BUY (Maintained)

CMP: **INR 224** Target Price: **INR 270 (INR 220)** ▲ 21%

ICICI Securities

ICICI Securities Limited is the author and distributor of this report

01 June 2024

India | Equity Research | Company Update

Aditya Birla Capital

Financials

ABCD to be the main engine for customer acquisition; diversified product offering to ensure steady and sustainable growth

In Jul'22, as Ms. Vishakha Mulye took charge as MD & CEO, AB Capital Limited (ABCL) reimagined its business model. ABCL has been focusing on building frictionless tech-enabled loan processes and leveraging its group-level ecosystem. In-line with this, during the past 18 months, the company has invested in upgrading its digital platform and expanding its distribution network. ABCL's ABCD app went live in Apr'24 (~0.1mn registration) and would be one of the key engines driving new customer acquisition and retention. Cost-assets have peaked out at ~2.2% in FY24 and will likely moderate over the next two years for ABFL. It expects AUM growth at >25% over FY24–26E with share of unsecured portfolio steady at current levels of 27%. ABFL RoA may expand 25–30bps to 2.7-2.8% by FY26E from its current level of 2.4% driven by NIM expansion, operating leverage and steady credit cost at 1.5%.

Maintain BUY; SoTP-based TP revised to INR 270

We maintain **BUY** on ABCL with a SoTP-based revised TP of INR 270, (earlier: INR 220) valuing ABFL at 2.1x FY26E BV and ABHFL at 1.5x FY26E BV. We model 33% earnings CAGR over FY24-26E and expect RoE to settle at 15%-16% for FY25E/FY26E for consolidated entity. Proposed group restructuring (amalgamation of ABFL and ABCL) would likely eliminate capital leakage; consequently, will not attract hold-co discount going ahead. Key risk is slower-than-anticipated loan book growth and stress unfolding higher-than-anticipated, primarily from unsecured segments.

Incremental focus on leveraging strong customer base of 35mn at group level; revamped digital platform to be key enabler

Post management change in Jul'22 with Ms. Vishakha Mulye at the helm as MD & CEO, ABCL has reimagined its business offering and initiated a tech transformation journey to leverage its ~35mn customer base and ~200k channel partners at the group level. In-line with this, in the past 18 months, the company has built strong digital capabilities, aiming at owning customers at a company level and thriving to provide seamless and simplified financial solutions. The company's ABCD customer app has 0.1mn registrations; 'Udyog Plus', its B2B platform for MSMEs has scaled up with >0.8mn registrations within nine months of its launch. ABFL has clocked disbursements of about INR 5bn till date with the ABG ecosystem contributing about two-thirds of the business.

Financial Summary

Y/E Mar (INR bn)	FY23A	FY24A	FY25E	FY26E
Net Worth	114	152	183	222
Total income	44	63	84	110
Net profit	16	22	30	40
Net profit (% change)	40	43	36	32
Credit cost (%)	1.3	1.5	1.6	1.8
Implied P/B (x)	2.9	2.2	1.9	1.5
Calc. RoA (%)	2.3	2.4	2.5	2.6
Cac. RoE (%)	15	17	18	20

Note: All figures pertain to Aditya Birla Finance Limited

Chintan Shah
chintan.shah@icicisecurities.com
+91 22 6807 7658
Renish Bhuva
renish.bhuva@icicisecurities.com
Ansuman Deb
ansuman.deb@icicisecurities.com
Shubham Prajapati
shubham.prajapati@icicisecurities.com

Market Data

Market Cap (INR)	582bn
Market Cap (USD)	6,978mn
Bloomberg Code	ABCAP IN
Reuters Code	ADTB BO
52-week Range (INR)	244 /155
Free Float (%)	27.0
ADTV-3M (mn) (USD)	24.5

Price Performance (%)	3m	6m	12m
Absolute	21.9	33.2	31.4
Relative to Sensex	19.9	22.8	13.3

Previous Reports

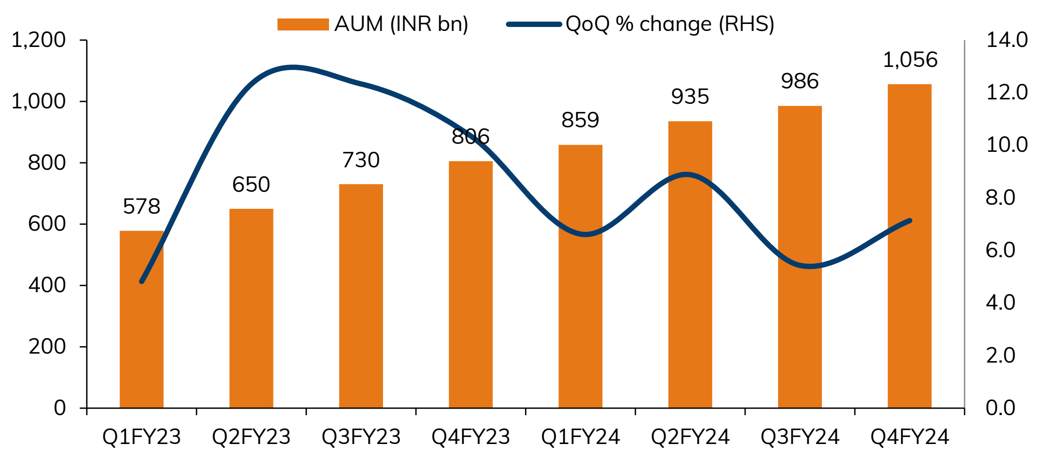
10-02-2024: Company Update
12-05-2023: Q4FY23 results review

