

Aditya Birla Capital Ltd

Aditya Birla Nuvo was holding 100% stake of Aditya Birla Capital Ltd (ABCL). Post AB Nuvo's merger with Grasim, ABCL was carved out as a separate entity (listed on 1/9/17). Currently, Grasim holds 57% and other promoter group owns 17% in the company. ABCL has presence across growing businesses like NBFC, HFC, life insurance, asset management and private equity.

NBFC & HFC to drive consolidated business: Aditya Birla Finance (ABFL) has reported healthy loan CAGR of 60% over FY2012-17. Moreover, despite aggressive asset quality growth and migration of NPL recognition to 90dpd, ABFL has maintained GNPA at 0.5% in FY2017. The company's well diversified portfolio coupled with geographical expansion will drive growth going ahead. We have valued NBFC business at 3.5x of FY20E BV and it contributes 61% of SOTP. Aditya Birla Housing Finance (ABHFL) begun operation in FY2015 and has quickly grown its advance book at ₹6,752cr as on 3QFY18.

Financialisation of savings to benefit AMC & Life Insurance business: Financialisation of savings and low penetration would continue to support AMC & Life insurance business. Aditya Birla Sun Life Mutual Fund (ABSLMF) is the 4th largest AMC with ₹2.41tn AUM, of which 28% is into equities. AMC business is asset light in nature, hence can generate hefty free cash flow, which can be deployed in growing business such as NBFC & HFC. We have valued AMC business at 7.5% of AUM and it contributes 19% of SOTP. Aditya Birla Sun Life Insurance (ABSLI) is a JV between ABCL and Sun Life Insurance (Canada). ABSLI was primarily focused on ULIP policies, with almost 100% of new premiums sourced from ULIP policies in FY10. Post ULIP regulation in 2010, company changed focus and currently ULIP contributes 35% of product mix. Bancassurance tie-up with HDFC, DBS and LVB would help to grow business.

Outlook & Valuation: We believe broad based and integrated financial offerings would enable ABCL to take benefit of financialisation of savings. We expect ABCL's PAT to grow at CAGR of 49% over FY2017-20E, largely driven by Lending segment and AMC. **We initiate coverage on Aditya Birla Capital Ltd and recommend a BUY on the stock with SOTP based target price of ₹218.**

Key Financials

Y/E March (₹ cr)	FY16	FY17	FY18E	FY19E	FY20E
Revenue	928	1,064	1,653	2,282	3,128
% chg	57%	15%	55%	38%	37%
PBT	869	1,065	1,703	2,337	3,183
PAT	380	529	973	1,313	1,761
% chg		39	84	35	34
EPS	2	2	4	6	8
ROE	9	8	13	15	17
P/B	8	5	4	4	3
P/E	89	64	35	26	19

Source: Source: Company, Angel Research; Note: CMP as of March 8, 2018

BUY

CMP	₹155
Target Price	₹218

Investment Period	12 Months
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Stock Info

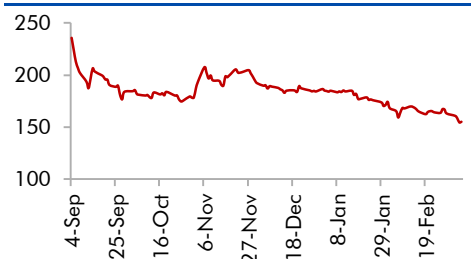
Sector	Finance
Market Cap (₹ cr)	33,982
Beta	0.9
52 Week High / Low	264/153.5
Avg. Daily Volume	10,34,921
Face Value (₹)	10
BSE Sensex	33,450
Nifty	10,279
Reuters Code	ADTB.NS
Bloomberg Code	ABCAP.IN

Shareholding Pattern (%)

Promoters	72.8
MF / Banks / Indian Fls	7.1
FII / NRIs / OCBs	5.9
Indian Public / Others	14.3

