INSTITUTIONAL RESEARCH

Aditya Birla Capital

Some of the parts > Sum of the parts?

With its mature balance sheet business (NBFC) at an inflexion point and an annuity cash cow business (AMC) operating on an auto-pilot mode, Aditya Birla Capital (ABCL) is at the cusp of a credible makeover, driving consolidated return ratios closer to franchise potential over the next three years. We believe that ABCL's current valuations do not adequately factor in the successful re-positioning of its lending businesses towards retail and granular loans, which is likely to drive a sustainable improvement in franchise earnings. We initiate with a BUY and an SOTP-based target price of INR155 - we value the AMC business at INR240bn (7.2% of Mar'23 AUM) and the NBFC business at INR170bn (1.85x Mar'23 ABVPS).

- **Asset management - built for sustainable speed:** With an extremely strong distribution network, Aditya Birla Sun Life AMC (ABSLAMC) emerges as a formidable force in our proprietary AMC Franchise Scorecard. ABSLAMC operates the fourth-largest mutual fund and one of the most profitable AMC franchises (operating profit at 24bps of AAUM). With its share of higher-yielding equity within the AAUM poised to rise ~260bps to 38% by FY23E and the resulting operating leverage (OP as bps of AAUM to improve from 24bps to >25bps), ABSLAMC's earnings trajectory is likely to be stronger (2-year NOPLAT CAGR at 18%). We value ABSLAMC at INR240bn, implying 7.2% of Mar'23 AUM, a marginal premium over NAM-INDIA, the closest comparable franchise on our proprietary AMC Franchise Scorecard (AMC-FS).
- **Re-architectured NBFC business at inflexion point:** Aditya Birla Finance (ABFL), the flagship NBFC business within ABCL, is poised for +200bps RoE reflation over FY20-23E, driven by a best-in-class liability franchise and a shift in asset mix towards retail and granular lending. Our lateral checks with lenders, rating agencies and loan syndicators suggest that ABFL's strong liability franchise, anchored by its parentage, has historically allowed the company to build a relatively low-risk, low-yielding wholesale book (43% of loans). We expect the share of wholesale lending to decline to ~38% by FY23E as a result of 'right-sizing' of the legacy wholesale portfolio, thus driving a reflation in asset yields and, consequently, RoEs (12.6% in FY23E). We value ABFL at INR170bn (1.85x Mar'23 Adj NW). We argue that the re-positioning of the NBFC business and the ROA reflation are not factored in the current valuations.
- **Reducing drag from investment-phase businesses:** With its mature businesses at an inflexion point and reducing drag from investment-phase businesses, Aditya Birla Capital (ABCL) is at the cusp of a makeover, driving consolidated return ratios closer to franchise potential over the next three years. We initiate with a BUY and an SOTP-based target price of INR155 - we value the AMC business at INR240bn (7.2% of Mar'23 AUM) and the NBFC business at INR170bn (1.85x Mar'23 ABVPS) - these two businesses contribute ~75% of the aggregate SOTP-based valuation.

ABCL Valuation - Sum of the parts (SOTP)

Business	ABCL share (%)	Value for ABCL (INR bn)	Value/sh (INR)	Comments
ABSLI	51%	61.3	25.4	1.5x FY23 EV
ABSLAMC	51%	122.2	50.6	DCF-based multiple of 36.5x FY23 NOPLAT
ABFL	100%	170.5	70.7	RI-based multiple of 1.85x FY23 Adj NW
ABHFL	100%	23.1	9.6	RI-based multiple of 1.6x FY23 Adj NW
Health Insurance	51%	8.7	3.6	35x FY23 PAT
Other businesses	100%	5.0	2.1	1x investment (Net worth)
TOTAL		**391**	**162**	
Less: Hold-co discount			8	10% hold-co discount on non-fully-owned subsidiaries
SOTP			**155**	

Source: HSIE Research

BUY

CMP ***(as on 12 Mar 2021)***	**INR131**
Target Price	**INR155**
NIFTY	**15,031**

KEY STOCK DATA	
Bloomberg code	ABCAP IN
No. of Shares (mn)	2,415
MCap (INR bn) / ($ mn)	317/4,361
6m avg traded value (INR mn)	431
52 Week high / low	INR 140/37

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	40.6	88.5	123.3
Relative (%)	30.4	57.8	81.0

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	70.5	70.5
FIs & Local MFs	8.4	8.2
FPIs	6.3	6.8
Public & Others	14.9	14.6
Pledged Shares	NA	NA

Source : BSE

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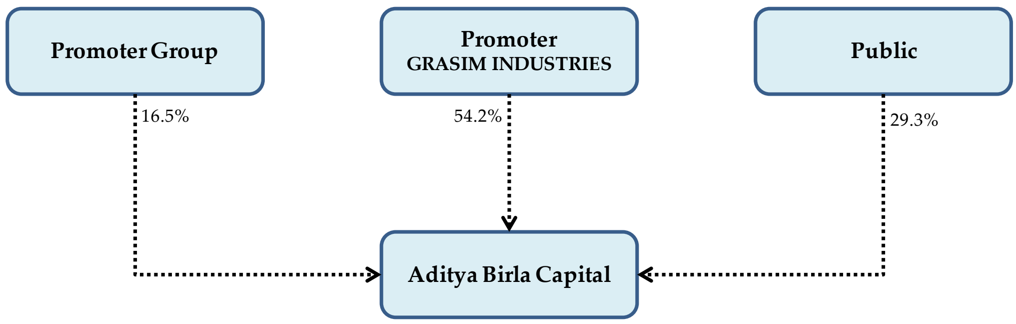
Structured for group's banking aspirations

- **Ticking the regulatory boxes:** ABCL is a core investment company (CIC) structured as a non-operative financial holding company (NOFHC) for all the financial services businesses of the Aditya Birla Group (ABG). The NOFHC structure was one of the precursors for banking aspirants under the RBI's 2013 "universal banking" norms. ABCL ticks all the relevant regulatory boxes from a governance, ownership structure and regulatory ring-fencing perspective. Whilst the RBI has historically been reluctant to open up licenses to industrial houses, recent policy noise has been suggestive of a change in stance. In fact, an RBI-appointed Internal Working Group (IWG) recently proposed continuation of NOFHC as a preferred structure for setting up new universal banks.

Exhibit 1: ABCL - ownership structure

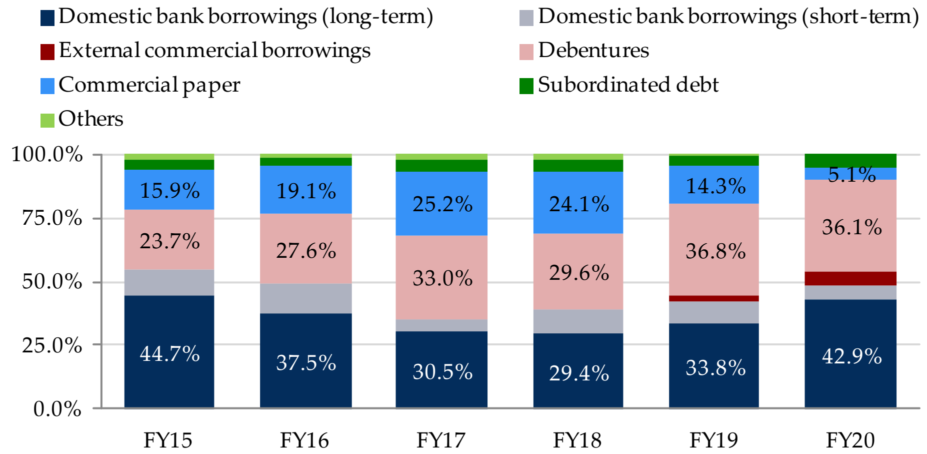


Source: Company, HSIE Research

- **Strategic significance to highly-rated sponsor:** As of Dec'20, ABCL is owned to the extent of 54.2% by its primary sponsor, Grasim Industries, the flagship company of the Aditya Birla Group of companies (ABG). Historically, the ABG group, through Grasim, has provided capital support and leadership support to ABCL, reflecting the latter's strategic importance to the group. During FY20, ABG infused INR10bn of the INR21bn raised by ABCL (~50% of the funds) - Grasim, the primary sponsor, infused 77% (INR7.7bn) of the promoter group support.

- **Dependence on sponsor:** The strategic importance of ABCL to ABG manifests itself across multiple parameters such as constant capital support, rating strength, and financial flexibility (access to and cost of borrowings).

Exhibit 2: ABCL's diversified borrowing mix denotes its financial flexibility



Source: Company, HSIE Research

Diversified suite of financial service businesses

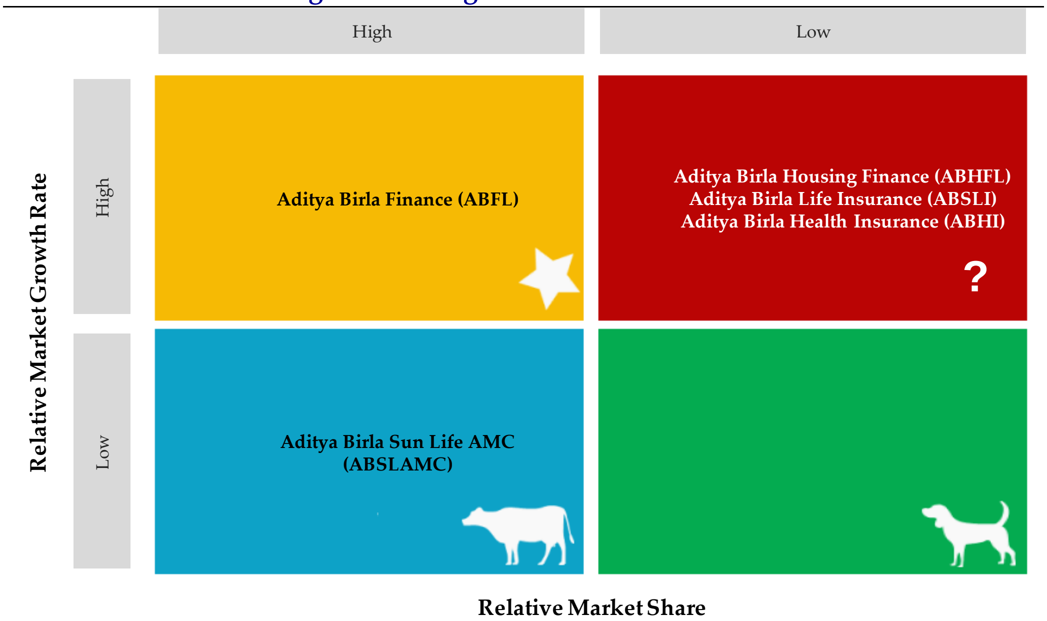
- **Well-diversified financial services businesses:** Aditya Birla Capital (ABCL) is a well-diversified financial services group with presence across various segments such as lending, life insurance, health insurance, asset management, asset reconstruction and securities broking, among others.

Exhibit 3: ABCL - a diversified presence across the financial services landscape

Source: Company, HSIE Research

- **A cash cow, a star and a few question marks that demand answers:** Given the varying nature of the multiple businesses within the ABCL group, we juxtapose these businesses on the BCG Growth-Share matrix. We believe this framework offers investors a fair assessment of the underlying business fundamentals.

Exhibit 4: Understanding ABCL using the BCG Growth-Share Matrix



Source: HSIE Research

While the Exhibit above captures the "relative growth" vs "market share" trade-off, profitability and return ratios for most businesses (other than ABSLAMC) remain sub-optimal and below franchise potential.

Value unlocking | Some of the parts > Sum of the parts?

- **"Value Unlock" or "Value Discovery":** With an annuity business (AMC) and a balance sheet business (NBFC) at varying degrees of scale and maturity and a handful of other businesses in need of investments to get to par-scale, we see significant benefits in ABCL exploring a "value unlock" or "value discovery" exercise. In fact, we believe such value unlocking is essential for the ABCL group to get more of its business engines firing and to rebuild its consolidated return ratios closer to the franchise's full-potential.

  In the businesses that we identify as question marks in the BCG framework in the earlier section, we observe a steep disconnect between current performance and potential performance - this results in the "discovered value" being significantly lower than "intrinsic value". In the Exhibit below, we map the journey to intrinsic value for each of the major businesses within the ABCL stable.

Exhibit 5: Value unlock and / or Value discovery exercise

Business / subsidiary	Current performance / franchise potential	Journey to intrinsic value
ABSLAMC	Near-potential	Value unlock - listing
ABSLI	40%	Invest
ABHI	40%	Invest
ABFL	60%	Value discovery - strategic partner
ABHFL	30%	Value discovery - strategic partner

Source: HSIE Research

Valuation

- **Valuation:** Given the diversified nature of each of the major businesses residing within ABCL, we adopt a sum-of-the-parts (SOTP-based) approach to value the consolidated entity.

Exhibit 6: SOTP-based valuation

Business	ABCL share (%)	Value for ABCL (INR bn)	Value/sh (INR)	Comments
ABSLI	51%	61.3	25.4	1.5x FY23 EV
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TOTAL		**391**	**162**	
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SOTP			**155**	

Source: HSIE Research

We initiate with a BUY and an SOTP-based target price of INR155 - we value the AMC business at INR240bn (7.2% of Mar'23 AUM) and the NBFC business at INR170bn (1.85x Mar'23 ABVPS) - these two mature businesses within the ABCL portfolio contribute ~75% of the aggregate SOTP-based valuation.

14 March 2021

INSTITUTIONAL RESEARCH

Aditya Birla Sun Life AMC

Citius, Altius, Fortius

With an extremely strong and diversified distribution network, Aditya Birla Sun Life AMC (ABSLAMC) emerges as a formidable force in our proprietary AMC Franchise Scorecard. ABSLAMC operates the fourth-largest mutual fund in the country and one of the most profitable AMC franchises (operating profit at 24bps of AAUM). With its share of higher-yielding equity within the AAUM poised to rise 263bps to 38% over FY21-23E and the consequent operating leverage (OP as bps of AAUM to improve from 24bps to 26bps), ABSLAMC's profitability trajectory is slated to become incrementally stronger (FY21-23E NOPLAT CAGR at 12%). We value ABSLAMC at INR240bn (implied valuation of 36.5x Mar'23E NOPLAT and 7.2% of Mar'23E AUM, a marginal premium over NAM-INDIA, the most comparable franchise on our proprietary AMC Franchise Scorecard (AMC-FS).

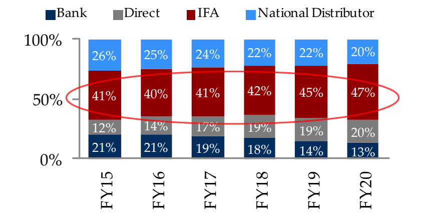
- **Formidable distribution network:** On the back of an AAUM market share of ~9% and market leadership in the fixed income segment (market share at >12%), ABSLAMC is firmly entrenched as a well-penetrated retail franchise (B-30 as % of AAUM at 16%) on the back of a formidable IFA channel.
- **Wind beneath the sails - built for speed:** Having emerged largely unscathed and incident-free from the corporate default episodes during the past 18 months, ABSLAMC has demonstrated a relatively pristine investment portfolio (best AUM outperformance score). With employee costs at sub-10bps of average AUMs (amongst the lowest in the industry), ABSLAMC runs an extremely lean, well-diversified and scalable franchise that is built for sustained speed. This reflects in the acceleration in key operating vectors (individual and retail AUM, B-30 AUM and NOPLAT) that the franchise has witnessed and that are likely to sustain over the next few years. We believe its leadership in B-30 markets and focus on cross-sell to existing customers offer tailwinds to growth and market share gains.
- **Operating leverage potential to marginally reflate ROEs:** With the share of higher-yielding equity in the AAUM mix likely to rise to 38% by FY23E (FY21E: 36%), we expect two-year revenue CAGR at 9%. With strong growth in AAUM (two-year CAGR of ~13%), we expect economies of scale to kick in as operating expenses ease marginally (by ~2bps as % of AAUM) over FY21E-23E. This is expected to drive 18% operating profit CAGR over FY21E-23E.
- **Valuation:** We value ABSLAMC at INR240bn, implying a valuation of 36.5x Mar'23 NOPLAT and 7.2% of Mar'23 AAUM, in line with our proprietary AMC Franchise Scorecard (AMC-FS).

Financial Summary

(INR mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenues	**13,268**	**11,597**	**10,985**	**12,825**	**14,042**
Growth (%)	**9.1**	**-12.6**	**-5.3**	**16.8**	**9.5**
EBITDA	5,794	6,276	6,245	7,689	8,566
EBITDA margin (%)	43.7	54.1	56.9	59.9	61.0
Growth (%)	29.0	8.3	(0.5)	23.1	11.4
PAT	**4,475**	**4,944**	**5,192**	**6,108**	**6,923**
PAT growth (%)	39.0	10.5	5.0	17.6	13.4
RoE (%)	**39.0**	**38.9**	**36.2**	**36.5**	**36.1**

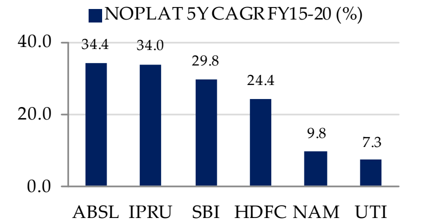
Source: Company, HSIE Research

Higher share of total AUM coming from IFAs



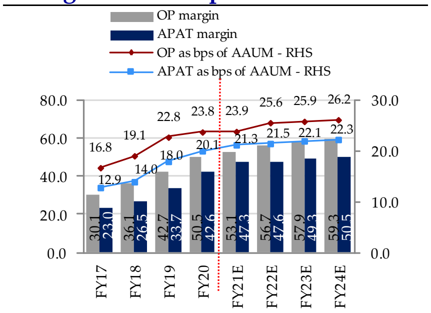
Source: Company, HSIE Research

NOPLAT grew the fastest for ABSLAMC



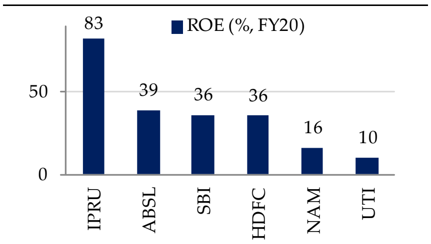
Source: Company, HSIE Research

Margins set to improve



Source: Company, HSIE Research

Best in class RoEs



Source: Company, HSIE Research

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Benchmarking the asset management business

Constructing the AMC Franchise Scorecard (AMC-FS)

We construct our proprietary Asset Management Company Franchise Scorecard (AMC-FS) using a combination of metrics that encompass distribution, granularity, equity performance, growth and financial performance.

