



Reliance Cap: Profitability to rise

A possible stake sale in its life insurance business could be a key trigger for the counter.

Reliance Capital's stock rallied recently, subsequent to the announcement that Nippon Life has increased stake in its subsidiary, Reliance Capital Assets Management (RCAM). The Japanese life insurance company invested ₹1,196 crore, increasing its stake in RCAM from 34% to 49%, valuing RCAM at around ₹8,500 crore. RCAM is one of the largest asset managers in India, managing assets worth ₹2.43 lakh crore across mutual funds, pension funds, managed accounts and offshore funds. Nippon Life, a 125-year-old company, is also one of the largest life insurers in the world, managing assets worth \$520 billion globally. The Fortune 500 company currently holds 26% in Reliance Life Insurance and is expected to increase its stake to 49% in the near future. In addition to boosting the return on equity (RoE), the stake sale will also help Reliance Capital to de-leverage its balance sheet.

Reliance Capital is a diversified financial services company and has interests in asset management, life and general insurance, commercial and home finance, stock broking, wealth management services, distribution of financial products, asset reconstruction, proprietary investments, etc.

While its asset management, commercial finance and general insurance businesses have been reporting good numbers, life insurance and consumer finance continue to report lacklustre numbers. The new business premium and first-year premium of Reliance Life Insurance came down 45% and 50% respectively in the first quarter of 2015-16 on an year-on-year (y-o-y) basis. Life insurance assets under management

(AUM) also declined 16% y-o-y due to higher redemptions from the unit-linked insurance plans. The trend is expected continue in the second quarter of 2015-16 as well.

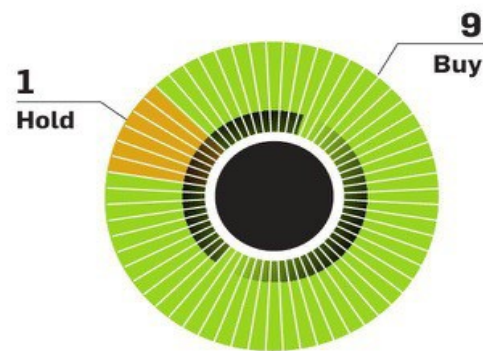
Though Reliance Capital was underperforming the broader market in the last one year, the trend has got reversed in the recent past. A turnaround in its life insurance business and improved performance from other businesses should help Reliance Capital to report stable growth in coming years. To incentivise improvement in its overall performance, Reliance Capital recently announced a ₹150-crore employee stock ownership plan for all its major operating businesses. A consistent earnings growth in the coming years should help Reliance Capital to reduce its 'holding company discount' (market undervaluation). A further stake sale in Reliance Life Insurance can be the next major trigger for the counter.

Selection methodology: We pick the stock that has shown the maximum increase in 'consensus analyst rating' in the past one month. Consensus rating is arrived at by averaging all analyst recommendations after attributing weights to each of them (5 for strong buy, 4 for buy, 3 for hold, 2 for sell and

1 for strong sell) and any improvement in consensus analyst rating indicates that the analysts are getting more bullish on the stock. To make sure that we pick only companies with decent analyst coverage, this search is restricted to stocks that are covered by at least 10 analysts. You can see similar consensus analyst rating changes during the past week in the ETW 50 table.

—Narendra Nathan

Analysts' views



Nippon Life's stake increase in Reliance Cap's RCAM and the possibility of a stake increase in its life insurance business have made the counter analysts' top pick.

BUY

Stock	Research house	Advice	Market price* (₹)	Target price (₹)	Comment
Infosys	J P Morgan	Overweight	1,097	1,280	Maintain 'overweight'. Even though the unchanged revenue guidance is perplexing, a robust all-round revenue strength, in successive quarters, is heartening.
Vedanta	Goldman Sachs	Buy	109	135	Retain 'buy'. The recent weakness in the three key commodities Vedanta is exposed to—zinc, crude oil and aluminium—has already been priced in.
IndusInd Bank	Nomura	Buy	957	1,050	Retains 'buy'. Due to a higher growth potential and stable asset quality, IndusInd Bank should be able to sustain its premium valuations.
PNC Infratech	Edelweiss	Buy	516	618	Initiate coverage with 'buy'. Despite superior growth profile, balance sheet and return on equity / return on capital employed ratios, PNC is trading at a discount to peers.
Swaraj Engines	Nirmal Bang	Buy	859	1,168	Initiate coverage with 'buy'. It deserves better valuation due to an attractive business model with a negative working capital cycle, decent margins, robust return ratios and a debt-free status.

SELL

Stock	Research house	Advice	Market price (₹)	Target price (₹)	Comment
Hindustan Unilever	IDFC Sec	Underperformer	791	762	Maintain 'underperformer'. Margin expansion is moderate because of increased ad spend. The incremental returns being generated in the near term for every rupee of investment continue to be low.
DCB Bank	IIFL	Sell	92	82	Downgrades to 'sell'. DCB plans to double its branch network in 12-15 months. Up-fronting of costs and an uncertain longer-term outlook will impact valuation severely.

* Market price as on 15 October.

Fundamentals

	Actual		Consensus estimate	
	2013-14	2014-15	2015-16	2016-17
Revenues (₹ cr)	7,467.00	8,787.00	9,784.90	9,218.80
Operating profit (₹ cr)	1,183.00	1,654.00	1,299.90	2,522.90
Net profit / loss (₹ cr)	747.00	1,001.00	999.40	1,146.30
EPS (₹)	30.41	40.69	37.24	44.10

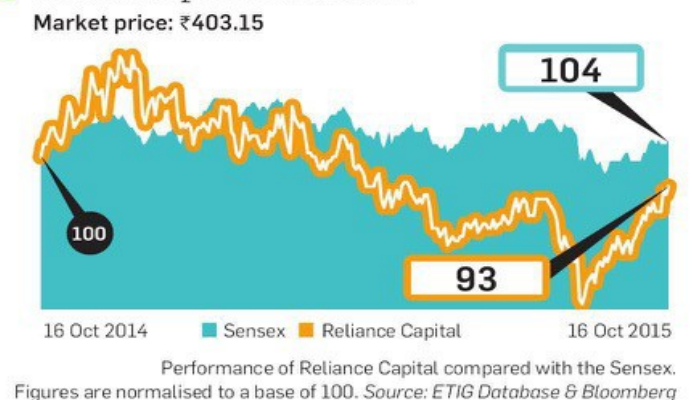
Valuation

	PBV	PE	Dividend yield (%)
Reliance Capital	0.81	9.81	2.23
L & T Finance Holdings	3.35	15.61	1.16
Cholamandam Investment	3.32	20.94	0.57
Bajaj Holdings & Investment	2.93	8.25	2.07
Sundaram Finance	5.56	38.41	0.70
Mahindra & Mahindra Financial	2.33	15.53	1.72

Latest brokerage calls

Reco date	Research house	Advice	Target price (₹)
15 Oct '15	Investec	buy	550
16 Sep '15	Societe Generale	buy	508.1

Relative performance



What experts advise