

Company Flash

25 June 2009 | 7 pages

Reliance Capital (RLCP.BO)

Conference

Takeaways from India Investor Conference, June 24-26

- **Takeaways from Mumbai** — Reliance Capital presented at our India Investor Conference on June 25. Below are key takeaways from management.
- **Focus on profitable growth** — Reliance Capital's business segments are linked to the capital markets and with the outlook more positive on the market, management mood was increasingly more optimistic than in the recent past. The key focus was on growth along with sustainable profitability across all business segments and continued cost rationalisation.
- **Life Insurance** — Reliance Life's NBAP margins have increased to 20.9% in 4Q09 from 18.8% in 3Q09, largely from a change in product mix towards more profitability and also some upward revision in the pricing structure. Management is looking to grow New Business Premiums by 20-25% in FY10E, against 15-20% expected growth for the private sector industry. Capital requirements are expected to be lower at around Rs4-5bn with expected breakeven over the next couple of years.
- **Asset Management** — The asset management division has been the immediate beneficiary of growth in capital markets, with AUMs increasing to Rs1.1trn (+45% since Dec-2008). Recently it successfully launched an equity-based Infrastructure Fund, which has been received quite well by the investors. However, recent regulatory changes relating to commissions paid to distributors appear to be a growth dampener on the horizon.
- **Consumer Finance** — Expect growth in consumer finance to remain largely muted with the focus firmly on containing asset costs. The mortgage portfolio has already shown some signs of a revival and should grow relatively faster compared to the other segments. This is also likely to benefit from lower financing costs post formation of a separate housing finance subsidiary.
- **Broking and Distribution** — Volumes have picked up significantly this quarter, although management is looking at restructuring the business model, especially in terms of rationalisation of the distribution network and the pricing structure.

Sell/Medium Risk	3M
Price (25 Jun 09)	Rs897.55
Target price	Rs821.00
Expected share price return	-8.5%
Expected dividend yield	0.8%
Expected total return	-7.7%
Market Cap	Rs220,468M US\$4,558M

Price Performance (RIC: RLCP.BO, BB: RCFT IN)



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See Appendix A-1 for Analyst Certification and important disclosures.

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Reliance Capital

Company description

Reliance Capital is India's largest, diversified retail financial services company with a presence in asset management, life insurance, non-life insurance, brokerage, consumer finance and distressed assets. It is part of the Anil Dhirubhai Ambani (ADA) group, which holds a 53% stake in the company. RCap has leveraged its strong brand and large capital base, and has aggressively built a large distribution network in the country. RCap is among the market leaders in all its business segments.

Investment strategy

We rate Reliance Capital Sell/Medium Risk (3M). RCap's key strengths are: a) a presence in under-penetrated, secular growth businesses; b) strong business growth led by supportive capital markets; c) market leadership in most segments, driven by its large distribution network, product focus and strong and aggressive management. However, almost all its businesses and earnings are inherently linked to capital markets. RCap is also significantly exposed to slower economic growth, higher interest rates and weaker asset quality, which could pressure growth and expected returns. Moreover, we believe its profitability will be under pressure medium term due a likely higher cost distribution build-out and increasing competitive intensity.

While parts of RCap's businesses are likely to grow significantly (especially asset management, broking) in the current environment and profitability is showing signs of stabilization, we expect its insurance and consumer finance segments to continue on a moderate growth path. Moreover, we believe the sharp rise in the stock price more than adequately captures the improvement in the business environment.

Valuation

We have a target price for Reliance Capital of Rs821. We use a sum-of-the-parts methodology to value RCap as it is present in diverse businesses, and each of these businesses is valued based on a different methodology. As many of its businesses are still growing or are not consolidated, we believe P/E or P/BV approaches are not properly reflective of value. We value the AMC business at Rs237 per share (5.0% of AUMs); the life insurance business at Rs417 per share (14x 1-year forward NBAP; at par with peers); the non-life insurance business at Rs4 per share (10x 1-year forward economic profits, in line with peers); the retail broking business at Rs53 per share (15x 1-year forward earnings, in line with peers and a 10-15% discount to the Sensex), and the consumer finance business at Rs92 per share (1.25x 1-year forward book value, in line with peers). We also estimate unrealized gains at 25% of the costs of its listed equity investments to factor in the sharp rise in equity markets.

Risks

We rate Reliance Capital as Medium Risk even though a Speculative Risk rating is suggested by our quantitative risk model, which tracks 260-day historical share price volatility. We believe a Medium Risk rating is appropriate as RCap's businesses, though related to capital markets, are significantly diverse in nature. Key upside risks to our valuations and target price include: a) sustained buoyancy in capital markets; b) an easy liquidity environment or a reduction in interest rates; b) a reversal in the asset quality environment; d) higher than anticipated growth and market share gains in different businesses; and e) early execution of growth plans.

Appendix A-1

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Reliance Capital (RLCP.BO)

Ratings and Target Price History

Fundamental Research

Analyst: Manish Chowdhary, CFA

Covered since September 3 2008

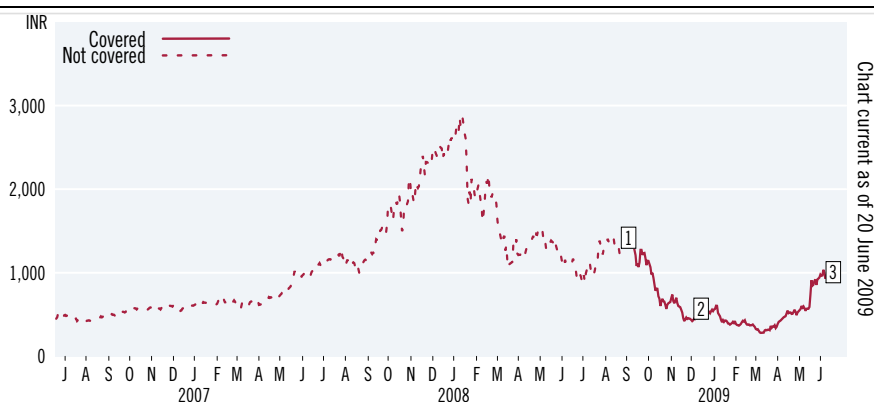


Chart current as of 20 June 2009

	Date	Rating	Target Price	Closing Price
1	3-Sep-08	*3M	*1,250.00	1,418.90

	Date	Rating	Target Price	Closing Price
2	15-Dec-08	3M	*500.00	546.10

	Date	Rating	Target Price	Closing Price
3	18-Jun-09	3M	*821.00	884.50

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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