Exhibit 7: AMC Franchise Scorecard (AMC-FS)

	ABSLAMC	HDFCAMC	NAMC	UTIAM	SBIAMC	IPRUAMC
PILLAR I: Equity performance						
Outperforming AUM as a % of rated AUM (Dec-20)	◕	○	◔	◕	●	●
Equity m. Share	◕	●	◕	◑	●	◕
Avg. share of equity in AUM*	◕	●	●	◕	◕	●
PILLAR II: Granularity						
Avg Retail AUM share in mix*	◑	◑	●	●	◔	◔
Avg Individual AUM share in mix*	◕	●	●	◕	◕	●
Retail AUM M. Share	◕	●	◕	◑	◕	◕
Individual AUM M. Share	◑	●	◔	○	●	●
Individual AUM CAGR FY15-9MFY21	◔	◔	○	○	●	◔
Retail AUM CAGR FY15-9MFY21	●	◔	◑	○	●	◕
PILLAR III: Distribution						
B-30 market share	◔	◑	◔	◔	●	◑
B-30 mix within AUM	◑	◑	◕	●	●	◑
B-30 AUM CAGR FY15-9MFY21	◑	◔	○	○	●	◑
PILLAR IV: Financial Strength						
OP margin	◕	●	◑	◔	◕	●
RoE	◑	◔	○	○	◔	●
OP as bps of AAUM	◑	●	◕	◔	◑	●
5Y CAGR FY15-FY20						
Revenue	◑	◑	◔	○	●	◕
NOPLAT	●	◕	◔	○	●	●
PAT	●	◕	○	○	●	●

Note: Full circle denotes the best AMC for every parameter.
Source: Companies, NAV India, Value Research, HSIE Research

AMC-FS parameters definition

Pillar I: Equity performance

- **Outperforming AUM as a % of rated AUM:** Indicates the share of outperforming AUM (4-star and plus) as a % of rated AUM. Rated AUM denotes the share of AUM rated by Values Research within total AUM.
- **Equity market share:** Denotes share of each franchise's equity AUM within the overall industry equity AUM.
- **Average share of equity in AUM**: Captures the past 19-quarter average share of equity AUM within total AUM for each franchise.

Pillar II: Granularity

- **The average retail AUM share in mix**: Captures the past ~six-year average share of retail AUM within total AUM for each franchise. Retail AUM is defined as <INR 0.2mn/transaction.
- **Average individual AUM share in mix**: Captures the past ~six-year average share of individual (retail + HNI) AUM within total AUM for each franchise.
- **Retail AUM market share:** Denotes the share of each franchise's retail AUM within the overall industry retail AUM.
- **Individual AUM market share:** Denotes the share of each franchise's individual AUM within the overall industry individual AUM.
- **Retail AUM CAGR (FY15-9MFY21):** Captures the compounded annual growth in retail AUM over the past ~six years for each franchise.
- **Individual AUM CAGR (FY15-9MFY21):** Captures the compounded annual growth in individual AUM over the past ~six years for each franchise.

Pillar III: Distribution

- **B-30 market-share:** Denotes the share of each franchise's B-30 AUM within overall industry B-30 AUM.
- **B-30 mix in AUM:** Indicates the share of B-30 AUM within total AUM for each franchise.
- **B-30 AUM CAGR (FY15-9MFY21):** Captures the compounded annual growth in B-30 AUM over the past ~six years for each franchise.

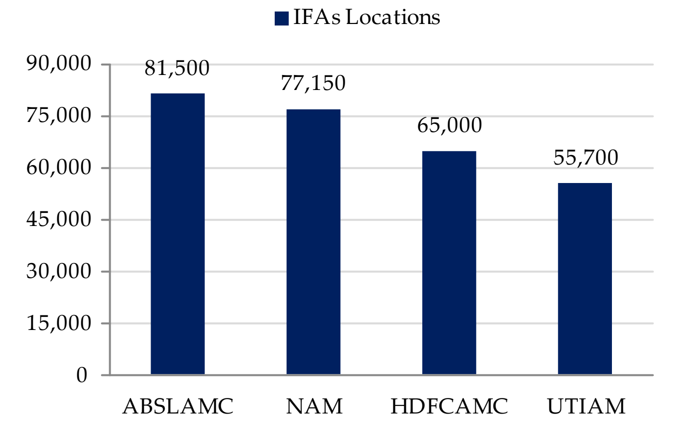
Pillar IV: Financial Strength

- **Operating profit (OP) margin:** Captures the profitability in terms of operating profit (PBT-other income) as a % of revenue.
- **Return on Equity (RoE):** Captures financial performance by analysing adjusted profit after tax in relation to the shareholder equity.
- **OP as bps of average AUM:** Captures operating profitability by analysing operating profits with average AUM.
- **Revenue CAGR (FY15-FY20):** Captures the compounded annual growth in revenues over the past ~six years for each franchise.
- **NOPLAT CAGR (FY15-FY20):** Captures the compounded annual growth in NOPLAT (PBT less other income adjusted for tax) over the past ~six years for each franchise.
- **PAT CAGR (FY15-FY20):** Captures the compounded annual growth in APAT over the past ~six years for each franchise.

Formidable distribution network

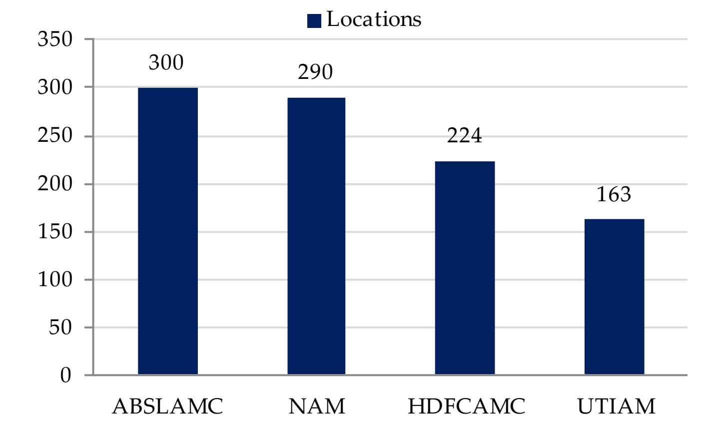
- On the back of an AAUM market share of ~9% (Dec-20) and market leadership in the fixed income segment (market share at >10%), ABSLAMC is firmly entrenched as a well-penetrated retail franchise (B-30 as % of AAUM at 16%) on the back of a formidable IFA channel. With a network of >80k IFAs, ABSLAMC boasts of the largest IFA network amongst its peers.
- Given the fact that ABSLAMC doest not have an associate banca partner, ABSLAMC has focused on growing on the back of the highly profitable IFA channel (the highest number of IFAs empanelled). ABSLAMC strategises on capturing markets where it has a lower market share by empanelling IFAs in those regions and opening branches. With a strong and diversified network coupled with the emerging trend on financialisation of savings, ABSLAMC is well-capitalised to capture the under-penetrated market.

Exhibit 8: Largest IFA network amongst listed peers



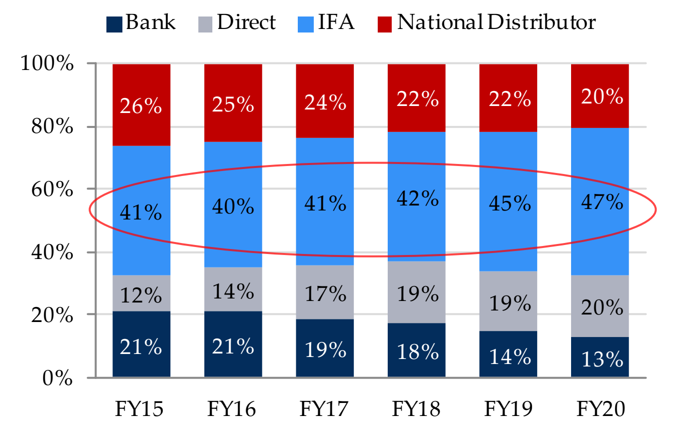
Source: Companies, HSIE Research

Exhibit 9: Highest branch network vs. listed peers



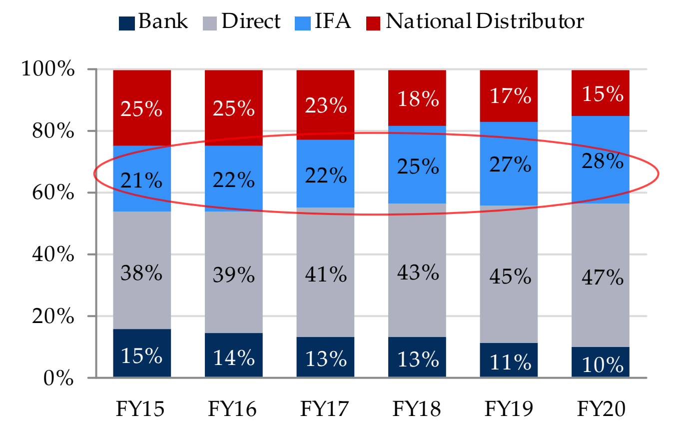
Source: Companies, HSIE Research

Exhibit 10: Higher share of equity AUM coming from IFAs



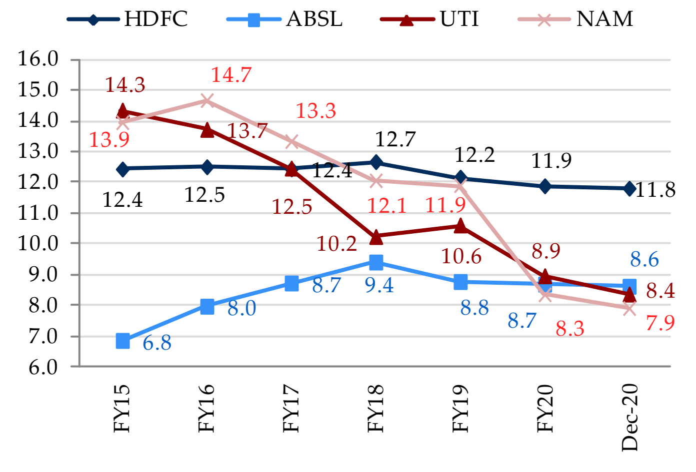
Source: Company, HSIE Research

Exhibit 11: Higher share of total AUM coming from IFAs



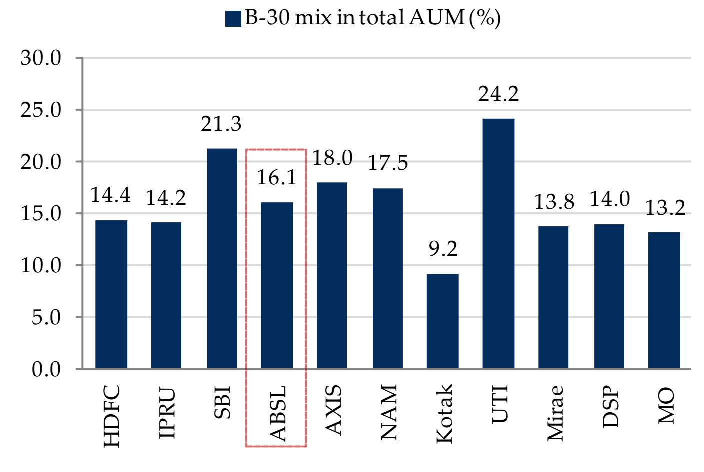
Source: Company, HSIE Research

Exhibit 12: : Market-share in B-30 cities vs. listed peers



Source: Companies, HSIE Research

Exhibit 13: : Higher share of B-30 AUM vs. HDFCMF (Dec-20)



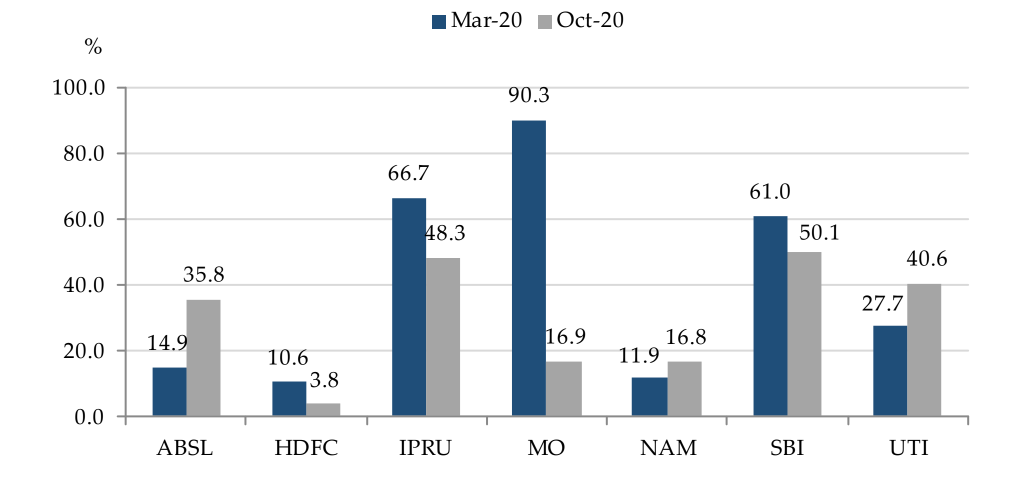
Source: Company, HSIE Research

Wind beneath the sails - built for speed:

- Having emerged largely unscathed and incident-free from the corporate default episodes during the past 18 months, ABSLAMC has demonstrated a relatively pristine investment portfolio (second-best equity AUM outperformance score vs. listed peers). (Refer AMC-FS).

- We believe that ABSLAMC's encouraging performance i.e., 35.8% of the rated equity AUM outperforming (4-star and above), backed by strong brand name, is expected to drive inflows and AUM higher.

Exhibit 14: Outperforming AUM as a % of rated AUM

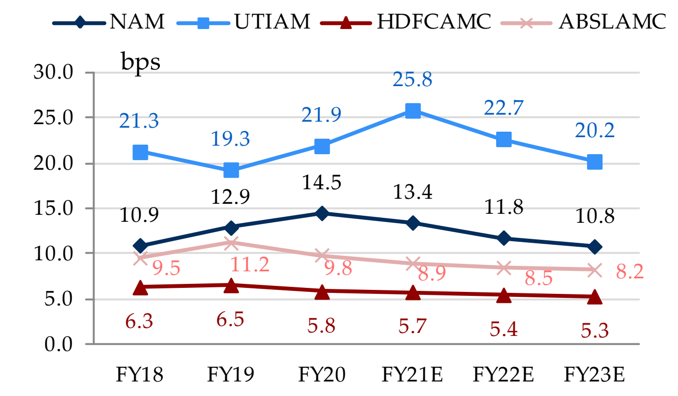


Source: NAV India, Value Research and HSIE Research

- With employee costs at sub-10bps of average AUMs (amongst the lowest in the industry), ABSLAMC runs an extremely lean, well-diversified and scalable franchise that is built for sustained speed. This reflects in the acceleration in key operating vectors (individual and retail AUM, B-30 AUM and NOPLAT) that the franchise has witnessed and which are likely to sustain over the next few years.

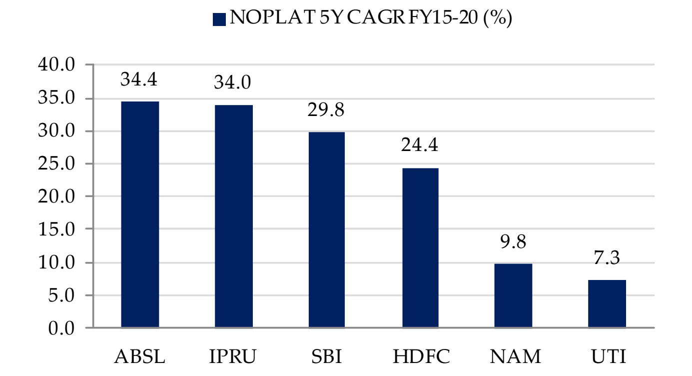
- ABSLAMC has put in relentless efforts towards building a strong retail franchise by growing stickier and granular AUM (retail and individual AUM). Multi-fold increase in MF folios (25% CAGR over the past five years) and increasing share of SIP in equity AUM have resulted in super-accelerated growth in retail AUM (second to SBIMF). A calibrated approach has enabled ABSLAMC to deliver the steepest NOPLAT (PBT less other income less tax) growth compared to peers.

