

RESULTS REVIEW

Share Data

Market Cap	Rs. 348.1 bn
Price	Rs. 1,417.0
BSE Sensex	15,167.82
Reuters	RLCP.BO
Bloomberg	RCFT IN
Avg. Volume (52 Week)	1.4 mn
52-Week High/Low	Rs. 2,925 / 822.5
Shares Outstanding	245.6 mn

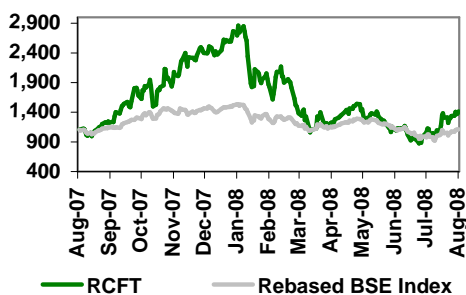
Valuation Ratios (Consolidated)

Year to 31 March	2009E	2010E
EPS (Rs.)	48.5	57.2
+/- (%)	18.0%	18.0%
PER (x)	29.2x	24.8x

Shareholding Pattern (%)

Promoter	53
FIs	23
Institutions	4
Public & Others	19

Relative Performance



RELIANCE CAPITAL

Hold

Entering choppy waters

Reliance Capital's Q1'09 results were in line with our expectations. Total income rose 31% yoy to Rs. 15.4 bn, but net profit grew only 5%, marred by a huge increase in claim payments and employee expenses. We maintain our previous target price of Rs.1,330 on the stock. The Stock has appreciated by more than 50% since our last recommendation and is presently trading in line with our recommended price. Consequently, we change our rating on the stock from **Buy** to **Hold**.

- Life insurance performed well, but general insurance disappointed:** The new business premium surged 173% yoy on account of a strong retail presence. However, as retail investors are steering away from the equity markets, it is unlikely to sustain the momentum. General insurance disappointed with a 500 bps increase in the combined ratio leading to a loss of Rs. 142 mn.
- Focus on mortgage lending may affect loan book growth.** Mortgage demand is witnessing a sharp correction, and as it accounts for 31% of the Company's loan book, sustaining the growth momentum may become difficult. Moreover, given the rising interest rates, a high proportion of auto and personal loans in the portfolio (collectively 34%) may result in an increase in delinquencies.
- Falling equity markets to affect broking and AMC prospects.** The broking business performed reasonably well in Q1'09 (profit of Rs. 119 mn). Asset management too recorded a 67% yoy rise in profit. However, given the state of equity markets, we expect retail participation in equity markets to reduce and that both these businesses will get adversely affected.

Key Figures (Consolidated)

Quarterly Data	Q1'08	Q4'08	Q1'09	YoY %	QoQ%	FY07	FY08	YoY %
(All figures in Rs. mn, except per share data)								
Total Income (mn)	11,762	16,347	15,446	31%	(6)%	21,579	49,192	128%
Operating Profit (mn)	3,781	4,494	3,954	5%	(12)%	8,115	12,157	50%
Net Profit (mn)	3,253	3,656	3,431	5%	(6)%	7,032	10,091	43%
Gross written prem (bn)	5.3	4.2	5.6	5%	32%	9.1	19.5	114%
New business prem (bn)	2.0	13.6	5.6	180%	(59)%	9.3	27.5	196%
AUM (bn)	599.0	908.0	908.0	52%	0%	463.0	908.0	96%
Per Share Data (Rs.)								
Diluted EPS	13.1	15.0	14.0	7%	(7)%	30.7	41.1	34%
Net Worth Per Share	223.9	247.9	279.3	25%	13%	210.1	247.9	18%

*Insurance claims reduced
profits again*

Result Highlights

In Q1'09, Reliance Capital's consolidated net profit increased 5% yoy to Rs. 3.4 bn. Total income rose 31% yoy to Rs. 15.4 bn. On a sequential basis, net profit declined 6%. The muted growth was on account of a more than two-fold increase in employee expenses and the money spent on claims fulfillment. In addition, a more than six-fold increase in interest expenses also affected the bottom line. While an increase in employee expenses is inevitable as the Company is moving into new businesses and is expanding its businesses, better management in handling claims is a must to improve the bottom line.

*Debt funds likely to maintain
growth in mutual funds*

Asset management – debt portfolio to maintain momentum

The assets under management increased 52% yoy to Rs. 908 bn. This resulted in a 67% yoy increase in the net profit. The present trend indicates that retail investors are moving away from equity markets and are opting for low-return but safer investments such as debt instruments. This has already, atleast to some extent, got reflected in a flat growth in AUMs on a sequential basis. However, with debt assets accounting for 67% of the total AUMs, we do not expect the AUMs to decline because the fall in equity assets is likely to get compensated by the increase in debt assets. However, the bottom line may take a hit as debt funds command a lower fee income vis-à-vis equity funds.

Life insurance – growing beyond our expectations

The life Insurance business beat our expectations with a 173% yoy increase in the new business premium to Rs. 5.6 bn. However; it declined 59% on a quarterly basis. A sequential decline was expected as the last quarter of FY08 accounted for about half of the yearly premium collection. The 173% growth in premium is in sharp contrast to the sector's (private life insurers) growth rate of 70%. Reliance Capital continued to tread on the growth path – not only in terms of premium collection but also in terms of geographical expansion – as the number of branches witnessed a more than four-fold increase to 744. Very importantly, the Company infused Rs. 3.3 bn of capital in Q1'09 to maintain the momentum, in line with its aim to invest more than Rs. 15 bn by 2010.

We believe that the high growth witnessed in Reliance's premium collection was largely on account of its strong sales and distribution network. Further, ULIPs—which account for a large chunk of total insurance sales—continued to remain a preferred form of investment for retail investors, owing to its other benefits such as tax saving. In the next few quarters, we do not expect similar growth patterns in premium collection as the impact of falling markets is becoming visible. Till the third week of June, equity investments by investors were recorded at Rs. 12 bn, less than the debt investments of Rs. 16 bn. However, Reliance's core strengths should enable it to maintain an above-industry growth rate.

General insurance – Marred by claims payment

For Q1'09, gross written premium increased by about 5% yoy to Rs. 5.6 bn. However, the combined ratio increased by 500 bps to 113%, indicating the huge increase in claims payment and underwriting expenses. This resulted in a loss of Rs. 142.4 mn in Q1'09 vis-à-vis a profit before tax of Rs. 17.6 mn in Q1'08. While there was no let-up in geographic expansion over the year, managing of claims is important to maintain the momentum.

Claims settlement led to losses in the general insurance business

Reliance Money – Falling markets to reduce retail participation

Reliance Money defied the falling equity markets and registered a profit before tax of Rs. 119 mn in Q1'09. Total income increased by more than six times to Rs. 782 mn. This broad-based increase helped the Company to counter the rising expenses, especially the operating expenses, which multiplied by more than 10 times. Reliance Money has now reached a daily average volume of Rs. 22.5 bn. It has also spread its business overseas by moving into Hong Kong, Dubai, Oman, and Nigeria. We believe that the Company was able to sustain its momentum on account of its strong focus on retail investors. However, we do not expect a similar increase in income in the upcoming quarters as the present trend shows the inclination of retail investors to invest in safer instruments.

*Rising interest rates to
affect loan disbursements*

Consumer finance – Slowdown started showing impact

The economic slowdown has adversely affected the Company's consumer finance business—loan disbursements recorded a mere 13.6% sequential growth in sharp contrast to the 84% sequential growth recorded in Q4'08. Mortgages still dominated the loan book, accounting for about 31% of the total, followed by auto at 19%.

We believe that the present composition of the loan book may impact its future growth as mortgages demand have been severely affected by the rising prices and interest rates. In addition, a large exposure to auto and personal loans (collectively accounting for 34% of the loan book) in the present rising interest rate regime may increase delinquencies.

*Many new businesses to
come up*

New ventures on the cards

In the recent past, Reliance has taken several new strategic initiatives. It launched an asset reconstruction business, which commenced operations in Q1'09. In addition, the Company launched a new division—Reliance Capital Services—to cross-sell various products and services to the internal customers. It is also planning to move into international territories and has obtained RBI's approval for setting up an international business subsidiary. Further, it is planning to set up separate subsidiaries for consumer finance and housing finance.

*Long-term prospects intact
but short-term earnings
may take a hit*

Outlook

Reliance Capital's Q1'09 results of its life insurance and brokerage businesses have been above our expectations. However, we expect these businesses to slow down in the future as retail participation is expected to fall further. The consumer finance business is heavily dependent on mortgage demand (accounting for 31% of the total disbursements in Q1'09) and thus may witness a decline. While we expect the Company to beat the industry growth rates on account of its strong sales and distribution network and continual geographic expansion, the present slowdown will affect earnings to some extent.

*Trading at a forward P/E of
29.2x for FY09E*

Valuation

We have valued Reliance Capital by using the sum-of-the-parts valuation methodology. The consumer finance business has been valued at Rs. 285 by taking a discount rate of 15% and a terminal growth rate of 8% for the loan book. We have valued the broking business at Rs. 40 on the basis of a target 15x earnings multiple. Reliance Life Insurance has been valued at a target new business profit (NBP) multiple of 20x. This gives the life insurance business a valuation of Rs. 539. Assuming a target multiple of 18x, the general insurance division has been valued at Rs. 29. The AMC has been valued at 8% of its AUM, leading to a valuation of Rs. 435. Thus, we have arrived at a fair value estimate of Rs. 1,330 for FY09. This is essentially similar to our previous target price. As the stock has appreciated by more than 50% since our previous recommendation. We change our rating on the stock from **Buy** to **Hold**.

Company	Value	Basis
Reliance Consumer Finance	285	Based on discount rate of 15% & terminal growth rate of 8%
Reliance Money	40	Based on our target earnings multiple of 15x for FY09E
Reliance Life Insurance	539	Based on our target NBAP multiple of 20x
Reliance General Insurance	29	Based on our target multiple of 18x
Reliance Asset Management	435	8% of FY09E AUM
Total	1,330	

Key financials and projections

Key Figures (Consolidated)

Year to March	FY06	FY07	FY08	FY09E	FY10E	CAGR
(Figures in Rs mn, except per share data)						(FY08-10E)
Total Income	9,471	21,579	49,192	82,150	131,441	63.5%
Net Profit	5,714	7,032	10,091	11,907	14,050	18.0%
Gross written premium	1,623	9,122	19,500	31,200	46,800	54.9%
New business premium	1,936	9,321	27,500	49,500	84,150	74.9%
AUM (bn)	247	463	908	1,407	2,181	55.0%
Per Share Data (Rs.)						
EPS	26.2	30.7	41.1	48.5	57.2	18.0%
PER (x)	19.8x	21.7x	34.5x	29.2x	24.8x	-

Disclaimer

This report is not for public distribution and is only for private circulation and use. The Report should not be reproduced or redistributed to any other person or person(s) in any form. No action is solicited on the basis of the contents of this report.

This material is for the general information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be considered as an offer to sell or the solicitation of an offer to buy any stock or derivative in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of Indiabulls Securities Limited. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. You are advised to independently evaluate the investments and strategies discussed herein and also seek the advice of your financial adviser.

Past performance is not a guide for future performance. The value of, and income from investments may vary because of changes in the macro and micro economic conditions. Past performance is not necessarily a guide to future performance.

This report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. Any opinions expressed here in reflect judgments at this date and are subject to change without notice. Indiabulls Securities Limited (ISL) and any/all of its group companies or directors or employees reserves its right to suspend the publication of this Report and are not under any obligation to tell you when opinions or information in this report change. In addition, ISL has no obligation to continue to publish reports on all the stocks currently under its coverage or to notify you in the event it terminates its coverage. Neither Indiabulls Securities Limited nor any of its affiliates, associates, directors or employees shall in any way be responsible for any loss or damage that may arise to any person from any error in the information contained in this report.

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject stock and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. No part of this material may be duplicated in any form and/or redistributed without Indiabulls Securities Limited prior written consent.

The information given herein should be treated as only factor, while making investment decision. The report does not provide individually tailor-made investment advice. Indiabulls Securities Limited recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. Indiabulls Securities Limited shall not be responsible for any transaction conducted based on the information given in this report, which is in violation of rules and regulations of National Stock Exchange or Bombay Stock Exchange.