Opportunity opening up

Higher FDI cap has boosted the insurance business. Other segments are also doing well

RADHIKA MERWIN

The passage of the long-pending Insurance Bill — which has increased the cap on foreign direct investment in the insurance sector from 26 per cent to 49 per cent — has come as a shot in the arm for insurance companies.

Reliance Capital, a part of the ADAG, that has interests in insurance (life and general), asset management, consumer loans and broking businesses, stands to gain as it can now unlock value in its insurance subsidiaries by listing or transferring shares to its foreign partner.

The company is among the few listed players that has significant exposure to the insurance business.

Also, the company's asset management business offers a good value unlocking opportunity. Japan-based Sumitomo Mitsui Trust Bank recently acquired 2.7 per cent stake in Reliance Capital for ₹371 crore — valuing the company at ₹530 per share.

The tie-up could help Reliance Capital in its endeavour to set up a bank in India, if permitted by the RBI.

Valued on a sum-of-parts (SOTP) basis, the fair value of Reliance Capital works out to 581 per share, implying 34 per cent upside from the current levels.

Investors with a two-three-year time horizon can buy the stock. But given the high volatility, it may be suitable only for those with a stomach for risk.

Valuation

Reliance Life Insurance is a joint venture with Nippon Life Insurance, in which Reliance Capital directly and indirectly holds 74 per cent stake.

In 2011, Nippon Life had bought 26 per cent stake in the life insurance business for ₹3,062 crore, pegging the valuation of the business at ₹11,500 crore.

The life insurance business has been valued at ₹224 a share of Reliance Capital, based on the appraisal value method. Reliance General Insurance, in which the company has 100 per cent stake, has been valued at ₹97 per share.

Reliance Capital Asset Management has assets under management (AUM) of about ₹2.3 lakh crore as of December 2014, across mutual funds (₹1.3 lakh crore), pension funds, managed accounts and offshore funds.

Nippon Life Insurance, which had a 26 per cent stake in the company, recently bought an additional 9 per cent stake, valuing the business at ₹7,300 crore.

That's about 3.2 per cent of its total AUM or over 5 per cent of its mutual fund AUM as of December 2014. In 2012, Nippon Life had paid about 6.8 per cent of mutual fund AUM (as of December 2011) to acquire 26 per cent stake.

Similar deals in the sector have happened at about 5-6 per cent of AUM. Reliance Capital Asset Management business has been valued at 4.5 per cent of its mutual fund AUM, which amounts to ₹150 per share of Reliance Capital.

Nippon Life has an option to increase its stake by another 14 per cent in tranches. The remaining broking and consumer loan businesses are valued at ₹110 per share.

Key player

Reliance Life Insurance ranks fifth among private life insurers. It has a market share of 5 per cent among private players in terms of new business premium. The company's NBAP (New Business Achieved profit) margins are one of the highest in the industry.

Despite a challenging environment over the last couple of years, its new business premium grew by 40 per cent in 2013-14, backed by strong improvement in productivity.

In the nine months ended December 2014, the company's new premium went up by 10 per cent over the same period last year. Growth challenges for agency-driven insurers has impacted new business premium.

Reliance General Insurance ranks fifth in the private sector. For the nine months ended December 2014, its profit of ₹63 crore was 72 per cent higher than in the same period last year. Reliance Mutual Fund ranks third in terms of AUM as on December 2014 and has a market share of 11.4 per cent.

The company's profit before tax grew 49 per cent in the December quarter.

Thanks to benign market conditions, the fund house has been able to increase both its equity and debt AUM in the last nine months. Reliance Commercial Finance focuses on secured lending to the housing, SME and commercial vehicle segments; its loan portfolio stood at about ₹14,000 crore as on December 2014, almost flat over last year.

With most of the operating businesses growing steady, the earnings momentum for Reliance Capital should continue.

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BUY

Why

- Value unlocking in insurance
- Leading presence across segments
- Steady performance

Did you know?

Reliance Life Insurance has a network of over 900 offices and 115,000 distribution points across the country