Abs.(%)	3m	1yr	3yr
Sensex	0.3	14.6	12.2
ABCL	(18.5)	NA	NA

Price chart



Source: Company, Angel Research

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NBFC & HFC (Financing) to drive consolidated business

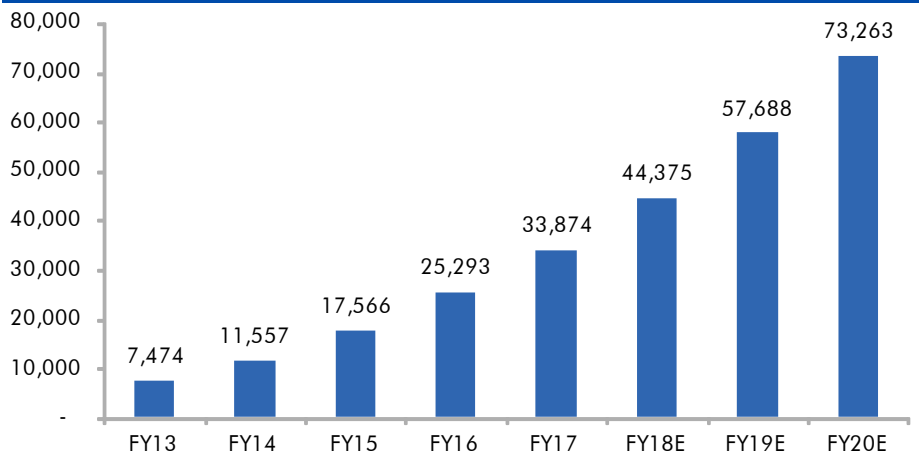
NBFC: Aditya Birla Finance Limited

Aditya Birla Finance Limited is among the leading well-diversified financial services company in India offering end-to-end lending, financing and wealth management solutions to a diversified range of customers across the country. ABFL is registered with RBI as a systemically important non-deposit accepting non-banking finance company and ranks among the top five largest private diversified NBFCs in India based on AUM as of March 31, 2017 (source: CRISIL).

ABCL has AA+ (with stable outlook) long term credit rating and short term credit rating of A1+ by ICRA. This rating is reflection of the company's strong risk management systems and processes, its robust profitability indicators (ROA/ROE of 1.90%/14.3% for Q3FY18), pristine asset quality indicators (Gross and net NPAs of 0.70% and 0.47% respectively as on 3QFY18), diversified funding profile and adequate capitalisation for the current scale of operations.

Healthy loan book growth: Aditya Birla Finance (ABFL) has reported healthy loan CAGR of 60% over FY2012-17. Moreover, despite aggressive asset quality growth and migration of NPL recognition to 90dpd, ABFL has maintained GNPA at 0.5% in FY2017. The company's well diversified portfolio coupled with geographical expansion will drive growth going ahead. We have valued NBFC business at 3.5x of FY20E BV and it contributes 61% of SOTP. Aditya Birla Housing Finance (ABHFL) begun operation in FY2015 and has quickly grown its advance book at ₹6,752cr as on 3QFY18.