Exhibit 15: Employee cost as bps of AUM vs. listed peers



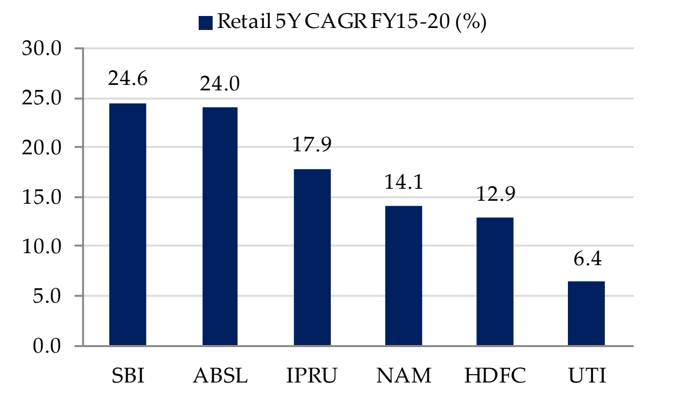
Source: Companies, HSIE Research

Exhibit 16: NOPLAT grew the fastest for ABSLAMC



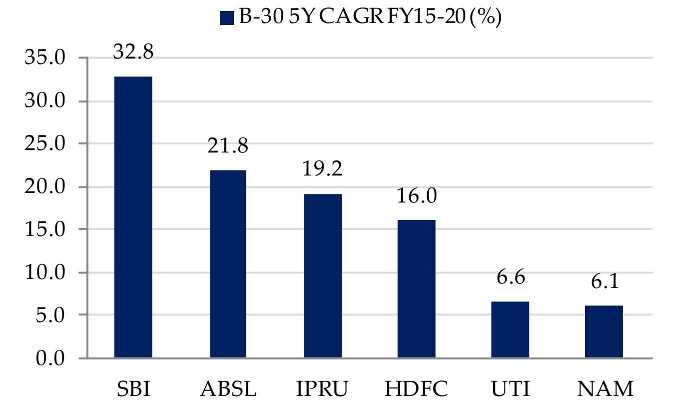
Source: Companies, HSIE Research

Exhibit 17: ABSLAMC's strong growth in Retail AUM



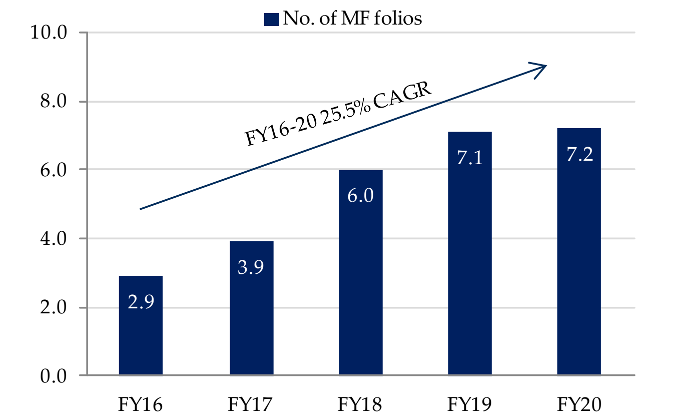
Source: NAV India, HSIE Research

Exhibit 18: ABSLAMC's strong growth in B-30 AUM



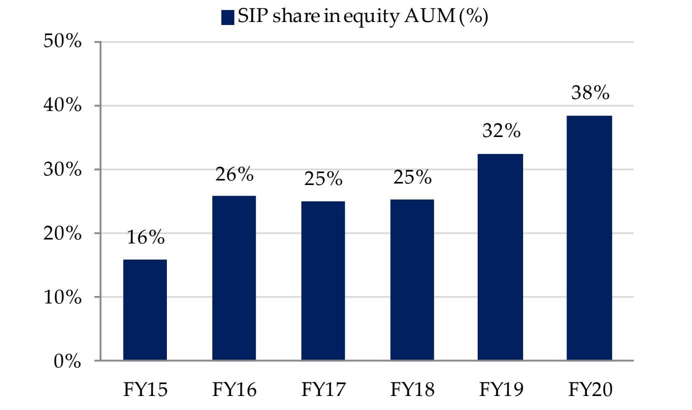
Source: NAV India, HSIE Research

Exhibit 19: Folios grew at an accelerated pace



Source: Company, HSIE Research

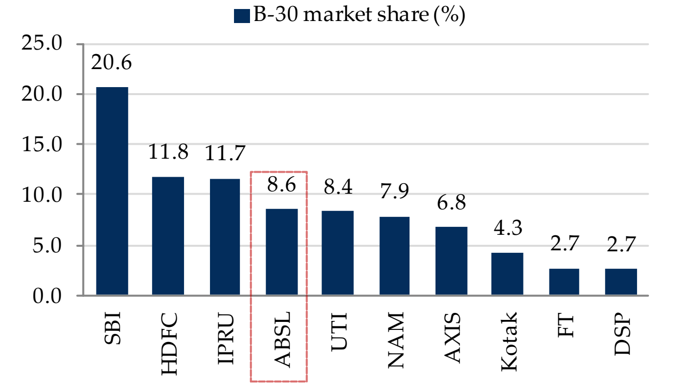
Exhibit 20: Increasing contribution of SIP to equity AUM



Source: Company, HSIE Research

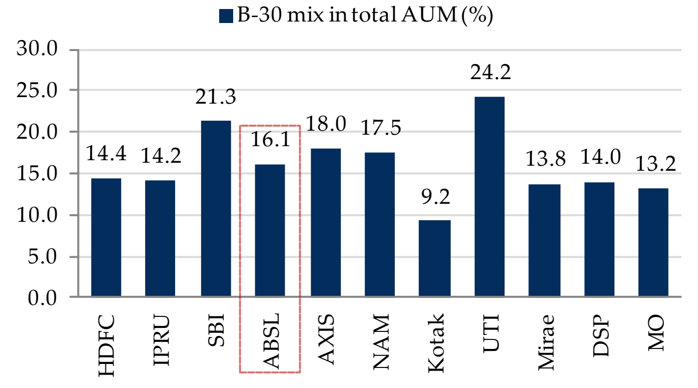
- We believe its leadership in B-30 markets, new fund offerings in new segments, and focus on cross-sell to existing customers offer tailwinds to growth and market share gains.
- In the recent past, with launch of two NFOs in segments it was not present in, **("ABSL Special Opportunities Fund" and "ABSL ESG fund"),** AMC is scaling up to close plugs and recoup market share. Massive opportunity rests within the group in terms of cross-sell and up-sell with an active client base of 20mn. With product per customer at 1.57 for AMC business (within the business) in 9MFY21, we believe it can scale up further to 2 over the next few years. We believe that "cross-selling across business" with such a large client base will be a true value generator.

Exhibit 21: 4th largest in B-30 markets despite no associate banca partner



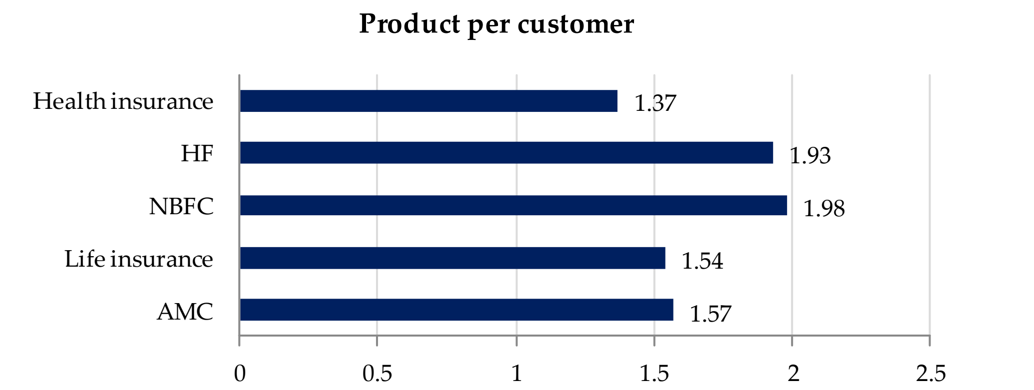
NAV India and HSIE Research

Exhibit 22: : Higher share of B-30 AUM vs. HDFCMF (Dec-20)



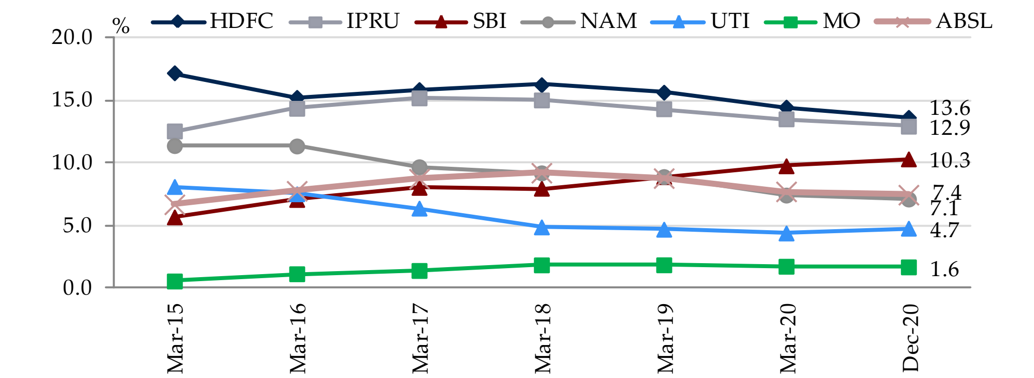
Source: Company, HSIE Research

Exhibit 23: Up sell opportunity



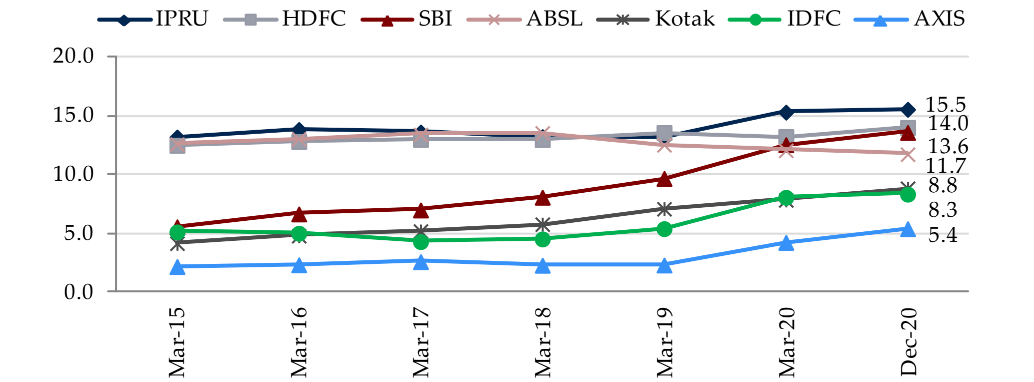
Source: Company, HSIE Research

Exhibit 24: Equity market share across major AMCs



Source: NAV India, Value Research and HSIE Research

Exhibit 25: Debt market share across major AMCs

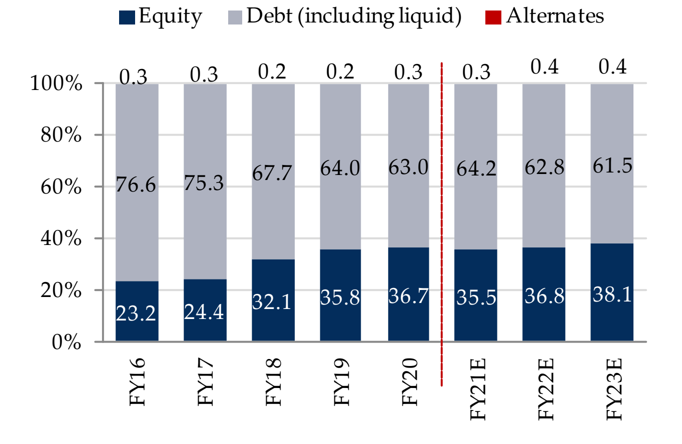


Source: NAV India, Value Research and HSIE Research

Operating leverage potential to marginally reflate ROEs

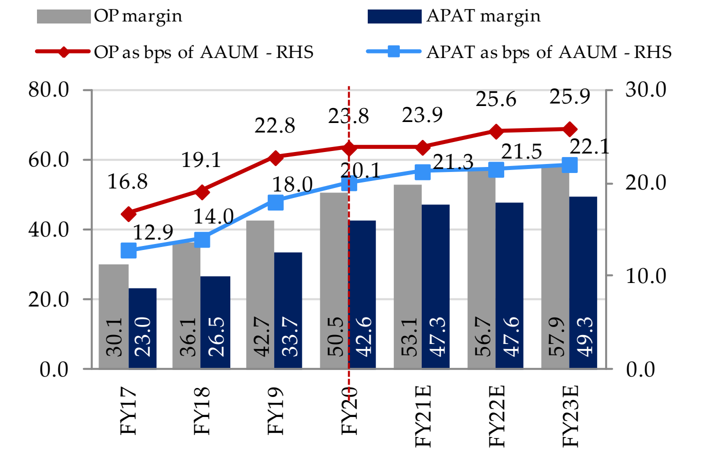
- With the share of higher-yielding equity in the AAUM mix likely to rise to 38% by FY24E (FY21E: 36%), we expect three-year revenue CAGR at 9%. With strong growth in AAUM (two-year CAGR of 13%), we expect economies of scale to kick in as operating expenses ease marginally (by ~2bps as % of MF AAUM) over FY21E-23E. This is expected to drive operating profits/APAT CAGR of 12/10% over FY21E-23E.
- Being an asset-light business model, ABSLAMC is expected to enjoy operating efficiencies as AUM further scales up. We believe the total operating expenses as bps of AAUM (21.6bps FY20) are still sub-par to HDFCAMC (13.0bps FY20) and there is significant headroom for improvement. Driven by both strong growth in AUM and operating efficiencies, ABSLAMC enjoys one of the best ROEs in the industry at ~39% (FY20).

Exhibit 26: Share of equity in mix to rise



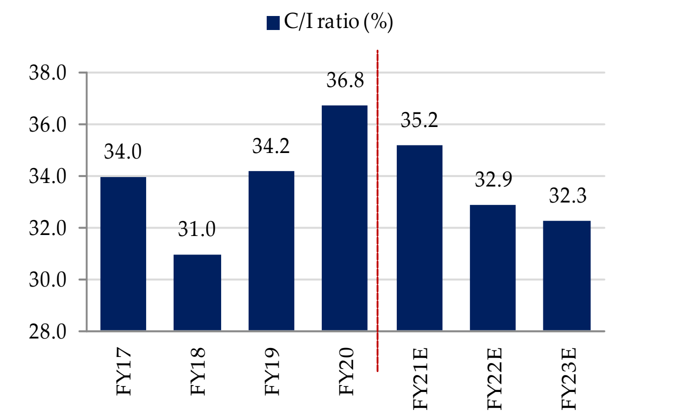
Source: Company, HSIE Research

Exhibit 27: Margins set to improve



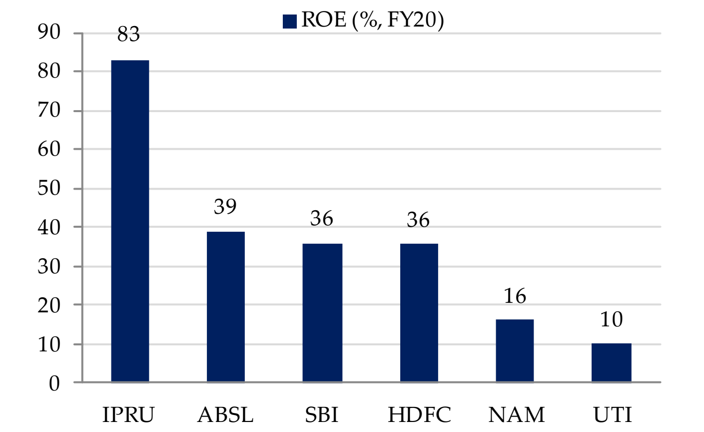
Note: Operating profits (OP) = PBT-OI.
Source: Company, HSIE Research

Exhibit 28: Impressive C/I ratio trajectory



Source: Respective Company, HSIE Research

Exhibit 29: Generates best in class ROEs



Source: Company, HSIE Research

Valuation

- We forecast that total MF AAUM would grow at a 13% CAGR over FY21-23E with the share of active equity improving from 36% to 38% (+263bps).
- We expect equity yields to compress by ~4bps over FY21-23E (-2.7% CAGR) as pricing is expected to remain competitive in this segment. Blended MF yields are expected to remain flattish with 0.3% CAGR over FY21-23E.
- We expect operating profit/ PAT to record an FY21-23E CAGR of 18/16%. The business delivered a RoE/RoIC of 38/1,656% in FY20. We expect the business to deliver an RoE of 36-37% over FY21-23E and ROIC of 1,357-1,736% over FY21-23E.
- We value the company on a DCF basis with key assumptions as:
  - Long-term AAUM growth of 15% over FY24-31E
  - Long-term NOPLAT (as bps of AAUM): 19.5-19.9bps
  - Cost of equity: ~11%
- We value ABSLAMC at INR240bn (implying a multiple of 36.5x Mar'23E EV/NOPLAT).

