

Bloomberg	ABCAP IN
Equity Shares (m)	2600
M.Cap.(INRb)/(USDb)	572.7 / 6.8
52-Week Range (INR)	247 / 155
1, 6, 12 Rel. Per (%)	-12/17/-15
12M Avg Val (INR M)	1297

Financials & Valuations (INR b)

Y/E March	FY24	FY25E	FY26E
PBT Break-up			
NBFC	29.9	38.9	49.1
Housing	3.8	4.3	5.2
AMC	10.1	12.2	13.8
Life Insurance	2.0	2.2	2.5
Other businesses	1.4	2.5	2.6
Consol PBT	39.7	54.0	69.2
Consol PAT Post MI	26.3	34.4	44.5
Growth (%)	-	3.0	29.5
RoE (%)	11.2	12.1	13.9
Con PE	21.7	16.6	12.8
Cons. PBV	2.1	1.9	1.7

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	68.9	69.0	69.1
DII	8.1	7.5	7.8
FII	11.0	11.8	11.3
Others	12.0	11.7	11.8

FII Includes depository receipts

CMP: INR220

TP: INR270 (+23%)

Buy

Continued calibration in the P&C book; asset quality stable

Consolidated PAT growth at ~15% YoY in 1QFY25

- Aditya Birla Capital (ABCAP)'s 1QFY25 consolidated revenue grew 26% YoY to ~INR102b, and consolidated PAT rose 15% YoY to ~INR7.5b. The company added ~31 branches in 1QFY25 for a total branch count of 1,505.

NBFC: AUM growth healthy; asset quality continues to improve

- The NBFC loan book grew ~25% YoY to ~INR1.07t. ABCAP's 1QFY25 disbursements grew only ~2% YoY to ~INR134b. Loans to the Retail, SME, and HNI customers constituted 66% of the total loan portfolio for 1Q.
- Asset quality continued to improve, with GS2 + GS3 assets declining ~5bp QoQ to ~4.45%. ABCAP calibrated growth in the small-ticket unsecured loans, where the risk-weights had gone up and the RBI had also expressed concerns. AUM of both the Personal and Consumer (P&C) segment as well as the unsecured business segment declined sequentially.
- Calibration in the unsecured loans also led to a moderation in yields, which resulted in a ~30bp QoQ NIM compression. Management guided NIM to remain around the current levels of ~6.9% for the next few quarters.
- However, management continues to be bullish on the P&C segment, where the focus will be on acquiring customers directly rather than through the digital partnerships.

Housing Finance: Strong AUM growth; asset quality continues to improve

- ABCAP reported a broad-based growth in 1QFY25 across customer segments, with ~89% YoY growth in disbursements to ~INR30.7b. The loan book grew ~41% YoY to ~INR204b.
- NIM contracted ~15bp QoQ /90bp YoY to ~4.25%. The RoA/RoE stood at 1.4%/11% in 1QFY25.
- Asset quality improved, with GS2 + GS3 assets declining ~25bp QoQ to ~2.65%.

Asset Management: Healthy SIP inflows; QAAUM grows ~19% YoY

- The Quarterly Average AUM (QAAUM) rose 19% YoY to ~INR3.52t in 1QFY25 on the back of an uptick in equity performance. Individual monthly average AUM grew 24% YoY to INR1.86t in Jun'24.
- The domestic equity mix stood at ~46% (PQ: ~45.8%). The monthly SIP inflows increased 39% YoY to ~INR13.7b in Jun'24.

Life Insurance: VNB margin guidance at 18-20%; stable 13th month persistency

- Individual FYP grew 19% YoY to ~INR6.4b in 1QFY25, while renewal premium grew 17% YoY to INR16.8b in 1QFY25.
- The net VNB margin was 6.5% in 1QFY25. The company guided for a net VNB margin of ~18%-20% in FY25. 13M persistency was stable at ~88% in Jun'24.
- Axis Bank has commenced sourcing in the month of Jul'24. As the other Banca relationships, like the one with IDFC First Bank, ramps up, ABCAP expects stronger growth from the Banca channels.

