



## IMV Equity Report: Reliance Capital

### From Research Desk

- *Fundamentals*
- *Technical Aspect*
- *Recommendation*
- *Disclaimer*



<i>Stock</i>	<i>Industry</i>	<i>Recommendation</i>	<i>CMP</i>	<i>Target</i>	<i>Time Horizon</i>
<b>RELCAPITAL</b>	<b>Finance-Investments</b>	<b>Buy around 720 - 690</b>	<b>720</b>	<b>1<sup>st</sup> - 985 2<sup>nd</sup> - 1125+</b>	<b>3-6 month</b>

**IMV Equity Research Desk**

[www.indianmarketview.com](http://www.indianmarketview.com)

research@indianmarketview.com

0120-654-6555

## Reliance Capital

## Recommendation: Buy

Reliance Capital is a key financial services company of the Reliance ADAG group with interests in insurance (life and general), asset management, consumer loans, private equity and brokerage. In the insurance space, Reliance Life is growing fast within private. Current stakes are: life insurance (51%) and general insurance (100%), commercial finance (100%) and AMC (51%). Overall profit came from the core businesses with no one-offs.

Consistently, Reliance Capital is divesting stakes and utilising funds to clean the B/S. We believe most of the pain has been taken while the current equity book is in profit.

### Results

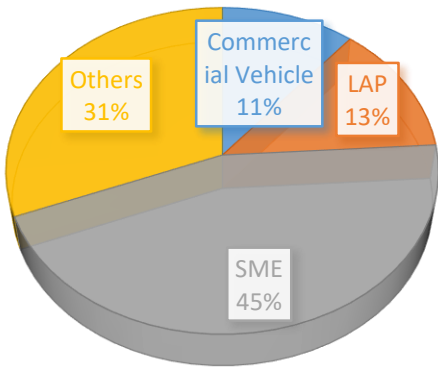
- Consolidated PAT grew 15% YoY to 238 crore higher than our estimate of 207 crore, not comparable QoQ. Revenues also grew 33% YoY to 4857 crore better than expected.
- AMC remained strong with revenue and PBT, grew 14% YoY to 395 crore and 150 crore, respectively and AUM at 362550 crore.
- The life insurance business remained weak as it continued weeding out unprofitable business whereby new business premium was flat YoY at 183 crore and marginal growth was in renewal premium to 521 crore from 471 crore YoY. Life business reported a loss of 13 crore vs 0.2 crore profit in Q1FY17. Loss stayed in FY17 and FY16. It reported an EV of 3040 crore and NBAP margin of 26.8% in FY17.
- Commercial finance profitability improved growing at 16 YoY to 61 crore, led by 13% YoY rise in loans at 13839 crore. Home finance business witnessed healthy growth of 50% YoY in loans to 11680 crore, with top line growth of 40% YoY. NII and PBT came at 76 crore and 45 crore, respectively.
- General insurance reported strong growth of 41% YoY in gross written premium at 1278 crore. PBT grew 21% YoY to 44 crore vs. 36.3 Crore. Combined ratio in Q1 declined further to 104% from 114% on a YoY basis and from 115% on QoQ basis which is positive.

Stock Info	
BSE Code	500111
NSE Code	RELCAPITAL
CMP	720
Face Value	10
Market Cap(Cr.)	18509.14
Beta	2.31
Book Value	602.80
EPS	44.21
PE Ratio	16.57
52 Week High	735.2
52 Week Low	407

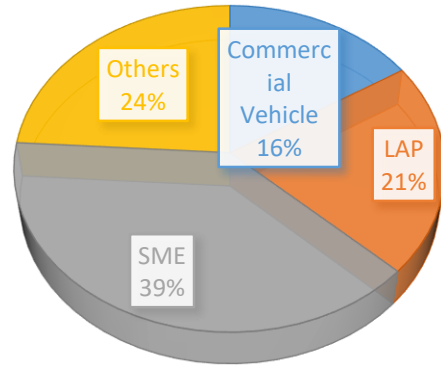
Share Holding Pattern (%)		
Category	No. of shares	Percentage
Promoters	131382303	52.01
Foreign Institutions	44614658	17.66
General Public	35242461	13.95
Financial Institutions	19363145	7.66
Others	6864764	2.72
NBFC and Mutual Funds	12222092	4.84
Central Government	71101	0.03