Exhibit 1: Advance has grown at CAGR of 46% over last 4 years

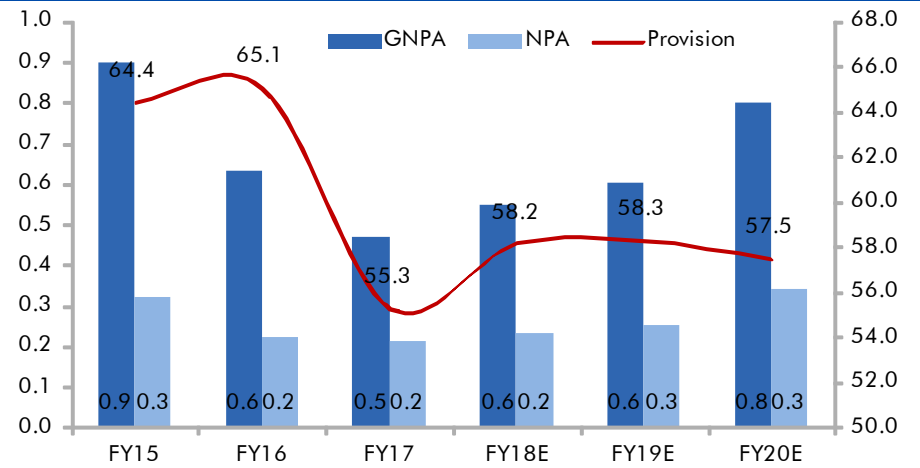


Source: Company, Angel Research

Well diversified lending book: ABFL has commenced its financing business from capital market related lending, which accounted for 34% of the loan book in FY2013, accounting for only 14% of the loan book in FY17. ABFL has successfully diversified across segments and has scaled up its portfolio significantly in the past three years, through both, new product offerings and geographical expansion. ABFL has one the best diversified loan book, on broader classification; Large Corporates contribute 36%, SME 26%, Mid Corporates 15%, retail 10% and others 13%.

Strong risk management framework; best in class asset quality: ABFL has separate sourcing and underwriting teams for each business segments. In the case when the company is planning to venture into newer products, it hires experienced top level management to set up the segment. Additionally, it only finances to entities with strong promoter backing and only operational long gestation projects. Stringent practice of monitoring and sourcing asset has led to maintain best in class asset quality. The company's reported GNPA and NPA stood at 0.70% and 0.47% respectively as on 3QFY18. The company has adopted 90+dpd for NPA recognition from 1QFY18.

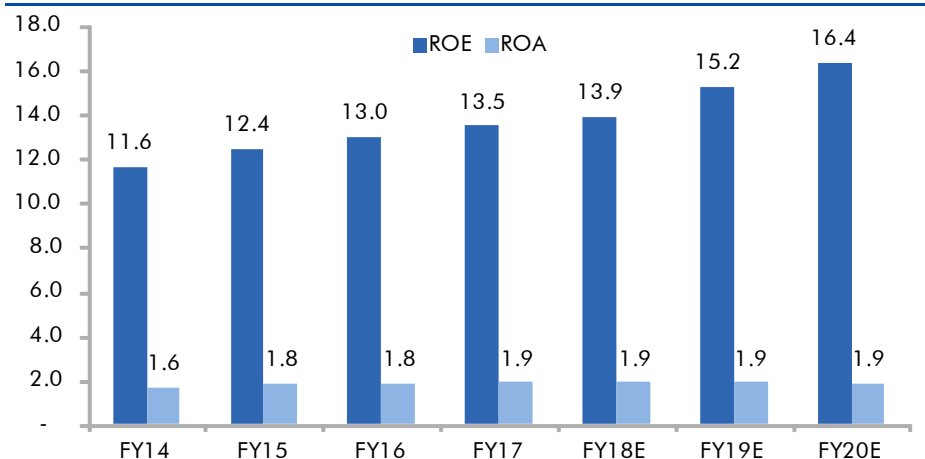
Exhibit 2: Asset quality trend



Source: Company, Angel Research

Improving return ratio: ABFL has reported ROE of 13.5% in FY2017, which is 184bps improvement from FY2014. We expect it to report further improvement in return ratios led by controlling cost-to-income ratio. Further, investment in digital lending would lower incremental opex.