ABFL: Among fastest-growing NBFCs led by robust/agile digital platforms

Expect growth of 28% CAGR over FY24–26E

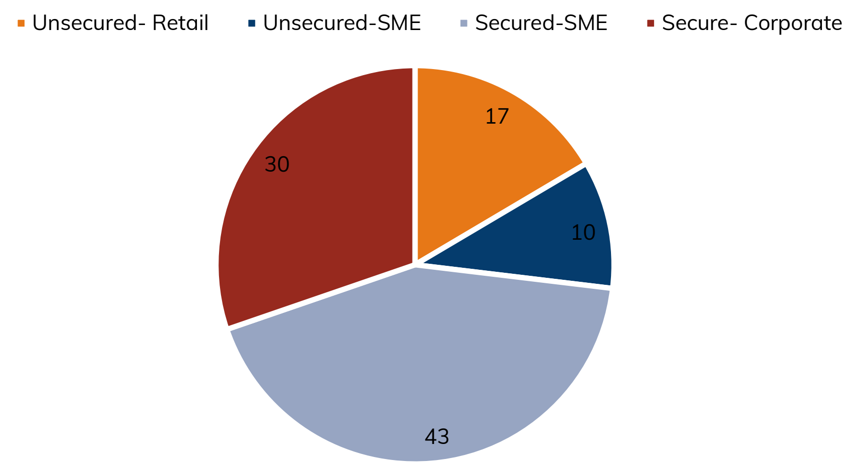
Aditya Birla Finance Limited (ABFL) has seen robust growth momentum in the last two years, with AUM becoming ~1.9x in two years (from FY22–24) to reach INR 1.05trn, as of Mar'24, supported by an extensive franchise build up with investments in both physical and digital infrastructure. Of the current book, ~43% is from secured business loans, 30% is from corporate/mid-market, 17% is personal/consumer and the balance 10% is from unsecured business loans. AUM growth of 38% CAGR over the past two years has been aided by 45% CAGR in SME and its retail portfolio scaling up; corporate growth has been relatively slow at 26% CAGR. As a result, its share in overall AUM has fallen from 37% in FY22 to 30% currently, and ABFL expects this to reduce further to ~25% in the next three years.

Exhibit 1: Steady uptick in AUM in the past 18 months



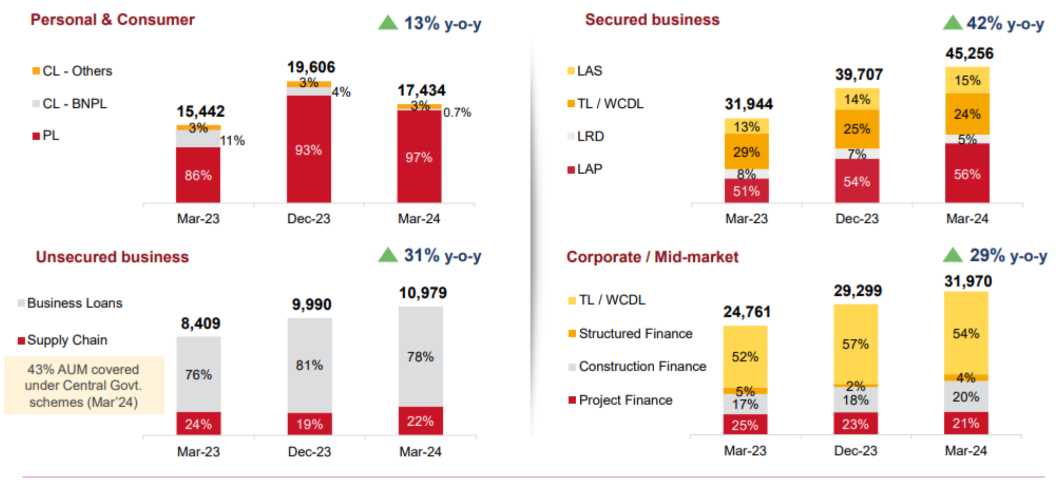
Source: Company data, I-Sec Research

Exhibit 2: Secured business loans comprise 43% of total loans; 27% is unsecured and rest 30% is corporate



Source: Company data, I-Sec Research

Exhibit 3: SME – key focus segment and going slow on unsecured businesses



Source: Company data, I-Sec Research

Exhibit 4: Product specific nuances

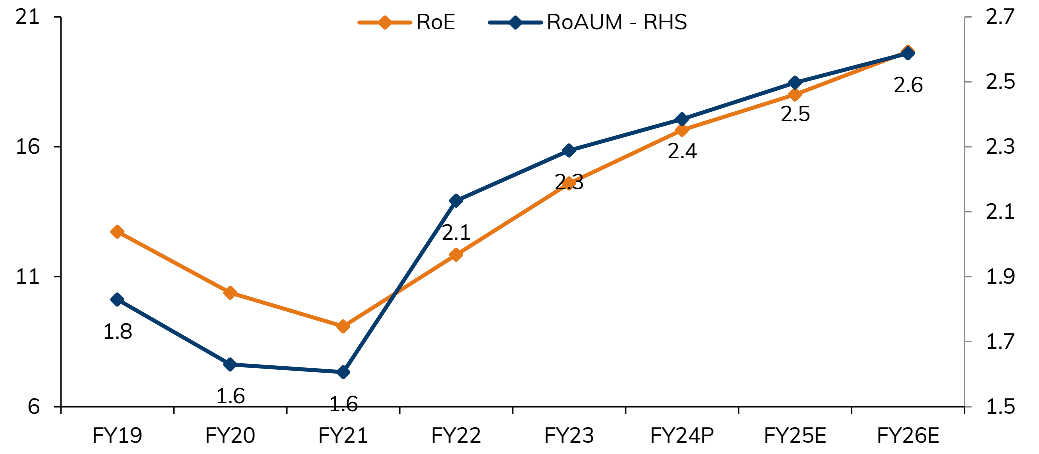
Segment	Personal & Consumer	Unsecured Business	Secured Business	Corporate / Mid-Market
Presence	Semi-urban	Semi-urban	Semi-urban / SME Clusters	Top 6-7 Cities
Sourcing	DSA + Direct + Ecosystems	DSA + Ecosystems	DSA + Direct	Relationship (Direct)
ATS[1]	PL: ~ ₹ 1.6 Lac , BNPL~ ₹ 0.04 Lac CL others: ~ ₹ 0.7 lac	~ ₹ 10.4 Lac	~ ₹ 1.6 Crore	~ ₹ 63.3 Crore
Products	Salaried Professionals with focus on emerging income segment Personal Loans Consumer Loans Check-out Financing Co-branded Credit Card	Business owners & Self-employed professionals engaged in small/mid-sized businesses Business Loans Supply Chain Finance B2B Digital Platform Business Overdraft	Business owners & Self-employed professionals engaged in small/mid-sized businesses Retail & SME LAP, LRD Small Ticket Secured & Micro LAP Working Capital Loans Loan Against Securities	Pedigreed Group Corporates / Mid-market Cos in focus sectors / Cat A / A+ developers Capex/ WC Funding Structured Finance Developer Financing Project Finance
Cross-Sell	Personal Loan Top Ups & Cross Sell, Insurance & Wealth Solutions to ABFL & ABC customer ecosystem			

Source: Company data, I-Sec Research

ABFL has completely revamped its business model with a focus on superior TAT, frictionless customer experience and simplified financial solutions. It further focuses on managing the customer's product life-cycle journey by providing cross-sell and up-sell opportunities empowered by extensive use of in-built digital capabilities. ABFL is poised to deliver strong growth in its SME portfolio by increasing penetration within the ABCL ecosystem, using its newly developed full-scale digital ecosystems (Udyog Plus/ABCD). Moreover, it can leverage its relationships with group companies (ABG ecosystems), associated vendors, suppliers, dealers, and merchants. This will aid overall credit growth despite the scale-down in the retail unsecured segment.

For FY24, ABFL reported RoA of 2.46% and RoE of 17%. Going ahead, we believe ABFL's business is poised to grow at ~28% CAGR over FY24-FY26E and deliver RoA of ~2.5% in FY25E and ~2.6% in FY26E aided by benefits arising out of operating leverage and a shift in loan mix towards high-yielding retail+SME. ABFL had guided for doubling its AUM in three years by Mar'26, from its Mar'23 AUM. This will be led by retail and secured MSME as the focus segments via scaling up its portfolio by leveraging the Udyog Plus and ABCD platform offerings, along with increasing branch network and prudent risk management.

Exhibit 5: Calculated RoA likely to inch up ~20bps in the next 2 years



Source: Company data, I-Sec Research

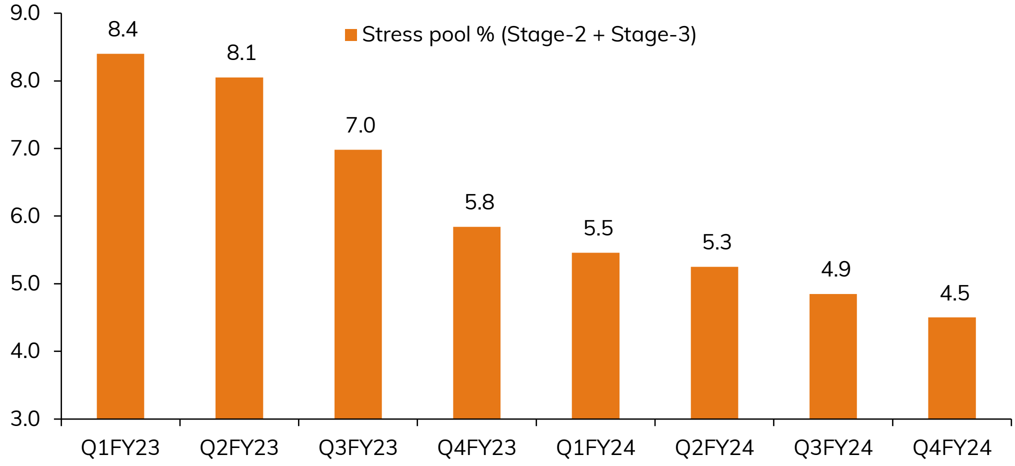
Exhibit 6: Overall, aims to deliver sustainable growth and RoA in the medium term