Exhibit 30: NOPLAT trend and estimates

Companies	NOPLAT CAGR (FY21E-23E, %)	NOPLAT (INR bn)	Derived multiple (x)
ABSLAMC	18.1	6.1	36.5
NAM	16.9	5.5	32.8
UTIAM	32.5	2.9	18.4

Source: HSIE Research

Financials

Income Statement

(INR mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Revenues	**7,652**	**9,685**	**12,161**	**13,268**	**11,597**	**10,985**	**12,825**	**14,042**
Growth (%)	**28.4%**	**26.6%**	**25.6%**	**9.1%**	**-12.6%**	**-5.3%**	**16.8%**	**9.5%**
Employee benefits expenses	1,736	1,977	2,187	2,775	2,420	2,178	2,396	2,576
Operating expenses	2,797	4,719	5,481	4,698	2,901	2,562	2,741	2,900
EBITDA	**3,119**	**2,989**	**4,493**	**5,794**	**6,276**	**6,245**	**7,689**	**8,566**
EBITDA Margin (%)	**40.8**	**30.9**	**36.9**	**43.7**	**54.1**	**56.9**	**59.9**	**61.0**
EBIDTA Growth (%)	**97.3%**	**-4.2%**	**50.3%**	**29.0%**	**8.3%**	**-0.5%**	**23.1%**	**11.4%**
Depreciation	89	78	98	132	365	361	364	380
EBIT	**3,030**	**2,911**	**4,394**	**5,663**	**5,911**	**5,885**	**7,324**	**8,186**
Other Income (includes treasury)	106	460	449	805	751	1,105	892	1,122
Interest & Financial Charges	-	-	-	-	54	52	54	56
PBT	**3,136**	**3,371**	**4,843**	**6,468**	**6,607**	**6,938**	**8,162**	**9,252**
Tax	1,109	1,139	1,623	1,992	1,663	1,747	2,055	2,329
RPAT	**2,027**	**2,232**	**3,220**	**4,475**	**4,944**	**5,192**	**6,108**	**6,923**
APAT	**2,027**	**2,232**	**3,220**	**4,475**	**4,944**	**5,192**	**6,108**	**6,923**
APAT growth (%)	**64.4%**	**10.1%**	**44.3%**	**39.0%**	**10.5%**	**5.0%**	**17.6%**	**13.4%**
AEPS	**112.6**	**124.0**	**178.9**	**248.6**	**274.7**	**288.4**	**339.3**	**384.6**
EPS Growth (%)	**64.4%**	**10.1%**	**44.3%**	**39.0%**	**10.5%**	**5.0%**	**17.6%**	**13.4%**

Source: Company, HSIE Research

Balance Sheet

(INR mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
SOURCES OF FUNDS								
Share Capital	180	180	180	180	180	180	180	180
Reserves	7,614	9,236	10,546	12,054	12,989	15,325	17,768	20,191
Minority Interest								
Total Shareholders' Funds	**7,794**	**9,416**	**10,726**	**12,234**	**13,169**	**15,505**	**17,948**	**20,371**
Long-term Debt	-	-	-	-	621	646	672	698
Short-term Debt	-	-	-	-	-	-	-	-
Total Debt	**-**	**-**	**-**	**-**	**621**	**646**	**672**	**698**
Other Financial Liabilities & Provisions	451	515	8	-	-	-	-	-
Other Non Current Liabilities	10	14	20	-	-	-	-	-
Net Deferred Tax Liability	(221)	(265)	(55)	79	146	-	-	-
TOTAL SOURCES OF FUNDS	**8,034**	**9,680**	**10,699**	**12,313**	**13,936**	**16,151**	**18,620**	**21,069**
APPLICATION OF FUNDS								
Net Block	**142**	**185**	**254**	**324**	**872**	**896**	**942**	**983**
Loans & Deposits	740	716	1,102	159	4	4	4	4
Other Non Financial Assets	1,812	2,335	3,383	1,537	936	1,170	1,287	1,416
Total Non-current Assets	**2,695**	**3,236**	**4,739**	**2,019**	**1,812**	**2,070**	**2,233**	**2,403**
Current Investments	4,830	6,672	7,304	11,381	12,634	14,485	16,981	19,327
Debtors	194	568	398	257	395	301	316	346
Cash & Equivalents	258	259	110	385	469	561	618	687
Loans & Advances	1,060	909	943	127	127	140	154	169
Other Current Assets	177	90	67	170	274	280	285	291
Total Current Assets	**6,519**	**8,498**	**8,822**	**12,319**	**13,899**	**15,766**	**18,354**	**20,821**
Creditors	310	464	1,985	755	464	602	703	769
Other Current Liabilities	870	1,590	876	1,270	1,310	1,083	1,265	1,385
Total Current Liabilities	**1,180**	**2,054**	**2,861**	**2,025**	**1,774**	**1,685**	**1,968**	**2,154**
Net Current Assets	**5,339**	**6,444**	**5,960**	**10,293**	**12,125**	**14,081**	**16,387**	**18,666**
TOTAL APPLICATION OF FUNDS	**8,034**	**9,680**	**10,699**	**12,313**	**13,936**	**16,151**	**18,620**	**21,069**

Source: Company, HSIE Research

Key Ratios

	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Profitability (%)								
EBITDA Margin	40.8	30.9	36.9	43.7	54.1	56.9	59.9	61.0
EBIT Margin	39.6	30.1	36.1	42.7	50.5	53.1	56.7	57.9
APAT Margin	26.5	23.0	26.5	33.7	42.6	47.3	47.6	49.3
RoE	29.9	25.9	32.0	39.0	38.9	36.2	36.5	36.1
Core RoCE	186	369	7,401	1,972	1,656	1,677	1,357	1,736
RoCE	29.9	25.9	32.0	39.0	38.9	36.2	36.5	36.1
PER SHARE DATA								
AEPS (INR/sh)	113	124	179	249	275	288	339	385
CEPS (INR/sh)	118	128	184	256	295	308	360	406
DPS (INR/sh)	0	0	0	167	183	159	204	250
BV (INR/sh)	433	523	596	680	732	861	997	1,132

Source: Company, HSIE Research

Aditya Birla Finance

Asset-mix rebalancing to drive ROE reflation

Aditya Birla Finance (ABFL), the flagship diversified NBFC business of Aditya Birla Capital, is poised for +200bps RoE reflation over FY20-23E, driven by a best-in-class liability franchise and a change in asset mix towards granular lending. Our lateral checks with lenders, rating agencies and syndicators suggest that ABFL's strong liability franchise, anchored by its parentage, has historically allowed the company to build a relatively low-risk, low-yielding wholesale book (43% of loans). We expect the share of wholesale lending to decline to ~38% by FY23E as the management focuses on 'right-sizing' the legacy wholesale portfolio, thus driving a reflation in asset yields and, consequently, RoEs (12.6% in FY23E). We value ABFL at INR170bn (1.85x Mar'23 adjusted net worth).

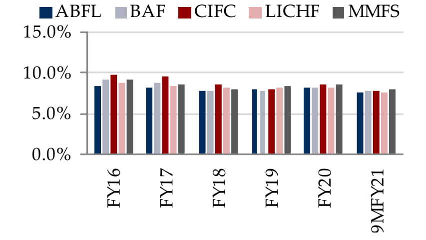
- **Strong parentage drives best-in-class liability franchise:** As the flagship lending business of the highly-rated Aditya Birla Group, ABFL has emerged stronger from the post-IL&FS crisis, on the back of its best-in-class liability franchise. This has manifested in a diversified borrowing mix, superior credit ratings, and funding costs comparable to those of other well-sponsored NBFCs. Easy access to low-cost funds should allow ABFL to advance further into relatively more competitive granular asset classes. We believe that easy access to low-cost debt is the most significant benefit accruing to minority shareholders from ABFL's parentage.
- **Wholesale book 'right-sizing' underway:** ABFL has consciously trimmed its mix of wholesale loans from ~50% in FY17 to ~43% in 3QFY21, resulting in lower concentration risks. This has also been accompanied by a 25% decline in wholesale average ticket size to INR570mn in 9MFY21 (FY18: INR 760mn). Despite the recent rise in stress from this segment, our lateral checks suggest that ABFL's wholesale portfolio is characterised by 'near-bankable' and 'low-risk, low-yielding' credit. Our analysis suggests that ABFL is likely to face relatively lower latent stress than a typical NBFC wholesale portfolio.
- **RoE improvement on the cards:** A comparison with peers suggests that ABFL's pre-pandemic RoE trajectory has been sub-par, largely on account of the predominance of wholesale loans and the resultant drag from lower margins, and higher provisioning costs. Our segment-wise analysis suggests that wholesale RoEs could be half of retail and SME RoEs. With an accelerating shift in the book mix towards granular high-RoE businesses, we expect ABFL's RoAEs to reflate from 10.5% in FY20 to 12.6% by FY23E.

Financial Summary

(INR mn)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net int. inc.	11,044	15,335	19,054	20,448	18,725	21,443	28,277
PPOP	9,308	12,649	15,004	17,600	15,422	16,647	21,666
PAT	5,852	6,951	8,341	8,049	6,724	9,371	13,052
EPS (INR)	9.3	10.8	12.6	12.2	10.2	14.2	19.7
ROAE (%)	13.5%	12.4%	12.3%	10.5%	8.0%	10.2%	12.6%
ROAA (%)	1.9%	1.8%	1.7%	1.5%	1.3%	1.7%	2.2%
ABV	79	96	110	122	132	146	166
Loan growth	33.4%	26.4%	19.3%	-8.4%	-2.4%	10.9%	13.8%
GS III (%)	0.5%	0.9%	1.6%	4.0%	4.7%	4.0%	3.2%
NIM (%)	3.7%	4.0%	4.0%	4.1%	3.9%	4.4%	5.2%

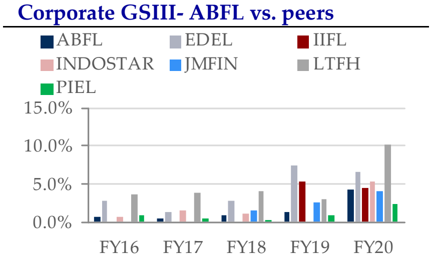
Source: Company and HSIE Research

CoF at par with well-sponsored peers'



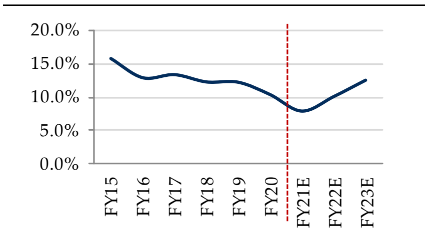
Source: Companies, HSIE Research

Corporate GSIII- ABFL vs. peers



Source: Company, HSIE Research

RoAE trends and estimates



Source: Company, HSIE Research

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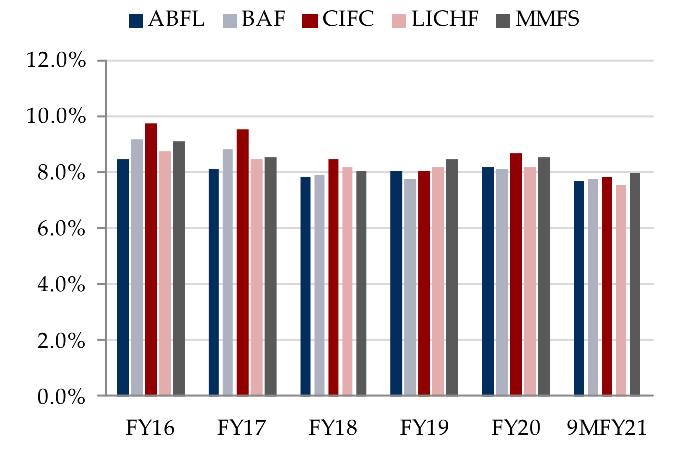
Strong parentage drives best-in-class liability franchise

- We believe the evidence of ABFL's funding-side strength is three-fold: (1) ABFL's diversified borrowing mix, (2) favourable credit ratings, with rating agencies drawing significant comfort from sponsorship, and (3) CoF comparable with those of other well-sponsored NBFCs. We thus believe that ease in accessing low-cost debt is the most significant benefit accruing to minority shareholders from ABFL's strong parentage.

- Post the events of 2HCY18 (IL&FS and DHFL episodes), the impact of drying up of funding was skewed across the NBFC universe. The space witnessed increasing polarisation, driven by NBFCs' differentiated ability to access funds. Amongst other factors, sponsorship has played a critical role in allowing NBFCs to raise debt. Consequently, well-sponsored NBFCs such as ABFL have had a disproportionate advantage in raising funds from banks and capital markets.

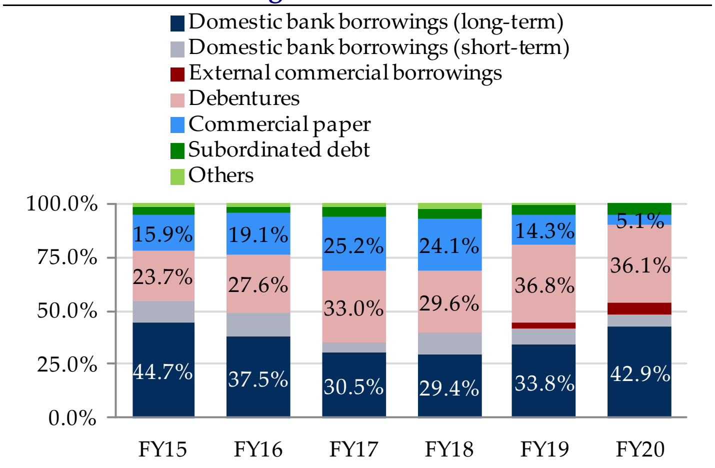
- This phenomenon was exacerbated by COVID-19, with well-sponsored NBFCs raising funds at never-heard-before rates while small to medium-sized NBFCs' CoF remained relatively sticky. We expect this trend to continue and believe that NBFCs such as ABFL, will continue to have better access to debt capital. This is essential as ABFL looks for asset-side market share gains in highly competitive segments such as retail and SME finance.

Exhibit 31: CoF at par with well-sponsored peers'



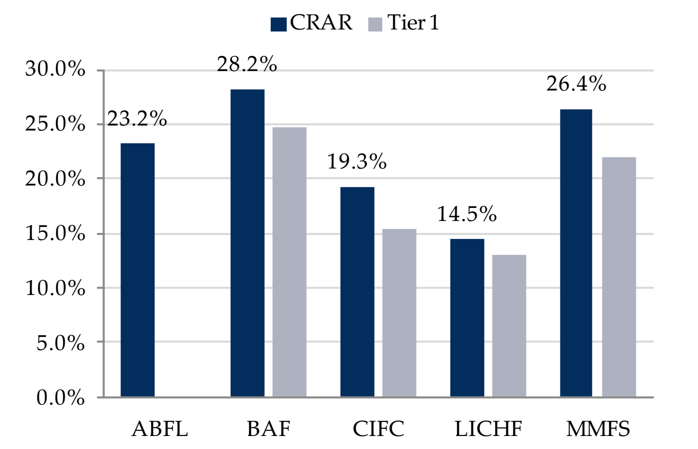
Source: Companies, HSIE Research

Exhibit 32: Borrowing mix trends



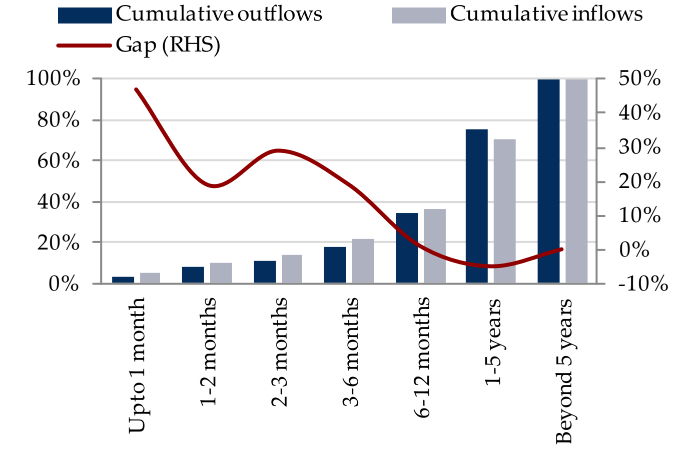
Source: Company, HSIE Research

Exhibit 33: CRAR: ABFL vs. peers



Source: Companies, HSIE Research

Exhibit 34: Current ALM profile indicates comfortable near-term surpluses

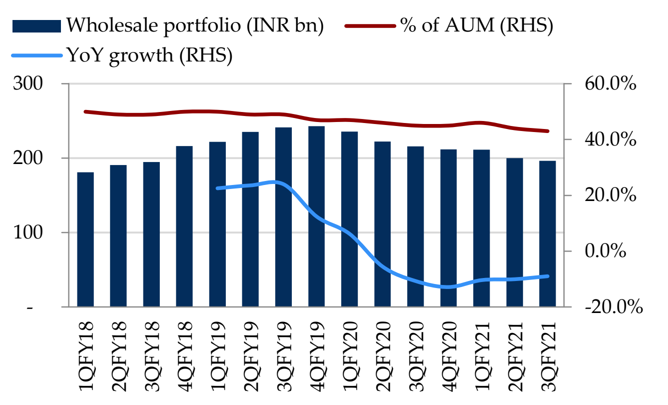


Source: Company and HSIE Research

'Right-sizing' the wholesale portfolio

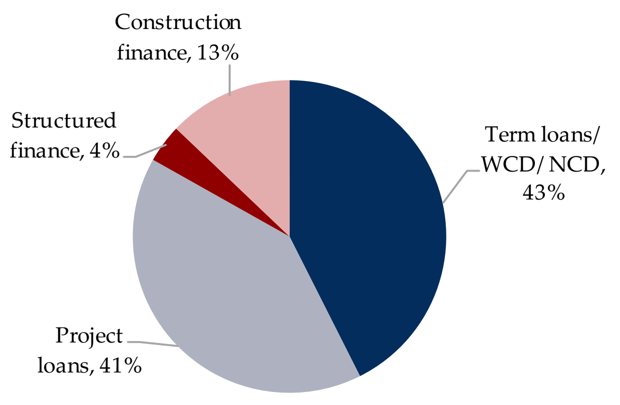
- Wholesale lending has been ABFL's mainstay since inception. However, the share of the wholesale portfolio has declined from ~50% in FY17 to ~43% in 3QFY21. Wholesale ATS has declined by 25% from INR 760mn to INR 570mn. Further, project loans which comprise infrastructure lending form one of the largest sub-components of the wholesale portfolio at ~INR 81bn (~41% share) and its share has increased from ~30% in FY17.

Exhibit 35: Wholesale portfolio trends



Source: Company, HSIE Research

Exhibit 36: Current wholesale portfolio mix



Source: Company, HSIE Research

- While the management maintains that ABFL has followed a largely sector-agnostic approach to this portfolio, statutory disclosures indicate significant exposure to certain sectors such as real estate, renewable energy, lease rental discounting, roads, textiles, hotels, and NBFCs.

