5 November 2020

2QFY21 Results Update | Sector: Financials

Aditya Birla Capital

Bloomberg	ABCAP IN
Equity Shares (m)	2,414
M.Cap.(INRb)/(USDb)	167.6 / 2.2
52-Week Range (INR)	115 / 37
1, 6, 12 Rel. Per (%)	3/25/-21
12M Avg Val (INR M)	262

Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E
PBT Break-up			
NBFC	10.7	9.9	11.1
Housing	1.4	1.8	2.1
AMC	6.6	6.4	7.1
Life Insurance	1.4	1.4	1.5
Consol PBT	**16.9**	**18.6**	**21.3**
Consol PAT Post MI	**9.2**	**10.8**	**12.4**
Growth (%)	5.8	17.9	14.6
RoE (%)	**8.3**	**8.2**	**8.7**

Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	70.5	70.5	72.7
DII	12.5	12.6	8.5
FII	2.1	2.2	2.8
Others	14.9	14.8	16.0

FII Includes depository receipts

CMP: INR69 **TP: INR100 (+45%)** **Buy**

Steady quarter; Collection efficiency improving

- **Aditya Birla Capital (ABCAP)'s 2QFY21 PAT increased 3% YoY to INR2.64b. This was on account of a muted performance in the NBFC segment, offset by ~30% YoY growth in PBT in the HFC segment and strong growth in other smaller segments.** In 1HFY21, PAT declined 12% YoY to INR4.6b.
- In the NBFC segment, disbursements jumped 2x QoQ, with Sep'20 disbursements close to YoY levels. However, due to the run-down of the book, overall loans remained steady QoQ. **Collection efficiency (CE) also reverted to near pre-COVID levels (92% in October).**
- We expect the company to focus on strengthening the balance sheet, liquidity, and cost-cutting. The resolution of stressed accounts should result in lower credit costs going forward. As most business segments have gained scale, there could be value-unlocking opportunities in the medium term. Maintain Buy, with TP of INR100 (Sep'22E SOTP-based).

CE improving; building up the provision buffer

- Similar to the trend of the past four quarters, the loan book declined 1% QoQ to INR455b despite a sequential uptick in disbursements. The company continues to de-emphasize corporate lending, with share down 200bp QoQ to 43%. On the other hand, **the share of retail lending is on the rise; it increased to 20% of total loans in 2QFY21 (from 16% in 2QFY20), driven by unsecured loans and LAP.**
- **The GNPL ratio declined 15bp QoQ to 3.46%. PCR increased 600bp QoQ to 45%.** The company did not take any COVID provisions in the quarter. CE has reached near pre-COVID levels – CE was 90%/92% in Sep/Oct.
- Margins (incl. fees) improved nearly 50bp QoQ to 5.3%, driven by decline in cost of funds and lower gearing. **However, as credit costs remained elevated (1.7% in 2QFY21 v/s 1.1% YoY and 0.5–0.6% pre-IL&FS crisis), PBT-RoA stood at 2% for the quarter.** Management expects credit costs to moderate to 1.2–1.3% in 2HFY21.
- In the Housing Finance business, the loan book has remained flat at ~INR120b for the past four quarters. The GNPL ratio moderated 4bp QoQ to 1.16%, while PCR improved from 33% to 40%.
- Other key details are as follows – (a) the CRAR ratio in the NBFC/HFC segment stood at 21.6%/19.3% and (b) CE in the HFC segment improved to 92%/94% in Sep/Oct.

AMC segment – SIP traction healthy; profitability improves sequentially

- QAAUM improved 11% QoQ to INR2.5t. The share of equity AUM increased 70bp QoQ (but stood flat YoY) to 32.8%. B30 AUM now comprises 16.2% of AUM (up ~200bp YoY).
- **SIP registrations were up 33% QoQ. SIPs now comprise 43% of equity AUM v/s 38% in Mar'20. SIP market share is stable at ~10%.**

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- The company continues to cut operating costs – total opex was flat QoQ and down 14% YoY to INR1.3b in 2QFY21. **As a result,** the **PBT margin improved 3bp QoQ to 27bp (multi-quarter high).** Management expects this to remain stable in 2HFY21. **RoE remains healthy at 30%+.**

Strong performance in Life Insurance business

- **After a muted 1Q, individual first-year premiums (FYP) grew 10% YoY to INR4.6b in 2Q.** Traction in group FYP remained healthy, with 26% YoY growth to INR6.2b. The share of non-par products increased to 52% in 1HFY21 from 42% in 1HFY20. Management expects share of 45% in FY21.
- **The persistency ratio improved in all cohorts – 13th/61st month persistency ratios improved 200bp/400bp to 83%/51% in 1HFY21.** The net VNB margin improved 50bp YoY to 1.6%.

Highlights from management commentary

- NBFC segment – Expect growth uptick to 5% in 2HFY21 and further in FY22. It **would reduce credit costs to 1.2–1.3% in 2HFY21. The company would also work on the resolution of 50% of GNPLs.**
- **Combined ratio (CR) in the Health Insurance business would decline to sub-110% by 4QFY21. It reiterated the target to achieve breakeven in this business in 4QFY22**.

Valuation and view

The past 4–6 quarters have been challenging for the company, with the run-down of the loan book and emergence of asset quality stress due to certain large-ticket accounts. While the moratorium rate of 28% (Phase 2) was higher v/s some peers, CE of 90%+ post moratorium is impressive. With the expectation of resolution in some stressed corporate accounts, credit costs should decline in FY22. **The Asset Management business is likely to have a muted year as the industry combats redemption pressure in equities. However, the company has been able to offset revenue pressure by cutting costs, thus managing healthy profitability.** The Life Insurance segment is on a robust trajectory. **The business continues to witness improved performance on persistency as well as VNB margins. Lastly, the drag on consol. PAT from other segments would continue to decline over the next 1–2 years, thus improving overall profitability.** We expect consol. PAT to grow at a 16% CAGR over FY20–22E. As most business segments have gained scale and are highly profitable, there could be value-unlocking opportunities in the medium term. Buy, with TP of INR100 (Sep'22E SOTP-based).

Exhibit 1: SOTP (Sep'22E-based)

	Stake	Value (INR B)	Value (USD B)	INR per share	% To Total	Rationale
NBFC	100	102	1.6	42	42	1x PBV
HFC	100	14	0.2	6	6	0.8x PBV
AMC	51	86	1.3	35	35	30x Earnings
LI	51	35	0.5	15	15	1x EV
Others		4	0.1	2	2	
Target Value		**241**	**3.7**	**100**	**100**	
Current market cap.		167	2.6	69		
Upside (%)		**44.9**	**44.9**	**44.9**		

Source: MOFSL, Company

Quarterly Performance (INR m)

Y/E March	FY20				FY21		FY20	FY21E
	1Q	2Q	3Q	4Q	1Q	2QE		
ABFSL - NBFC arm								
Net Income	**6,757**	**6,341**	**6,290**	**6,004**	**5,659**	**6,318**	**25,392**	**24,994**
Change YoY (%)	24.8	14.9	6.0	-7.9	-16.2	-0.4	8.6	-1.6
Opex	**1,790**	**1,830**	**2,075**	**2,010**	**1,730**	**1,940**	**7,705**	**7,667**
Cost to Income Ratio (%)	26.5	28.9	33.0	33.5	30.6	30.7	30.3	30.7
Operating Profits	**4,967**	**4,511**	**4,215**	**3,994**	**3,929**	**4,378**	**17,687**	**17,326**
Change YoY (%)	34.5	24.6	7.5	-3.0	-20.9	-2.9	15.2	-2.0
Provisions	**960**	**1,340**	**1,490**	**3,210**	**2,040**	**1,940**	**7,000**	**3,980**
Profit Before Tax	**4,007**	**3,171**	**2,725**	**784**	**1,889**	**2,438**	**10,687**	**13,346**
Change YoY (%)	19.5	0.0	-15.7	-77.8	-52.9	-23.1	-19.5	24.9
Consolidated Earnings								
Profit Before Tax	**4,370**	**3,710**	**3,420**	**1,194**	**2,235**	**3,356**	**12,694**	**11,410**
Growth YoY %	31.2	30.6	-3.7	-70.8	-48.9	-9.5	-8.1	-10.1
Lending	4,395	3,526	3,075	1,052	2,244	2,892	12,048	14,156
NBFC	4,007	3,171	2,725	784	1,889	2,438	10,687	13,346
HFC	388	356	351	268	355	455	1,362	810
AMC	1,754	1,754	1,734	1,366	1,301	1,639	6,607	2,941
Life Insurance	249	414	335	377	289	424	1,375	713
Others*	-2,027	-1,984	-1,725	-1,600	-1,600	-1,600	-7,336	-6,400
Taxes	**1,810**	**1,290**	**1,010**	**358**	**670**	**1,007**	**4,468**	**3,423**
Tax rate %	41.4	34.8	29.5	30.0	30.0	30.0	35.2	30.0
Profit After Tax	**2,560**	**2,420**	**2,410**	**836**	**1,564**	**2,349**	**8,226**	**7,987**
Growth YoY %	31.3	58.2	15.9	-67.2	-38.9	-2.9	1.4	-2.9
MI and Others	-140	-130	-90	-100	-100	-100	-460	-400
PAT	**2,700**	**2,550**	**2,500**	**936**	**1,664**	**2,449**	**8,686**	**8,387**
Growth YoY %	26.8	37.1	17.4	-63.9	-38.4	-4.0	-0.3	-3.4
Networth allocation mix								
NBFC	64.6	64.3	58.5	52.9	52.5	52.4		
Housing Finance	10.2	10.1	9.2	9.3	9.3	9.2		
Life Insurance	21.6	21.4	19.5	18.3	18.5	18.1		
AMC	11.4	10.5	10.4	9.0	9.5	10.0		
General Ins Adv	0.3	0.1	0.1	0.0	0.2	0.3		
Broking	1.8	1.8	1.6	1.4	1.4	1.4		
Health Insurance	1.8	2.4	2.6	2.1	2.3	3.0		
Others*	-12.1	-12.1	-3.2	4.8	4.6	4.0		
Elimination/Unallocated	0.5	1.3	1.3	2.2	1.7	1.6		
Details on lending business								
Loans (INR B)	**620**	**604**	**601**	**592**	**581**	**576**		
Change YoY (%)	15.7	4.3	0.0	-6.3	-6.3	-4.7		
NBFC	502	484	479	471	459	455		
Change YoY (%)	13.0	0.6	-2.8	-9.0	-8.4	-6.0		
HFC	118	121	122	121	121	121		
Change YoY (%)	28.9	22.2	12.6	6.1	2.6	0.3		
Net Interest Margins								
NBFC	5.25	5.28	5.24	5.24	4.88	5.32		
HFC	2.98	2.97	2.97	2.96	3.27	3.33		
GNPA %								
NBFC	1.69	1.85	2.72	3.62	3.61	3.46		
HFC	0.67	0.85	1.05	1.21	1.20	1.16		
Details on Other business								
AMC Business								
QAAUM (INR B)	**2,704**	**2,694**	**2,655**	**2,627**	**2,257**	**2,503**		
Change YoY (%)	1.2	-0.8	2.6	-0.1	-16.5	-7.1		
Life Ins - 13th Mt persistency	**78.3**	**80.0**	**80.9**	**83.0**	**81.0**	**83.0**		

#PBT assuming 100% share of AMC business Others includes Health Ins, PE, AB Money and inter group adjustment; Numbers may vary from actual reporting due to difference in reporting*

Highlights from management commentary

NBFC segment

- **Expect a growth uptick to 5% in 2HFY21 and further in FY22.**
- Reduced ATS was reported across products. It would continue to focus on the granularity of the book.
- **It would reduce credit costs to 1.2–1.3% in 2HFY21. It would also work on the resolution of 50% of GNPLs.**
- Restructuring would be restricted to 1–2% of the loan book.
- CE was 90%/92% in NBFC/HFC in Sep. Similar CE was seen in the unsecured book too. Pre-COVID CE was 95–97%.
- Retail segment CE in Oct stood at 89–90%.
- It may restructure one or two builder accounts in the HFC segment.
- Should see improvement in yield in the NBFC segment.
- INR7.5b disbursements were reported in ECLGS in the NBFC segment.

Other segments

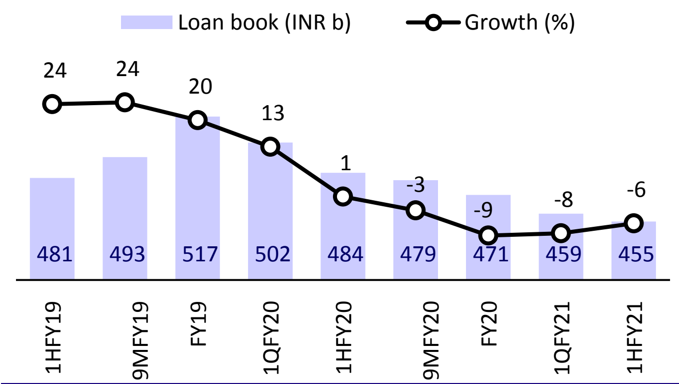
- **CR in the Health Insurance business would decline to sub-110% by 4QFY21. It reiterated the target to achieve breakeven in this business in 4QFY22.**
- It launched two new products in Life Insurance, which contributed 20% to FYP. Target 45% of Non-PAR business for the year.
- Furthermore, a reduction is possible in the C/I ratio in the AMC segment.

Others

- 80% of business loans (unsecured) are guaranteed by some scheme of SIDBI.
- It would look at structured finance more opportunistically.
- In project finance, the company does not enter at an early stage.
- Life insurance – There is more contribution to growth from the metro cities v/s Tier 2 and 3 locations.
- COVID provisions of INR1.3b/0.3b for the NBFC/HFC segment are cumulative numbers.