Source: Company data, I-Sec Research

PCR at ~50% and steady decline in stress pool over the quarters

Post management change in Jul'22, the stress pool (Stage-2 + Stage-3) has declined to as low as 4.5% in FY24 vs. 8.4% as of Q1FY23-end. More importantly, the decline has been broad-based across segments. Part of this is attributable to strong recoveries from the SME and retail segments – observed across lenders owing to the strong retail recovery cycle. Even its corporate book has seen a decline in Stage-2 to a mere 0.3% now vs. 3.8% in Q1FY23; and even Stage-3 is at 3.6% now vs. 8.3% in Q1FY23. For the latest quarter, Stage-3 has fallen to 2.51% vs. 2.59% QoQ and the company holds 50% PCR on Stage-3. and even Stage-2 has fallen to 1.98% vs. 2.26% QoQ. Under its personal and consumer loans, there has been slight inch-up in stress pool over the past 2 quarters (ratios partly elevated due to AUM decline), but with ~90% loans being given to customers with credit scores of above 700 and slowdown in growth momentum would lead to lower risk going ahead.

Exhibit 7: Stress pool (Stage-2+Stage-3) saw a steep decline in the past 18 months



Source: Company data, I-Sec Research

Exhibit 8: Segment-wise Stage-2 as well as Stage-3

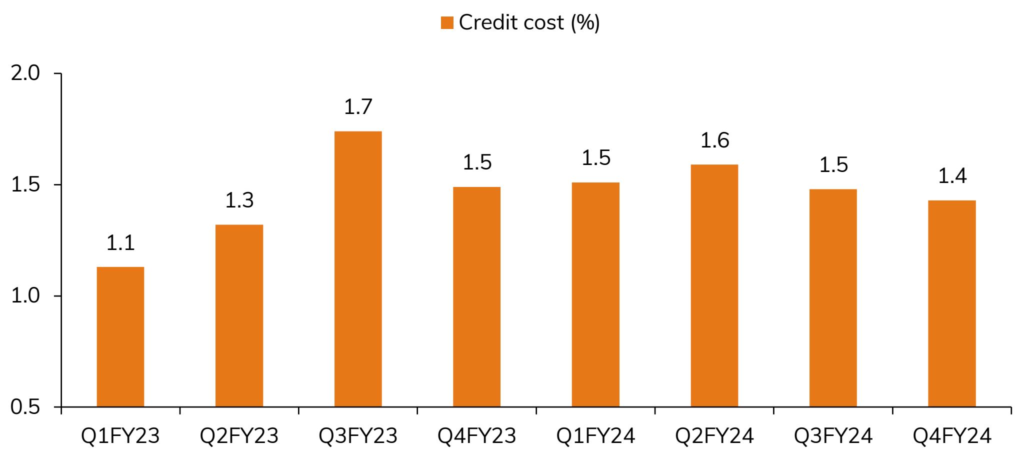
Segment-wise Stage 2 (%)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Personal & Consumer	1.9	2.1	2.1	2.2	2.9
Unsecured Business	1.2	1.6	1.5	1.6	1.3
Secured Business	4.4	4.3	4.5	3.8	2.9
Corporate/Mid-Market	1.6	1.3	0.9	0.4	0.3
Total	**2.7**	**2.6**	**2.6**	**2.3**	**2.0**

Segment-wise Stage 3 (%)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Personal & Consumer	1.7	2.0	2.0	2.2	2.8
Unsecured Business	4.2	2.7	2.7	2.9	2.9
Secured Business	2.2	2.4	2.2	2.1	1.8
Corporate/Mid-Market	5.0	4.1	3.8	3.6	3.3
Total	**3.1**	**2.8**	**2.6**	**2.6**	**2.5**

Source: Company data, I-Sec Research

Credit cost (credit provision/average lending book) for FY24 stood at 1.50% vs. 1.43% in FY23. Given the cautious approach of ABFL in the small-ticket personal loan segment (post RBI's circular) along with the benefits accruing from a benign credit cycle, we expect credit costs to hover around current levels or see only minor uptick from current level going ahead as well.