Exhibit 3: Trend in return ratios (%)



Source: Company, Angel Research

Income Statement

Y/E March (₹ cr)	FY16	FY17	FY18E	FY19E	FY20E
Interest Income	2,344	3,181	4,186	5,425	6,940
Interest Exp	1,544	2,077	2,730	3,533	4,538
Net Interest Income	800	1,104	1,456	1,891	2,402
- YoY Growth (%)	33	38	32	30	27
Other Income	143	245	326	423	541
Total Income	943	1,350	1,783	2,314	2,943
Cost/Income (%)	24	31	30	29	28
Operating Exp	230	419	543	670	836
Provision	86	99	143	211	304
PBT	626	832	1,097	1,433	1,803
TAX	218	247	329	430	541
PAT	409	585	768	1,003	1,262

Balance sheet

Y/E March (₹ cr)	FY16	FY17	FY18E	FY19E	FY20E
Shareholder Fund	3,696	4,991	6,082	7,085	8,347
Borrowing	21,409	28,913	37,587	48,487	62,064
- Growth (%)	46	35	30	29	28
Other Liabilities	1,118	1,515	2,433	4,070	5,072
Total Liability	26,223	35,420	46,102	59,643	75,484
Fixed Asset	21	57	74	96	122
Advance	25,293	33,874	44,375	57,688	73,263
- Growth (%)	44	34	31	30	27
Other Asset	909	1,489	1,653	1,859	2,098
Total Asset	26,223	35,420	46,102	59,643	75,484

DuPont Analysis

Y/E March (₹ cr)	FY16	FY17	FY18E	FY19E	FY20E
Net Interest Income	3.6	3.6	3.6	3.6	3.6
(-) Prov. Exp.	0.4	0.3	0.4	0.4	0.5
Adj NII	3.2	3.3	3.2	3.2	3.1
Other Income	0.6	0.8	0.8	0.8	0.8
Op. Income	3.9	4.1	4.0	4.0	3.9
Opex	1.0	1.4	1.3	1.3	1.2
PBT	2.8	2.7	2.7	2.7	2.7
Taxes	1.0	0.8	0.8	0.8	0.8
ROA	1.8	1.9	1.9	1.9	1.9
Leverage	7.0	7.1	7.4	8.0	8.8
ROE	13.0	13.5	13.9	15.2	16.4

Housing Finance - Aditya Birla Housing Finance Limited

ABHFL begun operation in FY2015 and has grown its book size to ₹6,752cr as on Q3FY18. It has disbursed ₹1,306cr, which is highest ever quarterly disbursement. Its loan book is diversified, with 59% as housing loans, 12% as construction finance loans and 30% as LAP/LRD (Q3FY18). Management, since beginning has focused on multi distribution channels for loan book growth. Presently, AHFL operates 44 branches with 2,300+ channel partners. Management is targeting to add 6 new branches to reach to 50 branches by March FY2018.

Reported GNPA and NPA stood at 0.33% and 0.26% respectively as on 3QFY18 as compared with 0.34% and 0.28% respectively as on FY2017.

We expect loan book to continue to growth at healthy rate owing to government flagship schemes, PMAY, Housing for All, Smart Cities, etc.

Income Statement

Y/E March (₹ cr)	FY16	FY17	FY18E	FY19E	FY20E
Interest Income	89	298	560	939	1,429
Interest Exp	60	211	402	655	976
Net Interest Income	30	86	158	283	452
- YoY Growth (%)		191%	83%	79%	60%
Other Income	12	17	33	56	86
Total Income	42	103	191	339	539
Cost/Income (%)	149	102	78	62	43
Operating Exp	62	105	149	212	232
Provision	10	14	27	51	86
PBT	(30)	(15)	15	77	220
TAX	-	-	4	23	66
PAT	(30)	(15)	11	54	154

Balance Sheet

Y/E March (₹ cr)	FY16	FY17	FY18E	FY19E	FY20E
Shareholder Fund	205	367	675	729	883
Borrowing	1,505	3,587	6,456	10,136	14,901
- Growth (%)	-	138	80	57	47
Other Liabilities	287	230	699	1,662	3,139
Total Liability	1,997	4,185	7,830	12,528	18,923
Fixed Asset	8	10	19	29	41
Advance	1,979	4,152	7,764	12,422	18,633
- Growth (%)	-	110	87	60	50
Other Asset	10	23	48	77	249
Total Asset	1,997	4,185	7,830	12,528	18,923

AMC - Aditya Birla Sun Life AMC Limited

Aditya Birla Sun Life Mutual Fund (ABSLMF) is the 4th largest AMC with ₹2.43tn AUM, of which 28% is into equities. It has recorded average AUM CAGR of 24% over FY2013-17 owing to regular fund performance, rising distribution reach and presence across multiple products. Post demonetization and subdued performance by other asset classes, MF industry has witnessed huge new money inflow.

