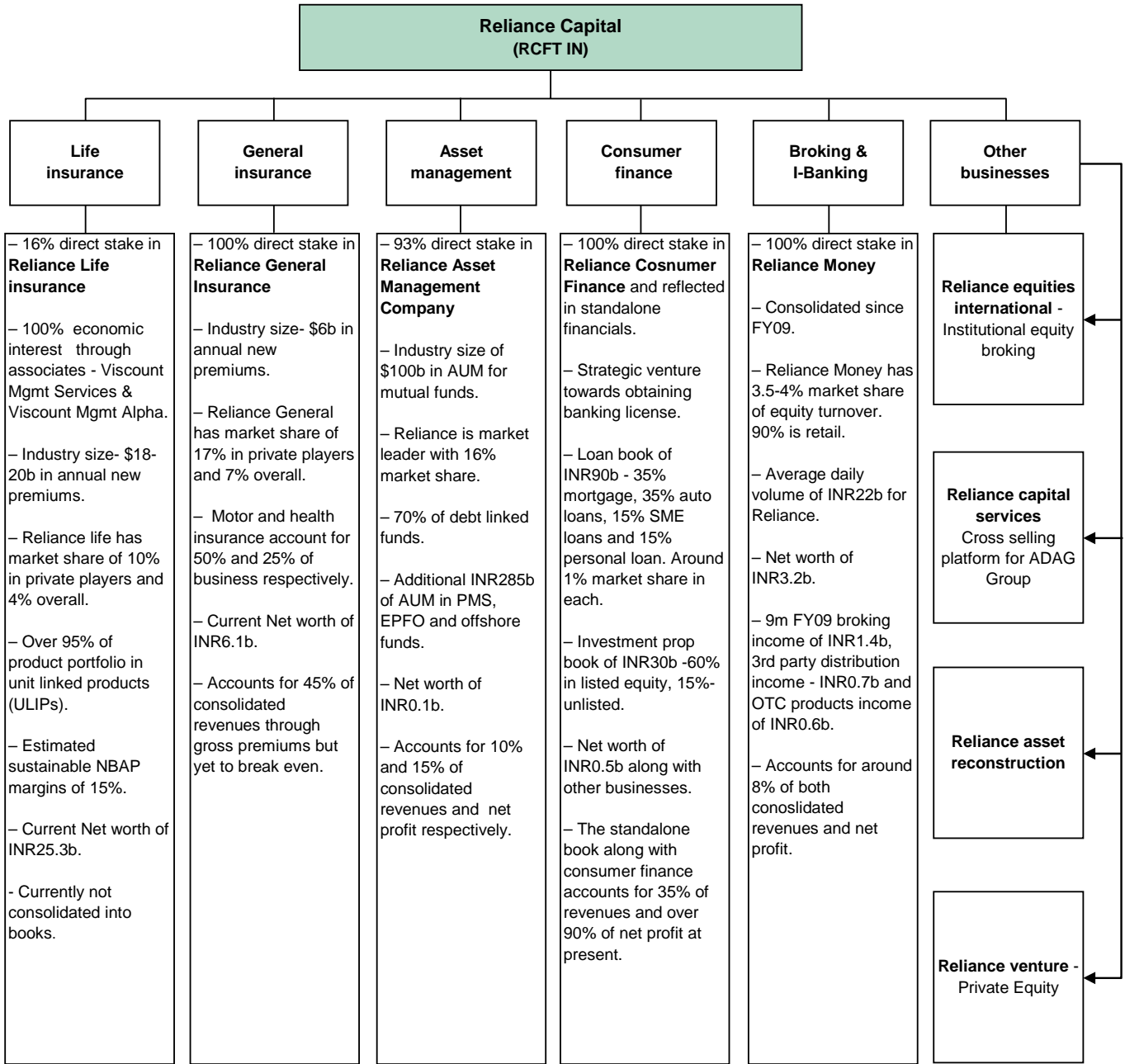
INVESTMENT THESIS: GROWTH OUTLOOK

Multiple impediments to near term growth

Reliance Capital (RCFT) is the NBFC arm of Anil Dhirubhai Ambani Group (ADAG) with interests across the Indian financial services space. It is the market leader in mutual funds asset management (over 16% market share) and among the top five private players in both life and general insurance with market share of 4% and 7% respectively. RCFT is also a leading player in retail stock broking with a 4% volume share. The company's nascent consumer finance business has a portfolio of INR90b in mortgage, personal and SME loans. In addition, the group has a proprietary investment book of INR30b and a corporate loan book of INR30b. We expect the current economic slowdown, particularly in the capital markets, to impact growth across the major group businesses like mutual fund AUM; market linked insurance products and broking volumes. We expect RCFT to curtail consumer finance loans on account of increasing credit stress and we anticipate more muted income on the investment prop book due to overall equity market outlook. We expect RCFT to report net revenue and EPS decline of 2% and 19% y-y respectively for FY10.

- **Life insurance:** The life insurance sector has seen sustained growth over the last few years, driven by an increase in the savings rate and penetration of market linked products. However, over the last few quarters, the meltdown in equity markets has affected growth of ULIP products which now constitute 56% of premium income. We expect annualized premium equivalent (APE) of new premiums to increase at 11% for FY10 compared to 8% expected growth for the industry.
- **General insurance:** We expect the overall decline in economic activity and automobile sales to impact general insurance segments like motor insurance, fire and marine insurance. We expect the overall market to increase at 5% for FY10. However, we expect premium income for Reliance General to increase at 10% for FY10 on the back of 2% decline y-y for FY09.
- **Asset Management:** The equity market meltdown has resulted in migration to safer deposit products from mutual funds (MF) and other equity linked products. Although, we expect mutual fund assets to pick up again post the severe decline in FY09, we expect muted growth in AUMs and lower linked fee income streams on lower average AUMs. We expect RCFT's mutual fund AUMs to increase at 7% for FY10 compared to a reported y-y decline of 15% for FY09.
- **Consumer finance:** Increasing risk aversion on account of rising credit stress in the non-collateralized loan segment will lead to Reliance Capital scaling back on its consumer finance business significantly compared to the past. We expect RCFT to increase its consumer loan book at 15% for FY10 compared to a growth of 28% y-y for FY09.
- **Broking and I-Banking:** Lack of volume in both the primary and secondary equity capital markets has dented broking and investment banking income streams. We expect overall turnover to remain flat over FY10. We expect Reliance Money (the broking and i-banking arm of RCFT) to post a more modest revenue growth of 18% in FY10 compared to an estimated increase of 50% for FY09.
- Besides the above, the unrealized gains on the proprietary book have also declined drastically for RCFT. We expect a decline of 22% in RCFT's prop book income.

Exhibit 1: Broad Business Structure For Reliance Capital (As Of 3QFY09)

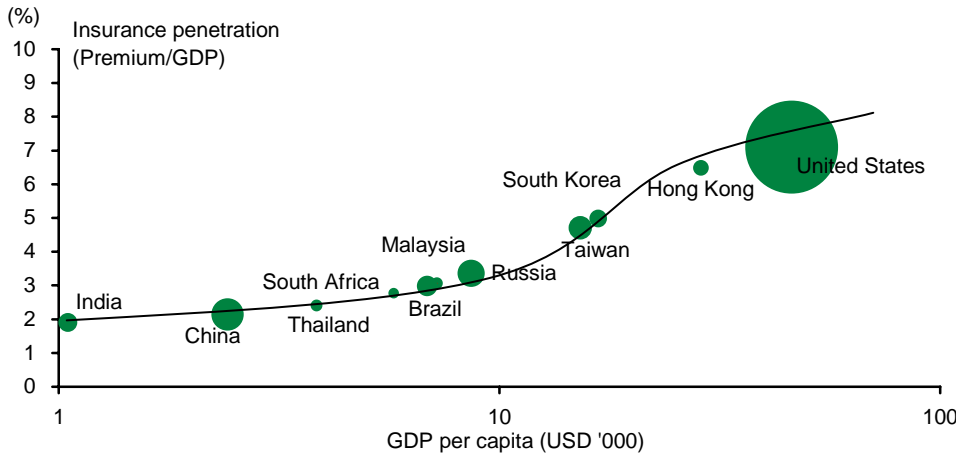


Sources: Reliance Capital; BNP Paribas

Decline in ULIP products to impact life premium growth

India has very low insurance penetration compared to its peers, and life insurance business has a huge potential over the next five to 10 years. As shown below (Exhibit 2), insurance penetration in India has a long way to go before catching up with comparable penetration levels elsewhere in the world. How quickly this ramp-up will take place is difficult to forecast at this point in time. India’s annual new premiums to GDP (insurance penetration) ratio stands at a paltry 2% compared to 3-5% for emerging market peers like Brazil, Russia and 6-7% for the developed countries. Even with a nominal GDP growth of 7-8% and improvement in penetration ratio to the peer average of 3.5%, the life insurance market has the potential to increase at 20-25% CAGR over the next five years.

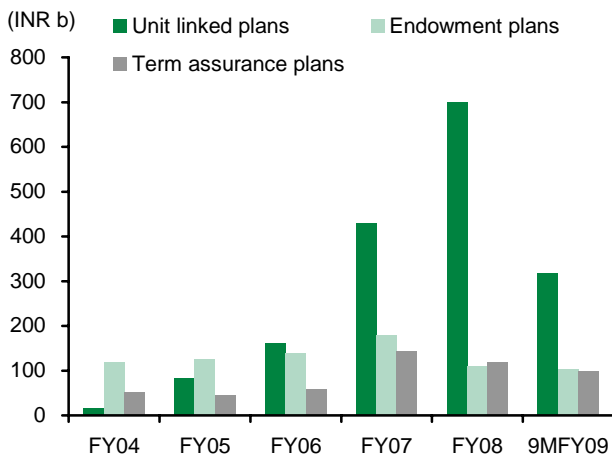
Exhibit 2: Insurance Penetration And Per Capita GDP – India At An Inflection Point



Bubble Sizes indicate Life insurance market size
Sources: Swiss Re; BNP Paribas estimates

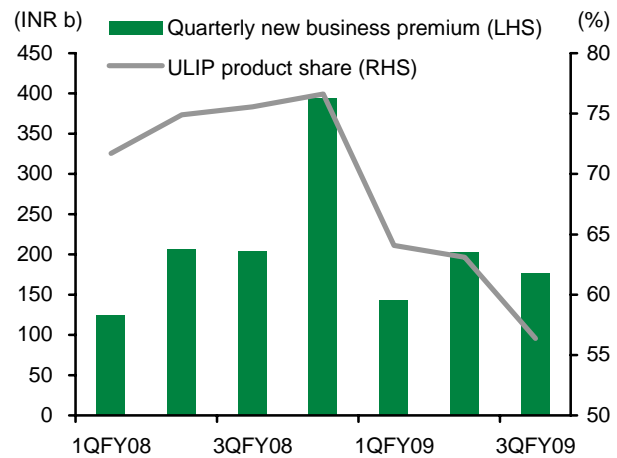
From FY04 to FY08, new business premiums for the life insurance sector have increased at a CAGR of 49%. A large part of this growth has come from unit-linked insurance plans (ULIP). ULIPs have expanded at a CAGR of 158% over this period, while more traditional insurance products like term and endowment products have expanded at just 8% CAGR. However, the recent meltdown in equity markets has affected the popularity of ULIPs and drastically brought down the growth rates for new premiums.