Exhibit 9: Credit cost stable around 1.5% over the quarters

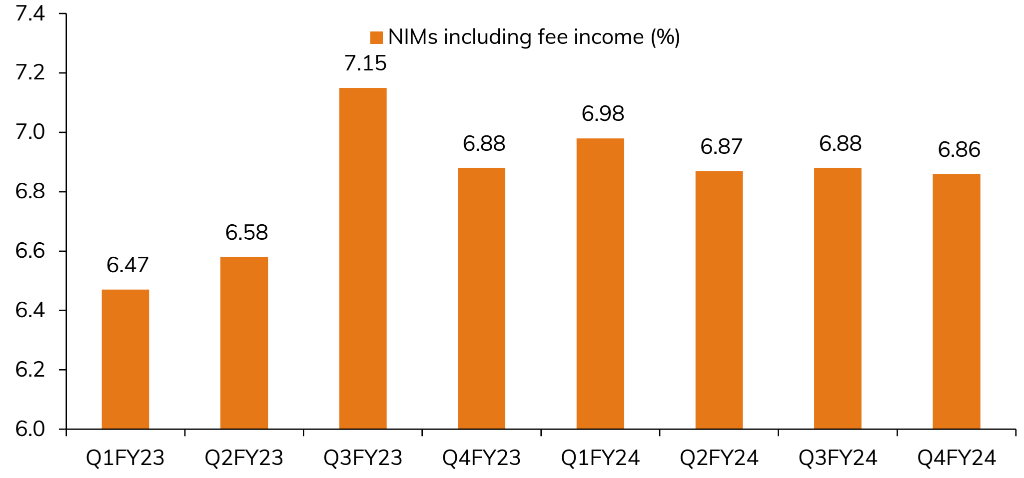


Source: Company data, I-Sec Research

Margins to inch up aided by change in loan mix

ABFL's average yield (including fee income) inched up 94bps YoY to 13.70%, while borrowing cost was up 88bps YoY to 6.80%. As a result, FY24 margins came in at 6.90% vs. 6.84% in FY23. Going ahead, we believe there is room for another 10–20bps of margin expansion aided by shift in loan mix towards retail+SME from corporate in the coming years. Corporate currently comprises ~30% of the loan book which ABFL is looking to reduce to ~25% over the next 3 years. Hence, shift of loan mix from corporate to relatively higher yielding retail+SME should aid margins.

Exhibit 10: Margins settling around 6.8-6.9% range



Source: Company data, I-Sec Research

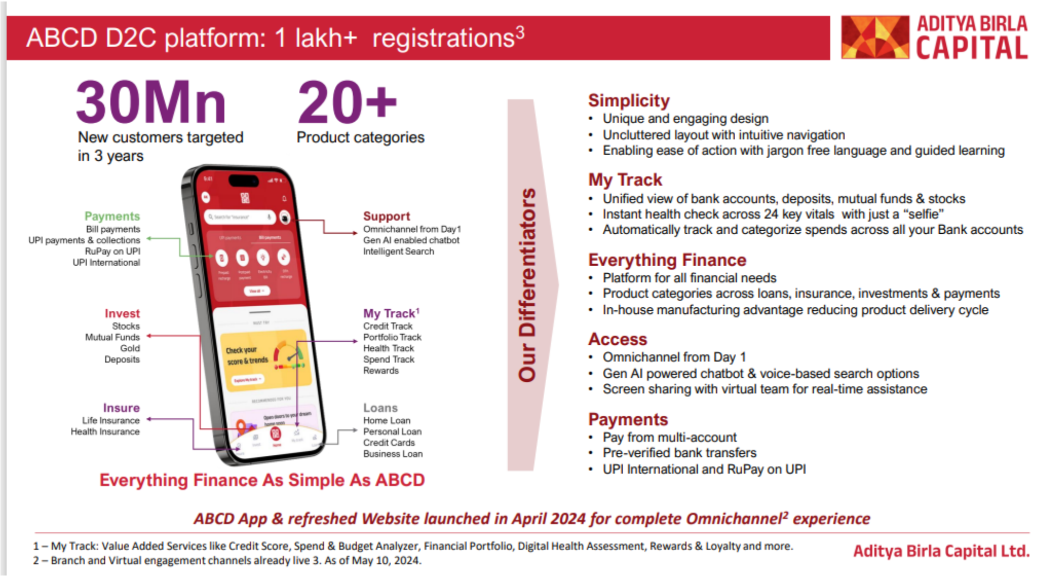
Robust tech platforms in place; efficiency to aid operating leverage

Since the past 18 months, the company has been focusing on three digital platforms for its customers in order to serve their diverse financial needs, whilst making the entire process seamless. These include:

- Udyog Plus – a B2B platform for MSMEs;
- B2D platform for distributors and channel partners; and
- Its most recent, Aditya Birla Capital Digital (ABCD), which is a direct-to-customer (D2C) platform/app for customers

In-line with its strategic priorities, ABFL forayed into the D2C market by unveiling its D2C platform - 'ABCD'. The app, launched in Apr'24, is a full-fledged app, capable of providing all financial services such as lending, investments, insurance, and payments in a simplified manner with minimum navigation. Its MyTrack feature, which gives valuable insights on credit score, financial portfolio, spend analysis, rewards and digital health assessment, is a one of its kind value-added services on the app.

Exhibit 11: ABCD platform to be the key driver for customer acquisition



Source: Company data, I-Sec Research

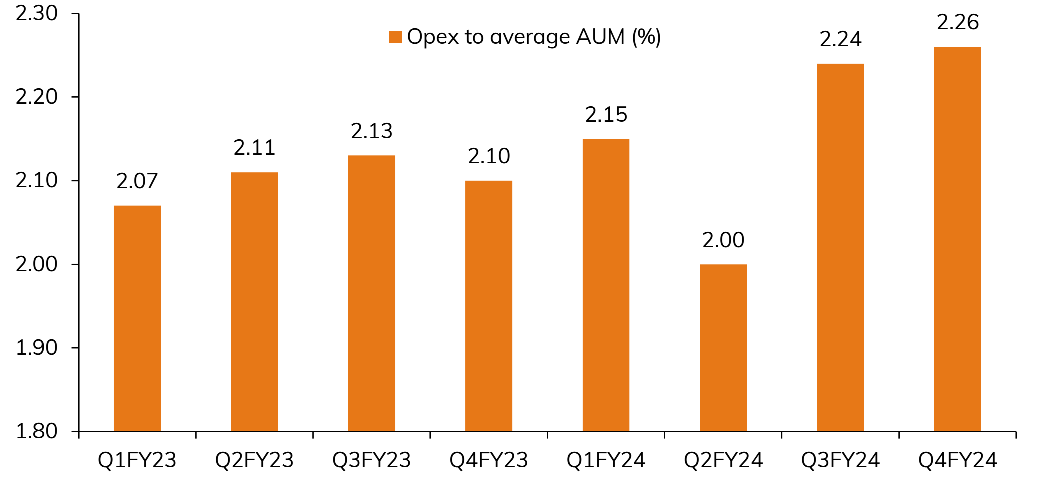
Exhibit 12: 99% of customer on-boarding is digital

Source: Company data, I-Sec Research

Along with digital, the company is also expanding its presence physically. Over the past two years, ABFL has expanded its branch network to 412, as of Mar'24 vs. 159 as of Mar'22. This, coupled with the launch of Udyog Plus in Q1FY24, further accelerated growth, with 800k+ customer registrations till date, INR 2.5bn AUM and INR 5bn disbursements till Apr'24. In addition, the launch of its ABCD app in Apr'24 has so far seen 100k registrations.

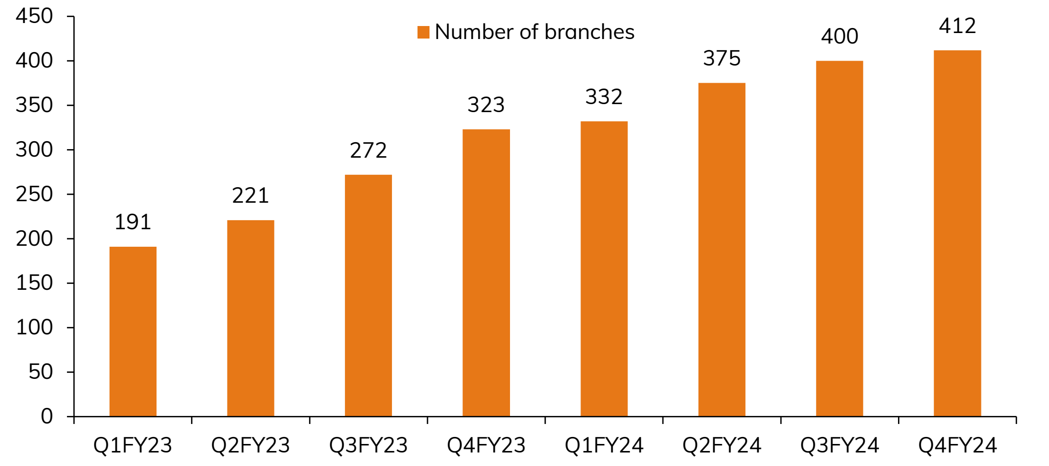
The company has built the above mentioned robust digital capabilities over the past 18 months, which has kept opex to assets elevated. However, with the passage of time, the company should benefit by leveraging its existing customer base and targeting new customers, which will likely help enhance efficiency. Overall, investments in tech platforms should start yielding results in ensuing quarters, thereby aiding the company improve its operating leverage as customer acquisitions pick-up. As a result, we expect 20-30bps moderation in opex to assets over the next two years for ABFL.

Exhibit 13: Elevated ppex to assets likely to see moderation in the ensuing quarters



Source: Company data, I-Sec Research

Exhibit 14: Rapid branch expansion in the past 18 months



Source: Company data, I-Sec Research

Amalgamation to be capital accretive and reduce leverage

On 11 Mar'24, ABCL and ABFL (a wholly-owned subsidiary) announced a scheme of amalgamation of ABFL with ABCL, subject to regulatory and other approvals. Proposed amalgamation is expected to be completed by Q3/Q4FY25. Post-completion of amalgamation, the assets, liabilities and the entire business of ABFL will be transferred and vested with ABCL. The equity investment of ABCL in ABFL will be cancelled and there will be no issuance of new shares. ABCL will be the surviving entity and will get converted from a holding company to an operating NBFC with listed equity shares and the proposed amalgamation will be tax neutral. Importantly, the proposed amalgamation will result in compliance with the scale-based regulations of RBI, which requires a mandatory listing of ABFL by 30 Sep'25. From financials perspective, capital adequacy ratio will increase by 150bps (16.24% currently) and leverage will reduce to ~4.1x (6.05x currently)

Exhibit 15: Merger to result in lower leverage and ~150bps rise in CRAR

As of Dec 31, 2023 (in INR cr)	Aditya Birla Capital	Aditya Birla Finance	Proforma amalgamated
Total assets	13,495	1,04,240	1,10,483
Borrowings & debt securities	-	86,228	86,228
Equity capital	2,600	689	2,600
Reserves & surplus	10,707	13,961	18,209
Total net worth	13,307	14,650	20,809
Total liabilities and equity	13,495	1,04,240	1,10,483
Leverage (debt/equity)	NA	5.89	4.14

Approx. 150 bps increase in total CRAR for the amalgamated entity on a proforma basis