AMC business is asset light in nature, and hence it would generate hefty free cash flow, which can be deployed in growing businesses such as NBFC and HFC. The AMC segment has reported average ROE of 25% over the last 5 years.

ABSLMF has reported revenue/EBITDA/PAT CAGR of 24%/29%/26%, respectively over FY2014-17. We expect revenue/EBITDA/PAT to grow at CAGR of 22%/31%/31%, respectively, owing to operating leverage.

Income Statement

Y/E March (₹ cr)	FY16	FY17	FY18E	FY19E	FY20E
Revenues from Operations	776	1,013	1,308	1,700	2,210
Employee Expenses	174	198	262	323	398
Other Expenses	280	472	505	655	811
Total Expenses	453	669	767	978	1,209
EBITDA	322	344	541	722	1,001
EBITDA (%)	42	34	41	42	45
Depreciation	9	8	8	9	10
Interest Expenses	0	0	0	0	0
Other Income	0	1	2	2	2
PBT	314	337	535	715	993
Prov. for Taxation	111	114	182	243	338
PAT	203	223	353	472	655

Balance Sheet

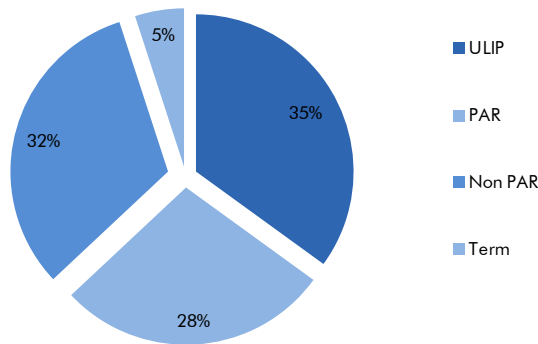
Y/E March (₹ cr)	FY16	FY17	FY18E	FY19E	FY20E
Share Capital	18	18	18	18	18
Reserve & Surplus	761	924	1,277	1,749	2,404
Net Worth	779	942	1,295	1,767	2,422
Minority Interest	-	-	-	-	-
Other Long Term Liabilities	46	53	68	88	115
Total Liabilities	825	994	1,363	1,855	2,537
Total Fixed Assets	14	18	58	77	99
Investments	664	901	901	901	901
Cash & Cash equivalents	26	26	377	857	1,521
Other Current Assets	239	255	294	367	466
Current Liability	118	205	266	346	450
Total Assets	825	994	1,363	1,855	2,537
Growth YoY		20%	37%	36%	37%

Insurance - Aditya Birla Sun Life Insurance Co Ltd (ABSLI)

Aditya Birla Sun Life Insurance Company Limited, is one of the leading private sector life insurance companies in India in terms of market share (7.1%) of first year premium (FYP), with single premium considered at 10% (Source: Life Insurance Council).

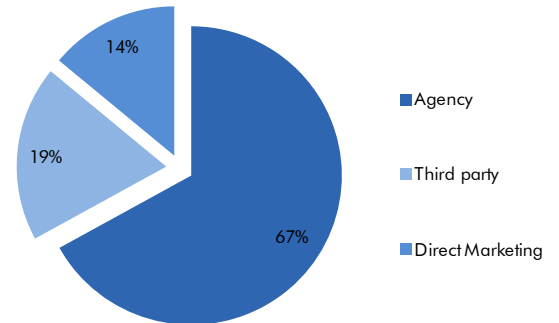
ABSLI is a JV between ABCL and Sun Life Insurance (Canada). ABSLI was primarily focused on ULIP policies, with almost 100% of new premiums sourced from ULIP policies in FY10. Post IRDA’s ULIP regulation in 2010, company changed focus and incremental efforts were made to improve the product mix. This resulted into decline in ULIP contribution to 35%.