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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and

Health Insurance: Market share among SAHIs improves

- GWP in the health insurance segment grew 35% YoY to ~INR10.4b, with Retail contributing 51% to total GWP. Health insurance continued to build scale, with focus on expenses. The combined ratio improved to 112% (1QFY24: 118%).
- Market share among standalone health insurers (SAHIs) rose from 11.6% in the previous year to 12.5% in Jun'24.

Highlights from the management commentary

- Management continued to guide ~35% AUM CAGR. The RoA in the NBFC business to improve to ~3% over the next 2-3 years. It will be looking to grow both P&C as well as the unsecured businesses.
- The company has built a direct sourcing channel for open market acquisitions and the ABCD app will help it grow its personal and consumer (P&C) business.

Valuation and View

- ABCAP continued to exhibit an improvement in operational metrics in 1QFY25. The remaining quarters of FY25 will see an uptick in growth, lower credit costs, and better return ratios.
- We expect a consolidated PAT CAGR of ~31% over FY24-26E. The thrust on cross-selling, investments in digital, and leveraging 'One ABC' will lead to healthy return ratios, even as we build in a consolidated RoE of ~14% in FY26.

Reiterate BUY with a revised SoTP (Mar'26E)-based TP of INR270.

ABCAP: SOTP – Mar'26E

	Stake	Value (INR B)	Value (USD B)	INR per share	% To Total	Rationale
NBFC	100	368	4.4	142	53	1.7x PBV
HFC	100	44	0.5	17	6	1.5x PBV
AMC	50	124	1.5	48	18	24x Earnings
LI	51	123	1.5	47	18	1.5x EV
Health Ins	46	35	0.4	13	5	1.3x GWP
Others		5	0.1	2	1	
Target Value		700	8.4	270	100	

Quarterly Performance						(INR M)		
Y/E March	FY24					FY25E	FY24	FY25E
	1Q	2Q	3Q	4Q	1Q			
ABFSL - NBFC arm								
Net Income	14,337	15,200	16,488	16,926	17,089	62,951	65,703	
Opex	4,370	4,370	5,320	5,500	5,080	19,560	20,270	
Cost to Income Ratio (%)	30.5	28.7	32.3	32.5	29.7	31.1	30.9	
Operating Profits	9,967	10,830	11,168	11,426	12,009	43,391	45,433	
Provisions	3,060	3,470	3,500	3,490	3,680	13,520	14,140	
Profit Before Tax	6,907	7,360	7,668	7,936	8,329	29,871	31,293	
Change YoY (%)	50.6	50.9	42.1	31.4	20.6	42.9	4.8	
Consolidated Earnings								
Cons PBT Before JV Interest	10,258	11,141	11,366	18,234	12,437	51,000	53,179	
Growth YoY %	45.8	31.8	33.6	93.5	21.2	52.6	4.3	
Lending	7,752	8,330	8,669	8,885	9,177	33,635	35,061	
NBFC	6,907	7,360	7,668	7,936	8,329	29,871	31,293	
HFC	845	969	1,002	949	848	3,765	3,767	
AMC	2,403	2,368	2,635	2,676	3,045	10,082	10,724	
Life Insurance	200	424	521	831	215	1,976	1,991	
Health Insurance	-625	-795	-1,313	863	-540	-1,870	-1,785	
Others*	528	815	854	4,980	540	7,177	7,189	
Taxes	2,460	2,840	2,890	2,710	2,930	10,900	11,370	
Tax rate %	24.0	25.5	25.4	14.9	23.6	21.4	21.4	
Profit After Tax	6,660	7,250	7,600	8,550	7,650	30,060	31,050	
MI and Others	170	200	250	430	200	1,050	1,080	
PAT	6,490	7,050	7,350	8,120	7,450	29,010	29,970	
Growth YoY %	50.9	44.5	38.7	33.3	14.8	57.5	3.3	
Details on lending business								
Loans (INR B)	1004	1090	1151	1241	1277			
Change YoY (%)	43.7	40.7	33.9	31.5	27.2			
NBFC	859	935	986	1056	1073			
Change YoY (%)	48.5	43.9	35.1	31.1	24.9			
HFC	145	154	165	184	204			
Change YoY (%)	20.4	24.0	27.3	33.4	40.6			
Net Interest Margins								
NBFC	6.98	6.87	6.88	6.86	6.56			
HFC	5.11	4.88	4.63	4.39	4.24			
GNPA %								
NBFC	2.80	2.64	2.59	2.50	2.51			
HFC	2.67	2.63	2.18	1.82	1.60			
Details on Other business								
AMC Business								
QAAUM (INR B)	3,084	3,235	3,247	3,458	3,676			
Change YoY (%)	5.4	10.1	10.8	20.8	19.2			
Life Ins - 13th Mt persistency	88.0	87.0	87.0	88.0	88.0			