Peer Comparison				
Name	Cmp	Market Cap	Sales Turnover	Net Profit
Bajaj Finserv	4954.95	78849	153.90	70.02
L&T Finance	169.25	30824.06	248.66	5784.93
Bajaj Holdings	2390	26599	880.49	538.18
Muthoot Finance	476.25	5728.15	5728.63	1179.83
Rel Capital	725.85	1954.00	1954.00	419

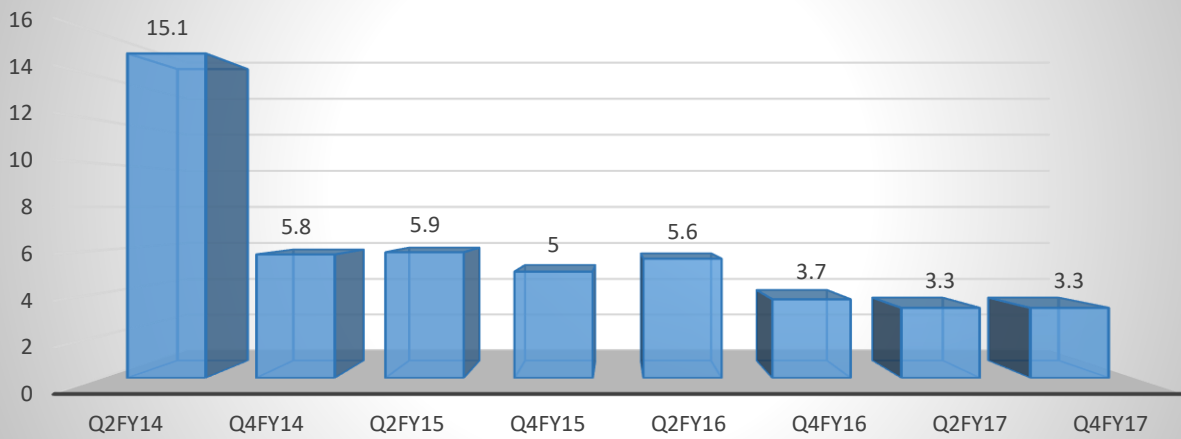
O/S AUM COMMERCIAL FINANCE(Q1FY18)



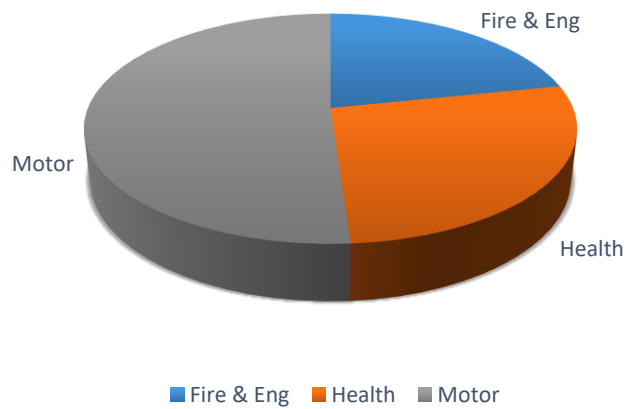
O/S LOAN BOOK (Q1FY17)



Life insurance premium (NBP)



General insurance business mix (%)



## **Investment Rationale**

### **Finance book expected to grow 15% ahead**

- *Financing is the next highest profit making segment with commercial Finance PBT of 340 crore with loan growth of 13.7% YoY to 12440 crore in FY17. AUM also grew 12% YoY to 16760 crore.*
- *NIM was at 5.6% vs. 6% YoY. Home Finance AUM and NIM were at 11170 crore and 3.4%, respectively, in FY17.*