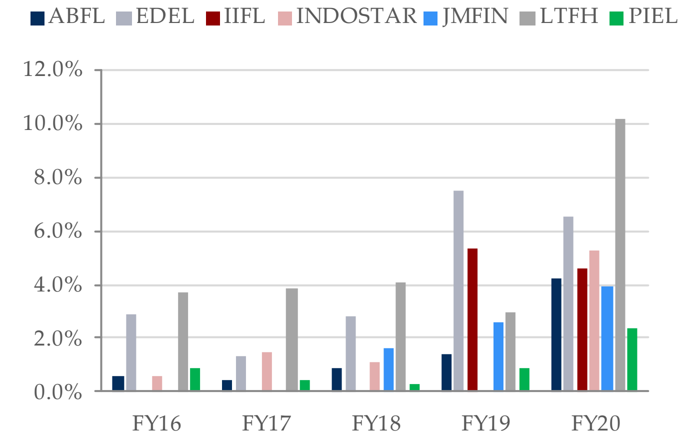
Exhibit 37: Exposure to top 20 sectors

Particulars	Share
Real estate activities	14.9%
Energy renewable	6.9%
Lease rental discounting	6.7%
Construction finance	6.3%
Textiles	4.1%
Hotels, motels and resorts	3.4%
NBFCs	3.2%
Other trade	2.9%
Education	2.8%
Transport	2.6%
Domestic commercial banks	2.5%
Energy T&D	1.9%
Hospitals and medical businesses	1.9%
Automobiles	1.5%
Food and beverages	1.4%
Brokers/ traders (shares and securities)	1.4%
Pharmaceuticals	1.3%
Finance (investments and others	1.2%
Business and self-employed	1.2%
Mining and quarrying	1.2%
Others	30.8%

Source: Company, HSIE Research

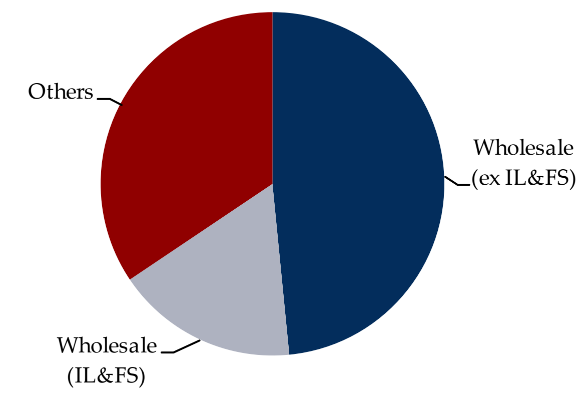
- Historically, wholesale-facing NBFCs have benefited from the structural arbitrage offered by the NBFC business model, making them attractive players in the real estate and infrastructure financing markets. Recently, however, the benefit accorded by way of the structural arbitrage has been offset by elevated credit costs, and ABFL has been no exception. Most of the rise in Stage III, from 1%< to ~4%, was driven by the wholesale segment.

Exhibit 38: Corporate GSIII- ABFL vs. peers



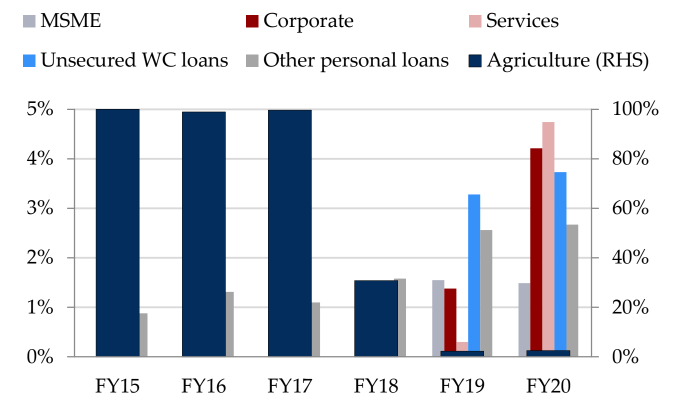
Source: Company, HSIE Research

Exhibit 39: Wholesale loans account for ~66% of GS III



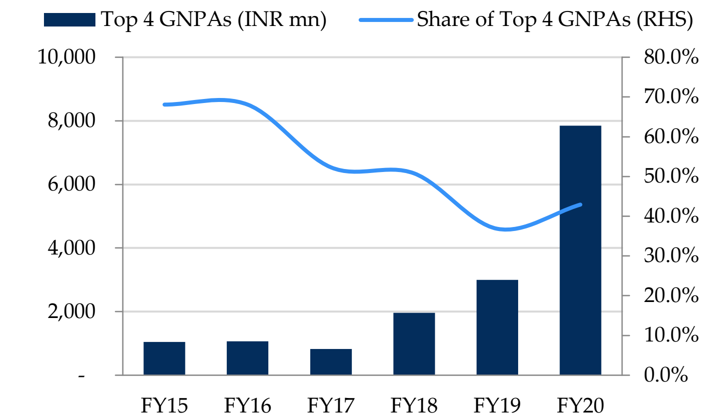
Source: Company, HSIE Research

Exhibit 40: Segment-wise trends reveal a sharp rise in corporate and services NPAs



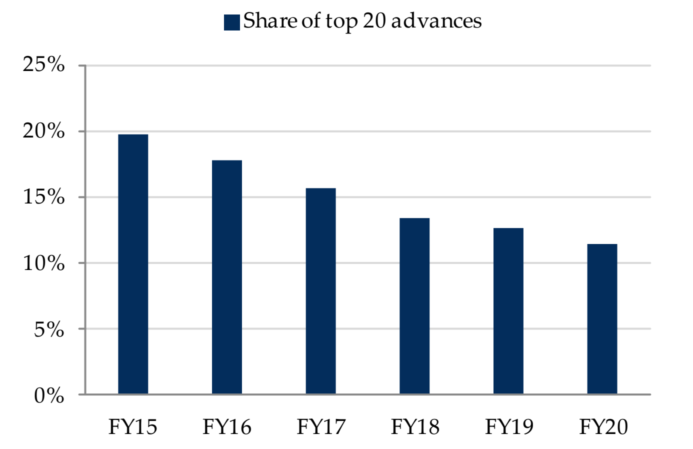
Source: Respective Company, HSIE Research

Exhibit 41: Contribution of Top 4 GNPAs



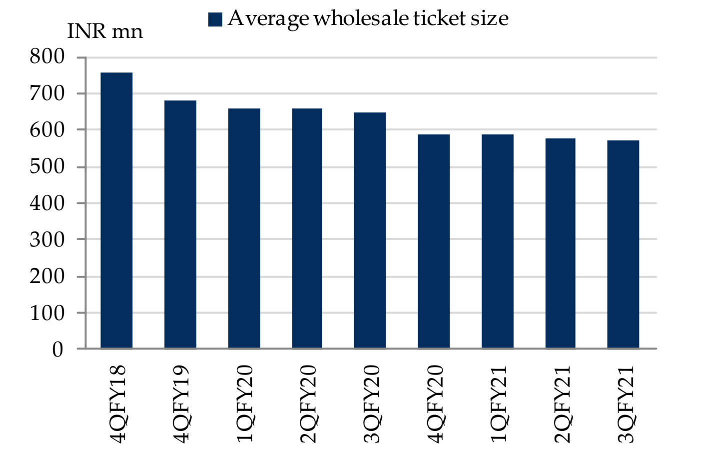
Source: Company, HSIE Research

Exhibit 42: Sustained decline in the share of Top 20 advances evident



Source: Company, HSIE Research

Exhibit 43: Significant reduction in wholesale average ticket size



Source: Company, HSIE Research

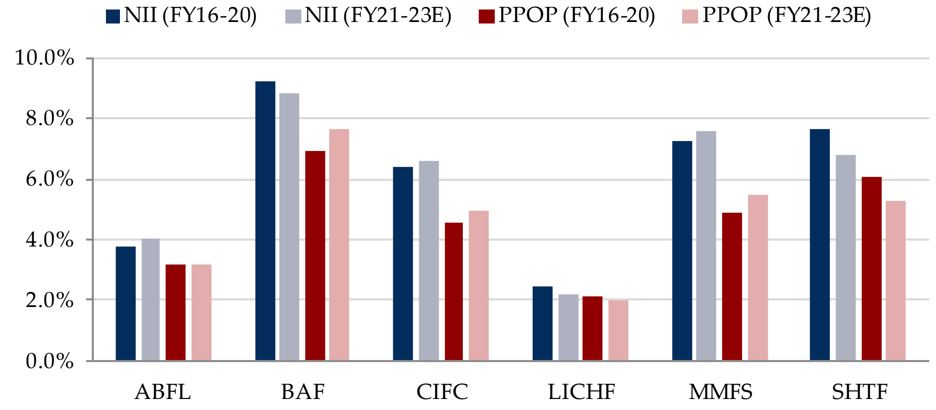
- Despite the recent (albeit manageable) flare-up in wholesale stress, our lateral checks with rating agencies, debt market participants and other lenders suggest that ABFL's wholesale portfolio is of 'near-bankable' quality. This 'low-risk low-return' strategy is further evidenced by moderate overall return ratios (largely driven by the wholesale portfolio). Latent stress from the portfolio hereon may thus be lower than what one may expect from a typical NBFC wholesale portfolio.

- We believe that wholesale lending would become increasingly opportunistic while constituting a lower share of ABFL's overall portfolio, much in line with the management's strategy to right-size and retailise the overall portfolio. <u>The declining share of wholesale loans and reduction in average ticket sizes suggest that 'right-sizing is already underway'. We expect these trends to accelerate. Over FY21-23E, we estimate the share of wholesale loans to gradually trend downwards, from ~45% to 38%</u>.

RoE improvement likely- what will drive it?

- At ~13% over FY15-20, ABFL's pre-pandemic RoAE has been sub-par, given the benefits accorded by the NBFC business model. This is particularly evident in a comparison with the margin profiles of several other NBFCs.

Exhibit 44: NII and PPOP to average assets: ABFL vs. peers



Source: Company, HSIE Research

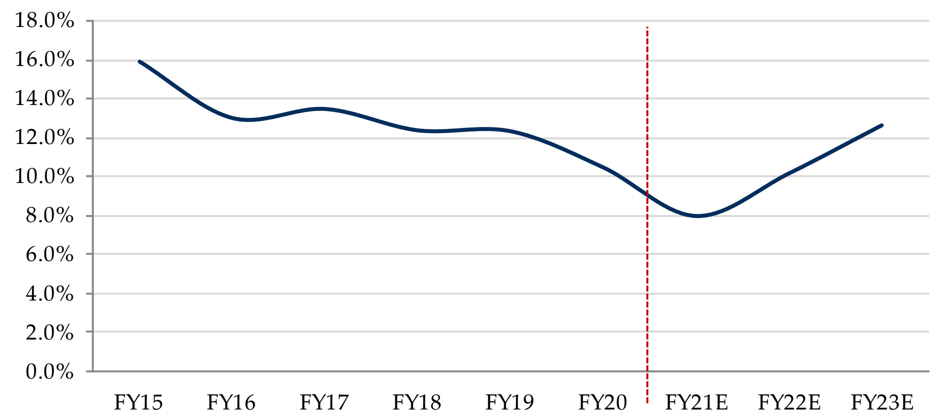
- We believe sub-par return ratios are largely a function of a sub-optimal business mix and, more recently, elevated credit costs. The dominance of the wholesale lending business, wherein ABFL has pursued 'near-bankable credit' resulting in a low-risk-low-return', strategy has been a significant RoE drag. Our back-of-the-envelope calculations suggest that RoAE for the wholesale business could be less than half of those of the retail and SME verticals.

Exhibit 45: Segment-wise RoAE deconstruction for 9MFY20

Particulars	ABFL (total)	Wholesale	SME	Retail	HNI
Yield including fee income	12.50%	10.8%	14.2%	14.8%	11.0%
Credit costs	1.05%	1.4%	0.9%	0.8%	0.2%
Opex/advances	1.66%	0.9%	2.3%	3.4%	0.4%
Yield/ assets	10.97%	9.48%	12.47%	12.99%	9.66%
Interest cost/assets	6.28%	6.28%	6.28%	6.28%	6.28%
NII/assets	4.66%	3.20%	6.19%	6.72%	3.38%
Opex/assets	1.46%	0.79%	2.02%	2.98%	0.35%
Provision/assets	0.92%	1.26%	0.79%	0.66%	0.18%
PBT/assets	2.28%	1.16%	3.38%	3.07%	2.85%
PAT/assets (RoA)	1.58%	0.80%	2.34%	2.12%	1.97%
RoE	**10.6%**	**5.4%**	**15.8%**	**14.3%**	**13.3%**

- Given the management focus on RoE-accretive granular businesses and a decline in LLPs, we expect RoAE to reflate from 10.5% over FY19-20 to 12.6% by FY23E.

Exhibit 46: RoAE trends and estimates



Source: Company, HSIE Research

Valuation

- We value ABFL at 1.85x Mar'23 adjusted net worth implying an equity value of INR170bn.

Exhibit 47: RoAE trends and estimates

INR bn	Avg RoAE (FY21-23E)	PPOP CAGR (FY21-23E)	FY23E ABV	Derived multiple
ABFL	10.3%	7.2%	138	1.8
BAF	18.1%	16.2%	880	5.5
CIFC	19.9%	20.0%	155	3.2
CREDAG	12.0%	31.0%	334	2.4
INDOSTAR	4.7%	13.3%	293	1.1
MMFS	9.7%	14.8%	127	1.5
SHTF	13.6%	5.5%	918	1.5

Source: Company, HSIE Research

Financials

Income Statement

(INR mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Interest earned	23,438	31,814	41,303	51,930	56,494	53,439	57,860	68,240
Interest expended	15,436	20,771	25,968	32,875	36,046	34,714	36,417	39,962
Net interest income	**8,002**	**11,044**	**15,335**	**19,054**	**20,448**	**18,725**	**21,443**	**28,277**
Other income	1,427	2,452	3,071	4,293	5,653	4,878	4,440	4,572
Total income	**9,429**	**13,495**	**18,406**	**23,347**	**26,101**	**23,603**	**25,882**	**32,849**
Operating expenses	2,304	4,188	5,757	8,343	8,501	8,180	9,235	11,183
PPOP	**7,125**	**9,308**	**12,649**	**15,004**	**17,600**	**15,422**	**16,647**	**21,666**
Provisions and contingencies	862	989	2,149	2,070	7,071	6,457	4,152	4,264
Profit before tax	6,263	8,318	10,500	12,934	10,529	8,966	12,495	17,402
Tax expense	2,178	2,467	3,549	4,593	2,480	2,241	3,124	4,351
Profit after Tax	**4,085**	**5,852**	**6,951**	**8,341**	**8,049**	**6,724**	**9,371**	**13,052**

Source: Company, HSIE Research

Balance Sheet

(INR mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Share capital	10,504	7,446	6,374	6,565	6,621	6,621	6,621	6,621
Reserves and surplus	15,345	29,512	43,539	55,833	66,251	80,785	90,156	1,03,208
Net worth	25,848	36,958	49,913	62,398	72,872	87,406	96,777	1,09,829
Borrowings	**148,807**	**216,538**	**294,768**	**370,793**	**443,604**	**426,199**	**460,242**	**505,940**
Other liabilities and provisions	4,913	8,743	9,517	4,584	5,536	4,940	5,479	6,236
Total equity and liabilities	**179,569**	**262,239**	**354,199**	**437,775**	**522,012**	**518,544**	**562,498**	**622,005**
Cash and cash equivalents	1,589	11	1,357	709	591	41,639	38,670	29,157
Investments	5,075	8,228	14,429	13,275	15,765	20,018	17,427	17,131
Advances	**170,988**	**249,627**	**332,913**	**420,796**	**501,883**	**449,048**	**498,122**	**566,948**
Fixed assets	181	206	566	585	674	2,001	2,301	2,532
Other assets	1,735	4,167	4,933	2,409	3,099	5,838	5,977	6,236
Total assets	**179,569**	**262,239**	**354,199**	**437,775**	**522,012**	**518,544**	**562,498**	**622,005**

Source: Company, HSIE Research

Key Ratios

	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Valuation ratios								
EPS	0.7	0.9	1.1	1.3	1.2	10.2	14.2	19.7
Earnings' growth	-1%	43%	19%	20%	-3%	-16%	39%	39%
BVPS	63	79	96	110	122	132	146	166
ABVPS	62	78	94	103	103	100	116	138
RoAA	1.8%	1.9%	1.8%	1.7%	1.5%	1.3%	1.7%	2.2%
RoAE	13.0%	13.5%	12.4%	12.3%	10.5%	8.0%	10.2%	12.6%
Profitability (%)								
Yield on advances	10.9%	10.6%	10.5%	11.0%	11.6%	11.5%	12.0%	12.6%
Cost of funds	8.4%	8.1%	7.8%	8.1%	8.2%	8.1%	8.2%	8.3%
Core spread	2.4%	2.5%	2.7%	3.0%	3.4%	3.4%	3.8%	4.3%
Net interest margin	3.8%	3.7%	4.0%	4.0%	4.1%	3.9%	4.4%	5.2%
Operating efficiency								
Cost-average assets	1.0%	1.4%	1.5%	1.7%	1.6%	1.6%	1.7%	1.9%
Cost-income	24.4%	31.0%	31.3%	35.7%	32.6%	34.7%	35.7%	34.0%
Balance sheet structure (%)								
Loan growth	46.0%	33.4%	26.4%	19.3%	-8.4%	-2.4%	10.9%	13.8%
Borrowing growth	45.5%	36.1%	25.8%	19.6%	-2.1%	-1.8%	8.0%	9.9%
Equity/assets	14.1%	14.1%	14.3%	14.0%	15.5%	16.9%	17.2%	17.7%
Equity/loans	14.8%	15.0%	14.8%	14.5%	17.6%	19.5%	19.4%	19.4%
Asset quality								
Gross NPAs	1,572	1,572	3,857	8,134	18,271	32,721	34,353	35,573
Net NPAs	668	707	1,784	5,004	12,615	21,105	19,925	18,142
PCR	57.5%	55.0%	53.7%	38.5%	31.0%	35.5%	42.0%	49.0%
GNPA %	0.6%	0.5%	0.9%	1.6%	4.0%	4.7%	4.0%	3.2%
NNPA %	0.3%	0.2%	0.4%	1.0%	2.7%	3.0%	2.3%	1.6%
RoAA Tree								
Net interest income	3.62%	3.58%	3.87%	3.97%	3.93%	3.61%	3.97%	4.77%
Other income	0.65%	0.80%	0.78%	0.89%	1.09%	0.94%	0.82%	0.77%
Operating expenditure	1.04%	1.36%	1.45%	1.74%	1.63%	1.58%	1.71%	1.89%
Non-tax provisions	0.39%	0.32%	0.54%	0.43%	1.36%	1.24%	0.77%	0.72%
Tax expenditure	0.99%	0.80%	0.90%	0.96%	0.48%	0.43%	0.58%	0.73%
RoAA	1.85%	1.90%	1.76%	1.74%	1.55%	1.30%	1.73%	2.20%
Leverage	7.0	7.1	7.1	7.1	6.8	6.2	5.9	5.7
RoAE	13.01%	13.47%	12.38%	12.33%	10.48%	8.00%	10.18%	12.63%

Source: Company, HSIE Research

Aditya Birla Sun Life Insurance

Sub-scale franchise searching for 'protection'

On our proprietary Life Insurance Franchise Scorecard (LI-FS), Aditya Birla Sun Life Insurance (ABSLI) emerges as a sub-scale business (sub-5% market share), which has found recent growth momentum on the back of product innovation and deliberate re-jigging of product mix towards high-margin segments. Driven by changes in its product mix, >50% of ABSLI's product mix is currently skewed towards high-yielding non-PAR (guaranteed) products while the company continues to build traction in the protection business (6% of current mix) across channels. Our analysis suggests that the ABSLI franchise is a question mark (BCG framework reference) and it will need substantial investments to be re-positioned. With net VNB margins at a sub-par 6% (likely to inch up to 15% by FY23E), we value ABSLI at INR120bn, which implies 1.5x Mar'23 EV, compared to MFSL (implied 2.3x) and IPRU (implied 2.3x).

