

Aditya Birla Capital

Performance Highlights

Particulars (₹ cr)	4QFY19	3QFY19	% chg (qoq)	4QFY18	% chg (yoy)
PBT	4090	3380	21.0	2570	59
PAT	259	206	25.7	170	52

Source: Company, Angel Research

Aditya Birla Capital (ABCL), a financial services provider, continued its robust growth in business operation in 4QFY19 as well. The company's consolidated PBT increased by 59% yoy and PAT jumped by 52% yoy to ₹259cr for Q4FY19. Growth was supported by lending & AMC business, while health insurance continued to report loss; however management expects it to breakeven in next 2-3 years.

Cohherent strategies for each segment propels overall growth

The company's operations are divided in 8 segments. Of these, major income generation comes NBFC, Asset Management, Life insurance and housing finance.

NBFC: The segment includes retail, SME and UHNI lending, constituting 53% of the loan mix; loan book increased by 20% yoy to ₹51,714cr in this segment. GNPA and NPA were maintained at 1.05% and 0.55% respectively. In tough liquidity scenario, ABCL was able to reduce COF and high share of yield asset helped NIM at 5.2%.

Asset Management: AUM for FY2019 increased moderately 6% and equity mix in the AUM went up 400bps to 36%. On profitability front, it reported highest ever PBT/AUM of 29bps for Q4FY2019.

Insurance: Reported healthy APE growth of 41% yoy in 4QFY2019 largely owing to HDFC Bank branch network. EV grew 14% yoy to ₹4,900cr and VNB margin improved 520bps yoy to 9.5% primarily owing to (1) HDFC Bank partnership, (2) improvement in persistence in every bucket (13th mth, 25th mth and 37th mth), and (3) increase in share of retail protection business.

Housing finance: Advances grew at 40% yoy led by affordable housing in 4QFY2019 taking the book to ₹11,405cr. Despite aggressive growth, asset quality remained steady (stage 3 - 0.67% and Net stage 3 - 0.37%). NIM remained under pressure at 3.1% due to increase in cost of funds and increased competition from banks. Cost-to-income declined from 64% in Q4FY2018 to 47% in Q4FY2019.

Outlook & Valuation: We believe broad based and integrated financial offerings will enable ABCL to benefit from financialisation of savings. We expect ABCL's PAT to register CAGR of 42% over FY2019-21E, largely driven by lending segment and AMC. **We recommend a Buy on the stock with a target price of ₹130.**

Key Financials

Y/E March (₹ cr)	FY19	FY20E	FY21E
PBT	1,796	2,368	3,032
% chg	25	32	28
PAT	871	1,281	1,699
% chg	2	47	33
EPS	4	6	8
ROE	9	12	14
P/B	2.3	2.0	1.8
P/E	25	17	13

Source: Company, Angel Research; Note: CMP as of June 03, 2019

Please refer to important disclosures at the end of this report

BUY

CMP	₹102.5
Target Price	₹130

Investment Period	12 Months
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Stock Info

Sector	Finance
Market Cap (₹ cr)	21,772
Beta	1.2
52 Week High / Low	152/76
Avg. Daily Volume	2,38,552
Face Value (₹)	10
BSE Sensex	39,714
Nifty	11,922
Reuters Code	ADTB.NS
Bloomberg Code	ABCAP.IN

Shareholding Pattern (%)

Promoters	72.8
MF / Banks / Indian Fls	7.0
FII / NRIs / OCBs	3.6
Indian Public / Others	16.6

Abs. (%)	3m	1yr	3yr
Sensex	9.0	12.4	54.1
ABCL	(0.8)	(32.5)	-

Price chart



Source: Company, Angel Research

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Outlook & Valuation:

We believe broad based and integrated financial offerings will enable ABCL to benefit from financialisation of savings. Core lending business (after adjusting value of AMC, Life Insurance, ABML & Others) is available at 1.1x of FY20E BV. We expect ABCL's PAT to register CAGR of 42% over FY2019-21E, largely driven by lending segment and AMC. **We recommend a Buy on the stock and an SOTP based Target Price of ₹130.**

Exhibit 1: SOTP valuation summary

Particulars	Stake	Valuation Methodology	Value/share (₹)
NBFC	100%	1.7x FY20E PBV	75
HFC	100%	1.7x FY20E PBV	12
AMC	51%	4% of AUM	23
Life Insurance	51%	1.75x FY18 EV	20
ABML	74%	CMP	1
Fair value per share			130

Consolidated Profit & Loss

Y/E March (₹ cr)	FY19	FY20E	FY21E
Segment PBT			
NBFC	1,328	1,602	1,948
Life Insurance	132	144	159
Asset Management	647	673	811
HFC	107	152	213
Health Insurance	-257	-100	-
Total PBT	1,796	2,368	3,032
YoY	25	32	28
Consolidated PBT	1,796	2,368	3,032
Taxes	569	758	1,001
Tax Rate (%)	32	32	33
Consolidated PAT	1,227	1,610	2,032
Minority Interest	356	329	333
Consolidated PAT Post MI	871	1,281	1,699
	2	47	33

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Disclosure of Interest Statement	Aditya Birla Capital Ltd
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Ratings (Based on expected returns over 12 months investment period):	Buy (> 15%)	Accumulate (5% to 15%) Reduce (-5% to -15%)	Neutral (-5 to 5%) Sell (< -15)
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Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors