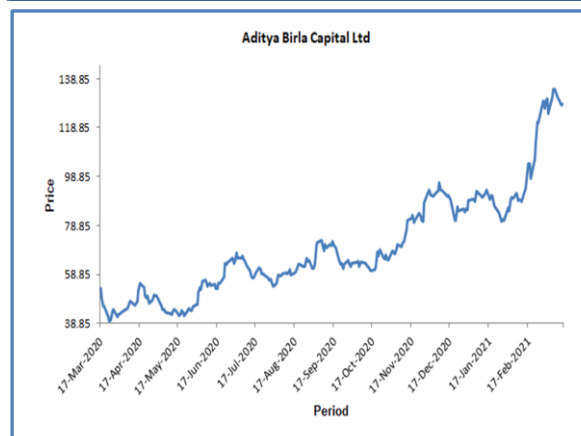


April 02, 2021

ADITYA BIRLA CAPITAL LTD. (ABCL)

Industry	Finance - NBFC
No. of Shares (Crore)	241.50
Face value (Rs)	10
Mkt. Cap (Rs. Crore)	29354.32
Price (01/04/2021)	121.55
Book Value (Rs)	54.93
P/BV	2.21
BSE Code	540691
NSE Code	ABCAPITAL
Bloomberg	ABCAP:IN
Reuters	ADTB.BO
Avg. Weekly Volume (NSE)	24,52,980
52 W H/L (Rs)	139.70/40.50
Shareholding Pattern	%
Indian Promoters	68.12
Foreign Promoters	2.32
Institutions	14.92
Non- Institutions	13.93
Custodians	0.70
Total	100

(As on December 31, 2020)

Company Background

Aditya Birla Capital Limited (ABCL) is the holding company for the financial services businesses of the Aditya Birla Group. ABCL's subsidiaries have a strong presence across Protecting, Investing and Financing solutions. It is a universal financial solutions group catering to diverse needs of its customers across their life cycles. Powered by more than 22,000 employees, the subsidiaries of ABCL have a nationwide reach with 850+ branches and more than 200,000 agents/channel partners and several bank partners. As of December 31st, 2020, ABCL manages aggregate assets under management around Rs.320,000 crores; has a consolidated lending book of over Rs.57,500 crores, and an active customer base of over 21 million, through its subsidiaries and joint ventures.

Investment Rationale

- ABCL is one of the largest non-bank financial services player in India. It ranks among the top fund managers in the country with over Rs.300,000 Crores of assets under management across asset management, life insurance and health insurance businesses.
- ABCL has 100% stake in Aditya Birla Finance and Aditya Birla Housing Finance. It has 51% stake in Aditya Birla Sun Life AMC and Aditya Birla Sun Life Insurance.
- The Company's retailisation strategy helped it to grow its active customer base to ~20 Million through 850+ branches and 200,000+ channel partners.
- ABCL's Asset Management business which has recently obtained in principle approval of the board to explore an IPO of Aditya Birla Sun Life AMC has an extremely strong distribution network, which operates as the fifth-largest mutual fund and one of the most profitable AMC franchise.
- ABCL has undertaken scores and plethora of initiatives to scale up revenue potential by enhancing product per customer through focused approach on upsell and cross-sell which will enable it to unlock value given the scale of its business.
- Aditya Birla Finance is poised for impeccable acceleration backed by best in asset liability franchise and focus on granularization of lending business is bound to augur sanguinely well for the underlying asset.
- Bolstering regression in disbursements with focus on retailisation will enable the diversified financial conglomerate to continue deliver strong core operating profits underpinned by margin improvement and better Return on Assets (RoAs).
- ABCL reported highest ever quarterly profits in Q3FY21 backed by strong growth across businesses and cost optimization as a result of which the topline surged 17.08% to 5025.98 crores and profits swelled to 208.18 crores.

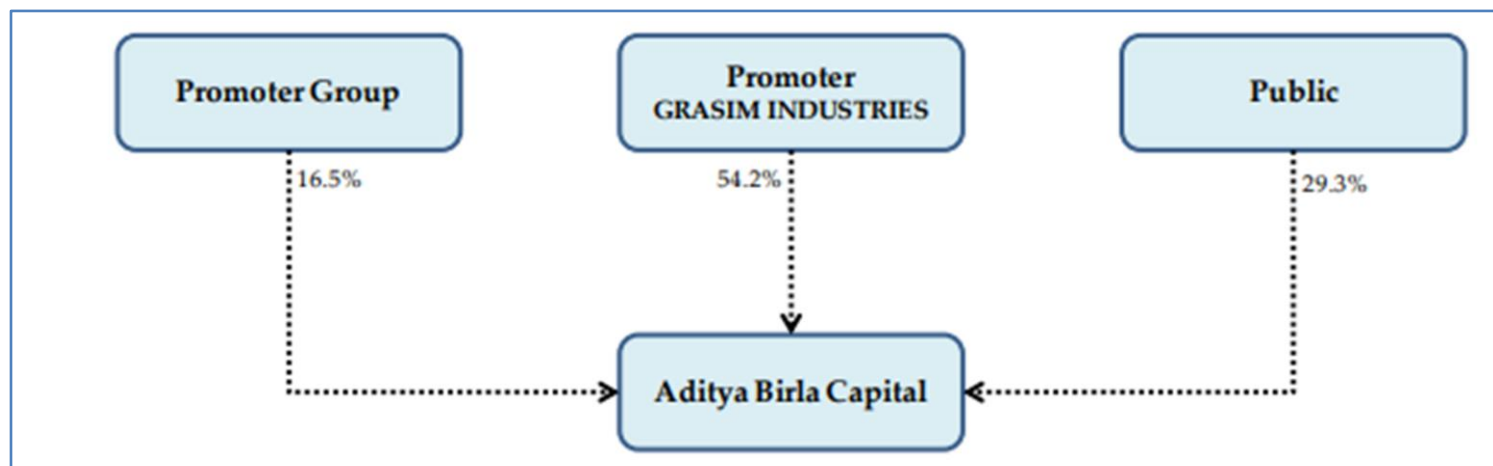
➤ Provisions are expected to normalize in FY22 as environment for mid-sized NBFCs including that of ABCL is turning favorable and underpinning the segments like AMC, NBFC as well as insurance. A favorable credit cycle, exploration of group synergies and benign funding cost provide much required tailwinds and impetus.

Recommendation: ABCL's riped intrinsic value unlocking is well captured in its AMC business which is heading north of Rs.24000 crores clubbed with profitability and Return on Equity (RoE) which are expected to expand invariably in the foreseeable future. At the CMP Rs.121.55 the scrip is trading at ~18.70 times its FY22e earnings. Hence, we recommend a buy on the stock with a target price of Rs.160/- which implies a prospective and potential upside of ~31.63% with an investment horizon of 9-12 months.

Particulars (In Rs.Crs)	Q3FY21	Q3FY20	Var%	FY20	FY19	FY18	FY17
Net Sales	5,025.98	4,292.78	17.08	17,403.23	15,425.97	11,731.69	5,823.01
Operating Profit	1,290.75	1,444.96	-10.67	5,863.44	5,360.19	4,045.38	3,408.02
Consolidated Net Profit	288.68	250.48	15.25	919.78	870.94	693.06	530.00
PBIDTM%	25.68	33.66	-23.70	33.69	34.75	34.48	58.53
PATM%	4.14	4.07	1.66	3.53	3.80	4.41	11.87
EPS (Rs.)	1.20	1.08	10.39	3.81	3.96	3.15	4.30

*Source: Company, Ace Equity, AUM Research

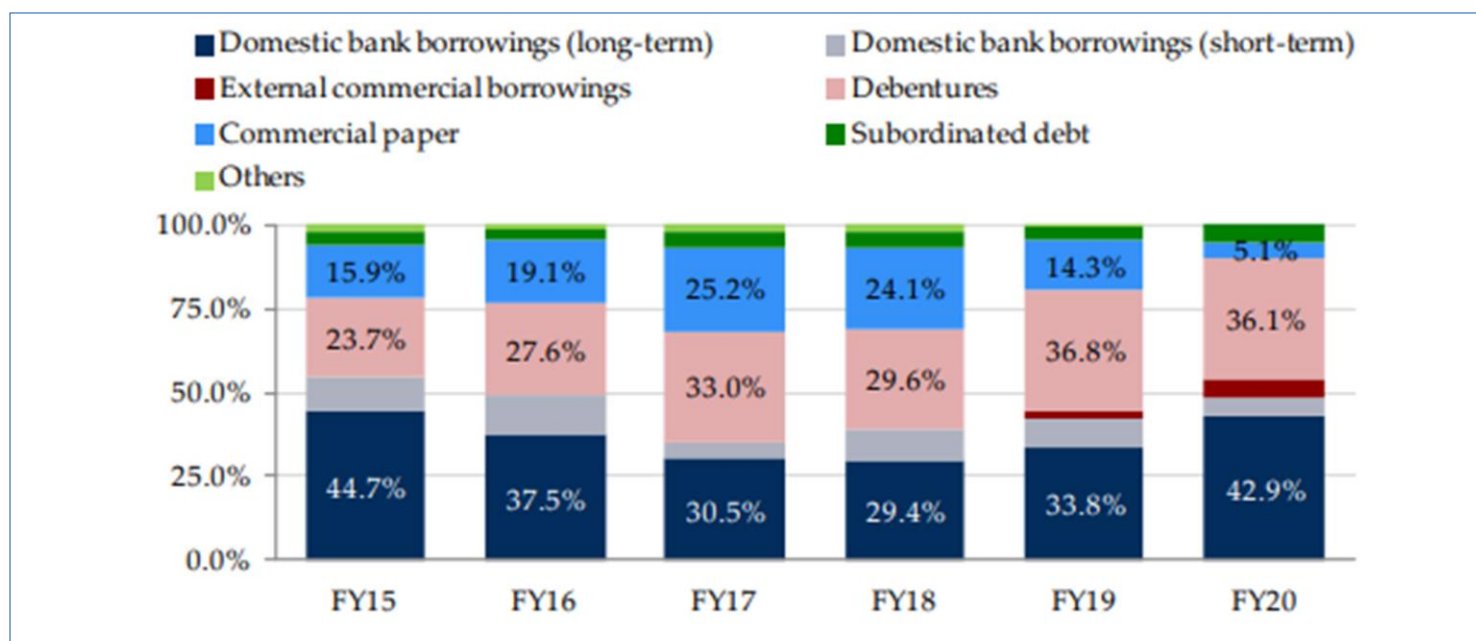
Ownership Structure:



As of Dec'20, ABCL is owned to the extent of 54.20% 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 Rs.1000 crores of the Rs.2100 crores raised by ABCL (~50% of the funds) - Grasim, the primary sponsor, infused 77% (Rs.770 crores) of the promoter group support.

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).

Borrowing Mix:

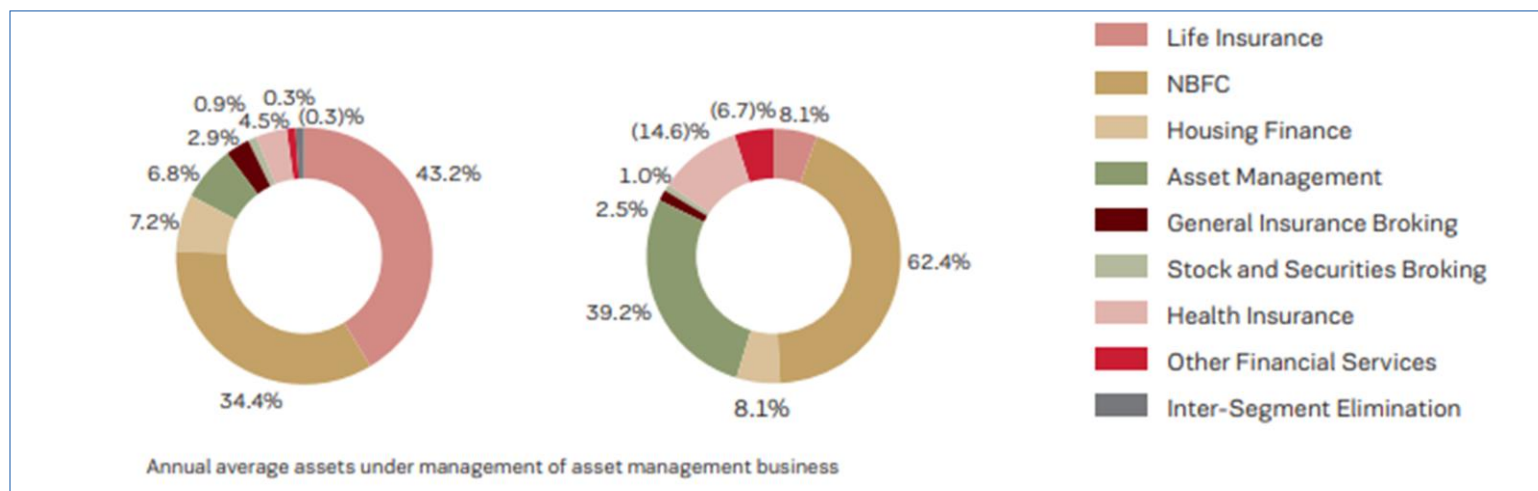


Aditya Birla Capital (ABCL) is a well-diversified financial conglomerate with presence across various segments such as lending, life insurance, health insurance, asset management, asset reconstruction and securities broking, among others.

A diversified presence across entire gamut of Financial Services Arena:



Segment Revenue and Profit Before Tax (PBT) Mix:



NBFCs:

NBFCs play an important role in the Indian financial system by complementing the banking sector and leveraging on their efficient and nimble operations, to promote their tailor-made products. Their role in promoting financial inclusion and catering to the needs of small businesses and specialized segments give an additional dimension to their importance.

Although the NBFC sector grew by 18% year-on-year in FY19, the pace of expansion was lower in FY19, mainly due to credit downgrades and liquidity squeeze within the sector. NBFC growth in H1 FY 20 moderated to 6% due to lower credit demand.

With the uncertain growth and a slowdown in credit demand, NBFCs are expected to turn cautious, going forward. The sector faced liquidity pressure with higher funding cost and is expected to face headwinds for asset quality. The profitability of NBFCs is expected to be under pressure, with lower credit growth and higher credit cost. Business models of NBFCs will be tested for resilience as the economy gradually recovers from the pandemic. The players with their strong liability profiles and strong risk controls in the assets size are expected to be better positioned.

Aditya Birla Finance Limited (ABFL):

- ✚ ABFL with its strong parentage and liquidity is well-equipped to build future growth.
- ✚ ABFL foresees opportunity across the spectrum of its customers, out of which the SME and retail opportunity is estimated to be the largest.
- ✚ Besides the asset quality, effective implementation of technology and cost optimization would remain the company's key focus areas for achieving profitable and sustainable growth.

Housing Finance:

Long-term growth outlook for the housing finance sector remains favorable owing to the Government of India's focus on 'Housing for All' initiative, improved affordability and favorable demographics. These factors, coupled with the current low penetration levels, are likely to boost growth in the housing segment.

Aditya Birla Housing Finance Limited (ABHFL):

- ✓ ABHFL is aiming to build a scalable and profitable book through the optimal product-sourcing-customer mix.
- ✓ The Company's thrust is on building a robust technology platform for customer acquisition, offering quality customer service for better retention and creating operating efficiencies.

Mutual Fund Industry:

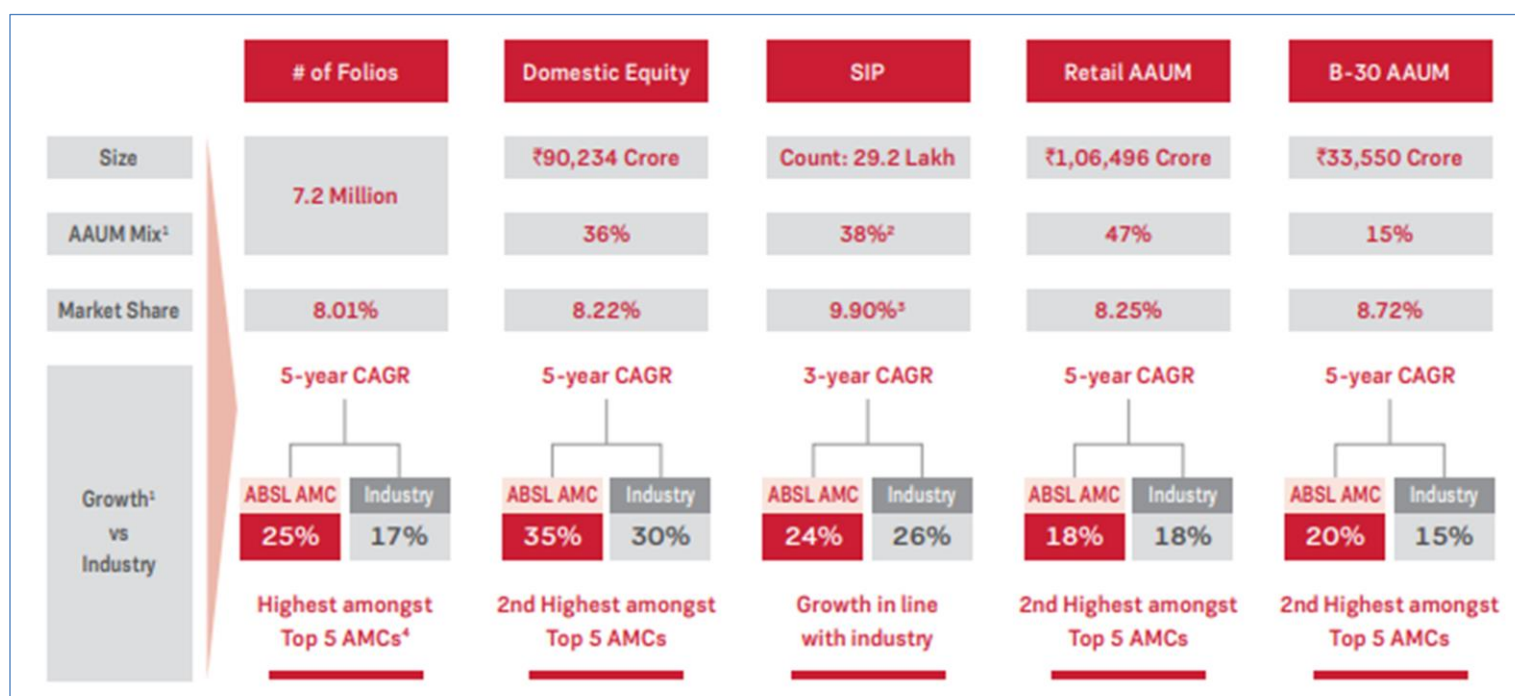
India's mutual fund industry comprises 44 asset management companies. The top 5 asset management companies contribute to 57% of industry's Average Assets Under management (AAUM).

The industry witnessed 10% growth in annual average AUM (AAUM). AAUM grew from Rs.23,92,825 Crore FY19 to Rs.26,23,156 Crore in FY20.

Aditya Birla Sun Life AMC (ABSLAMC):

- ✓ ABSLAMC has a strong growth across retail vectors in line with stated strategy.
- ✓ The total number of folios has grown at 25% CAGR over 5 years to touch 7.2 Million as on March 2020, much ahead of the industry 5-year CAGR at 17%, and highest amongst top 5 AMCs as on March 2019.
- ✓ The domestic equity AAUM at Rs.90,234 Crore, grew at a 5-year CAGR of 35% vis-à-vis the industry's growth at 30%.
- ✓ The growth in equity AAUM over the last 5 years was second highest among the top 5 AMCs in India.

- ✓ The retail penetration is growing with Retail and HNI AUM at Rs.1,06,496 Crore.
- ✓ The SIP book size growth was in line with that of the industry at a 3-year CAGR of 24%, contributing to 38% of domestic equity and having a market share of 9.90%.
- ✓ The contribution from beyond top 30 cities (B30 cities) is at Rs.33,550 Crore, with a 5-year CAGR of 20% vis-à-vis industry's 15%.
- ✓ ABSLAMC continued to focus on a balanced distribution mix with IFAs having a greater share in the equity sourcing mix.
- ✓ ABSLAMC has strengthened its distribution mix with a presence across 310 locations, with more than 75% of its locations in B-30 cities.
- ✓ To increase its reach, ABSLAMC has a tied up with 88 banks.
- ✓ It has empannelled over 80,000 IFAs and over 230 national distributors, besides growing partnerships with a large digital ecosystem.



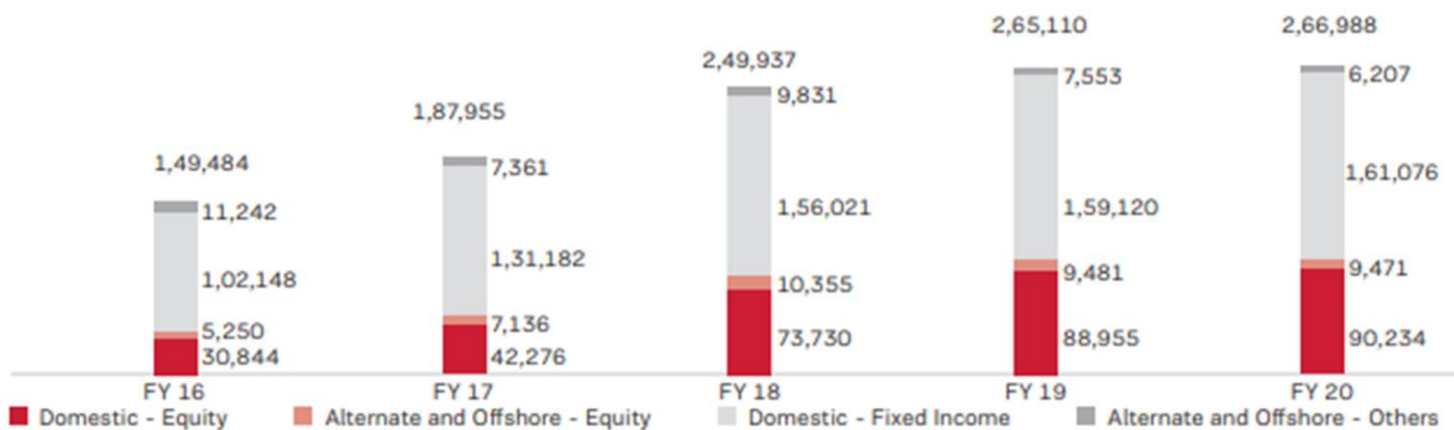
The next big cusp of growth in the industry has come from the digital channel. Leveraging technology and building business which would be key for AMCs to grow to the next level.

- ✓ ABSLAMC has many digital assets, including mobile apps, customer friendly website and Partner Portal among many others.
- ✓ Its digital share of overall transactions increased to 77% in FY20 against 69% in the previous year.
- ✓ ABSLAMC continues to improve profitability over time. It reported PBT/AUM at 26 bps in FY20, which has increased by 9 bps over the last 5 years.
- ✓ The net profit grew with a 2-year CAGR at 19% to touch Rs.494 Crore in FY20.
- ✓ ABSLAMC delivered Return on Equity at 38.90% in FY20 against 32.30% in FY 18.

ASSET UNDER MANAGEMENT

(₹ in Crore)

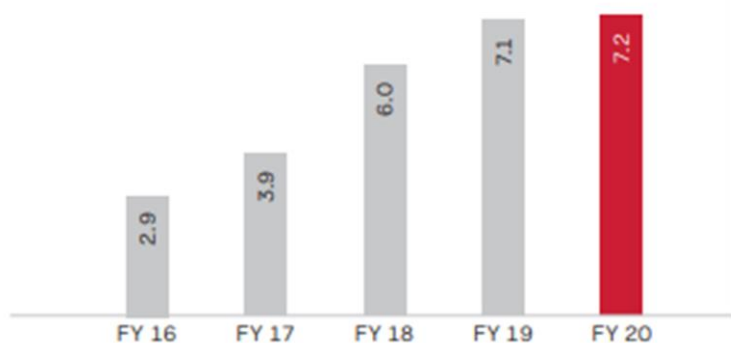
5-year CAGR (Domestic AAUM ¹)	ABSLAMC	19%	Industry	19%
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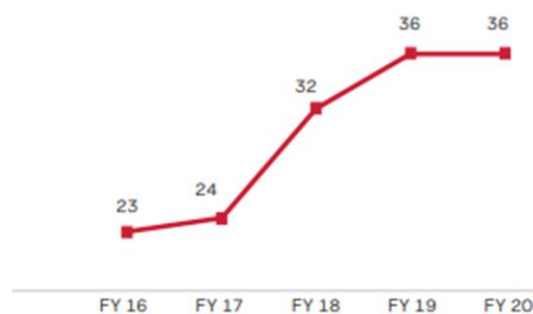
CONSISTENT FOCUS ON GROWING HIGH MARGIN RETAIL ASSETS

OF FOLIOS

5 Year CAGR	ABSLAMC	25%	Industry	17%
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EQUITY MIX (%)



Financials

Quarterly Results (Value in Rs. Crs)						
Particulars	Q3FY21	Q3FY20	Var%	9MFY21	9MFY20	Var%
Net Sales	5,025.98	4,292.78	17.08	13,649.65	11,872.14	14.97
Total Expenditure	3,741.22	2,851.15	31.22	9,715.93	7,375.73	31.73
PBIDT (Excl OI)	1,284.76	1,441.63	-10.88	3,933.72	4,496.41	-12.51
Other Income	5.99	3.33	79.88	20.86	15.34	35.98
Operating Profit	1,290.75	1,444.96	-10.67	3,954.58	4,511.75	-12.35
Interest	934.97	1,143.78	-18.26	3,011.77	3,486.98	-13.63
Exceptional Items	0.00	0.00	na	0.00	0.00	na
PBDT	355.78	301.18	18.13	942.81	1,024.77	-8.00
Depreciation	29.51	25.14	17.38	85.87	74.16	15.79
Tax	118.09	101.13	16.77	323.28	411.06	-21.35
Consolidated Net Profit	288.68	250.48	15.25	751.40	776.11	-3.18
EPS (Rs.)	1.20	1.08	10.39	3.11	3.47	-10.37

Income Statement (Value in Rs. Crs)				
Particulars	FY20	FY19	FY18	FY17
Net sales	17403.23	15425.97	11731.69	5823.01
Total Expenditure	12091.46	12468.44	10342.08	2477.68
Operating Profit (Excl OI)	5311.77	2957.53	1389.61	3345.33
Other Income	551.67	2,402.66	2,655.77	62.69
Operating Profit	5,863.44	5,360.19	4,045.38	3,408.02
Interest	4620.32	4109.12	3026.16	2299.11
PBIDT	5863.44	5360.19	4045.38	3408.02
Depreciation	204.31	96.26	98.75	43.17
Exceptional Income/ Expense	-9.99	0.00	0.00	0.00
Provision for Tax	413.63	569.35	402.76	374.59
Consolidated Net Profit	919.78	870.94	693.06	530.00
EPS (Rs.)	3.81	3.96	3.15	4.30

*Source: Company, Ace Equity, AUM Research

April 02, 2021

Balance Sheet (Value in Rs. Crs)				
Particulars	FY20	FY19	FY18	FY17
EQUITY AND LIABILITIES				
Share Capital	2413.76	2201.4	2201.04	1246.94
Share Warrants & Outstandings	174.79	175.02	84.42	0.00
Total Reserves	9,987.24	7,135.93	6,252.38	5,363.25
Shareholder's Funds	12,575.79	9,512.35	8,537.84	6,610.19
Minority Interest	1,319.59	1,157.43	1,056.01	1,951.80
Secured Loans	47,437.50	41,181.92	26,535.20	16,908.50
Unsecured Loans	2,353.65	2,304.39	1,956.22	1,400.00
Deferred Tax Assets / Liabilities	16.77	9.01	65.81	-106.80
Other Long Term Liabilities	41,354.40	40,187.30	36,672.49	32,738.81
Long Term Provisions	0.00	0.00	46.14	908.05
Total Non-Current Liabilities	91,162.32	83,682.62	65,275.86	51,848.56
Trade Payables	508.54	517.85	374.42	687.22
Other Current Liabilities	1848.99	1514.48	2081.78	5658.10
Short Term Borrowings	5792.47	12837.86	16024.23	11848.09
Short Term Provisions	289.72	247.33	205.75	652.48
Total Current Liabilities	8,439.72	15,117.52	18,686.18	18,845.89
Total Liabilities	1,13,497.42	1,09,469.92	93,555.89	79,256.44
ASSETS				
Gross Block	1,543.43	1,067.17	951.79	1,292.48
Less: Accumulated Depreciation	368.48	191.26	114.3	514.71
Less: Impairment of Assets	9.99	0.00	0.00	0.00
Net Block	1164.96	875.91	837.49	777.77
Capital Work in Progress	2.71	1.09	0.74	1.59
Intangible assets under development	71.61	33.08	31.91	33.27
Non Current Investments	21,817.96	18,262.02	13,330.22	9,694.31
Long Term Loans & Advances	474.27	188.04	252.10	933.45
Other Non Current Assets	23,651.07	25,824.05	25,374.15	22,192.32
Total Non-Current Assets	1,05,247.18	1,06,791.33	90,040.15	61,965.53
Currents Investments	3783.78	542.78	1533.89	2065.61
Inventories	0.00	0.00	0.00	582.78
Sundry Debtors	476.65	374.39	376.98	369.93
Cash and Bank	3127.27	1085.95	1056.36	803.7
Other Current Assets	487.76	403.19	348.84	3595.78
Short Term Loans and Advances	374.78	272.28	199.67	9873.11
Total Current Assets	8,250.24	2,678.59	3,515.74	17,290.91
Net Current Assets (Including Current Investments)	-189.48	-12,438.93	-15,170.44	-1,554.98
Total Current Assets Excluding Current Investments	4,466.46	2,135.81	1,981.85	15,225.30
Total Assets	1,13,497.42	1,09,469.92	93,555.89	79,256.44

*Source: Company, Ace Equity, AUM Research

Aum Capital RESEARCH DESK

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