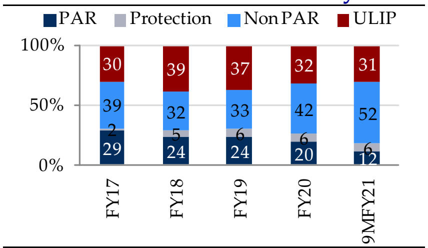
- **Product mix moving towards sticky, high-margin segments:** With product innovation underway in the form of differentiated "industry-first" launches, ABSLI is focussed on growing its retail protection business (FY18-9MFY21 CAGR at 44%), especially in the banca channel. This, coupled with the addition of HDFCB as a banca partner (contributing ~17/18% of HDFCB's life insurance origination), is expected to drive +800bps higher share of protection (14%) by FY24E.
- **Scale, mix and productivity to improve VNB margins:** While ABSLI's product mix is currently skewed towards NPAR business, the company is focused on building more traction in the protection segment. Growth in retail protection is expected to be driven via the banca channel, which is currently running slow on retail protection (~3% protection share in banca) and offers considerable room for improvement. While ramping up new business remains the key focus area, the company is also targeting an improvement in persistency ratios by way of writing a sustainable better-quality book using analytics and digital systems, and increasing its share of business from the banca channel.
- **Valuation:** ABSLI is a play on tapping highly under-penetrated protection business and ramping up scale to drive cost efficiencies. We believe that increasing scale and higher share of protection business will drive total APE at a 19% CAGR over FY21E-23E and help improve the post overrun VNB margins from current 5.9% in 9MFY21 to ~15% in FY23E. EV is expected to grow at a CAGR of 14% over FY21E-23E and operating RoEVs are expected to be at the 12-14% level. We value ABSLI at 1.5x Mar'23 EV, implying a value of INR120bn.

Financial Summary

(INR mn)	FY19	FY20	FY21E	FY22E	FY23E
APE	18.3	18.1	20.6	25.0	29.9
Growth (%)	72.5	-0.8	14.0	21.0	19.9
VNB	1.8	1.3	2.1	3.0	4.5
Growth (%)	293.1	-30.2	65.2	45.2	49.8
VNB margin (%)	9.8	6.9	10.0	12.0	15.0
EV	49.0	51.9	62.1	70.1	80.1
Growth (%)	14.5	5.9	19.7	12.9	14.3
Op. RoEV (%)	15.0	13.2	12.0	12.9	14.3

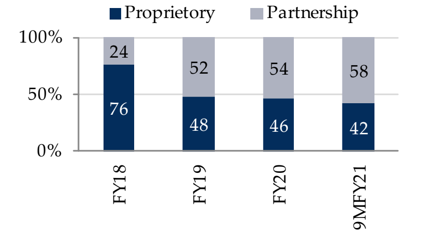
Source: Company and HSIE Research

Retail APE mix is NPAR heavy



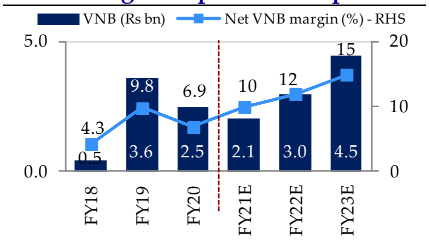
Source: Company, HSIE Research

Balanced channel mix



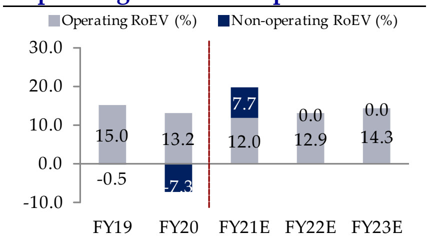
Source: Company, HSIE Research

VNB margins expected to improve



Source: Company, HSIE Research

Operating RoEVs to improve



Source: Company, HSIE Research

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Benchmarking the life insurance business

Constructing the LI Franchise Scorecard (LI-FS)

We construct our proprietary Life Insurance Franchise Scorecard (LI-FS) using a combination of metrics that encompass scale, product mix, persistency ratios, efficiencies and profitability.

Exhibit 48: LI Franchise Scorecard (LI-FS)

	ABSLI	HDFCLIFE	IPRU	MAXL	SBILIFE
PILLAR I: Profitability					
VNB margin (9MFY21)	◔	●	●	●	◕
PILLAR II: High-margin products					
Protection share in mix	◑	◕	●	●	◕
PILLAR III: Scale					
Individual APE market share (10MFY21)	○	◕	◑	◑	●
PILLAR IV: Cost effectiveness					
Commission + opex ratio	◔	◑	◕	○	●
PILLAR V: Persistencies					
13th month	○	●	○	○	◑
61st month	○	◔	◕	◔	●

Note: Full circle denotes the best life insurer on each parameter
Source: IRDAI, Companies, HSIE Research

Defining the LI-FS parameters

Pillar I: Profitability

- **VNB margin:** Assesses the profitability of the new business underwritten during the period (9MFY21) for each life insurer.

Pillar II: High-margin products

- **Protection share in mix:** Captures the share of retail protection in the overall APE for each life insurer.

Pillar III: Scale

- **Individual APE market share:** Denotes the share of each life insurer's individual APE within the overall life insurance industry.

Pillar IV: Cost effectiveness

- **Commission + opex ratio:** Captures the operating efficiency of the life insurer in terms of expenses (commission + opex) relative to premiums underwritten.

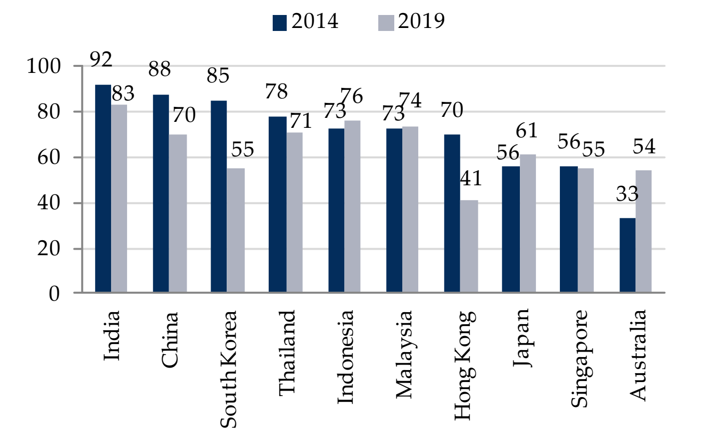
Pillar V: Persistency

- **13th month persistency:** Denotes the percentage of policies remaining in force after a year of sourcing
- **61st month persistency:** Denotes the percentage of policies remaining in force in the 61st month after sourcing

Product mix moving towards high-margin segments

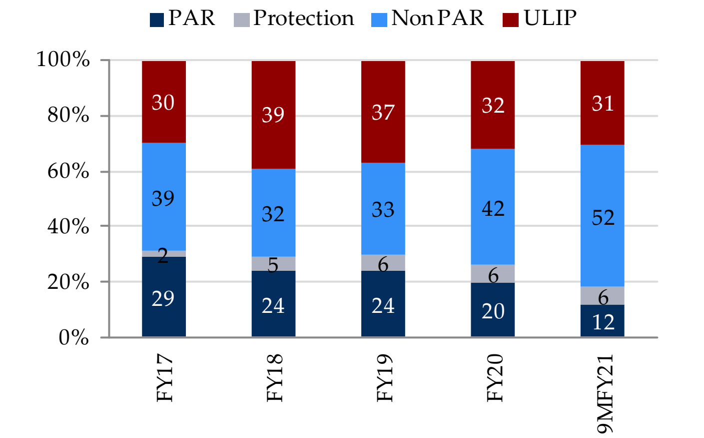
- With structural changes in its product mix over the past two years, ABSLI has a lion's share of the high-yielding NPAR business (9MFY21: 52%) in its individual APE mix. It launched 3 NPAR products during 9MFY21, which allowed it to grow faster than its larger peers (SBILIFE and IPRU).
- Given its continued focus on product innovation, ABSLI has launched a protection product, which has some 'industry-first features such as "Sum assured reduction option". This augurs well as the mortality risk rises significantly beyond the age of 60. With India having the highest protection gap at 83% (FY20), protection business offers multi-year headroom for growth. ABSLI is diligently focussed on growing its retail protection business (FY18-9MFY21 CAGR at 44%), especially in the banca channel. This, coupled with HDFCB as a banca partner (contributing ~17/18% of HDFCB's life insurance business), is expected to drive +800bps higher share of protection (14%) by FY24E.

Exhibit 49: Protection gap (%)



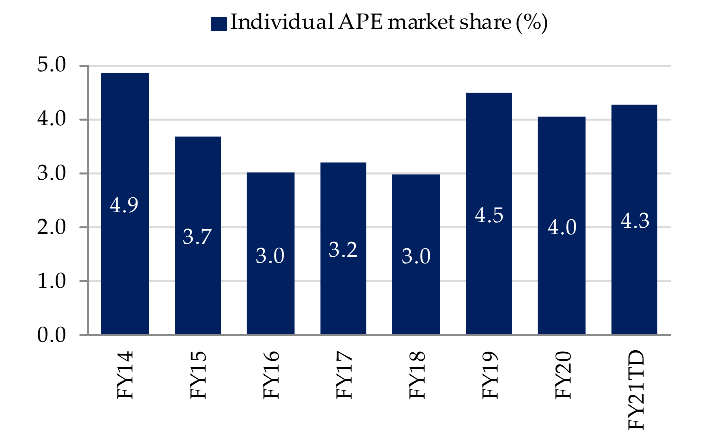
Source: Swiss Re, HSIE Research

Exhibit 50: Retail APE mix is NPAR heavy



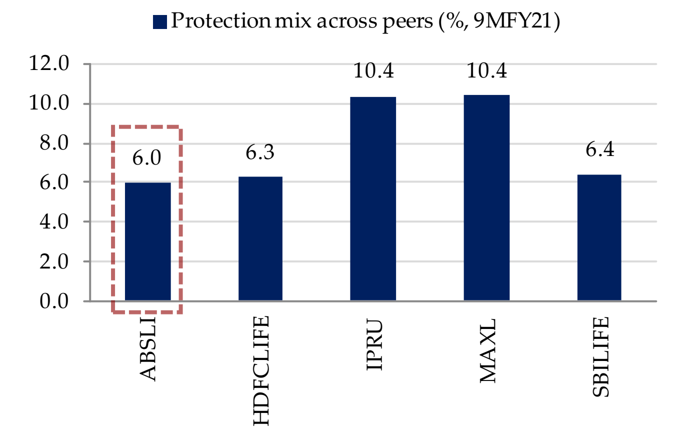
Source: Company, HSIE Research

Exhibit 51: Improvement in Retail APE market share over time



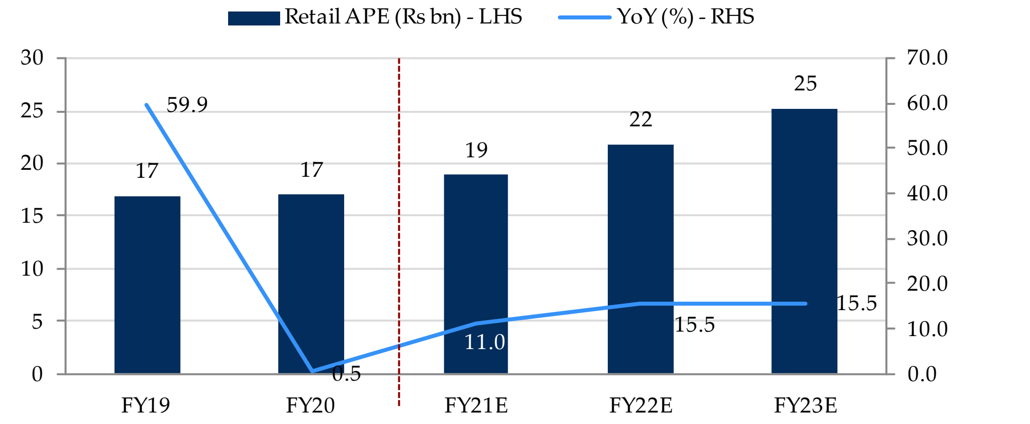
Source: IRDAI, HSIE Research

Exhibit 52: Share of protection is lowest for ABSLI



Source: Companies, HSIE Research

Exhibit 53: Retail APE to clock in 16% CAGR over FY21E-23E



Source: Company, HSIE Research

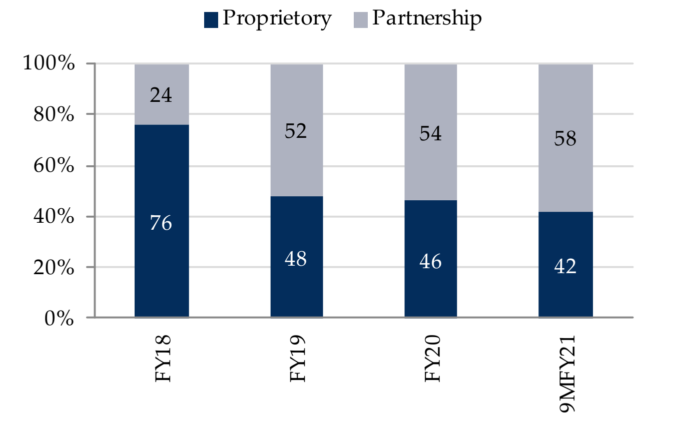
Scale, mix and productivity to drive higher VNB margins

- **Catalyst 1 - improving share of protection:** While the product mix is currently skewed towards NPAR business, ABSLI has articulated its strategy to aggressively scale up protection once the pandemic situation normalises. The management appears committed to scale up its life insurance business with a clear focus on profitability.

- **Catalyst 2 - productivity gains from banca channel:** Given the high upfront fixed costs of the agency channel, ABSLI's scale-up using the banca network appears to be a better strategy to minimise cash burn. We expect the share of banca within the overall NBP mix (at ~54% in FY20; +3,000bps vs. FY18) to sustain, led by increased digitisation and product innovation. However, the share of protection business within the banca channel is poor at 3% and offers considerable room for improvement. We believe that ABSLI's focus on product innovation to develop curated solutions for banca clients is VNB-accretive.

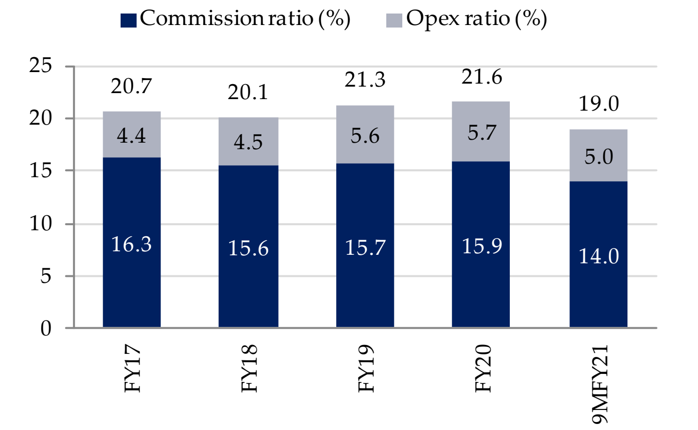
- **Catalyst 3 - improvement in persistency ratios:** Given the high upfront acquisition costs, persistency ratios (on business originated in the past) are as important as new business for life insurers. Key drivers for improving persistencies have been (1) customer sourcing using analytics and proprietary digital systems aiding in underwriting better-quality book; (2) advancing towards partnership model (banca channel offers higher persistencies). **Key note:** Despite being a sub-scale life insurer, ABSLI's 13month persistency is comparable to best in-class peers (ex. HDFCLIFE).