Exhibit 3: Life Insurance New Premium By Product Category



Sources: IRDA; BNP Paribas

Exhibit 4: Quarterly Market Share Movement Of ULIPs

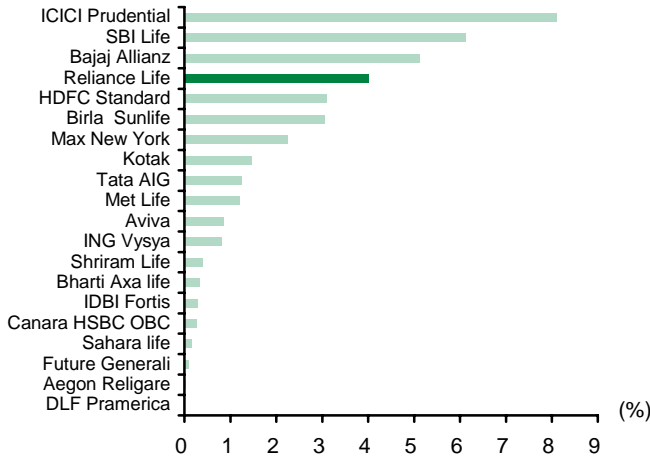


Sources: IRDA; BNP Paribas

Clearly, ULIPs have been the sole driving engine for the life insurance sector moving to a peak of 75% of annual new business premiums in FY08 from a proportion of just 8% in FY03. However, since the market meltdown, ULIPs have significantly dropped in popularity. Latest IRDA (Insurance Regulatory & Development Authority) data shows that quarterly ULIP premiums as a ratio of new business premiums have dropped to 56% for 3QFY09 from a peak of 77% in 4QFY08.

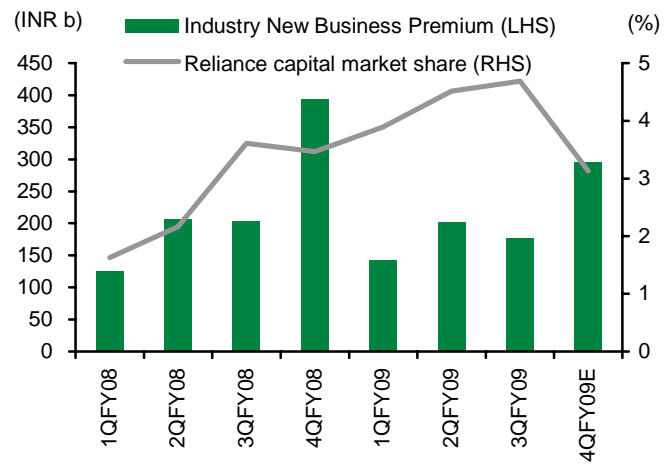
A large chunk of single premium ULIPs were mis-sold by the industry as single premium products and this has affected both new and renewal premiums. We expect new business premiums for the life insurance industry to report a decline of 12% for FY09 and then again inch up by 7% for FY10 y-y. In APE (annualized premium equivalent is the annual component of new written premiums – generally calculated as sum of regular premiums and 10% of single premiums) terms, we expect the industry to post an increase of 8% for FY10 after reporting a 16% decline for FY09.

Exhibit 5: Market Share Snapshot of Private Sector LI Players



Sources: IRDA; BNP Paribas (Base on YTD FY09 new business premium)

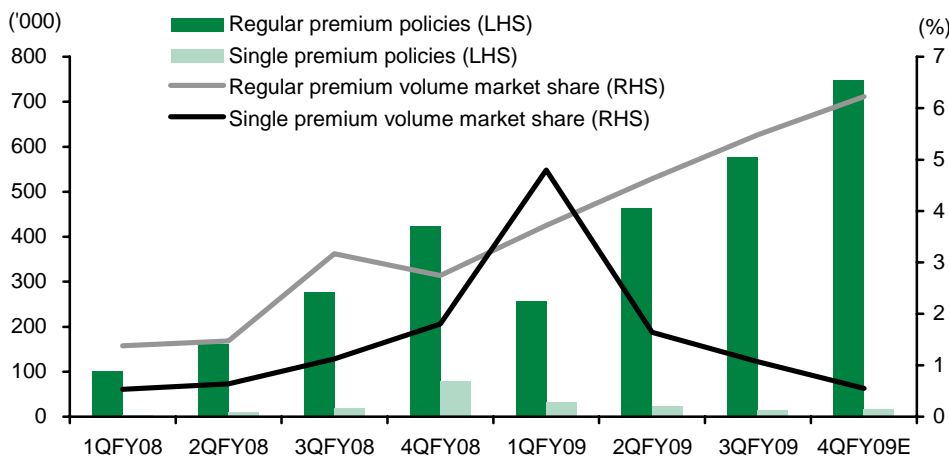
Exhibit 6: Quarterly Market Share Movement For Reliance Life



Sources: IRDA; BNP Paribas

RCFT is the fourth largest private-sector player with a 4% overall market share (YTD 3QFY09). Reliance Life has been steadily gaining market share over the last few years driven by its focus on ULIPs, which constitute more than 95% of the product portfolio. However, with the reduction in the popularity of ULIPs, we expect Reliance Life to settle on a lower growth trajectory over the next few years. We expect a more muted new business premium growth of 11% for FY10 compared to management guidance of 20-25%. We expect Reliance Life to show an APE increase of 11% in FY10 on the back of a 43% growth for FY09.

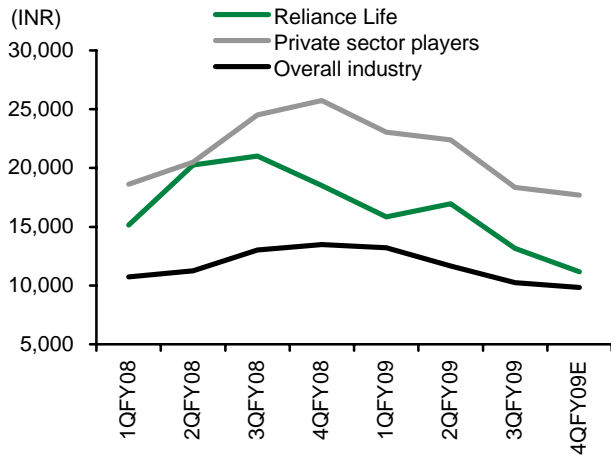
Exhibit 7: Reliance Life's Volume Market Share For Single And Regular Premium Policies



Sources: CMIE; BNP Paribas

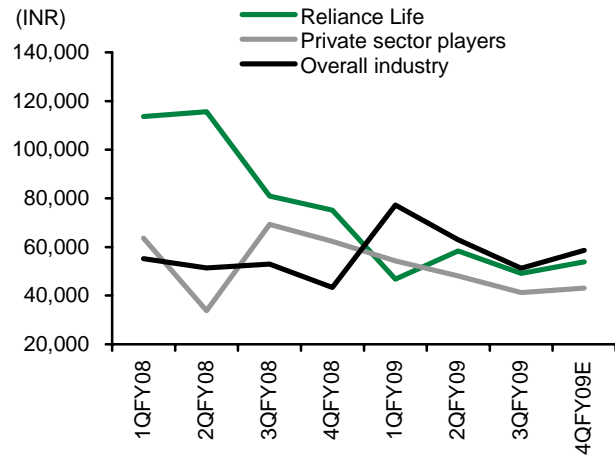
As is evident from the exhibit above, Reliance Life has pursued a focused strategy of gaining volume market share in regular premium policies. It has been focusing on network expansion increasing its reach to 1,145 by December 2008 from 745 branches in FY08 and it has approval pending for another 400 branches in tier-3 and tier-4 cities. It also expects to ramp up the number of agents to 200,000 by FY09 from 185,000 in FY08.

Exhibit 8: Ticket Size Comparison For Regular Premium Policies



Sources: IRDA; BNP Paribas estimates

Exhibit 9: Ticket Size Comparison For Single Premium Policies



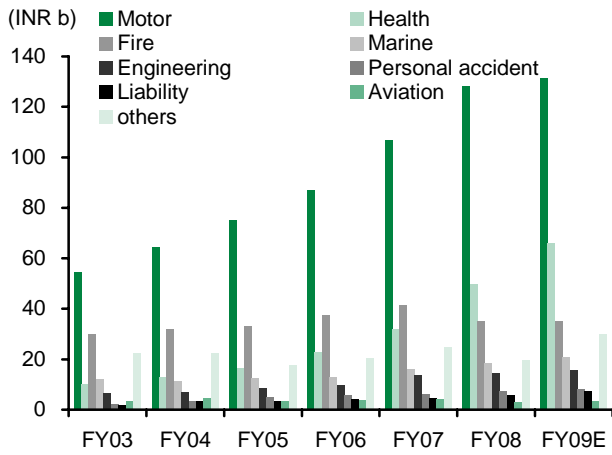
Sources: IRDA; BNP Paribas estimates

However, the focus on volume clearly has been coming at the cost of pricing. Based on IRDA data, the average ticket size for Reliance Life has been coming down for both regular and single premium policies. This could be on account of aiming to increase market share in tier-3 and tier-4 cities. We estimate Reliance Life's average ticket size to be 30% lower than the private sector players (excluding LIC) for FY09. As Reliance Life expands further into more remote geographies, we expect overall premium growth to tone down.

Pricing pressures, slowdown to hit general insurance

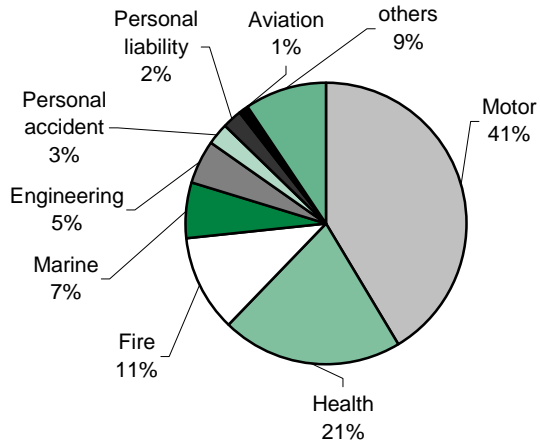
The general insurance industry is going through a rough phase post-detarrification; new insurance premiums are in a phase of stabilizing through competitive market pricing by the insurers. Also, the competitive arena has become more intense, with a plethora of new players joining the fray.