Highlights from the management commentary

Business Update

- Calibrated the sourcing of personal loans from digital partners over the last few quarters. As a result, this portfolio has declined in the current quarter.
- Mutual fund quarterly average assets under management (QAAUM) grew 6% QoQ and 19% YoY to INR3.52t, with the equity mix at ~ 46%
- Monthly systematic investment plan (SIP) flows grew 39% YoY to INR13.7b in Jun'24.
- Individual First Year Premium (FYP) grew by 19% YoY to ~INR6.4b. Muted growth seen with one of its banca partners. With a new banca relationship going live, it expects the growth momentum to get better.
- The new surrender guidelines from IRDAI is expected to make the life insurance products simple and transparent and will help insurers with high persistency

Equity Raise

- AB Capital had raised ~INR30b last year and infused ~INR16b in NBFC and ~INR3b in HFC. It further raised ~INR6b from the OFS in Aditya Birla AMC. It also got IRDAI approval for monetizing the stake in Insurance broking which will fetch ~INR2b.
- The company has ~INR19b of Equity capital which will suffice for the next 12-18 months of growth

Merger Timelines

- Received in-principle approval from BSE and NSE: Proposed amalgamation has received no adverse observation from BSE and no objection from NSE. It is now awaiting other approvals.
- Now it has to get a no objection from RBI and it will then have to file a merger proposal in NCLT Gujarat. Since it is the merger of a 100% subsidiary into ABCL, it should be simpler.
- Endeavor will be to complete the process by March 2025.
- Unlike Banks, regulations do not prohibit NBFC from having subsidiaries of AMC, LI or Health Insurance.
- In Insurance companies, it is allowed to hold above 50% after getting approval from RBI

NBFC

- AUM grew ~25% YoY and ~2% QoQ to ~INR1.07t.
- Loans to Retail, SME and HNI constituted ~66% of the total portfolio.
- It now has more than 1m MSMEs registered on the platform.
- Credit costs was stable at 1.43% (which is well within its guidance of ~1.5%)
- Stage 3 PCR has been maintained at ~50%
- RoA stood at ~2.41% and RoE stood at ~16.1%
- Focus will be on developing a granular portfolio and increasing business loans to the MSMEs
- Guided ~35% AUM growth over the next 2-3 years
- Small-ticket unsecured loans where the risk-weights had gone up and RBI had also expressed concerns, it has calibrated the growth.

- Built a direct Sourcing channel for open market acquisition and ABCD app will help it again grow its personal and consumer businesses
- Guided that NIM should remain around current levels of ~6.9% for the next few quarters
- Continues to be bullish on the personal and consumer (P&C) segment. Focus will be on acquiring customer directly rather than through partnerships. Direct sourcing channel and branches have started yielding results. These platforms and engines will fire up in the P&C segment. Unsecured business loans segment - last year it launched its B2B platform Udyog plus and growth will resume in both these segments.
- Loan purchases were primarily in secured loans and a very small part will be unsecured. Portfolio interventions - both buyouts and sell-downs of the portfolio - are evaluated by AB Capital. Portfolio has to match with the credit quality/underwriting of ABCL.
- In 4QFY24, there was a marketing campaign because of which the opex was elevated. Opex will typically remain in the range of ~30-31% cost-income ratio
- Credit guarantee on ~INR43b of the MSME portfolio.
- Guided that it will reach RoA of ~3% over the next 2-3 years. It will be looking to grow both P&C as well as unsecured businesses.
- In the P&C segment, Share of direct sourcing stood at ~28% and through digital was at ~33%

Housing

- The highest-ever disbursements and book-growth in a quarter
- Disbursements grew ~90% YoY and 5% QoQ to ~INR30.7b
- AUM grew ~41% YoY and 11% QoQ to ~INR204b
- RoA stood at 1.44% and RoE stood at 11%
- ~95% of the retail disbursements were towards 700+ CIBIL or new to credit
- ~100% adoption of unified digital lending platform Finverse.

Life Insurance

- Individual First Year Premium (FYP) grew by 19% YoY to ~INR6.44b; Proprietary channels saw a robust growth
- Axis bank has commenced souring in the month of July. As the banca relationship with IDFC First Bank ramps up, it expects stronger growth from the banca channels.
- Net VNB margin was 6.5%. Guided for Net VNB margin of 18-20% for FY25.
- 100% of its new business customers are now onboarded digitally and customer self-service ratio stood at 93%
- Impact on VNB margins on PAR products will be 150-200bp because of the new surrender value guidelines from IRDAI.

Health Insurance

- Market share among standalone health insurers (SAHI) increased by ~92bp YoY to 12.5%
- Combined ratio improved to 112% from 118% in 1QFY24

Key exhibits

Exhibit 1: NBFC loan book growth moderated due to the calibration in unsecured loans

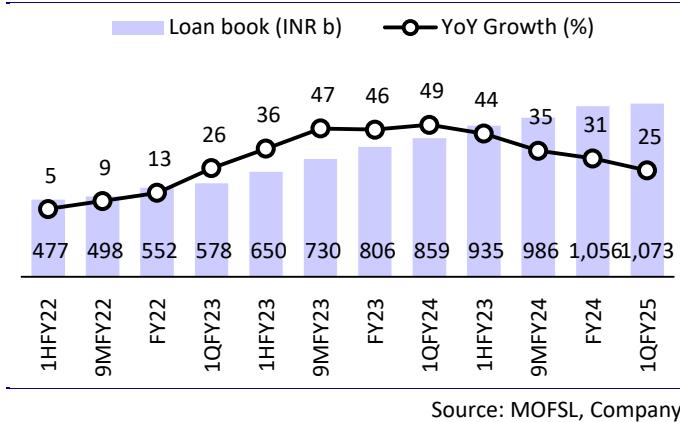


Exhibit 2: HFC loan book grew 41% YoY

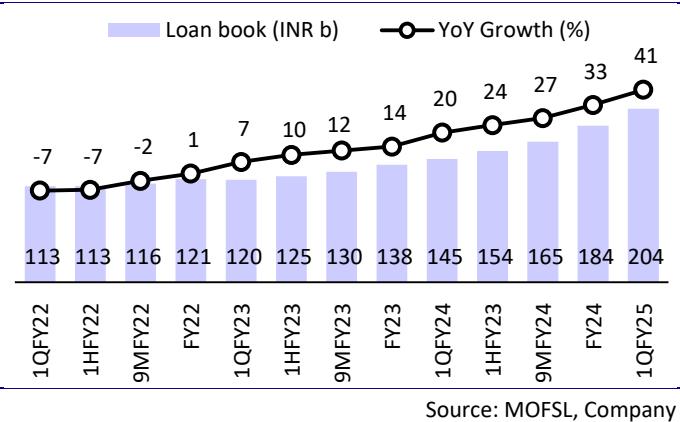


Exhibit 3: NBFC – 1QFY25 loan mix (%)

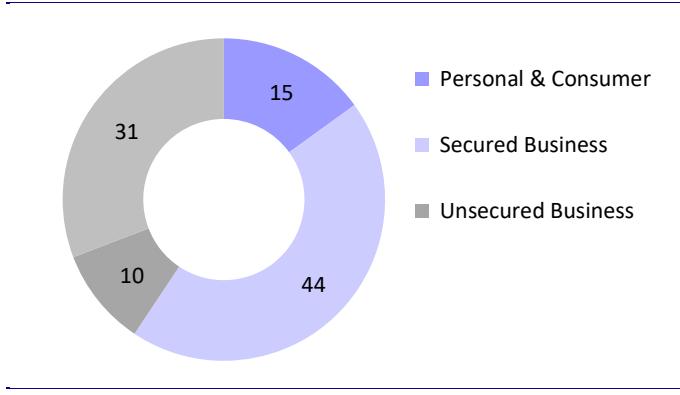


Exhibit 4: GS3 was stable at ~2.5%

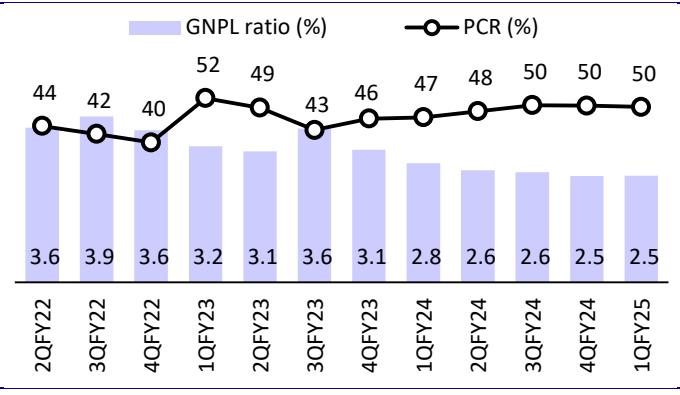


Exhibit 5: AMC segment – AAUM was stable sequentially (%)

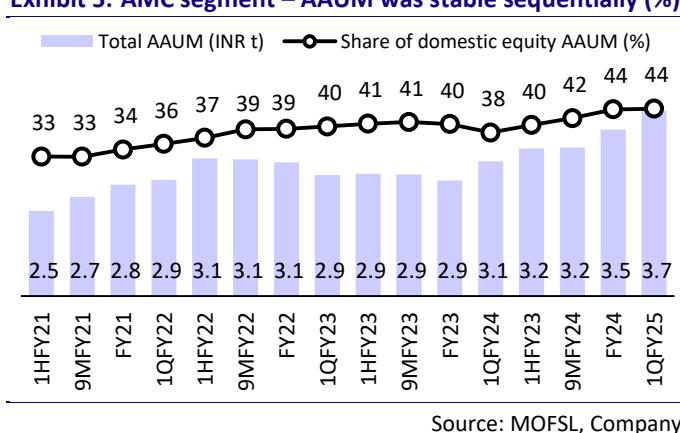


Exhibit 6: AMC: PBT margin stable QoQ

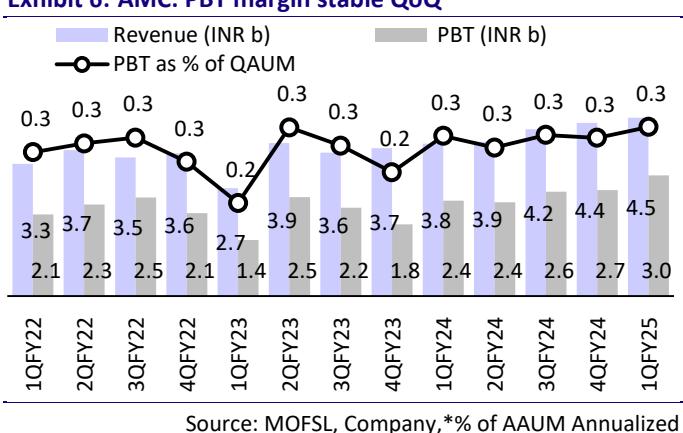


Exhibit 7: Product mix in ABSLI (%)

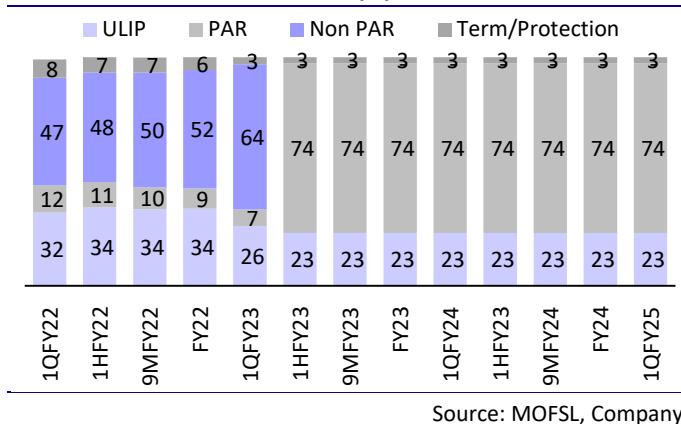
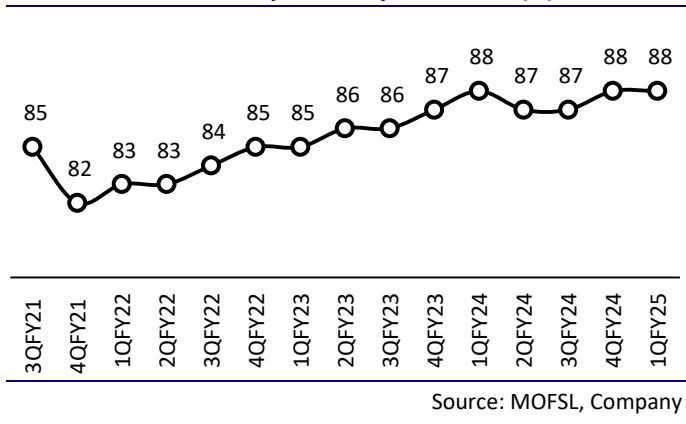


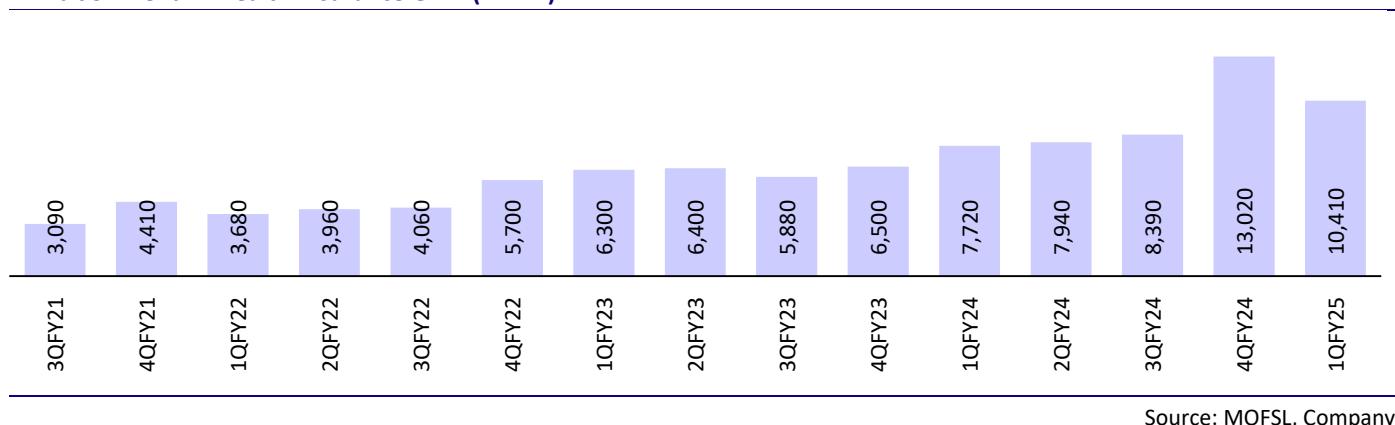
Exhibit 8: The 13-month persistency stable QoQ (%)



Source: MOFSL, Company

Note: Split of PAR and Non-PAR not disclosed over eight quarters

Exhibit 9: Trend in Health Insurance GWP (INR m)