Exhibit 4: Individual Life (Product Mix)



Source: Company, Angel Research

Exhibit 5: Individual New Business Mix



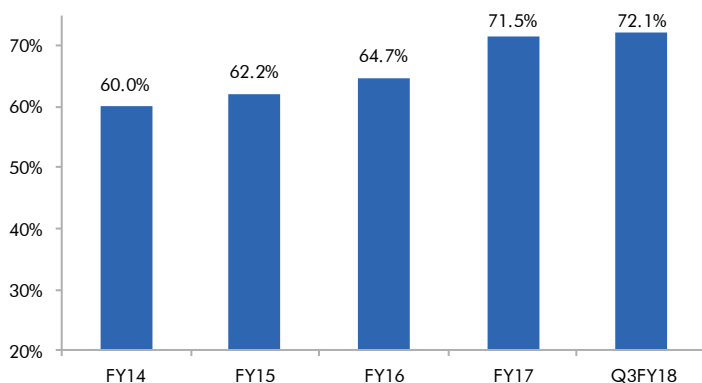
Source: Company, Angel Research

Bancassurance and operational efficiency to drive future growth

ABSLI has tied-up with Karur Vysya Bank, DCB Bank and Deutsche Bank. Additionally, in 3QFY18 it also tied-up with HDFC Bank under the open architecture model. We expect ABSLI to reap the full benefits of the recent deal from the next fiscal onwards following integration and training of staff.

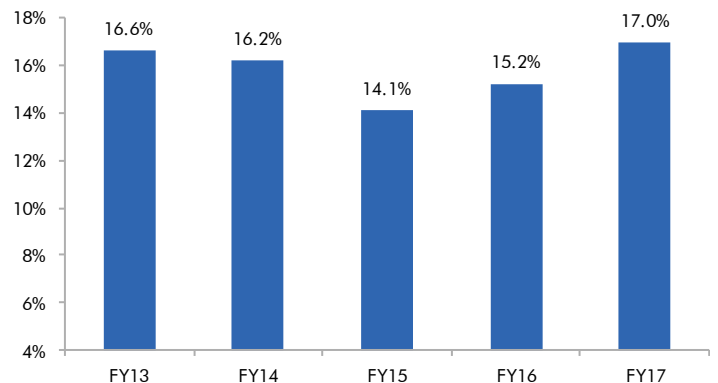
One of the important ratios in insurance industry is persistency ratio, which is improving over a period of time. Persistency ratio shows what proportion of policyholders stick with their products and keep funding it, and for how long.

Exhibit 6: 13th Month Persistency (%)



Source: Company, Angel Research

Exhibit 7: VNB margins (%)



Source: Company, Angel Research

New ventures are at a very nascent stage

Aditya Birla Health Insurance

Aditya Birla Health Insurance Co. Limited (ABHICL) was incorporated in 2015 as a joint venture between MMI Strategic Investments Private Limited, MMI Holdings Limited, ABNL and ABCL. ABHICL is engaged in the business of health insurance. The current product portfolio comprises Retail Activ Health, Group Activ Health and Group Activ Secure (Fixed Benefit). ABHICL's multi-channel distribution strategy drives scale and comprises of agency, bancassurance, brokers, digital and online tele-assisted channels and all such channels are active. As on Q4FY17, agency roll out was achieved in seven cities and nine branches with around 1,800 agents and ABHICL has partnered with four banks including HDFC Bank. ABHICL also has over 50 brokers.