Exhibit 10: Industry Premium Movement By Product Category



Sources: IRDA ; BNP Paribas estimates

Exhibit 11: General Insurance Category Breakdown By Premium

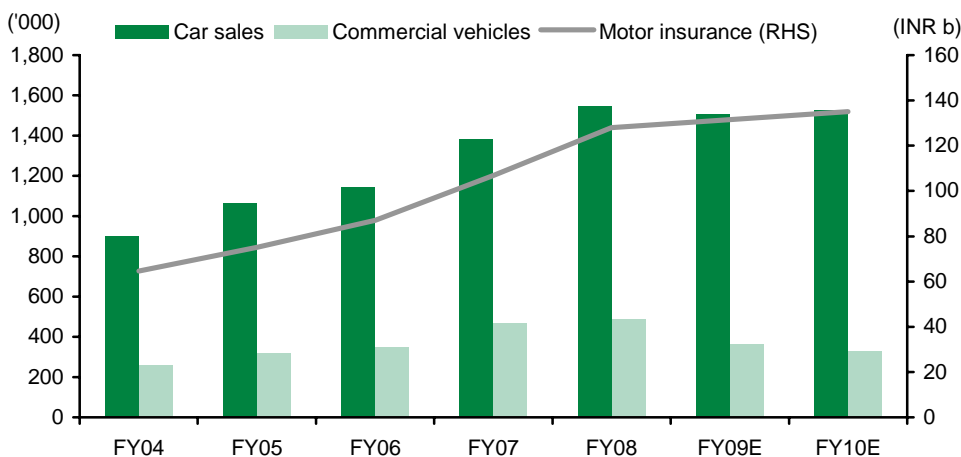


Sources: IRDA; BNP Paribas estimates

The general insurance market in India has expanded at 15% CAGR from FY03 to FY08 with motor (19% CAGR), health (38% CAGR) and personal accident/liability (27% CAGR) being the key drivers. Fire and marine insurance have expanded at 3% and 9% respectively over this period.

As is evident from Exhibit 12, automobile insurance (which constitutes over 40% of the general insurance market) has closely tracked car and commercial vehicle sales. Based on our flattish auto sales estimate for FY10 (from our auto analyst) we expect motor insurance to increase at 3% over the period. We expect health and personal insurance to increase at 20-25%.

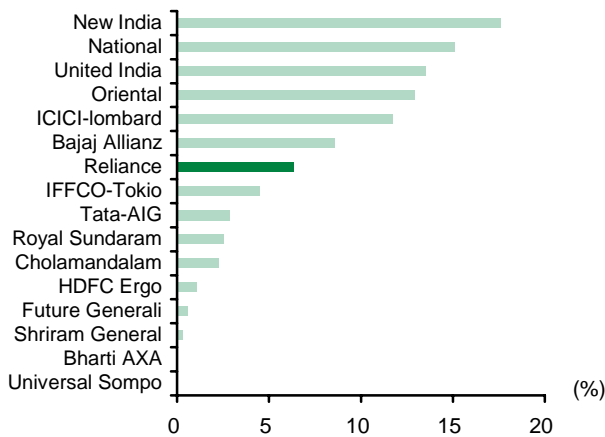
Exhibit 12: Auto Sales vs Motor Insurance Premium Movement



Sources: CMIE; BNP Paribas estimates

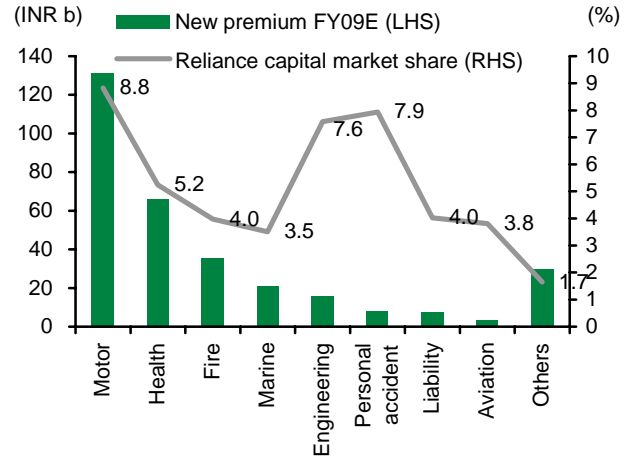
We expect the overall general insurance sector to increase at 5% for FY10 on the back of 7% y-y growth for FY09.

Exhibit 13: Market Share Snapshot of GI Players (YTD FY09)



Sources: IRDA; BNP Paribas estimates

Exhibit 14: Category-Wise Industry size, Reliance Market Share



Sources: IRDA; BNP Paribas estimates

Reliance General is the third largest private sector player with an overall market share of 6%. In the motor insurance and engineering insurance categories, it competes closely with the market leaders with 9% and 8% shares respectively.

We expect Reliance General to improve its market share within the private general insurer segment by about 70bps to 16% (private players have a combined market share of 40%).

We expect Reliance General to post gross premium growth of 10% for FY10 on top of a flat FY09. However, we believe that there is limited upside to this growth as the market share gains would come at the cost of highly competitive pricing. Our channel checks reveal that Reliance General's market share gains have been coming on account of aggressive price competitiveness. We present our findings on the indicative quotes for the same vehicle from different insurers in Exhibit 15 below. We believe it would be increasingly difficult to sustain market share gains based on aggressive pricing.

Exhibit 15: Comparison of Motor Insurance Premiums Across Different Private Sector Players

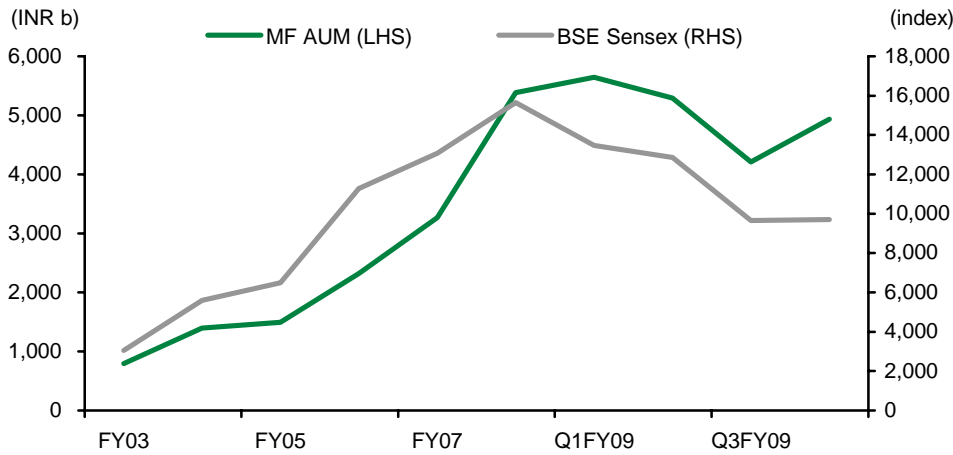
	Reliance General	ICICI Lombard	Bajaj Allianz	National Insurance
Insurer	General	Lombard	Allianz	Insurance
Car model	Scorpio	Scorpio	Scorpio	Scorpio
Sum assured (INR)	810,000	810,000	810,000	752,000
Own damage – Basic OD rate (%)	3.43	3.44	3.44	3.44
OD premium (INR)	27,783	27,864	27,864	25,869
De-tariff discount rate (%)	49.0	27.0	30.0	29.5
Discount (INR)	13,614	7,523	8,359	7,631
Total OD – After de-tariff discount (INR)	14,169	20,341	19,505	18,238
No claim bonus rate on post discount OD (%)	20.0	20.0	20.0	20.0
No claim bonus (INR)	2,834	4,068	3,901	3,648
Total own damage^(x)	11,335	16,273	15,604	14,590
Basic third party insurance (INR)	2,500	2,500	2,500	2,500
Premium per passenger (INR)	300	200	200	200
LL To driver (INR)	25	25	25	25
Additional PA (INR)	100	100	100	100
Additional loading	—	—	—	—
Total additional premium^(m) (INR)	2,925	2,825	2,825	2,825
Net premium ^(x+y) (INR)	14,260	19,098	18,429	17,415
Service tax rate (%)	10.3	10.3	10.3	10.3
Service tax (INR)	1,469	1,967	1,898	1,794
Final premium (INR)	15,729	21,065	20,327	19,209

Source: BNP Paribas estimates

Capital market slowdown to impact AMC income

As is evident in the following chart, overall mutual fund assets under management (AUMs) have drastically declined in tandem with the equity market meltdown. With a modest capital market growth outlook for FY10, we expect mutual fund AUMs to also show benign growth unlike the last few years. We expect mutual fund AUMs to increase at 8% for FY10 after reporting a decline of 8% y-y for FY09.

Exhibit 16: BSE Sensex Movement vs Overall Mutual Fund AUMs

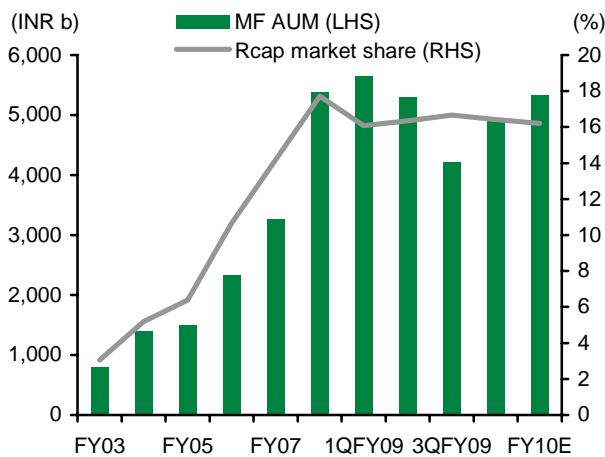


Sources: CMIE; BNP Paribas

RCFT has mutual fund AUM of INR809b, PMS AUM of INR280b, of which approximately INR250b is through employee provident fund organization (EPFO) and offshore funds of approximately USD245m in Singapore.

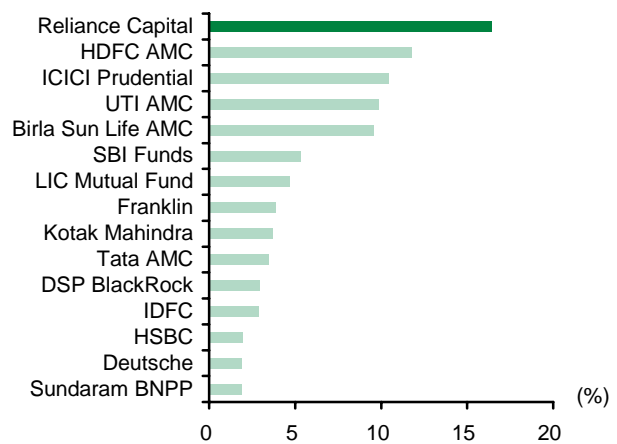
We expect mutual fund AUMs to increase to INR860b (increase of 7% y-y), PMS AUM to INR305b and offshore funds to USD260m by FY10.