### **Product profile**

- *In SME segment, the company plans to expand footprint in already established education and health care segments.*
- *In infrastructure, the company plans to leverage on current niche in short-term renewable funding (shorter duration of 12 -18 months). Also, plans to create underwriting capability for hybrid annuity/EPC road projects (shorter tenor).*
- *Micro SME loans (new segment to be launched) with focus on shopkeepers and food processing units.*
- *Enhance focus on individual lending: Focus on relatively underpenetrated segments (such as 2 wheeler, used cars) and retail loans (engine to under-write retail/PL/LAS only to group customers). Meanwhile, consumer durable finance (which has longer gestation period) will be the strategic driver for next leg of growth.*

### **Home finance book**

- *Loan book surged 50% YoY and 17% QoQ to 11680 crore. In Q1FY18, NII grew 40% YoY and 81% QoQ to 76 crore. NPA in home finance business remained stable at 0.8%QoQ. Margins also improved to 3.9% sequentially from 3.5%, improved from 3.2% YoY. Largely a healthy performance in Q1FY18.*

### **Life insurance business**

- *In FY17, life insurance business remained weak as it weeded out unprofitable business whereby new business premium declined to 1050 crore from 1558 crore led by 12% YoY decline in first year premium. Life business reported loss of 61 crore both in Q4 and FY17 compared to 0.1 crore profit in Q3FY17 and 197 crore loss, respectively, in FY16.*

## **Outlook and valuation**

*Healthy growth is seen in AMC business with strong capital markets and excess demonetisation savings, both pushing up AUM. IPO expected in FY18 to result in valuation upgrade for AMC, wherein we now value business at 13700 crore.*

*Finance and home finance valuation to 2.5x and 1.5x of FY19E net worth. Post demerger and approvals, housing finance subsidiary is expected to be listed in Q2 or Q3FY18. GI profitability is also seen improving as combined ratio moderates with actuary based provisions already in place. Expected listing of GI to unlock value for the shareholders.*

*We expect PAT to grow at 26% CAGR in FY17-19E. We expect RoE to move to double digits by FY19E with improving RoE of individual businesses. The stock is trading at 1.1x for FY19E ABV.*

## Technical Aspect



Reliance capital is having major support around 520 and resistance around 720. Reliance Capital has finally breached its 52 week high with huge volumes and has sustained above the levels.

On Daily chart, Reliance Capital is showing breakout point above 720. Break and sustain above 720 will see nonstop rally in Reliance capital till 985++ in weeks to come and then to 1125++ mark.

It has finally given the breakout by breaching the previous highs with huge volumes which increases the strength and reliability of the breakout.

MACD too has given the positive crossover (Buy signal) which indicates that upper side seems certain in it.

14 Period Exponential average is also indicating the positive momentum in the stock as it has comfortably crossed the average with closing.

Daily 14 period RSI has turned up from near levels and has entered above 70 levels which indicates the bullish trend of the stock.

Traders don't go for aggressive or positional selling at all because trend looks positive and we expect rally to remain continue from 720 to 985+++ mark in coming weeks. For positional trade, stop loss seeing below 520 on closing basis which is unlikely to breach in near terms.

### **Recommendation:**

**Buy Reliance Capital around 720-690 for the initial target of 985 and then to 1125+ mark with Stop loss of 520 on closing basis.**

## **Disclaimer**

*The report contains the opinions of the author that are not to be construed as investment advice. The author, directors and other employees of IMV, and its affiliates, cannot be held responsible for the accuracy of the information presented herein or for the results of the positions taken based on the opinions expressed above. The above-mentioned opinions are based on the information which is believed to be accurate and no assurance can be given for the accuracy of this information. There is risk of loss in trading in derivatives. The author, directors and other employees of IMV and its affiliates cannot be held responsible for any losses in trading. Commodity derivatives trading involve substantial risk. The valuation of the underlying may fluctuate, and as a result, clients may lose their entire original investment. In no event should the content of this research report be construed as an express or an implied promise, guarantee or implication by, or from, IMV that you will profit or that losses can, or will be, limited in any manner whatsoever. Past results are no indication of future performance. The information provided in this report is intended solely for informative purposes and is obtained from sources believed to be reliable. Information is in no way guaranteed. No guarantee of any kind is implied or possible where projections of future conditions are attempted. The reports are only for information purposes and not to be construed as investment advice.*

-----

IMV