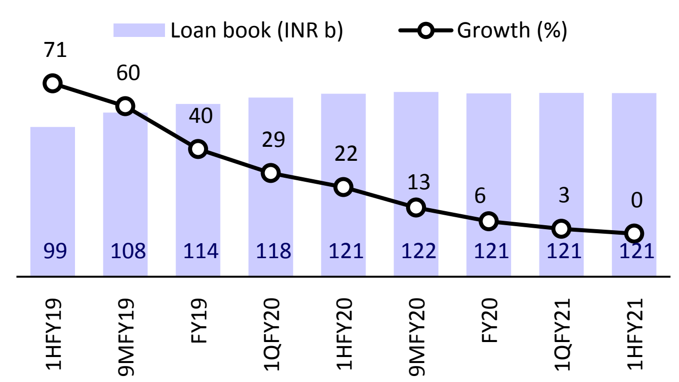
Key exhibits

Exhibit 2: NBFC loan book continues to run down



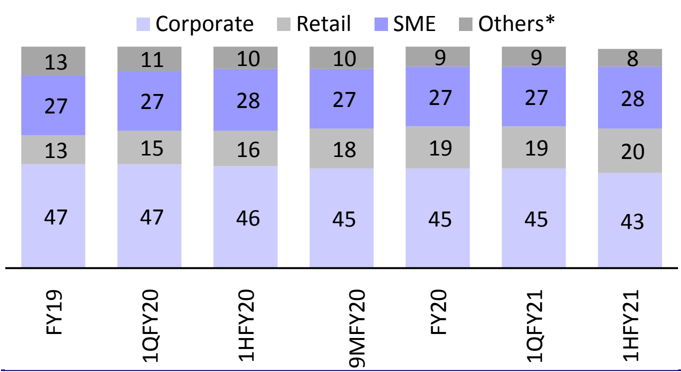
Source: MOFSL, Company

Exhibit 3: HFC loan book flat for the past few quarters



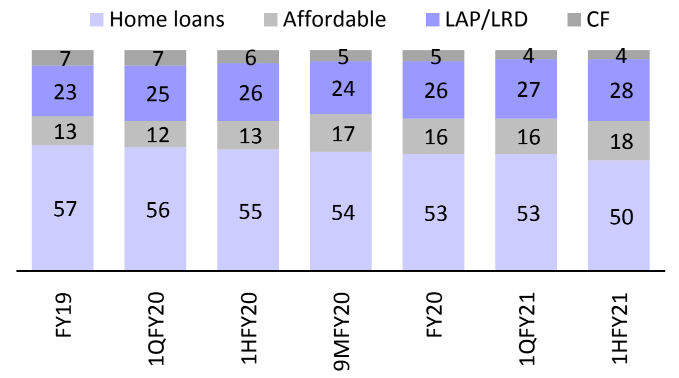
Source: MOFSL, Company

Exhibit 4: NBFC loan mix (%)



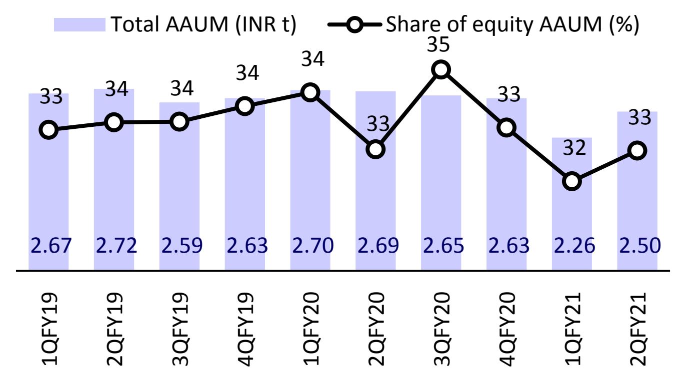
Source: MOFSL, Company; Others include Promoter and others

Exhibit 5: Share of affordable housing finance up 200bp QoQ in HFC segment (%)



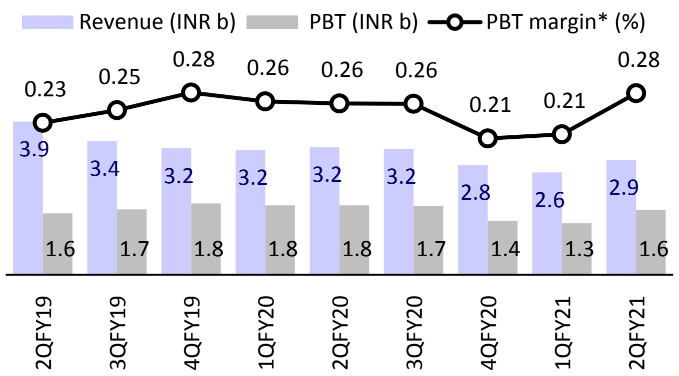
Source: MOFSL, Company

Exhibit 6: AMC segment – AAUM picks up sequentially (%)



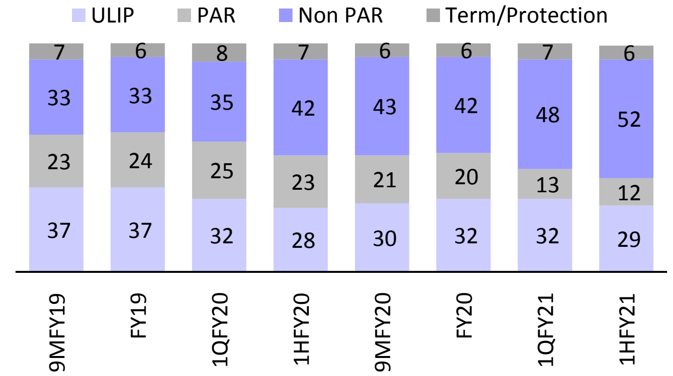
Source: MOFSL, Company

Exhibit 7: AMC – PBT margin at multi-quarter high



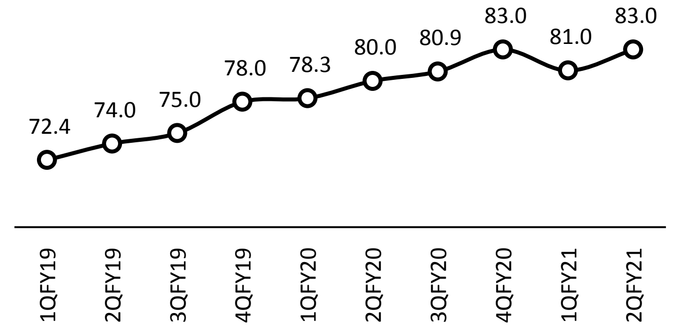
Source: MOFSL, Company,*% of AAUM Annualized