Exhibit 17: Overall MF AUMs And RCFT Market Share



Sources: AMFI; BNP Paribas estimates

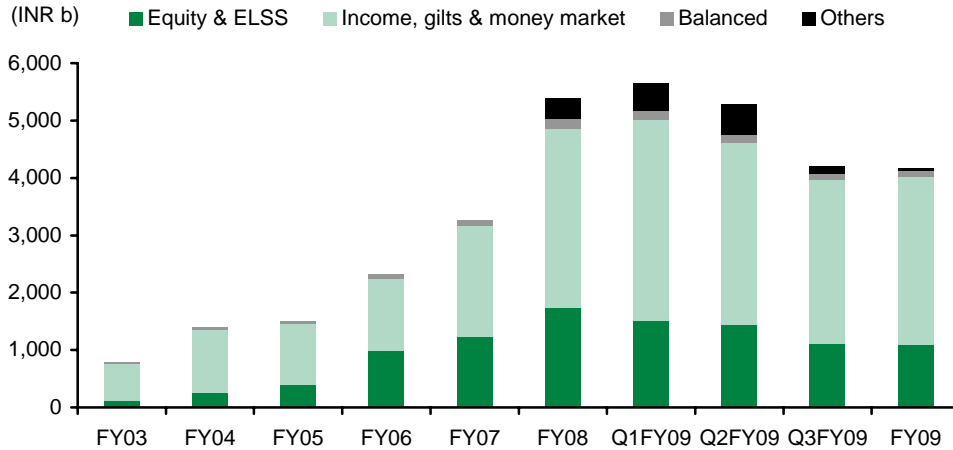
Exhibit 18: Market Share Snapshot Of Top 15 MF Players



Sources: AMFI; BNP Paribas

We expect RCFT to broadly maintain its market leadership in AUM and expect the mutual fund assets to increase at 7% compared to 8% growth for the entire market.

Exhibit 19: Mutual Fund AUM Movement By Product Category



Sources: AMFI; BNP Paribas

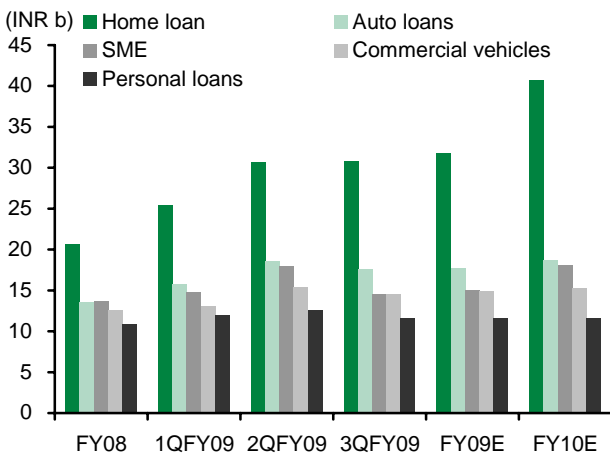
We also expect moderation in RCFT's fee income from asset management business on account of both decrease in average funds under management (1% decline in FY10 over FY09) and also increasing proportion of debt linked funds (debt funds constituted 69% in Q3FY09 compared to 66.5% in FY08), which have a lower management fees – 20bps for debt funds compared to 100bps for equity.

For nine months ended December 2008 Reliance Asset Management had reported revenue and net profit of INR3.4b and INR0.9b respectively. We expect a revenue decline of 9% and EPS decline of 5% y-y for Reliance Capital's asset management business in FY10.

Muted growth for consumer finance, retail broking

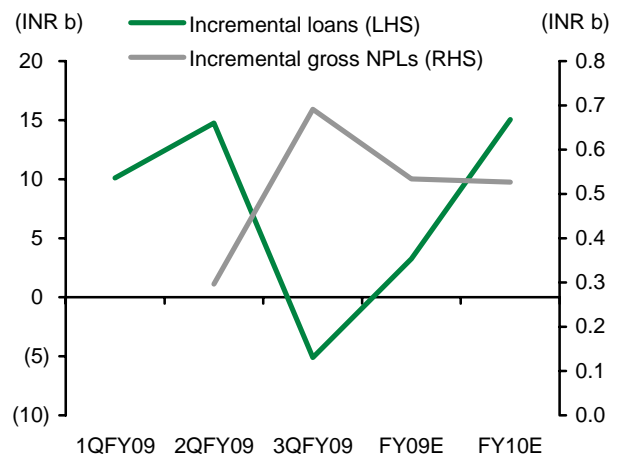
Given the stress coming through in the retail loan segments in India, we expect RCFT to slow down on the growth in the consumer finance division in FY10.

Exhibit 20: Consumer Finance Loan Book Breakdown



Sources: Reliance Capital; BNP Paribas estimates

Exhibit 21: Incremental Loan Book vs Gross NPL Movement

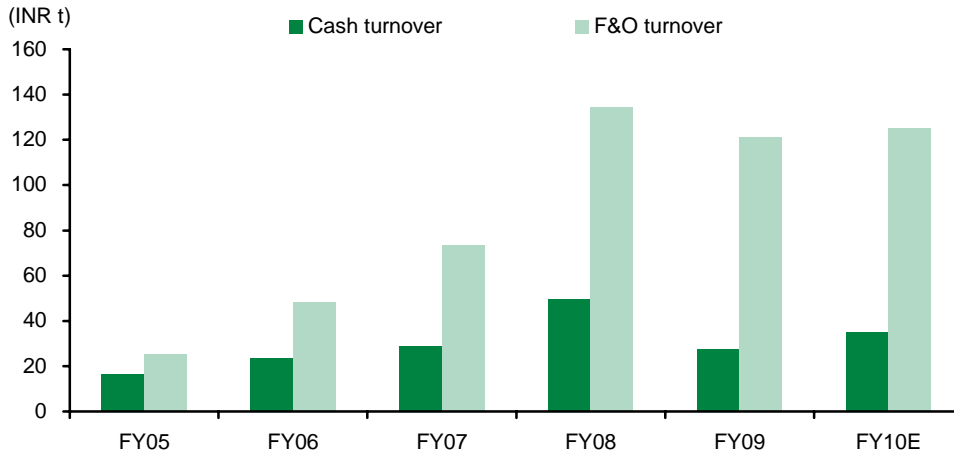


Sources: Reliance Capital; BNP Paribas estimates

RCFT has significantly curtailed its loan disbursements, as is evident in the exhibit above. The company intends to freeze personal loan disbursements after reporting increasing stress on the book. We expect the consumer finance loan book to increase at 15% for FY10 compared to an estimated growth of 27% y-y for FY09. We expect the gross NPL ratio to also shoot up in 4QFY09 and then stabilize in FY10.

We also expect some impact on retail broking business in lieu of shrinking equity turnovers in both cash and equity markets. However, we are factoring in a revenue growth of 18% for Reliance Money given its third party distribution franchise and improving market share in retail broking.

Exhibit 22: Cash And F&O Turnover (BSE + NSE)

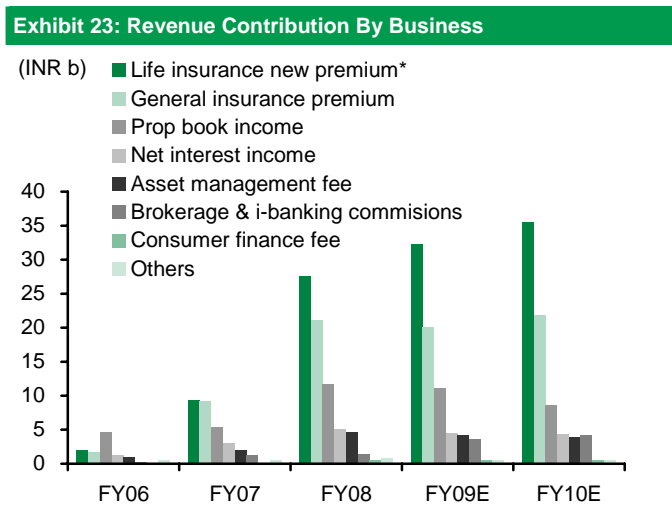


Sources: NSE; BNP Paribas estimates

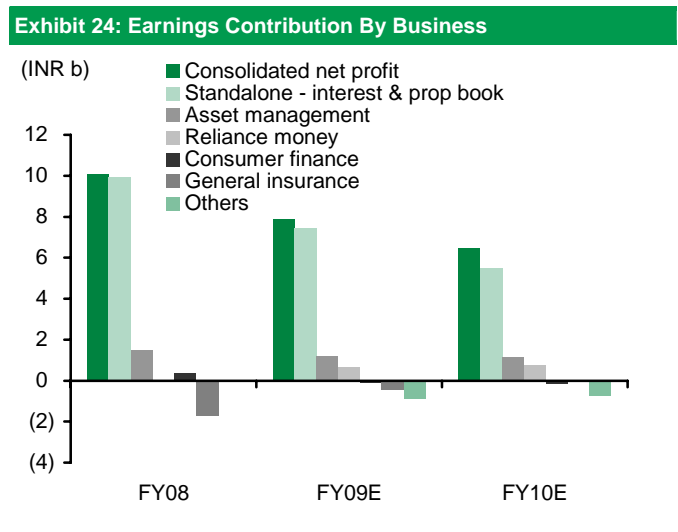
INVESTMENT THESIS: PROFITABILITY

Expansion pressure, high NPLs: muted margins

We expect expansion related costs for the insurance businesses – both in terms of pricing pressures on new policies and operating costs to impact RCFT’s profitability for FY10. Also, on the new business achieved profits (NBAP) for the life insurance business, our expectation on the sustainable margin are more muted than the street and the management guidance. We present sensitivity analysis of the NBAP margin against key parameters like persistency, ROI and discount rate. On the consumer loan portfolio, we anticipate significant rise in asset stress, as the personal and SME loan books mature over the next fiscal year. In addition, the proprietary investment book has lost all the unrealized gains and a large part of it is currently trading below carrying cost. We expect this to also constrain the trading profits for the standalone entity. We expect a 19% decline in consolidated EPS for FY10.



* Not consolidated into accounts
Sources: Reliance Capital; BNP Paribas Estimates



Sources: Reliance Capital; BNP Paribas

As the charts show – general insurance premiums and prop-book income form the bulk of RCFT’s revenue. Revenue streams from the consumer finance business and Reliance Money (which got merged in end FY08) have also started increasing in proportion. The life insurance business is not yet consolidated in the books as Reliance Capital holds just 16% direct stake in it. However it has 100% economic interest in Reliance Life through two investment vehicles.

Importantly, more than 95% of the consolidated earnings is contributed by the standalone entity– which draws on trading profits on its proprietary book of INR30b (Government securities: INR7b, listed investments: INR18b and unlisted private equity type investment: INR5b) and interest income on its corporate loan book of INR30b. At present, this division also takes care of the funding for the consumer finance business. The management expects to bring down the dependence on investment prop book to 50% by FY11. We expect a much muted income from prop book in FY10 given the erosion in the value of its holdings.