Source: MOFSL, Company

Financials and valuations

Balance sheet								(INR m)
Y/E MARCH	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
NBFC	13,280	10,529	10,314	14,883	20,902	29,871	38,867	49,100
Housing	1,073	1,362	1,764	2,533	3,085	3,765	4,255	5,232
AMC	6,468	6,609	6,958	8,948	7,939	10,082	12,165	13,774
Life Insurance	1,315	1,370	1,510	1,750	1,960	1,980	2,218	2,484
Health Insurance				-3,087	-2,180	-1,870	-1,500	-500
Other Businesses	414	590	931	1,217	1,439	1,364	2,461	2,565
Consolidation Adjustments	-2,011	-1,128	256	-8,396	-6,909	-5,445	-4,445	-3,445
Consolidated PBT	20,538	19,332	21,733	17,848	26,237	39,745	54,020	69,210
Taxes	7,681	5,804	6,096	6,267	8,112	11,435	16,206	20,763
Tax Rate (%)	37.4	30.0	28.0	35.1	30.9	28.8	30.0	30.0
Consolidated PAT	12,857	13,528	15,637	11,582	18,125	28,311	37,814	48,447
Share of JV and MI Adjustments	1,620	1,899	2,368	3,868	2,443	2,000	3,459	3,943
Other Adjustments	20	14	-1	1,610	27,390	7,039		
Consolidated PAT Post MI	11,237	11,629	13,269	17,060	47,958	33,350	34,355	44,504
% of Total PBT	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
NBFC	64.7	54.5	47.5	83.4	79.7	75.2	71.9	70.9
Housing	5.2	7.0	8.1	14.2	11.8	9.5	7.9	7.6
AMC	31.5	34.2	32.0	50.1	30.3	25.4	22.5	19.9
Life Insurance	6.4	7.1	6.9	9.8	7.5	5.0	4.1	3.6
Health Insurance	0.0	0.0	0.0	-17.3	-8.3	-4.7	-2.8	-0.7
Other Businesses	2.0	3.1	4.3	6.8	5.5	3.4	4.6	3.7
Consolidation Adjustments	-9.8	-5.8	1.2	-47.0	-26.3	-13.7	-8.2	-5.0
Consolidated PBT	100.0							
Change YoY %	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
NBFC	16.6	-20.7	-2.0	44.3	40.4	42.9	30.1	26.3
Housing	352.3	26.9	29.5	43.6	21.8	22.0	13.0	23.0
AMC	23.6	2.2	5.3	28.6	-11.3	27.0	20.7	13.2
Life Insurance	0.8	4.2	10.2	15.9	12.0	1.0	12.0	12.0
Other Businesses	-16.0	42.7	57.8	30.8	18.3	-5.3	80.5	4.2
Consolidation Adjustments	-13.0	-43.9						
Consolidated PBT	25.6	-5.9	12.4	-17.9	47.0	51.5	35.9	28.1
Taxes	33.2	-24.4	5.0	2.8	29.4	41.0	41.7	28.1
Consolidated PAT	21.5	5.2	15.6	-25.9	56.5	56.2	33.6	28.1
Minority Interest	-7.2	17.3	24.7	63.3	-36.8	-18.1	73.0	14.0
Consolidated PAT Post MI	27.2	3.5	14.1	28.6	181.1	-30.5	3.0	29.5