Source: Company data, I-Sec Research

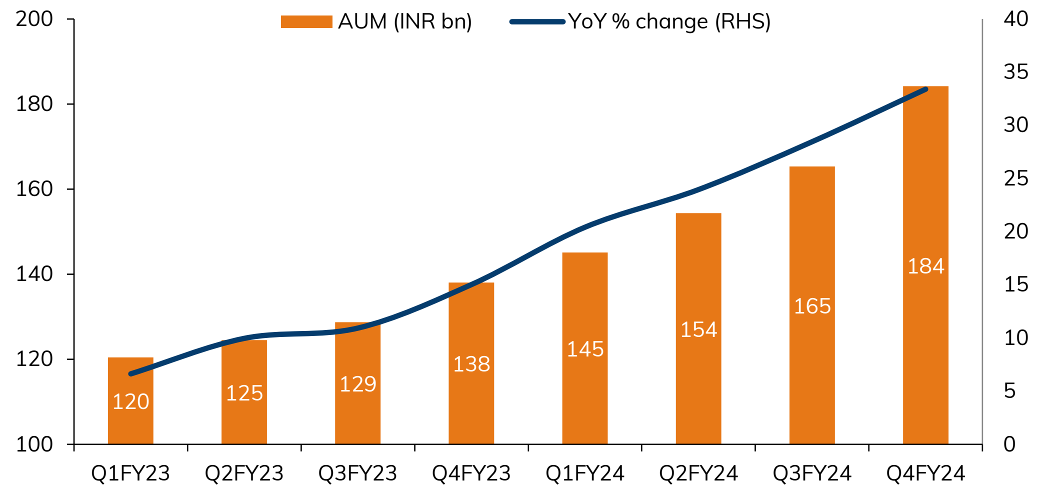
ABHFL: Full-stack mortgage player with consistent growth outlook

Aditya Birla Housing Finance Limited (ABHFL) is a full-stack mortgage player covering all products – home loan, loan against property and construction finance. It had an AUM of INR 184bn, as of Mar'24 and delivered an RoA/RoE of 1.92%/13.87% for FY24.

From FY19–22, ABHFL's loan book growth was tepid with a CAGR of 1.3%. However, post the management change (appointment of Vishakha Mulye as CEO of ABCL and Pankaj Gadgil as CEO of ABHFL) it has seen pick-up in growth momentum since the past seven quarters wherein AUM has grown at a CAGR of 25% from Q1FY23-Q4FY24. Key drivers of growth were affordable housing and retail LAP. ABHFL also has a well-diversified physical presence with distribution spread across 135 branches, covering ~85% of total addressable market. Going ahead, ABHFL intends to accelerate growth in its prime and affordable segments, which has an ATS of INR 2.5–3mn and growth is likely to be augmented by ABG's ecosystem.

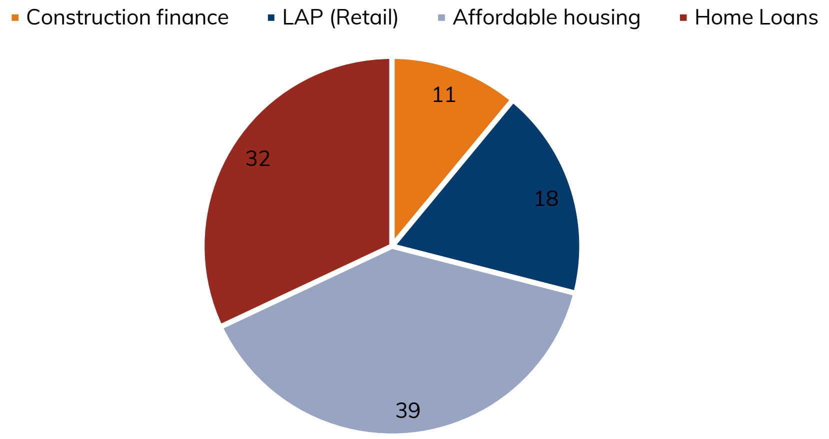
Currently, ABHFL has ~60k customers vs. 35mn customers for ABCL and the ABG ecosystem only contributes to ~10% of total disbursements. Accordingly, the cross-sell opportunity is large, which provides us comfort on the possible scale-up of its loan book from hereon. Moreover, strong credit cycle, low base, cross-sell opportunities for ABHFL by leveraging ABG ecosystem and sustained scale up in physical as well as digital distribution network makes us believe that ABHFL is poised to likely deliver ~29% AUM CAGR over FY24-26E, broadly in-line with management guidance.