The reported unrealized gains on RCFT’s investment book went to zero in 3QFY09 from INR13b in 2QFY09 and INR24.8b in 1QFY09. We present a comparison of RCFT’s key holdings – the cost at which it carries these in its book compared to the current market cap.

Exhibit 25: Reliance Capital's Investment Holding Book

Company	Holding (Dec'08-Mar'09) (%)	Value of		Net difference (INR b)
		holding at current market cap (INR b)	Value at which carried on books for FY08 (INR b)	
Jyoti Structures Ltd	4.79	0.33	0.39	(0.06)
Celebrity Fashions Ltd	6.49	0.02	0.15	(0.13)
Inox Leisure Ltd	8.48	0.18	0.74	(0.56)
Spanco Ltd	4.15	0.02	0.08	(0.05)
Ibn18 Broadcast Ltd	8.00	1.32	1.55	(0.22)
Kinetic Engineering Ltd	11.93	0.03	0.13	(0.10)
Network 18 Media & Invst. Ltd	6.15	0.34	1.40	(1.06)
Prime Focus Ltd	14.79	0.24	0.56	(0.32)
Sparsh B P O Services Ltd	3.65	0.02	0.11	(0.09)
T V Today Network Ltd	11.93	0.56	0.88	(0.32)
Ventura Textiles Ltd	13.05	0.10	0.06	0.04
Emco Ltd	7.78	0.24	0.42	(0.18)
MTNL*	0.48	0.22	0.55	(0.33)
State Bank of India*	0.25	2.09	3.83	(1.74)
Hindalco Industries Ltd	1.06	0.99	na	na
Padmalaya Telefilms Ltd	4.09	0.00	na	na
Assam Co Ltd	3.62	0.11	na	na
Aurionpro Solutions Ltd	3.38	0.04	na	na
ADAG group companies				
Adlabs Films Ltd	2.72	0.27	0.12	0.15
Reliance Communications Ltd	0.89	4.01	2.09	1.92
Reliance Natural Resources Ltd	1.01	0.93	0.03	0.91
Reliance Infrastructure Ltd	0.00	0.00	na	na

* As per FY08 holding; Market cap as on 17 April 2009 (list is not exhaustive)
Sources: CMIE; BNP Paribas estimates

As the table above shows, most of RCFT's non group holdings are currently in the red. We expect the standalone entity (excluding the consumer finance business) to report an earnings decline of 26% for FY10. The estimate above is based on carrying costs disclosed for March 2008 and the list above is not exhaustive.

The general insurance business is still in a phase of stabilization and the division is yet to break even after ceding reinsurance premiums and accounting for claims and operating costs. Reliance General is aiming at improving its combined ratio (ratio of operating expenses and claims to net earned premium) to 105-106% from 115-120% at present. We, however, expect this business to break even only by FY11.

Reliance Money, which is the investment banking and broking arm of RCFT, was consolidated into books since FY08. This division generates revenue from retail broking (both equity and F&O), third party distribution of Reliance mutual funds and insurance products and through sales of OTC products like gold coins. We expect this division to report increase of 18% and 20% in revenue and earnings for FY10.

We expect revenue and EPS decline of 9% and 5% y-y respectively for RCFT's asset management business in FY10 as we believe the average assets under management would be lower compared to FY09

RCFT's other business ventures like Reliance Equities International – which is the institutional broking arm and Reliance Capital services – which is the ADAG group's

financial services cross selling platform are in investment phase. We expect these business start-ups to further impact the bottom-line.

We expect a funding requirement of INR5b in FY10 for the insurance businesses of RCFT. If the company's banking application comes through with the regulator, there will be capital reallocation of about INR13b towards the banking business, which would potentially cause the average ROE for the consolidated entity to drop below the current estimate of 8-9% for FY10 from approximately 11% in FY09.

Sustainable NBAP margin lower than guidance

We expect Reliance Life's sustainable new business achieved profit (NBAP) margin to be in the range of 14-15%, lower than the current margin of 18.9% as indicated by the management. Persistency ratio, ROI on assets under management, discount rate and acquisition cost will be the key determinants of NBAP margin. We have used the basic economic assumptions given by RCFT in its latest quarterly review and taken the cost structure of their top five insurance products (which account for about 75% of revenue) to arrive at NBAP margin estimates. We have factored in the present product mix of single and regular premiums in our analysis. In the following section we present the sensitivity of the blended NBAP margin to the key parameters.

Exhibit 26: Reliance Life Assumptions – NBAP Margin Calculation

	ROI
	(%)
Cash/Money Market/TB	5.0
Medium term government securities	7.5
Long-term government securities	7.5
Corporate bond	8.5
Equities	12.0
	(%)
Inflation	5.5
Risk discount rate	12.5
Tax rate	14.2
Persistency – 5-year	50.8

Source: Reliance Capital

New business achieved profit (NBAP) is the present value of future income stream from a life insurance policy. We have considered NBAP for a unit linked product for our analysis as Reliance Life generates more than 95% in revenue from unit linked insurance policies. A **unit linked insurance policy (or ULIP)** is a policy which provides life cover as well as an investment vehicle for the customer. Based on the plan selection the customer can choose a mix of various investment instruments as listed in the above exhibit.

ULIPs can be either regular premium policies (where the customer pays premiums on a regular frequency, typically annually) or single premium policy (where there is one time premium payment). The premium received from a customer is invested into the capital market by the insurer after deducting agent commissions, operating expenses, mortality charges, asset management fees and other administrative expenses. The regularity at which customers renew their policy is called persistency. We present a sample NBAP calculation for a typical regular premium ULIP in exhibit -27.

Exhibit 27: NBAP Margin Estimation – Sample Calculation For A Regular Premium ULIP

	Year 1 (INR)	Year 2 (INR)	Year 3 (INR)	Year 4 (INR)	Year 5 (INR)	Year 6 (INR)	Year 7 (INR)	Year 8 (INR)	Year 9 (INR)	Year 10 (INR)
Premium paid by the policy holder	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Charges paid inclusive of service tax	(4,187)	(1,211)	(1,215)	(1,219)	(1,226)	(1,234)	(1,244)	(1,254)	(1,267)	(1,282)
Beginning AUM	5,813	15,127	25,279	36,345	48,404	61,544	75,862	91,464	108,463	126,983
ROI (net of asset management fees)	525	1,367	2,285	3,285	4,374	5,562	6,856	8,266	9,802	11,476
Closing AUM	6,338	16,494	27,564	39,630	52,778	67,106	82,718	99,730	118,265	138,459
Income for the insurer										
Charges levied including asset management fees	3,722	1,218	1,378	1,552	1,742	1,949	2,175	2,421	2,688	2,980
Operating expenses including agent commissions	3,978	978	1,005	1,033	1,062	1,093	1,125	1,159	1,194	1,231
Per policy income	(257)	240	373	520	680	857	1,050	1,262	1,494	1,749
Persistency ratio	90	80	70	60	50	48	46	44	42	40
Income on policy in force	(231)	192	261	312	340	411	483	555	628	700
Income from surrender penalties	—	—	—	198	158	—	—	—	—	—
Net profit	(231)	192	261	510	498	411	483	555	628	700
Pre-tax NBAP	1,789									
Post tax NBAP margin (%)	15									

Note: This is just an illustrative sample calculation
Source: BNP Paribas estimates (B* - excluding the service tax component from B)

We have used the above stated assumptions in addition to assumptions on operating expenses, agent commissions, debt-equity mix for the investment portfolio, persistency ratio and savings on mortality charges to arrive at our estimate of NBAP margin for Reliance Life. We have used the average ticket size and sum assured for single premium and regular premium policy respectively based on data available with IRDA (Insurance Regulatory and Development Authority of India). We have used Reliance Life's current mix between single premium and regular premium policies for our blended NBAP margin estimate. Our analysis is based on Reliance Life's discount rate (based on their cost of equity estimate) of 12.5%.

Based on the above, we arrive at a sustainable NBAP margin of 15% for Reliance Life as compared to their indicated margin of 18.9% for 3QFY09. We present detailed sensitivity analysis of the NBAP margin to various parameters in the exhibits below.

Exhibit 28: NBAP Margin Sensitivity – ROI, Discount Rate

		Return on investments						
		4%	7%	10%	13%	16%	19%	21%
Discount rate	8%	14%	18%	23%	28%	35%	43%	49%
	10%	11%	15%	19%	23%	29%	35%	41%
	12%	9%	12%	15%	19%	24%	29%	34%
	14%	8%	10%	13%	16%	20%	24%	28%
	16%	6%	8%	11%	13%	16%	20%	23%
	18%	5%	7%	9%	11%	14%	17%	20%
	20%	4%	6%	7%	9%	12%	14%	16%

Source: BNP Paribas estimates

Exhibit 29: NBAP Margin Sensitivity – Persistency

		5th year Persistency						
		30%	40%	50%	60%	70%	80%	90%
Discount rate	8%	12%	18%	24%	29%	35%	40%	46%
	10%	10%	15%	19%	24%	28%	33%	37%
	12%	9%	12%	16%	20%	23%	27%	31%
	14%	7%	10%	13%	16%	19%	22%	25%
	16%	6%	9%	11%	13%	16%	18%	21%
	18%	5%	7%	9%	11%	13%	15%	17%
	20%	4%	6%	8%	9%	11%	12%	14%

Source: BNP Paribas estimates

NBAP margin increases with increase in blended return on investment for the policyholder funds. The discount rate for calculating the present value also significantly impacts the margins. We have factored in a blended ROI of 10-11% based on a portfolio with 70% in equity and 30% in gilts, corporate bonds, government securities and money market funds.

Persistency ratio is the ratio of the number of premiums coming for renewal to the issued number of policies. For most of the ULIPs, there is a lock-in period of three years, and then a surrender penalty for the fourth and fifth years. So the fifth year persistency ratio is important in estimating the overall NBAP for any product. We have assumed a fifth year persistency ratio of 50% for Reliance Life based on its current track record. The persistency ratio is about 60-70% for older players in the industry.

