Farsight

MORNING FARSIGHT

Tuesday, June 12, 2018

ADITYA BIRLA CAPITAL CMP:RS 140 TRGT:RS 190 TIME HORIZON: 1 YEAR

Aditya Birla Capital, most diversified NBFC under a single brand, with presence in non-bank financing, housing finance, asset management, insurance and advisory businesses, is looking a good buy with valuations having turned attractive now and infact at discount to players like Edelweiss Financial, after recent correction. In Q4FY18,Aditya Birla Capital continued its robust growth in business operations with Consolidated PAT growth of 91% YoY at Rs. 208 cr, after witnessing 23% YoY PAT growth in Q3FY18 as well. Consistent growth throughout the year took the company's net profit for the FY18 to Rs. 824 cr, up by 44% over FY17, with consolidated AUM rising by 24% to Rs. 305,295 cr, while loan book expanded by 32% to Rs. 51,378 cr for FY18. We must highlight that the company's operations are divided in 8 segments, out of these, major income generation comes from NBFC, Asset Management, Life insurance and housing finance. 1 NBFC: This segment is comprised of retail, SME and UHNI lending, constituting 47% of the loan mix. In FY18, company's Loan book increased by 25% YoY to Rs. 34,703 cr, with healthy asset quality, as GNPA and NPA were maintained at 0.9% and 0.6%, respectively and NIM was healthy at 4.4%. 2. Asset Management Revenues from this segment increased by 10% YoY in 4QFY18 and 25% YoY in FY18.3. Insurance: In 4QFY18ABCL's first year premium (FYP) increased by 20% YoY. It also managed to report positive VNB margin of 4.3% compared to (5.5%) in the year ago. Further, it has also widened its presence through branch channel of HDFC. 4. Housing Finance: Started just 7 quarters back, this segment generated profits before tax for the first time in 4QFY18. EBIT was at Rs.24cr over a loss of Rs.15cr a year-go, favoured by a sharp decrease in cost/income ratio to 71% from 86% in 4QFY17. The HFC loan book almost doubled to Rs.8,137cr in FY18, maintaining the asset quality at GNPA of 0.5% and NPA of 0.4%. The segment's NIM was at 3% at the end of FY18. Company is expected to report 25%t PAT CAGR over FY17-20, driven by strong traction in the lending and asset management businesses. Lending (>70%) and AMC (-18%) businesses are the key valuation drivers. Company has ended FY18 with BV of Rs. 39.50 and EPS of Rs. 4.22.0n an estimated EPS of Rs. 6 and BV of Rs. 45 for FY19, stock is trading at PE of 23x and PBV of 3.1x,which is at discount to peers like Edelweiss Financial (FY19e PE 27x, PBV 3.9x). Share ruling at Rs. 140 can move to Rs 190 in the next 1 year. Buy as an investor.