Financials and valuations

Y/E MARCH	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
ESC	22,014	24,138	24,153	24,163	24,180	26,000	25,937	25,937
Reserves and Surplus	73,110	1,01,620	1,13,273	1,30,758	1,78,928	2,42,172	2,73,131	3,13,692
Networth	95,124	1,25,758	1,37,426	1,54,921	2,03,108	2,68,173	2,99,068	3,39,629
Non-Controlling Interest	11,574	13,196	14,848	15,986	15,093	18,205	21,664	25,608
Other Capital Instruments	0							
Borrowings	5,63,242	5,56,298	5,26,750	5,80,519	8,43,208	10,95,401	13,67,058	16,55,526
Change (%)	26.5	-1.2	-5.3	10.2	45.3	29.9	24.8	21.1
Insurance Business Related	4,01,500	4,12,645	5,24,765	6,08,734	6,90,899	8,53,885	9,39,273	10,33,200
Change (%)	10.1	2.8	27.2	16.0	13.5	23.6	10.0	10.0
Other liabilities	25,480	30,020	39,175	51,235	55,233	85,355	1,40,304	1,79,966
Change (%)	-18.7	17.8	30.5	30.8	7.8	54.5	64.4	28.3
Total Liabilities	10,96,920	11,37,917	12,42,963	14,11,395	18,07,541	23,21,018	27,67,368	32,33,929
Customer assets	6,37,935	6,32,618	6,17,017	6,92,424	9,87,538	13,16,047	15,92,371	19,30,319
Change (%)	22.6	-0.8	-2.5	12.2	42.6	33.3	21.0	21.2
Fixed Assets	9,262	12,550	13,038	13,500	13,228	17,466	18,105	19,904
Change (%)	6.4	35.5	3.9	3.5	-2.0	32.0	3.7	9.9
Insurance Business Related	4,14,145	4,28,267	5,48,472	6,32,012	7,07,526	8,66,583	9,57,242	10,57,768
Change (%)	10.6	3.4	28.1	15.2	11.9	22.5	10.5	10.5
Other assets	35,578	64,483	64,437	73,459	99,250	1,20,923	1,99,650	2,25,939
Change (%)	4.8	81.2	-0.1	14.0	35.1	21.8	65.1	13.2
Total Assets	10,96,920	11,37,917	12,42,963	14,11,395	18,07,541	23,21,018	27,67,368	32,33,929
Networth Break Up								
Y/E MARCH	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
NBFC	74,165	80,782	88,379	98,604	1,14,262	1,52,435	1,81,352	2,17,883
Housing	11,903	13,829	15,192	16,651	18,951	22,070	25,384	29,460
AMC	12,154	13,041	17,109	21,896	25,204	32,160	34,433	37,541
Life Insurance	24,488	26,574	26,574	29,368	32,086	38,041	40,258	42,742
Other Businesses	2,322	2,112	2,799	3,178	3,786	4,799	8,280	9,845
Consolidation Adjustments	-18,335	2,618	2,223	1,211	23,912	36,874	31,025	27,766
Consolidated Networth	1,06,698	1,38,954	1,52,274	1,70,907	2,18,201	2,86,378	3,20,733	3,65,237
Of which Non-controlling Int	11,574	13,196	14,848	15,986	15,093	18,205	21,664	25,608
Consolidated NW Post NCI	95,124	1,25,758	1,37,426	1,54,921	2,03,108	2,68,173	2,99,068	3,39,629
% of Total Networth	100.0							
Change YoY %								
NBFC	17.5	8.9	9.4	11.6	15.9	33.4	19.0	20.1
Housing	58.7	16.2	9.9	9.6	13.8	16.5	15.0	16.1
AMC	4.7	7.3	31.2	28.0	15.1	27.6	7.1	9.0
Life Insurance	5.1	8.5	0.0	10.5	9.3	18.6	5.8	6.2
Other Businesses	-8.6	-9.1	32.5	13.5	19.1	26.7	72.6	18.9
Consolidation Adjustments	51.3	-114.3	-15.1	-45.5	1,874.1	54.2	-15.9	-10.5
Consolidated Networth	11.2	30.2	9.6	12.2	27.7	31.2	12.0	13.9
Y/E MARCH	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Valuations								
Consolidated BV	43	52	57	64	84	103	115	131
Change YoY	11	21	9	13	31	23	12	14
Con PBV	5.1	4.2	3.9	3.4	2.6	2.1	1.9	1.7
Consolidated EPS	5.1	4.8	5.5	7.1	8.5	10.1	13.2	17.2
Change YoY	27	-6	14	29	20	19	31	30
Con PE	43.1	45.7	40.0	31.2	25.9	21.7	16.6	12.8
Consolidated ROE	12.5	10.5	10.1	11.7	11.5	11.2	12.1	13.9

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NOTES

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