Exhibit 30: NBAP Margin Sensitivity – Agent Commission

		Agent Commission 1st year						
		14%	17%	20%	23%	26%	29%	32%
Discount rate	8%	27%	25%	24%	22%	20%	18%	17%
	10%	23%	21%	19%	18%	16%	14%	13%
	12%	19%	18%	16%	14%	13%	11%	9%
	14%	16%	15%	13%	12%	10%	8%	7%
	16%	14%	13%	11%	9%	8%	6%	5%
	18%	12%	11%	9%	8%	6%	4%	3%
	20%	11%	9%	8%	6%	4%	3%	1%

Source: BNP Paribas estimates

Exhibit 31: NBAP Margin Sensitivity – Persistency, Commission

		5th year Persistency							
		30%	40%	50%	60%	70%	80%	90%	
Agent commission first year	14%	10%	14%	19%	23%	27%	31%	35%	
	17%	9%	13%	17%	21%	25%	28%	32%	
	20%	8%	12%	15%	19%	22%	26%	29%	
	23%	7%	10%	14%	17%	20%	23%	26%	
	26%	6%	9%	12%	15%	18%	20%	23%	
	29%	5%	8%	10%	13%	15%	18%	20%	
	32%	4%	6%	9%	11%	13%	15%	17%	

Source: BNP Paribas estimates

The first year commission paid to the agent significantly impacts the overall NBAP margins for the product. Many private sector insurance players have been paying excessive agent commissions to garner market share. The insurer typically passes on the commission expenses to the customer through the allocation charge levied on the policy. For Reliance Life the blended agent commission is around 20% for regular premium policies and 2% for single premium policies. For subsequent years the agent commission is estimated to be 3-5%. Persistency and agent commissions are interrelated as appropriate product sale and better quality of service by the insurance agent results in higher persistency ratios for the insurer.

Exhibit 32: NBAP Margin Sensitivity – Product Mix

		Return on investments						
		4%	7%	10%	13%	16%	19%	21%
% of single premium	10%	9%	12%	15%	19%	24%	30%	34%
	15%	9%	12%	15%	19%	23%	29%	33%
	20%	9%	12%	15%	18%	23%	28%	32%
	25%	9%	11%	14%	18%	22%	27%	31%
	30%	9%	11%	14%	17%	21%	26%	30%
	35%	9%	11%	14%	17%	21%	25%	29%
	40%	9%	11%	13%	16%	20%	24%	28%

Source: BNP Paribas estimates

Exhibit 33: NBAP Margin Sensitivity – Persistency, ROI

		5th year Persistency							
		30%	40%	50%	60%	70%	80%	90%	
Return on investments	4%	5%	7%	9%	11%	13%	15%	17%	
	7%	6%	9%	12%	14%	17%	19%	22%	
	10%	8%	11%	15%	18%	21%	25%	28%	
	13%	10%	14%	18%	23%	27%	31%	35%	
	16%	12%	17%	23%	28%	33%	39%	44%	
	19%	15%	21%	28%	35%	41%	48%	55%	
	21%	17%	24%	32%	40%	47%	55%	63%	

Source: BNP Paribas estimates

Regular premium policies typically yield better margins than single premium policies as evident in Exhibit 32. Reliance Life has been focusing on regular premium policies and we have used their current mix of 15-20% of single premium policies for our estimate.

The sensitivity between ROI and persistency shows how both these parameters are equally important for improving NBAP margins. While ROI is subject to market conditions, the key to higher NBAP margin is through higher persistency ratio, which in turn will depend on appropriate policy pricing and sale as per the customer needs.

Exhibit 34: NBAP Margin Sensitivity – Acquisition Cost

		5th year Persistency						
		30%	40%	50%	60%	70%	80%	90%
Acquisition cost (% premium)	5%	15%	21%	27%	32%	38%	44%	49%
	10%	13%	19%	24%	29%	34%	39%	44%
	15%	12%	16%	21%	25%	30%	35%	39%
	20%	10%	14%	18%	22%	26%	30%	34%
	25%	8%	12%	15%	19%	22%	26%	29%
	30%	7%	9%	12%	15%	18%	21%	24%
	35%	5%	7%	10%	12%	14%	17%	19%

Source: BNP Paribas estimates

Exhibit 35: NBAP Margin Sensitivity – Operating Costs

		5th year Persistency							
		30%	40%	50%	60%	70%	80%	90%	
Steady state opex (% premium)	1%	14%	20%	26%	32%	38%	43%	49%	
	3%	11%	16%	21%	25%	30%	34%	39%	
	5%	8%	12%	15%	19%	22%	26%	29%	
	7%	5%	8%	10%	12%	15%	17%	19%	
	9%	2%	3%	5%	6%	7%	8%	9%	
	11%	(1%)	(1%)	(1%)	(1%)	(1%)	(1%)	(1%)	
	13%	(4%)	(5%)	(6%)	(7%)	(8%)	(10%)	(11%)	

Source: BNP Paribas estimates

Acquisition costs include all the operating and administrative expenses involved in acquiring a customer (excluding agent commissions). Typically the marketing costs and other overheads are charged to the policy in the first year itself resulting in accounting loss for the life insurer in its initial years. The steady state opex is the cost needed for servicing renewal premiums. Typically an insurer would attempt to optimize between persistency and steady state operating costs to arrive at a desired NBAP margin.

Based on our sensitivity analysis across various parameters, we believe 15% is a more sustainable NBAP margin to look at for FY10 and hence our valuation of the life insurance business is based on this estimate.

VALUATION

Recommend REDUCE with TP of INR400

We value RCFT through a sum-of-the parts (SoTP) approach ascribing INR145 to life insurance, INR130 to asset management, INR100 to the standalone book along with the consumer finance business and INR25 to the broking business. We have not given any value to the general insurance business, which we believe may break even only by FY11. We also have not included RCFT's other business start ups like asset reconstruction, venture capital, institutional broking and cross selling platform in valuation. We believe the stock is overvalued at its current trading multiple of 20x and 1.7x our FY10E consolidated EPS and ABV respectively. We recommend a REDUCE rating with a 12-month TP of INR400.

Our price target of INR400 has been arrived at using a sum-of-the-parts (SoTP) method after applying "relative multiple valuation" to the various businesses. Our valuation methodology involves the following assumptions and estimates:

- 1) We value the life insurance business by applying a market capitalization to NBAP multiple of 8x to our FY10E NBAP. We expect Reliance Life to increase the annualized premium equivalent (APE) for its new business premiums at 11% for FY10. We apply a sustainable NBAP margin estimate of 15% to that to arrive at our FY10E NBAP. We have detailed the assumptions behind our NBAP margin estimate of 15% in a previous section through sensitivity analysis. We arrive at a price per share contribution of INR145 for the life insurance business after considering RCFT's 100% economic interest in the business. Our comparable valuation for the life insurance business of other stocks under coverage is given below.

Exhibit 36: Embedded Life Insurance Valuations

Company	HDFC Standard Life	ICICI Prudential Life	SBI Life Insurance	Reliance Life
FY10E APE (INR m)	25,865	63,421	50,560	31,471
NBAP margin (%)	18.0	19.0	19.0	14.7
NBAP multiple (x)	8.0	8.0	10.0	8.0
Holding company stake (%)	72.6	74.0	74.0	100.0
Contribution per share (INR)	95	64	112	145
Enterprise value (USD m)	745	1,928	1,921	740

Sources: Reliance Capital; Company data; BNP Paribas estimates

- 2) We value the asset management business using a "market cap to AUM multiple" to its mutual fund, PMS (including EPFO) and offshore assets. We expect overall assets under management to increase at 7% for FY10. We detail the valuation calculations in the table below.

Exhibit 37: Valuation Of Asset Management Business

	(INR m)
FY10E mutual fund AUM	863,051
Relative multiple (%)	3.50
FY10E PMS/EPFO AUM	304,210
Relative multiple (%)	1.25
Expected offshore AUM	12,967
Relative multiple (%)	3.50
Total market cap	34,463
Reliance capital stake (%)	93.4
Contribution per share (INR)	130

Source: BNP Paribas estimates

- 3) We value the consumer finance business along with the standalone parent entity using a price to adjusted book value multiple. We expect the combined EPS of the standalone book along with the consumer finance business to show a decline of 27% for FY10 largely on account of lower trading gains on the investment prop book and an increase of 25% in gross NPLs for the consumer finance division. We estimate the gross NPL ratio for the consumer finance business to increase to 2.5% for FY10 from 1.75% at 3QFY09. We expect the consumer finance loan book to grow at 15% for FY10. We detail the valuation below. A comparable holding company with consumer finance business, Future Capital Holdings (FCHL IN) is currently trading at 0.8x FY10E consensus book value estimate.

Exhibit 38: Valuation of Consumer Finance And Standalone Investment Book

	(INR m)
FY10E ABV net of subsidiary investments	30,151
Average ROE for FY10E (%)	17.0
Price/BV multiple (x)	0.80
Reliance capital stake (%)	100.0
Contribution per share (INR)	100

Source: BNP Paribas estimates

- 4) For Reliance Money, the investment banking and brokerage arm of RCFT, we expect revenue and net profit increase of 18% and 20% respectively for FY10. We apply an 8x P/E multiple to FY10E earnings to arrive at the value of this business.

Exhibit 39: Valuation Of Reliance Money

	(INR m)
Expected FY10 earnings	752
Relative multiple (x)	8.0
Market capitalization	6,018
Reliance capital stake (%)	100.0
Contribution per share (INR)	25

Source: BNP Paribas estimates

Exhibit 40: Comparative Valuation Of Indian Equity Broking Firms

Company	BBG code	Market cap (INR m)	P/E	
			FY09E (x)	FY10E (x)
Reliance Money	RCFT IN	6,018	9.7	8.0
Edelweiss Capital	EDEL IN	21,816	12.3	13.1
Religare Securities	RELG IN	24,324	nm	40.8
India Infoline	IIFLIN	21,103	14.7	13.5
Indiabulls Financials	IBULL IN	30,067	6.4	6.1

Sources: Bloomberg; BNP Paribas estimates

- 5) We are currently not ascribing any value to the general insurance subsidiary, which we believe would break even by FY11. We expect Reliance General to clock a gross and net earned premium growth of 16% and 23% respectively for FY10.

We believe at its current market price of 1.7x our FY10E consolidated adjusted book value and 20x our FY10E consolidated EPS, the stock is overvalued. We expect the stock to be a key beneficiary of India's long term economic and demographic growth and we believe RCFT offers an attractive play on India's retail financial growth over the next five years. However, we believe the near term obstacles to growth and constraints on margins and return ratios would be an overhang on the stock. We recommend REDUCE with a TP of INR400 and we advise long-term investors to wait for better entry points for getting into the stock.

Key risks to our thesis are: a dramatic rebound in the market sentiment and the revival of a sustained market rally, lower-than-expected NPLs, higher-than-expected margins in the insurance ventures, and higher income on the investment prop book providing support to the price.