Exhibit 8: Share of Non-PAR rising (%)



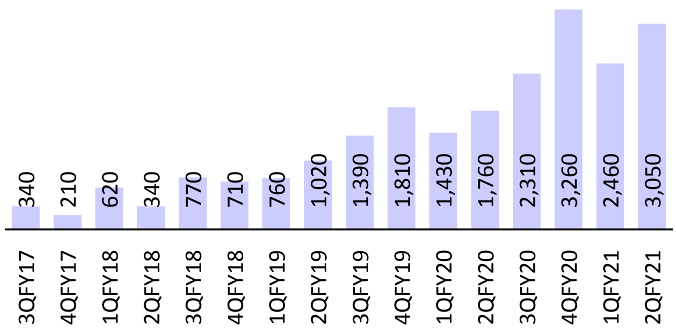
Source: MOFSL, Company

Exhibit 9: 13th month persistency improving (%)



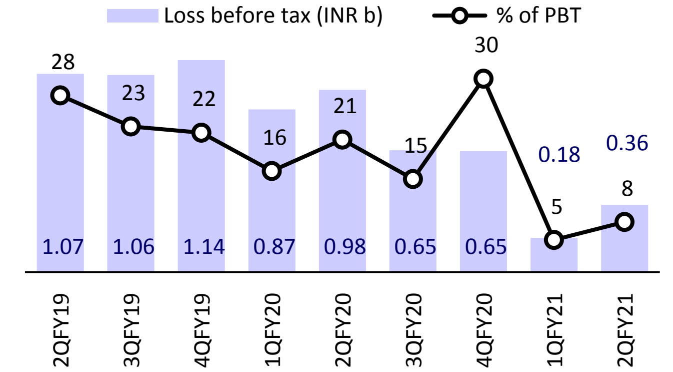
Source: MOFSL, Company

Exhibit 10: Trend in Health Insurance GWP (INR m)



Source: MOFSL, Company

Exhibit 11: Pre-tax loss in other segments declining



Source: MOFSL, Company

Valuation and view

- The past 4–6 quarters have been challenging for the company, with the run-down of the loan book and emergence of asset quality stress due to certain large-ticket accounts. However, the company has responded by running down the wholesale lending book (especially structured finance, which is high-risk lending).
- While the moratorium rate of 28% (Phase 2) was higher v/s some peers, CE of 90%+ post moratorium is impressive. With the expectation of resolution in some stressed corporate accounts, credit costs should moderate going forward.
- **The Asset Management business is likely to have a muted year as the industry combats redemption pressure in equities. However, the company has been able to offset revenue pressure by cutting costs.**
- The Life Insurance segment is on a robust trajectory. **The business continues to witness improved performance on persistency as well as VNB margins.**
- **Lastly, the drag on consol. PAT from other segments would continue to decline over the next 1–2 years, thus improving overall profitability.**
- As most business segments have gained scale and are highly profitable, there could be value-unlocking opportunities in the medium term. Buy, with TP of INR100 (Sep'22E SOTP-based).

Exhibit 12: Business segment-wise networth contribution (INR m)