Aditya Birla PE Advisors Ltd

Aditya Birla PE Advisors is a wholly owned subsidiary of ABCL. It provides financial advisory and management services with focus on managing venture capital funds and alternate investment funds. ABPE is presently appointed as an investment manager to two SEBI registered domestic venture capital funds, namely, Aditya Birla Private Equity - Fund I and Aditya Birla Private Equity – Sunrise Fund, where it currently manages a gross AUM of Rs. 11.79 billion under these two funds

Aditya Birla My Universe Ltd

Aditya Birla MyUniverse Limited (ABMUL) was incorporated in 2008 and ventured into the personal finance management space in 2012 through its online money management platform www.MyUniverse.co.in (MyUniverse). It offers its customers account aggregation of all financial services products including bank accounts, credit cards, loans, mutual funds, demat accounts, insurance, incomes and expenses in a highly secure environment. MyUniverse provides the customers with a single window view of their personal financial universe thereby helping them in evaluation of their net worth.

MyUniverse, in addition to aggregation, analyses and presents data in an intelligible format to the customers and also provides financial transaction capabilities. MyUniverse works with over 45 financial institutions and offers their services and products.

Aditya Birla Money Ltd

Aditya Birla Money Limited (ABML) is a listed company. Its shares are listed on the BSE and NSE since 2008. ABML is currently engaged in the business of securities broking and is registered as a stock broker with SEBI. It is a member of BSE and NSE and offers equity and derivatives trading through NSE and BSE. It holds license from SEBI and offers portfolio management services. It has a combined pan India distribution network of over 40 branches, and 737 franchisee offices. It also has a robust online and offline model with a strong technological backbone to support a large registered customer base of over 300,000 customers.

Aditya Birla Insurance Brokers Ltd

Aditya Birla Insurance Brokers Limited (ABIBL) is one of India's leading composite general insurance brokers, licensed by the Insurance Regulatory and Development Authority of India (IRDAI). The company specializes in providing general insurance broking and risk management solutions to companies and individuals. It also offers Reinsurance solutions to insurance companies and has developed strong relations with Indian as well as global insurers and reinsurers.

Key risks

Financing business: NBFC has maintained good asset quality. Higher share of corporate and SME could impact profitability, in case of subdued economic growth or down turn.

AMC: Any slowdown in Indian market would adversely impact financials of the AMC business.

Insurance: If the recent tie-up with HDFC Bank does not pick up then it would impact embedded value growth assumption.

Outlook & valuation

We believe broad based and integrated financial offering enable ABCL to take benefit of financialisation of savings. We expect ABCL PAT to grow at CAGR of 49% over FY17-FY20E, largely driven by Lending segment and AMC. We recommend a buy rating on the stock and an SOTP-based target price of ₹218.

Exhibit 8: SOTP valuation summary

Particulars	Stake	Valuation Methodology	Value/share (₹)
NBFC	100%	3.5x FY20E PBV	133
HFC	100%	4x FY20E PBV	16
AMC	51%	7.5% of Q3FY18 AUM	42
Life Insurance	51%	3x Q2FY18 EV	26
ABML	74%	CMP	1
Fair value per share			218

Source: Company, Angel Research

Consolidated Profit & Loss

Y/E March (₹ cr)	FY16	FY17	FY18E	FY19E	FY20E
Segment PBT					
NBFC	626	832	1,097	1,433	1,803
Life Insurance	-	-	150	180	216
Asset Management	314	337	535	715	993
HFC	-30	-15	15	77	220
Other Financial Services	9	-45	-145	-123	-105
Total PBT	928	1,064	1,653	2,282	3,128
- YoY Growth (%)		15	55	38	37
Consolidated Adj	-50	-44	50	55	55
Consolidated PBT	869	1,065	1,703	2,337	3,183
Taxes	345	375	579	795	1,082
Tax Rate (%)	40	35	34	34	34
Consolidated PAT	524	690	1,124	1,542	2,101
Minority Interest	144	161	151	229	340
Consolidated PAT Post MI	380	529	973	1,313	1,761
- YoY Growth (%)		39	84	35	34

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1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No