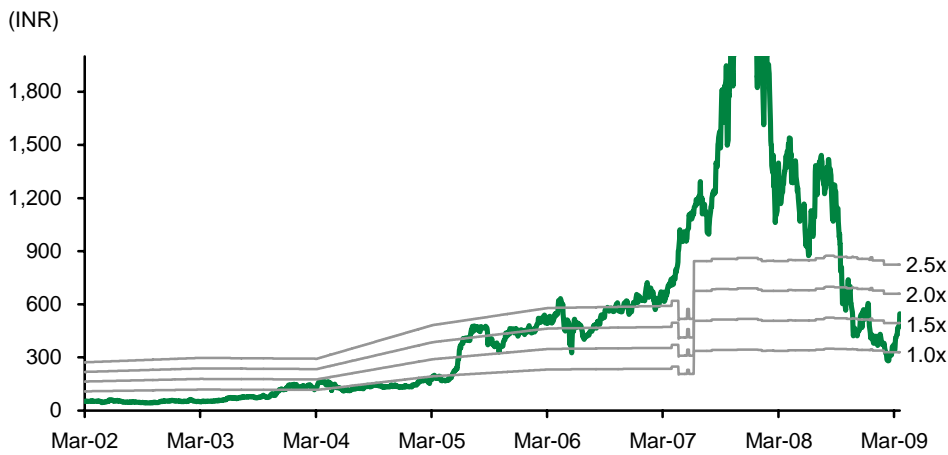
The following table illustrates the sensitivity of our target price to NBAP margin and the "Price to NBAP" multiple, as the life insurance business accounts for a lion's share of company's overall valuation.

Exhibit 41: Target Price Sensitivity To NBAP Margins And Price/NBAP Multiple

(INR/Share)	NBAP margin FY10E					
	10%	13%	16%	19%	22%	25%
4	307	322	338	353	368	384
6	332	355	379	402	425	448
8	358	389	420	450	481	512
10	384	422	461	499	537	576
12	409	455	502	548	594	640
14	435	489	543	596	650	704
16	461	522	584	645	707	768
18	486	555	625	694	763	832

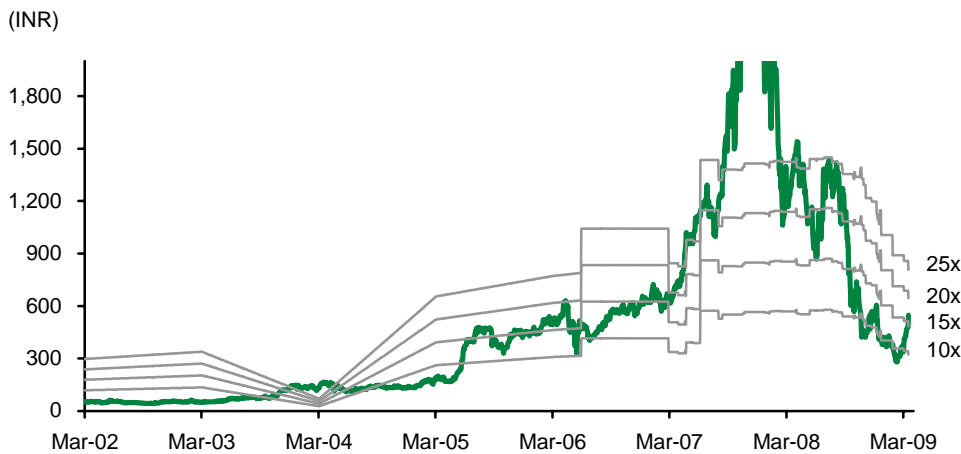
Source: BNP Paribas estimates

Exhibit 42: Historical P/BV Band Chart (1-Year Forward)



Sources: Bloomberg; BNP Paribas

Exhibit 43: Historical P/E Band Chart (1-Year Forward)



Sources: Bloomberg; BNP Paribas

Exhibit 44: Peer Valuation Table

Company	BBG code	P/ABV		P/E		ROE	
		FY09E	FY10E	FY09E	FY10E	FY09E	FY10E
		(x)	(x)	(x)	(x)	(%)	(%)
Reliance Capital	RCFT IN	1.7	1.6	15.6	19.6	11.3	8.5
Indian NBFCs							
HDFC	HDFC IN	2.8	2.5	18.5	15.4	16.4	17.7
IDFC	IDFC IN	1.4	1.2	11.2	9.9	13.1	13.0
Power Finance Co	POWF IN	1.8	1.6	13.2	10.8	13.9	15.9
Rural Electrification	RECL IN	1.5	1.3	8.0	7.0	20.5	20.2

* BNP Paribas estimates. Based on prices on 20 April 2009
Sources: Bloomberg; BNP Paribas estimates

APPENDIX 1

Devil's advocate: risks to our thesis

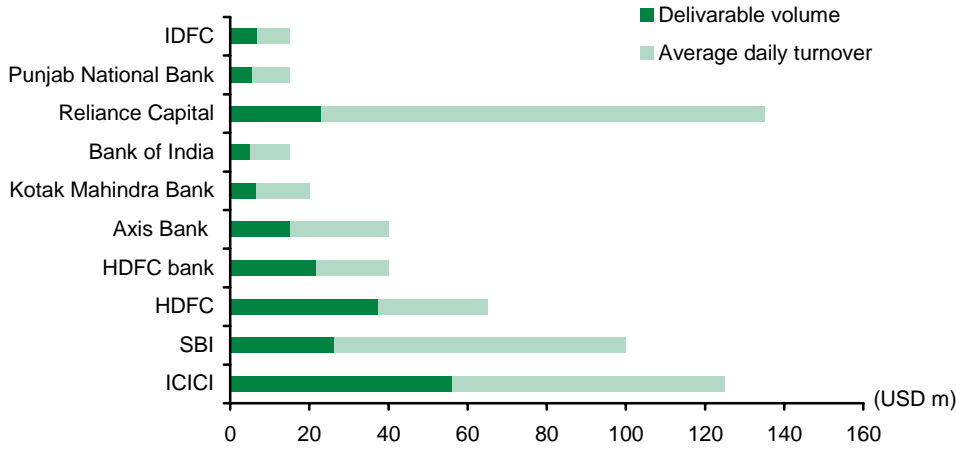
- 1) The key upside risk to our investment thesis is Reliance Life clocking new premium growth significantly above our estimate.
- 2) A dramatic rebound in the market sentiment and the revival of a sustained market rally would pose significant upside risk to our target price estimate.
- 3) The assumptions used in arriving at our NBAP margin estimates could differ materially on ground and result in significantly higher or lower margins for the company.
- 4) Asset management and broking business may clock higher-than-anticipated growth for FY10 resulting in multiple expansion for the businesses.
- 5) RCFT is aiming at applying for banking license by FY10. In the event of RBI granting the same, there is a possibility of the stock getting re-rated.
- 6) There may be a negative sentiment generally towards the group companies due to lack of clarity across the group holdings which could act as an overhang on the stock price.
- 7) Lower-than-expected NPLs and higher income on the investment prop book could potentially provide support to the price and pose upside risk to our earnings estimates.

APPENDIX 2

Trading statistics

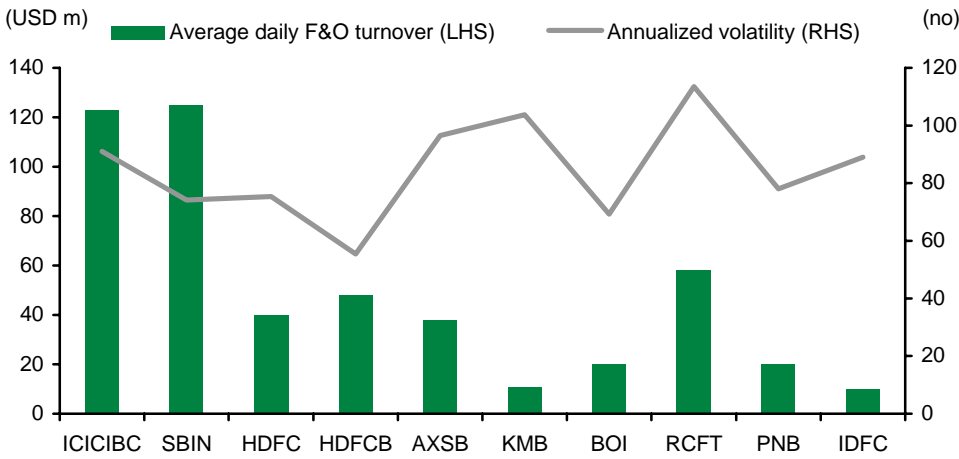
Some charts comparing Reliance Capital's (RCFT IN) trading statistics with the peers.

Exhibit 2.1: Average Daily Turnover & Deliverable Volume Percentage



Sources: National Stock Exchange; BNP Paribas (Average Daily turnover based on Apr'08-Mar'09 data)

Exhibit 2.2: Average Daily F&O Turnover & Annualized Volatility



Average daily F&O turnover based on January-March 2009 data, volatility as on 21 April 2009
Sources: National Stock Exchange; BNP Paribas

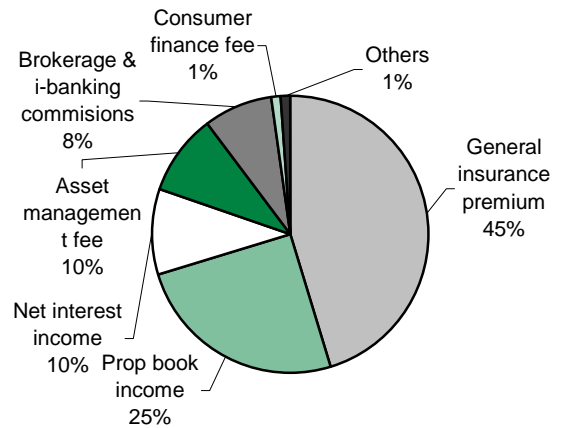
APPENDIX 3

Key company information

Exhibit 3.1: Management Background **Exhibit 3.2: Net Revenue Breakdown – FY09E**

Anil Ambani, Chairman, is also the chairman of all listed companies of the Reliance ADA Group - Reliance Communications, Reliance Capital, Reliance Infrastructure, Reliance Natural Resources and Reliance Power. He joined Reliance Group in 1983 as Co-Chief Executive Officer, and has been involved with the group for last 22 years.

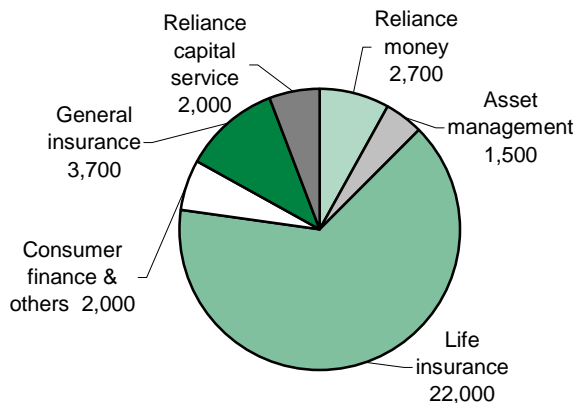
Sam Ghosh, CEO, since 2008. He was earlier with the Allianz group and was the regional CEO of Middle East and North Africa for the German insurer. He has been responsible for ramping up business of its joint venture in India -- Bajaj Alliance General Insurance and Bajaj Allianz Life Insurance.