Y/E MARCH	2015	2016	2017	2018	2019	2020	2021E	2022E
NBFC	19,848	35,108	49,813	61,724	74,140	80,780	88,232	97,130
Housing	458	2,048	3,675	7,475	11,900	13,830	14,983	16,448
AMC	5,759	7,794	9,416	11,610	12,154	13,041	14,000	15,065
Life Insurance	0	0	18,047	23,294	24,488	26,574	27,944	29,451
Other Businesses	666	683	782	2,540	2,322	2,112	3,242	4,492
Consolidation Adjustments	6,040	6,472	3,739	-10,704	-18,307	2,618	3,219	3,538
Consolidated Networth	**32,771**	**52,105**	**85,472**	**95,939**	**1,06,698**	**1,38,954**	**1,51,620**	**1,66,123**
Of which Non-controlling Int	3,069	7,557	19,518	10,560	11,574	13,196	15,046	17,155
Consolidated NW Post NCI	**29,702**	**44,548**	**65,954**	**85,378**	**95,124**	**1,25,758**	**1,36,574**	**1,48,968**
% of Total Networth	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021E**	**2022E**
NBFC	60.6	67.4	58.3	64.3	69.5	58.1	58.2	58.5
Housing	1.4	3.9	4.3	7.8	11.2	10.0	9.9	9.9
AMC	17.6	15.0	11.0	12.1	11.4	9.4	9.2	9.1
Life Insurance			21.1	24.3	23.0	19.1	18.4	17.7
Other Businesses	2.0	1.3	0.9	2.6	2.2	1.5	2.1	2.7
Consolidation Adjustments	18.4	12.4	4.4	-11.2	-17.2	1.9	2.1	2.1
Consolidated Networth	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Change YoY %	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021E**	**2022E**
NBFC		76.9	41.9	23.9	20.1	9.0	9.2	10.1
Housing			79.5	103.4	59.2	16.2	8.3	9.8
AMC		35.3	20.8	23.3	4.7	7.3	7.4	7.6
Life Insurance					5.1	8.5	5.2	5.4
Other Businesses		2.7	14.4	224.8	-8.6	-9.1	53.5	38.6
Consolidation Adjustments		7.1	-42.2	-386.2	71.0	-114.3	23.0	9.9
Consolidated Networth		**59.0**	**64.0**	**12.2**	**11.2**	**30.2**	**9.1**	**9.6**

Source: MOFSL, Company

Financials and valuations

BALANCE SHEET								INR m
Y/E MARCH	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021E**	**2022E**
ESC	7,570	7,960	12,322	22,010	22,014	24,138	24,138	24,138
Reserves and Surplus	10,556	19,212	53,632	63,368	73,110	1,01,620	1,12,437	1,24,830
Networth	**18,126**	**27,172**	**65,954**	**85,378**	**95,124**	**1,25,758**	**1,36,574**	**1,48,968**
Non-controlling Interest	3,069	7,557	19,518	10,560	11,574	13,196	15,046	17,155
Other Capital Instruments	**15,853**	**17,523**	**147**	**0**	**0**	**0**	**0**	**0**
Borrowings	**1,48,151**	**2,30,125**	**3,29,378**	**4,45,157**	**5,63,242**	**5,55,836**	**5,47,942**	**6,26,514**
Change (%)		55.3	43.1	35.2	26.5	-1.3	-1.4	14.3
Insurance Business Related	**0**	**0**	**3,33,888**	**3,64,716**	**4,01,500**	**4,12,645**	**4,53,910**	**4,99,301**
Change (%)				9.2	10.1	2.8	10.0	10.0
Other liabilities	**11,222**	**18,037**	**32,421**	**31,331**	**25,480**	**30,255**	**37,894**	**47,282**
Change (%)		60.7	79.7	-3.4	-18.7	18.7	25.2	24.8
Total Liabilities	**1,96,421**	**3,00,414**	**7,81,306**	**9,37,142**	**10,96,920**	**11,37,690**	**11,91,366**	**13,39,220**
Customer assets	**1,88,489**	**2,91,163**	**4,10,633**	**5,20,198**	**6,37,935**	**6,33,439**	**6,64,283**	**7,60,343**
Change (%)		54.5	41.0	26.7	22.6	-0.7	4.9	14.5
Fixed Assets	**2,925**	**3,249**	**8,120**	**8,701**	**9,262**	**12,550**	**13,015**	**13,572**
Change (%)		11.1	149.9	7.2	6.4	35.5	3.7	4.3
Insurance Business Related	**0**	**0**	**3,45,959**	**3,74,305**	**4,14,145**	**4,28,267**	**4,73,794**	**5,24,413**
Change (%)				8.2	10.6	3.4	10.6	10.7
Other assets	**5,007**	**6,002**	**16,594**	**33,937**	**35,578**	**63,435**	**40,275**	**40,892**
Change (%)			176.5	104.5	4.8	78.3	-36.5	1.5
Total Assets	**1,96,421**	**3,00,414**	**7,81,306**	**9,37,142**	**10,96,920**	**11,37,690**	**11,91,366**	**13,39,220**