Exhibit 54: Balanced channel mix



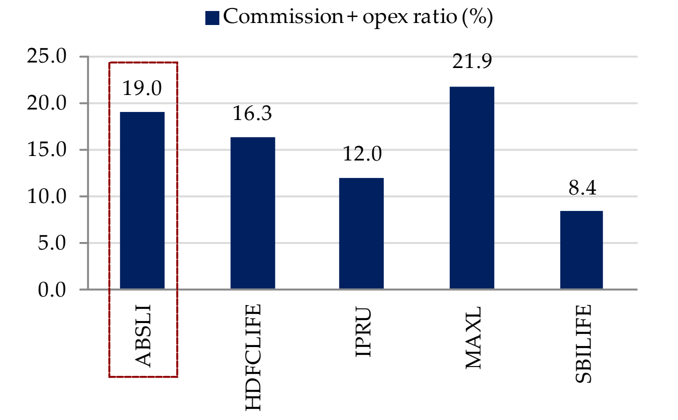
Source: Company, HSIE Research

Exhibit 55: Expense ratios should improve further



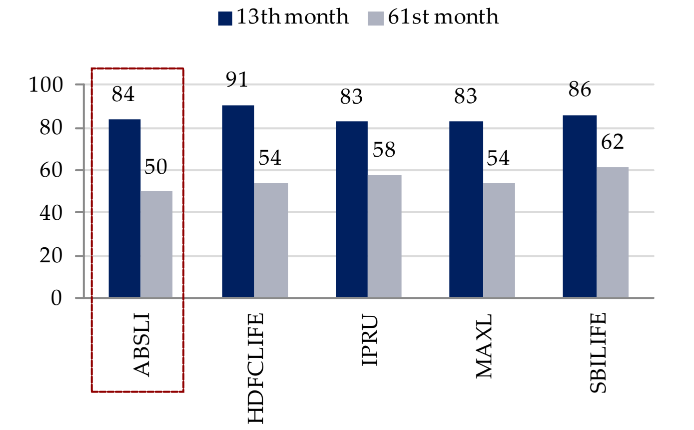
Source: Company, HSIE Research

Exhibit 56: Inferior expense ratios compared to peers



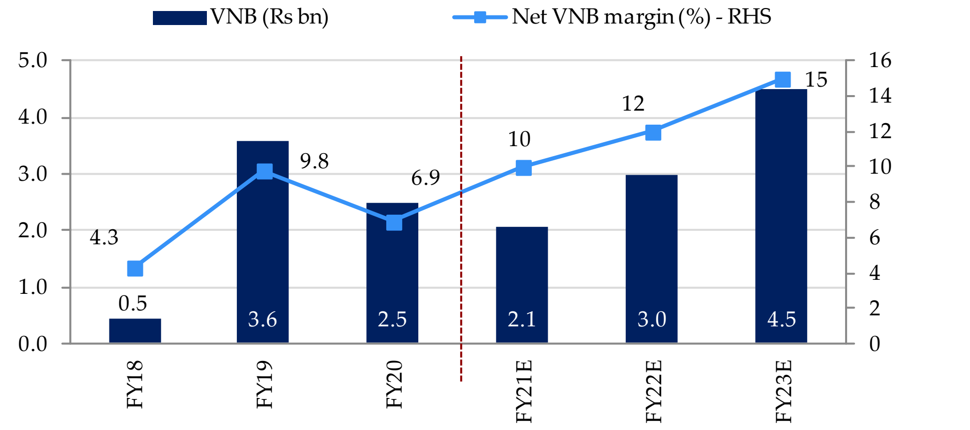
Source: Companies, HSIE Research

Exhibit 57: 13th month persistency in line with peers



Source: Companies, HSIE Research

Exhibit 58: VNB margins expected to improve

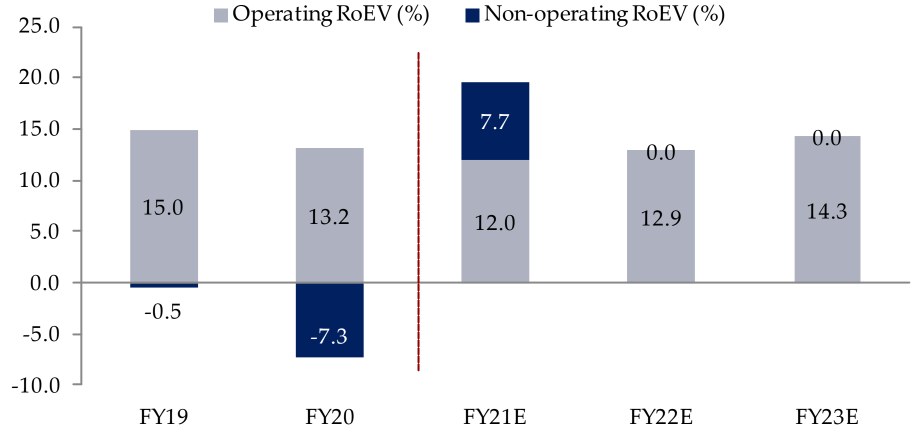


Source: NAV India, Value Research and HSIE Research

Valuation

- We forecast individual /total APE to grow at 18.7/19.3% CAGR over FY21-23E.
- We have built in VNB margin expansion of 500bps over FY21-23E, driven by superior product mix, better persistency and fixed cost absorption. We expect the company to clock in VNB/EV CAGR of 47/14% over FY21-23E led by APE growth and margin expansion. As a result, operating RoEVs are expected in the range of 12-14% over FY21E-23E.
- Given the sub-scale of the business and inferior VNB margins compared to top private life insurance players, we ascribe a 1.5x Mar'23 EV, implying a value of INR120bn.

Exhibit 59: Operating RoEVs to improve



Source: Company, HSIE Research

Exhibit 60: EV Walk

(INR bn)	FY19	FY20	FY21E	FY22E	FY23E
Opening IEV	**42.8**	**49.0**	**51.9**	**62.1**	**70.1**
Value added by new business during the period	**1.2**	**1.3**	**2.1**	**3.0**	**4.5**
Expected return on existing business	3.7	3.8	3.9	4.6	5.1
Variance in Operating experience	1.6	0.6	0.3	0.4	0.4
Change in operating assumptions	0.0	0.8	0.0	0.0	0.0
Other operating variance	0.0	0.0	0.0	0.0	0.0
IEV operating earnings	**6.4**	**6.5**	**6.2**	**8.0**	**10.0**
Economic variances	-0.2	-3.6	4.0	0.0	0.0
Other non-operating variances	0.0	0.0	0.0	0.0	0.0
Total IEV earnings	**6.2**	**2.9**	**10.2**	**8.0**	**10.0**
Capital contributions / dividend payouts	0.0	0.0	0.0	0.0	0.0
Closing IEV	**49.0**	**51.9**	**62.1**	**70.1**	**80.1**
Growth (%)	***14.5***	***5.9***	***19.7***	***12.9***	***14.3***

Note: VNB is post cost over-runs. Source: Company, HSIE Research

Exhibit 61: EV trend and estimates

Companies	EV CAGR (FY21E-23E, %)	EV (INR bn)	VNB margin (%, 9MFY21)	Derived P/EV multiple (x)
ABSLI	13.6	80	5.9	1.5
IPRU	13.3	335	26.0	2.3
MAXF	17.1	161	25.9	2.3
SBILIFE	14.6	418	19.3	2.8

Source: HSIE Research

Exhibit 62: Key metrics and assumptions

(INR bn)	FY19	FY20	FY21E	FY22E	FY23E
Retail APE	16.9	17.0	18.9	21.8	25.2
Group APE	1.3	1.1	1.8	3.2	4.7
Total APE	**18.3**	**18.1**	**20.6**	**25.0**	**29.9**
Growth (%) - YoY					
Retail APE	59.9	0.5	11.0	15.5	15.5
Group APE	NA	-17.8	60.0	80.0	50.0
Total APE	**NA**	**-0.8**	**14.0**	**21.0**	**19.9**
VNB margin (%)	**9.8**	**6.9**	**10.0**	**12.0**	**15.0**
VNB (INR bn)	1.8	1.3	2.1	3.0	4.5
VNB - YoY (%)	293.1	-30.2	65.2	45.2	49.8
Embedded value	**49.0**	**51.9**	**62.1**	**70.1**	**80.1**
EV - YoY (%)	***14.5***	***5.9***	***19.7***	***12.9***	***14.3***
Operating RoEV (%)	**15.0**	**13.2**	**12.0**	**12.9**	**14.3**
Non-operating RoEV (%)	-0.5	-7.3	7.7	0.0	0.0
Total RoEV (%)	14.5	5.9	19.7	12.9	14.3

	FY17	FY18	FY19	FY20
Commission ratio (%)	16.3	15.6	15.7	15.9
Opex ratio (%)	4.4	4.5	5.6	5.7
Total expense ratio (%)	**20.7**	**20.1**	**21.3**	**21.6**
Solvency ratio (%)	204	204	198	178
Persistency ratio (%)				
13th month	71	75	78	83
25th month	60	64	66	68
37th month	52	55	58	57
49th month	47	49	54	53
61st month	47	42	45	49

Source: Company, HSIE Research

Aditya Birla Housing Finance

'Seasoning' flavour

Aditya Birla Home Finance (ABHFL), the Aditya Birla group's foray into the secured mortgage finance business, is an early-stage HFC (AUM at INR118bn) with a massive growth canvas and multiple levers for RoE improvement. The company's focus on margin-accretive affordable housing (20% of current loan mix) coupled with sponsor-led access to low-cost debt and potential efficiency and productivity gains from build-up in scale are catalysts for RoA expansion to 1.3% by FY23E (9MFY21: 1.1%). We expect ABHFL to register an overall three-year AUM CAGR of 11% (affordable housing mix within AUM at 31% by FY23E) and build RoAE of 10% over the same period. We value ABHFL at INR23bn (1.6x FY23E adjusted net worth).

- **Large growth canvas:** With a portfolio of INR118bn, ABHFL has a sub-2% HFC market share and an even lower share in India's overall housing finance market. Despite stiff competition from banks, especially in the current interest rate environment, we believe that ABHFL has a significant canvas for growth. Our constructive stance is anchored on (1) ABHFL's focus on the lucrative affordable housing segment (~20% of loans at present), where non-bank lenders have a greater competitive advantage, (2) ABHFL's sponsor-led access to low-cost funds and (3) group support in terms of brand recognition and access to a large customer base. We expect ABHFL to clock an overall AUM CAGR of 11% over FY21-23E.
- **Multiple levers for RoE improvement:** At ~4% over FY17-20, ABHFL's RoAE has been understandably lower than most of its peers', given the relatively early stage in its lifecycle. As the business scales up and matures, we expect RoE expansion on the back of: (1) NIM expansion as ABHFL expands its affordable housing portfolio (31% of AUM) by FY23E and (2) better efficiency gains (~900bps improvement in the C-I ratio to 35% by FY23E). We build an exit RoAE of 12.5% for FY23E.
- **Valuation and risks:** We value ABHFL at INR23bn (1.6x FY23E adjusted net worth), implying a valuation of 1.7x FY20 net worth, while its peers AAVAS and REPCO trade at 7.9/1.1x FY20 net worth. With an operating history of just seven years, ABHFL is one of the youngest HFCs on the block with a relatively unseasoned portfolio, (~40% acquired over the past two years). Further, the rising proportion of affordable housing loans will alter the credit characteristics of the portfolio, making it unfeasible to extrapolate current asset quality trends. As of 9MFY21, ABHFL had a GS-III/PCR of ~1.9/34% and a restructured portfolio of ~3%. We anticipate FY23E exit GS-III at 2.6% and GS-III PCR to inch up to 43% as the portfolio matures.

Financial Summary

(INR mn)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net int. inc.	865	1,793	2,775	3,165	3,638	4,708	5,589
PPOP	-20	570	1,260	2,075	2,467	3,384	4,176
PAT	341	746	1,027	1,105	1,592	2,212	341
EPS (INR)	-	1	2	2	2	3	4
ROAE (%)	-5.4%	6.0%	7.6%	8.0%	7.7%	10.1%	12.5%
ROAA (%)	-0.5%	0.6%	0.8%	0.8%	0.8%	1.1%	1.3%
ABV	11	18	24	25	23	25	29
Loan growth	109.7%	97.2%	40.3%	5.8%	0.4%	14.7%	17.8%
GS III (%)	0.3%	0.5%	0.7%	1.3%	2.7%	2.9%	2.6%
NIM (%)	2.8%	2.9%	2.8%	2.6%	2.9%	3.4%	3.5%

Source: Company and HSIE Research

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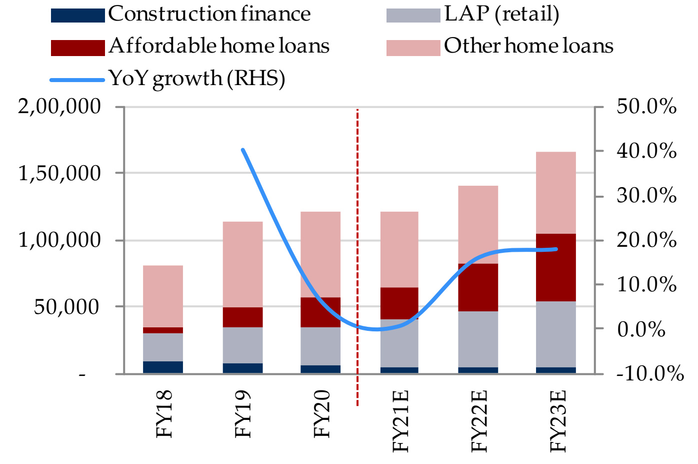
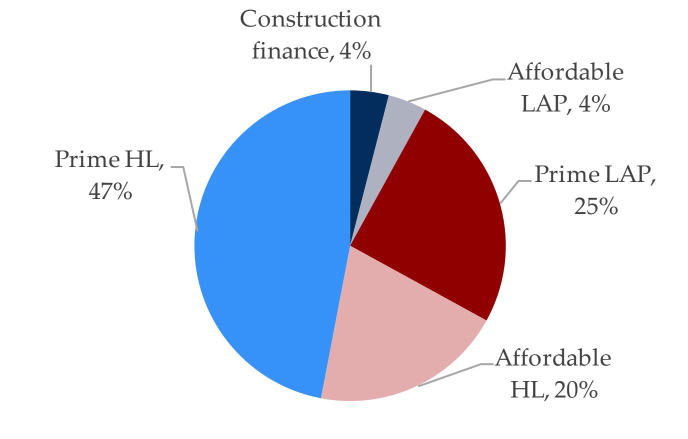
Exhibit 63: AUM to accelerate



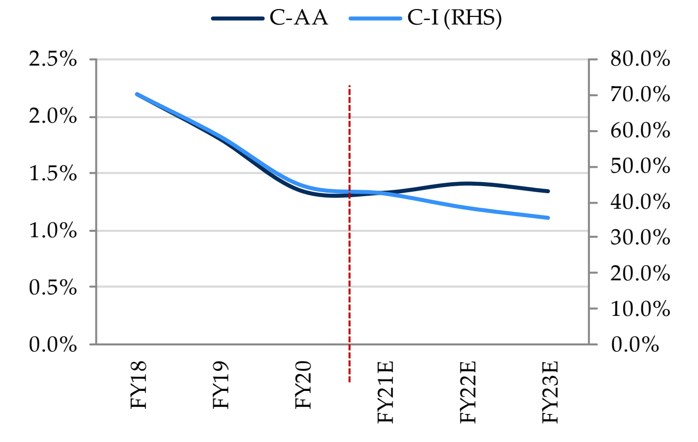
Source: Company, HSIE Research

Exhibit 64: AUM split: Prime HL dominates for now



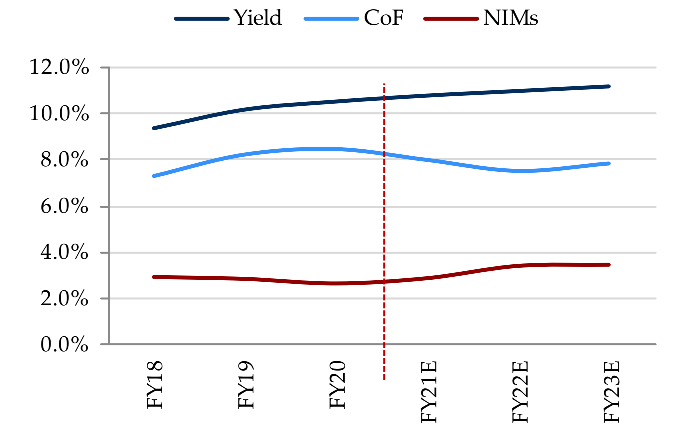
Source: Company, HSIE Research

Exhibit 65: Improvement in operating efficiency expected



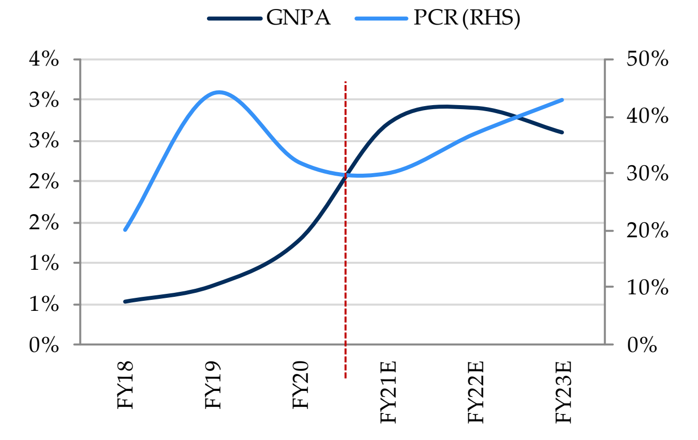
Source: Company, HSIE Research

Exhibit 66: Margin improvement expected



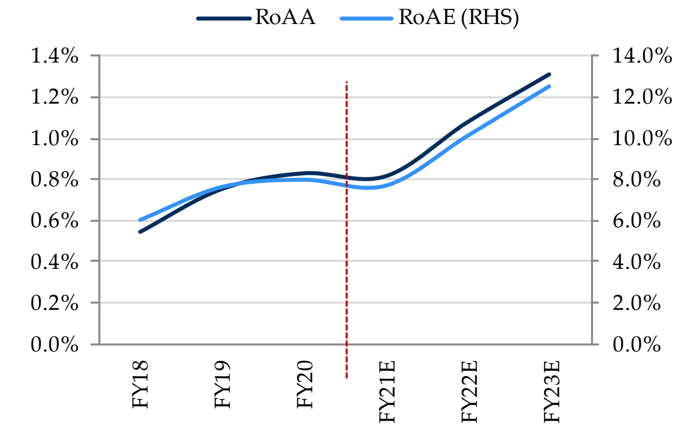
Source: Company and HSIE Research

Exhibit 67: GNPAs expected to rise



Source: Company, HSIE Research

Exhibit 68: RoAE improvement expected



Source: Company and HSIE Research

Financials

Income Statement

(INR mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Interest earned	894	2,977	5,767	9,989	12,434	13,196	14,508	17,290
Interest expended	596	2,112	3,973	7,214	9,270	9,559	9,800	11,701
Net interest income	**298**	**865**	**1,793**	**2,775**	**3,165**	**3,638**	**4,708**	**5,589**
Other income	120	170	136	267	577	635	765	866
Total income	418	1,035	1,929	3,042	3,742	4,272	5,473	6,456
Operating expenses	621	1,055	1,359	1,781	1,667	1,805	2,089	2,279
PPOP	**-203**	**-20**	**570**	**1,260**	**2,075**	**2,467**	**3,384**	**4,176**
Provisions and contingencies	99	135	229	188	713	993	1,261	1,228
Profit before tax	-302	-155	341	1,073	1,362	1,474	2,122	2,949
Tax expense	-	-	-	327	335	368	531	737
Profit after Tax	**-302**	**-155**	**341**	**746**	**1,027**	**1,105**	**1,592**	**2,212**