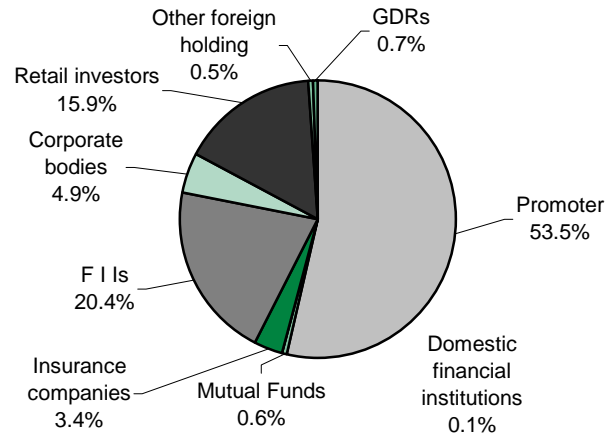
Source: Reliance Capital

* Life insurance premiums not consolidated; Sources: Reliance Capital; BNP Paribas

Exhibit 3.3: Business Wise Head Count FY09 **Exhibit 3.4: Shareholding Pattern – Mar 2009**



Sources: Reliance Capital; BNP Paribas



Sources: National Stock Exchange; BNP Paribas

Exhibit 3.5: Company Background **Exhibit 3.6: Top Shareholders – Mar 2009**

Reliance Capital is a leading non banking finance company (NBFC) in India. Reliance Capital has interests in asset management- mutual funds, life and general insurance, private equity and proprietary investments, stock broking, depository services, distribution of financial products, consumer finance and other activities in financial services. Reliance is market leader in Indian mutual fund industry. Reliance Life and Reliance General insurance are among the top five private sector insurers. Reliance Money is the largest brokerage and distributor of financial products in India with over 2.7m customers. Reliance Capital is a constituent of S&P CNX Nifty and MSCI India. Reliance Capital is part of the Anil Dhirubhai Ambani Group (ADAG) which has other major group companies like Reliance Communication, Reliance Infrastructure and Reliance Power.

Source: Reliance Capital

Shareholder	Stake (%)
Anil D Ambani & Associates	53.5
Janus Overseas Fund	3.9
Life Insurance Corporation Of India	3.2
J.P. Morgan	2.7
International Growth Portfolio	1.3
Janus Advisor International Growth Fund	1.2
Vanguard	1.1

Sources: Reliance Capital ; National Stock Exchange

FINANCIAL STATEMENTS

Reliance Capital

Profit and Loss (INR m)					
Year Ending March	2007A	2008A	2009E	2010E	2011E
Interest income	3,447	9,188	16,946	18,215	21,065
Interest expense	(427)	(4,139)	(12,499)	(13,913)	(15,249)
Net interest income	3,020	5,049	4,447	4,301	5,816
Net fees & commission	3,096	6,517	8,277	8,584	9,342
Foreign exchange trading income	-	-	-	-	-
Securities trading income	5,695	11,844	11,054	8,610	9,020
Dividend income	-	-	-	-	-
Other income	9,341	21,642	20,842	22,330	24,113
Non interest income	18,132	40,004	40,173	39,524	42,475
Total income	21,152	45,053	44,620	43,826	48,292
Staff costs	(1,472)	(4,229)	(5,557)	(5,674)	(6,274)
Other operating costs	(11,535)	(27,741)	(28,365)	(29,274)	(31,584)
Operating costs	(13,007)	(31,971)	(33,923)	(34,948)	(37,858)
Pre provision operating profit	8,145	13,083	10,697	8,877	10,433
Provisions for bad and doubtful debts	(14)	(169)	(1,425)	(973)	(1,013)
Other provisions	(16)	(757)	188	-	-
Operating profit	8,115	12,157	9,460	7,904	9,420
Recurring non operating income	-	-	-	-	-
Associates	-	-	-	-	-
Goodwill amortisation	-	-	-	-	-
Non recurring items	-	-	-	-	-
Profit before tax	8,115	12,157	9,460	7,904	9,420
Tax	(1,120)	(2,055)	(1,518)	(1,488)	(1,710)
Profit after tax	6,995	10,102	7,942	6,416	7,710
Minority interests	35	(12)	(83)	(80)	(96)
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
Reported net profit	7,030	10,091	7,859	6,336	7,614
Non recurring items & goodwill (net)	-	-	-	-	-
Recurring net profit	7,030	10,091	7,859	6,336	7,614
Per share (INR)					
Recurring EPS *	30.88	41.08	31.99	25.80	31.00
Reported EPS	30.88	41.08	31.99	25.80	31.00
DPS	3.50	5.50	4.80	3.87	4.65
Growth					
Net interest income (%)	145.5	67.2	(11.9)	(3.3)	35.2
Non interest income (%)	132.8	120.6	0.4	(1.6)	7.5
Pre provision operating profit (%)	32.2	60.6	(18.2)	(17.0)	17.5
Operating profit (%)	31.9	49.8	(22.2)	(16.4)	19.2
Reported net profit (%)	23.0	43.5	(22.1)	(19.4)	20.2
Recurring EPS (%)	17.9	33.0	(22.1)	(19.4)	20.2
Reported EPS (%)	(2.3)	33.0	(22.1)	(19.4)	20.2
Income breakdown					
Net interest income (%)	14.3	11.2	10.0	9.8	12.0
Net fees & commission (%)	14.6	14.5	18.6	19.6	19.3
Foreign exchange trading income (%)	-	-	-	-	-
Securities trading income (%)	26.9	26.3	24.8	19.6	18.7
Dividend income (%)	-	-	-	-	-
Other income (%)	44.2	48.0	46.7	51.0	49.9
Operating performance					
Gross interest yield (%)	12.89	11.70	12.92	11.55	11.71
Cost of funds (%)	5.19	7.72	10.93	9.79	9.72
Net interest spread (%)	7.69	3.98	1.99	1.76	1.99
Net interest margin (%)	11.29	6.43	3.39	2.73	3.23
Cost/income (%)	61.5	71.0	76.0	79.7	78.4
Cost/assets (%)	21.83	24.72	16.37	14.59	14.49
Effective tax rate (%)	13.8	16.9	16.1	18.8	18.2
Dividend payout on recurring profit (%)	11.3	13.4	15.0	15.0	15.0
ROE (%)	14.8	16.9	11.3	8.4	9.4
ROE - COE (%)	(6.5)	(4.4)	(10.0)	(12.9)	(11.9)
ROA (%)	11.74	7.81	3.83	2.68	2.95
RORWA (%)	12.48	8.89	4.31	2.94	3.23

We expect muted income from treasury prop-book, post the market correction

Operating expenses for consolidated entity include costs of new ventures like Reliance international equity, reliance capital services

We expect a consolidated EPS decline of 19% for FY10

We expect ROEs to fall on lower margins, lower investment gains and funding needs of insurance ventures

* Pre exceptional, pre-goodwill and fully diluted

Sources: Reliance Capital; BNP Paribas estimates

Balance Sheet (INR m)					
Year Ending March	2007A	2008A	2009E	2010E	2011E
Gross customer loans	37,538	102,803	122,956	142,891	163,181
Total provisions	(0)	(0)	(1,373)	(1,829)	(2,206)
Interest in suspense	-	-	-	-	-
Net customer loans	37,538	102,803	121,583	141,062	160,974
Bank loans	-	-	-	-	-
Government securities	2,028	6,405	18,257	21,170	23,287
Trading securities	-	-	-	-	-
Investment securities	16,252	25,622	24,333	24,333	24,333
Cash & equivalents	2,121	10,563	25,708	18,037	16,331
Other interest earning assets	-	-	-	-	-
Tangible fixed assets	1,389	2,020	2,020	2,020	2,020
Associates	10,251	28,537	29,838	33,838	37,838
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Other assets	4,674	8,487	8,240	8,559	8,780
Total assets	74,252	184,437	229,979	249,018	273,564
Customer deposits	0	0	0	0	0
Bank deposits	-	-	-	-	-
Other interest bearing liabilities	14,030	93,262	135,396	148,740	164,972
Non interest bearing liabilities	7,199	24,571	21,500	21,970	24,007
Hybrid capital	-	-	-	-	-
Total liabilities	21,229	117,833	156,896	170,711	188,979
Share capital	2,462	2,462	2,462	2,462	2,462
Reserves	50,562	63,635	70,032	75,176	81,357
Total equity	53,024	66,097	72,494	77,638	83,819
Minority interests	-	507	590	670	766
Total liabilities & equity	74,252	184,437	229,979	249,018	273,564
Supplementary items					
Risk weighted assets (RWA)	67,129	160,060	208,673	227,242	249,751
Average interest earning assets	26,747	78,549	131,158	157,670	179,881
Average interest bearing liabilities	8,224	53,646	114,329	142,068	156,856
Tier 1 capital	53,024	66,056	72,453	77,597	83,778
Total capital	53,024	74,899	123,429	141,918	164,331
Gross non performing loans (NPL)	0	0	2,112	2,814	3,394
Per share (INR)					
Book value per share	215.87	269.09	295.13	316.07	341.24
Tangible book value per share	215.87	269.09	295.13	316.07	341.24
Growth					
Gross customer loans (%)	206.7	173.9	19.6	16.2	14.2
Average interest earning assets (%)	288.3	193.7	67.0	20.2	14.1
Total assets (%)	65.3	148.4	24.7	8.3	9.9
Risk weighted assets (%)	49.4	138.4	30.4	8.9	9.9
Customer deposits (%)	-	-	-	-	-
Leverage & capital measures					
Customer loans/deposits (%)	-	-	-	-	-
Equity/assets (%)	71.4	35.8	31.5	31.2	30.6
Tangible equity/assets (%)	71.4	35.8	31.5	31.2	30.6
RWA/assets (%)	90.4	86.8	90.7	91.3	91.3
Tier 1 CAR (%)	79.0	41.3	34.7	34.1	33.5
Total CAR (%)	79.0	46.8	59.1	62.5	65.8
Asset quality					
Change in NPL (%)	-	-	nm	33.2	20.6
NPL/gross loans (%)	0.0	0.0	1.7	2.0	2.1
Total provisions/gross loans (%)	0.0	0.0	1.1	1.3	1.4
Total provisions/NPL (%)	100.0	100.0	65.0	65.0	65.0
Valuation					
Recurring P/E (x) *	16.5	12.4	15.9	19.7	16.4
Recurring P/E @ target price (x) *	13.0	9.7	12.5	15.5	12.9
Reported P/E (x)	16.5	12.4	15.9	19.7	16.4
Dividend yield (%)	0.7	1.1	0.9	0.8	0.9
Price/book (x)	2.4	1.9	1.7	1.6	1.5
Price/tangible book (x)	2.4	1.9	1.7	1.6	1.5
Price/tangible book @ target price (x)	1.9	1.5	1.4	1.3	1.2

Life insurance business is not consolidated into books – it is carried as investment into associates

We expect significant increase in Gross NPLs from consumer finance portfolio

Consumer finance business started reporting NPLs from FY08

* Pre exceptional, pre-goodwill and fully diluted

Sources: Reliance Capital; BNP Paribas estimates

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*In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

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