Financials and valuations

PROFIT BEFORE TAX								(INR m)
Y/E MARCH	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021E**	**2022E**
NBFC	4,108	6,264	8,319	10,509	13,280	10,690	9,901	11,076
Housing	-56	-302	-155	341	1,070	1,360	1,765	2,082
AMC	1,816	3,136	3,371	5,231	6,468	6,607	6,360	7,062
Life Insurance	0	0	0	1,304	1,315	1,370	1,370	1,507
Other Businesses	-291	-331	-534	-1,478	-2,155	-1,870	-1,070	-750
Consolidation Adjustments	-388	-78	-343	-1,531	-2,008	-1,285	300	350
Consolidated PBT	**5,190**	**8,688**	**10,658**	**14,377**	**17,969**	**16,872**	**18,627**	**21,328**
Taxes	2,101	3,446	3,746	5,769	7,681	5,804	5,961	6,825
Tax Rate (%)	40.5	39.7	35.1	40.1	42.7	34.4	32.0	32.0
Consolidated PAT	**3,089**	**5,242**	**6,912**	**8,608**	**10,288**	**11,068**	**12,666**	**14,503**
Minority Interest	696	1,436	1,612	1,743	1,619	1,897	1,850	2,109
Consolidated PAT Post MI	**2,393**	**3,806**	**5,300**	**6,865**	**8,669**	**9,171**	**10,816**	**12,394**
% of Total PBT	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021E**	**2022E**
NBFC	79.2	72.1	78.1	73.1	73.9	63.4	53.2	51.9
Housing	-1.1	-3.5	-1.5	2.4	6.0	8.1	9.5	9.8
AMC	35.0	36.1	31.6	36.4	36.0	39.2	34.1	33.1
Life Insurance	0.0	0.0	0.0	9.1	7.3	8.1	7.4	7.1
Other Businesses	-5.6	-3.8	-5.0	-10.3	-12.0	-11.1	-5.7	-3.5
Consolidation Adjustments	-7.5	-0.9	-3.2	-10.6	-11.2	-7.6	1.6	1.6
Consolidated PBT	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Change YoY %	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021E**	**2022E**
NBFC		52.5	32.8	26.3	26.4	-19.5	-7.4	11.9
Housing			-48.7	-320.1	213.7	27.1	29.8	18.0
AMC		72.7	7.5	55.2	23.6	2.2	-3.7	11.0
Life Insurance					0.8	4.2	0.0	10.0
Other Businesses		13.9	61.3	176.8	45.8	-13.2	-42.8	-29.9
Consolidation Adjustments		-79.9	338.8	346.2	31.2	-36.0		
Consolidated PBT		**67.4**	**22.7**	**34.9**	**25.0**	**-6.1**	**10.4**	**14.5**
Taxes		64.0	8.7	54.0	33.2	-24.4	2.7	14.5
Consolidated PAT		**69.7**	**31.9**	**24.5**	**19.5**	**7.6**	**14.4**	**14.5**
Minoirty Interest		106.3	12.3	8.1	-7.1	17.2	-2.5	14.0
Consolidated PAT Post MI		**59.1**	**39.3**	**29.5**	**26.3**	**5.8**	**17.9**	**14.6**
Valuations								
Consolidated BV				**38.8**	**43.2**	**52.1**	**56.6**	**61.7**
Change YoY					11.4	20.6	8.6	9.1
Con PBV				1.8	1.6	1.3	1.2	1.1
Consolidated EPS				**3.1**	**3.9**	**3.8**	**4.5**	**5.1**
Change YoY					26.3	-3.5	17.9	14.6
Con PE				22.1	17.5	18.2	15.4	13.4
Consolidated ROE				**9.1**	**9.6**	**8.3**	**8.2**	**8.7**

NOTES

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Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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