Source: Company, HSIE Research

Balance Sheet

(INR mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Share capital	2,393	3,331	4,126	4,756	5,012	5,012	5,012	5,012
Reserves and surplus	-345	344	3,542	7,148	8,817	9,922	11,514	13,725
Net worth	2,048	3,675	7,668	11,903	13,829	14,934	16,526	18,737
Borrowings	**15,055**	**35,869**	**73,045**	**102,221**	**116,669**	**122,327**	**138,335**	**160,113**
Other liabilities and provisions	2,866	2,304	1,399	868	1,117	1,338	1,674	2,466
Total equity and liabilities	**19,968**	**41,848**	**82,112**	**114,992**	**131,615**	**138,599**	**156,535**	**181,315**
Cash and cash equivalents	5	5	2	1	4,002	9,465	6,496	4,705
Investments	-	-	-	-	5,469	6,082	8,370	9,862
Advances	**19,730**	**41,369**	**81,578**	**114,449**	**121,121**	**121,649**	**139,501**	**164,372**
Fixed assets	79	98	149	140	374	430	494	568
Other assets	155	375	383	402	650	973	1,674	1,808
Total assets	**19,969**	**41,847**	**82,112**	**114,992**	**131,615**	**138,599**	**156,535**	**181,315**

Source: Company, HSIE Research

Key Ratios

	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Valuation ratios								
EPS	-1	-0	1	2	2	2	3	4
Earnings' growth	492%	-49%	NA	119%	38%	8%	44%	39%
BVPS	9	11	19	25	28	30	33	37
ABVPS	8	11	18	24	25	23	25	29
RoAA	-2.8%	-0.5%	0.6%	0.8%	0.8%	0.8%	1.1%	1.3%
RoAE	-24.1%	-5.4%	6.0%	7.6%	8.0%	7.7%	10.1%	12.5%
Profitability (%)								
Yield on advances	8.5%	9.7%	9.4%	10.2%	10.5%	10.8%	11.0%	11.2%
Cost of funds	7.5%	8.3%	7.3%	8.2%	8.5%	8.0%	7.5%	7.8%
Core spread	1.0%	1.4%	2.1%	2.0%	2.1%	2.8%	3.5%	3.4%
Net interest margin	2.8%	2.8%	2.9%	2.8%	2.6%	2.9%	3.4%	3.5%
Operating efficiency								
Cost-average assets	5.8%	3.4%	2.2%	1.8%	1.4%	1.3%	1.4%	1.3%
Cost-income	148.5%	101.9%	70.5%	58.6%	44.6%	42.2%	38.2%	35.3%
Balance sheet structure (%)								
Loan growth	1290.2%	109.7%	97.2%	40.3%	5.8%	0.4%	14.7%	17.8%
Borrowing growth	1531.3%	138.3%	103.6%	39.9%	14.1%	4.8%	13.1%	15.7%
Equity/assets	10.3%	8.8%	9.3%	10.4%	10.5%	10.8%	10.6%	10.3%
Equity/loans	10.4%	8.9%	9.4%	10.4%	11.4%	12.3%	11.8%	11.4%
Asset quality								
Gross NPAs	33	139	433	829	1,563	4,692	6,421	7,498
Net NPAs	28	115	346	463	1,065	3,285	4,046	4,274
PCR	14.9%	17.4%	20.0%	44.1%	31.9%	30.0%	37.0%	43.0%
GNPA %	0.2%	0.3%	0.5%	0.7%	1.3%	2.7%	2.9%	2.6%
NNPA %	0.1%	0.3%	0.4%	0.4%	0.9%	1.9%	1.8%	1.5%
RoAA Tree								
Net interest income	2.78%	2.80%	2.89%	2.82%	2.57%	2.69%	3.19%	3.31%
Other income	1.12%	0.55%	0.22%	0.27%	0.47%	0.47%	0.52%	0.51%
Operating expenditure	5.80%	3.41%	2.19%	1.81%	1.35%	1.34%	1.42%	1.35%
Non-tax provisions	0.93%	0.44%	0.37%	0.19%	0.58%	0.74%	0.85%	0.73%
Tax expenditure	0.00%	0.00%	0.00%	0.33%	0.27%	0.27%	0.36%	0.44%
RoAA	-2.82%	-0.50%	0.55%	0.76%	0.83%	0.82%	1.08%	1.31%
Leverage	8.6	10.8	10.9	10.1	9.6	9.4	9.4	9.6
RoAE	**-24.12%**	**-5.41%**	**6.01%**	**7.63%**	**7.98%**	**7.69%**	**10.12%**	**12.54%**

Source: Company, HSIE Research

Aditya Birla Health Insurance

Turning a corner by FY23E

On the back of a differentiated "health-first proposition" and constant product innovation, Aditya Birla Health Insurance (ABHI) is the fastest-growing standalone health insurance (SAHI) player, reflecting in market share gains of +127bps over FY18-9MFY21. With banca channel offering significant room for growth, we expect ABHI to clock in NEP CAGR of 37% over FY21-23E. Led by economies of scale, we expect expense ratios to drop to 37% by FY23E (9MFY21: 71%) and return a combined ratio of sub-100% by FY23E. We value ABHI at 35x FY23E PAT, implying a value of INR17bn.

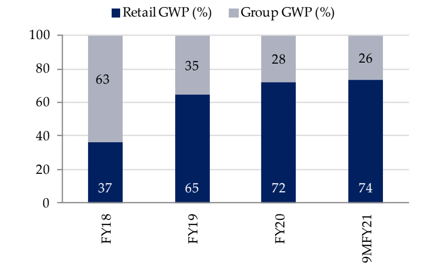
- **Sector tailwinds in place for multi-year growth runway:** With retail and group health insurance penetration at 8.4% (FY19) and heightened health awareness post COVID-19, ABHI has multi-year headroom for growth. It outpaced industry growth with 89% GDPI CAGR over FY18-FY20 vs. peer set growth at 32%, consequentially reflecting in +127bps market share gains over FY18-9MFY21.
- **Younger customers with differentiated offering:** With customers belonging to <35 age group being less risk averse, ABHI has developed differentiated customer offering (incentivising good health keepers) with ROP policies. These incentives reduce the loss ratios for the company while benefiting policy holders in terms of lower premiums.
- **Banking on strong banca partners:** ABHI has been able to scale up its retail book on the back of strong banca partners (HDFCB, AXSB, RBK, etc). With >14k bank branches and 35+ rural and MFI partners, the company is well-entrenched for further regional penetration to sustain its growth. Banca remains the preferred channel on account of 1) lower loss ratios on business sourced and (2) lower acquisition costs (than agency channel).
- **Scale to bring down combined ratios:** With increasing share of retail in the mix coupled with better underwriting standards, ABHI has been able to bring down its loss ratios (49% in FY20 vs. 123% in FY17). We foresee loss ratios to be range-bound. However, combined ratio (COR) (FY20: 134%) is on the higher side due to higher expense ratios (FY20: 77%), significantly lower for large scale general insurers ICICIGI/BAGIC (25/30%)}. Over the past few years, ABHI's opex ratio has dropped from 175% in FY17 to 77% in FY20. As the business further scales up, we believe that the company is on track to break even by FY22E.
- **Valuation:** We forecast NEP CAGR of 37% over FY21-23E while investment book is expected to grow at 35% CAGR over FY21-23E to INR24bn. PAT is expected to turn positive in FY23E at INR0.5bn. We value ABHI at 35x FY23E PAT, implying a value of INR17.1bn.

Financial Summary

(INR mn)	FY19	FY20	FY21E	FY22E	FY23E
NEP	3,482	5,854	10,654	14,916	20,137
Growth (%)	129	68	82	40	35
Underwriting profits	-2,808	-2,891	-3,293	-1,237	-1,040
Growth (%)	NM	NM	NM	NM	NM
APAT	-2,545	-2,412	-2,433	-107	488
Growth (%)	NM	NM	NM	NM	NM

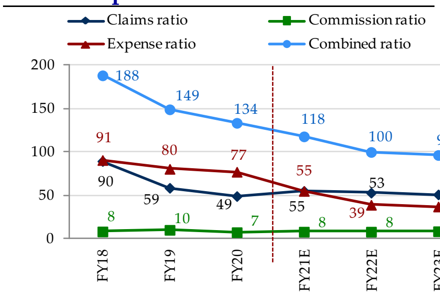
Source: Company and HSIE Research

Product mix shifting towards retail



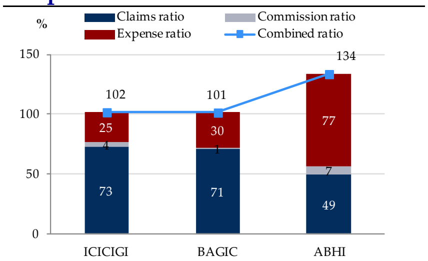
Source: Company, HSIE Research

ABHI expected to break even in FY22E



Source: Company, HSIE Research

Significant headroom for improvement in CORs



Note: Data as of FY20. Source: Companies, HSIE Research

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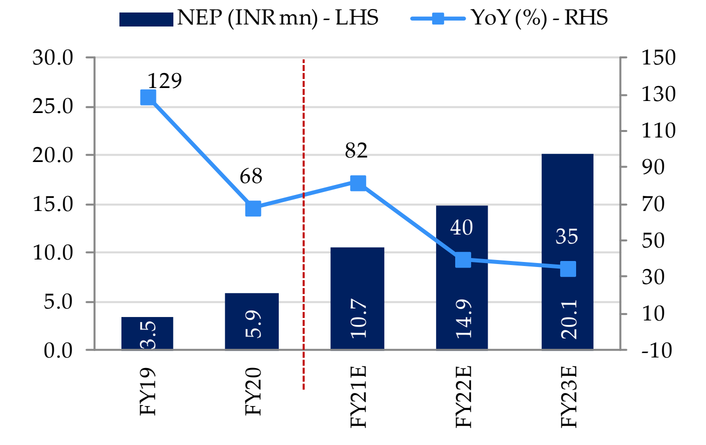
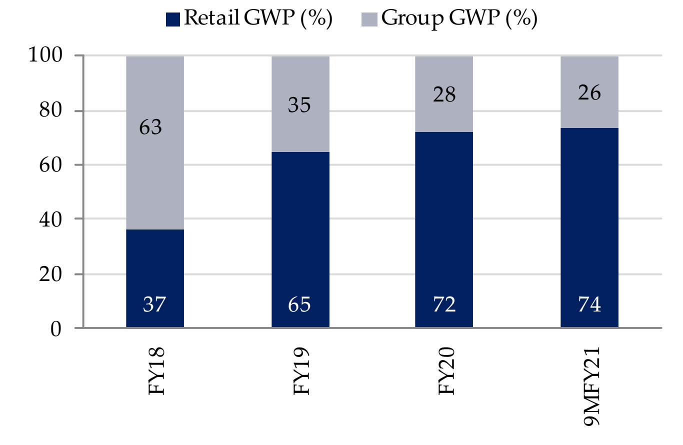
Exhibit 69: NEP growth trajectory



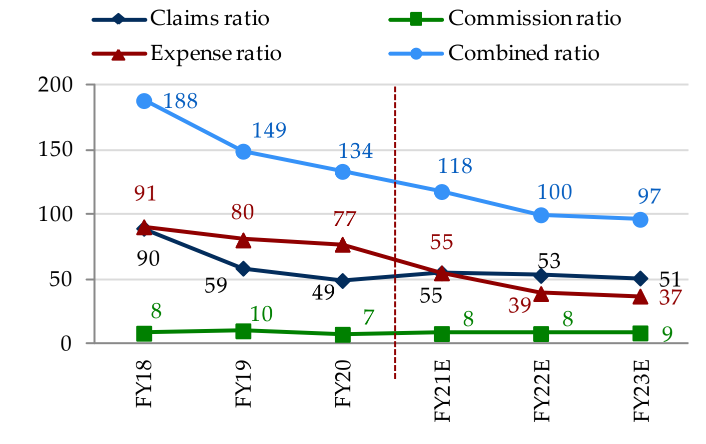
Source: Company, HSIE Research

Exhibit 70: Product mix shifting towards retail



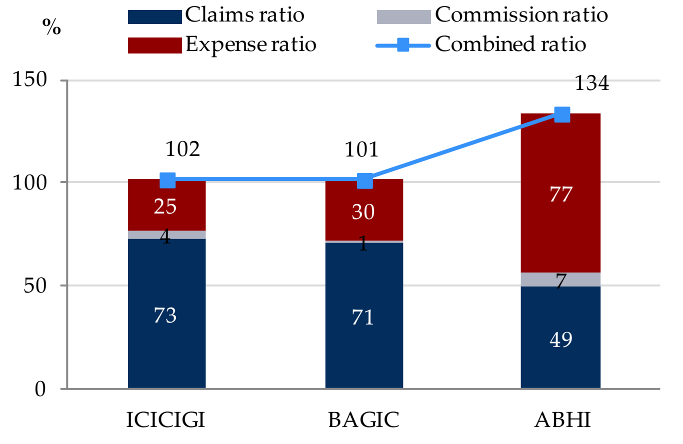
Source: Company, HSIE Research

Exhibit 71: ABHI expected to break even in FY22E



Source: Company, HSIE Research

Exhibit 72: Significant headroom for improvement in CORs



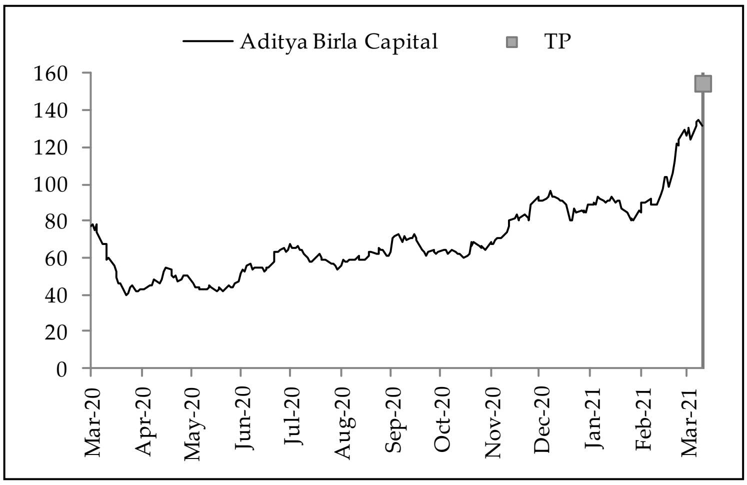
Note: Data as of FY20. Source: Companies, HSIE Research

Exhibit 73: Key financial metrics

(INR mn)	FY19	FY20	FY21E	FY22E	FY23E
Net earned premiums	3,482	5,854	10,654	14,916	20,137
Underwriting profit/(loss)	-2,808	-2,891	-3,293	-1,237	-1,040
APAT	-2,545	-2,412	-2,433	-107	488
Growth- YoY (%)					
Net earned premiums	129	68	82	40	35
Underwriting profit/(loss)	NM	NM	NM	NM	NM
APAT	NM	NM	NM	NM	NM
Ratios (%)					
Claims ratio	59	49	55	53	51
Commission ratio	10	7	8	8	9
Expenses ratio	80	77	55	39	37
Combined ratio	**149**	**134**	**118**	**100**	**97**
Investment book (INR bn)	4.9	8.4	13.0	17.5	23.8
Growth (%)	132	71	56	34	36
Investment yield (%)	7.8	7.9	8.5	7.8	7.8

Source: Company, HSIE Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
14-Mar-21	131	BUY	155

Rating Criteria
BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: >10% Downside return potential

Disclosure:

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