Exhibit 16: Consistent growth in AUM since new management rejig



Source: Company data, I-Sec Research

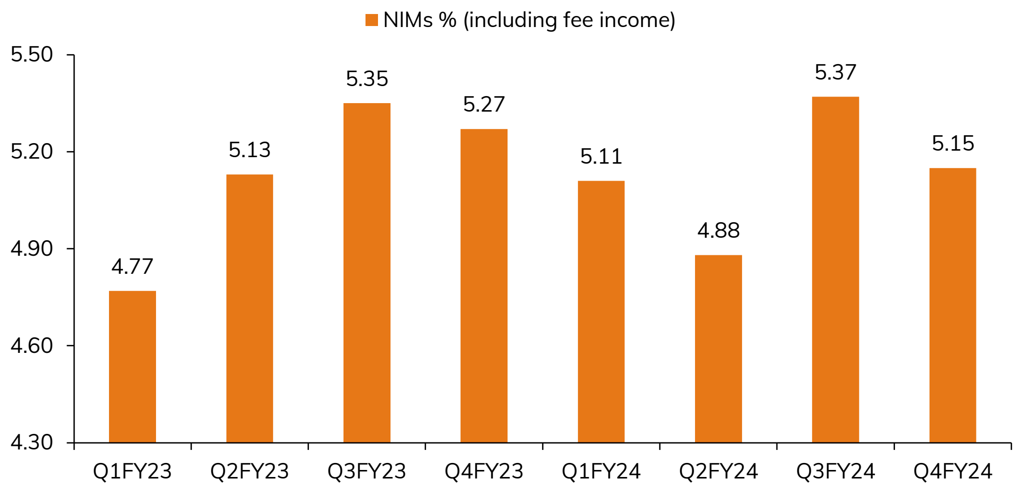
Exhibit 17: Affordable and Home loans comprise >70% of total AUM



Source: Company data, I-Sec Research

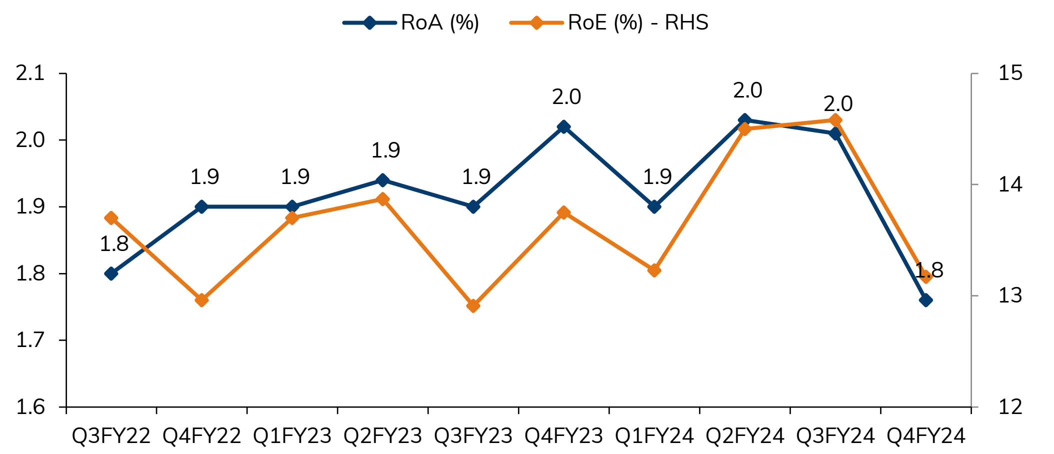
NIMs (including fee income) for ABHFL came in at 5.39% for FY24 vs. 5.30% for FY23. Going ahead, due to some pressure on funding cost and correspondingly no levers on the yield side, we expect slight pressure on margins; hence we build in 5–10bps of margin contraction going ahead. However, operating leverage would likely come into play and offset pressure on margins; hence, overall RoA is expected to come in at ~1.8% for FY25E and ~1.9% for FY26E vs. 1.92% for FY24.

Exhibit 18: Margins including fee income range bound



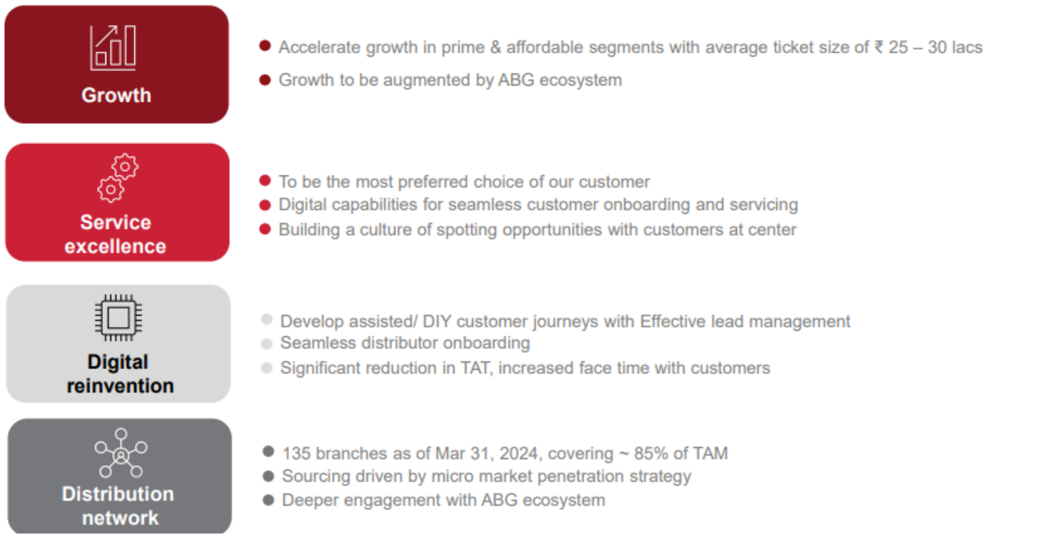
Source: Company data, I-Sec Research

Exhibit 19: RoA in a narrow range of 1.8-2.0%



Source: Company data, I-Sec Research

Exhibit 20: Strategy going ahead



Source: Company data, I-Sec Research

Aditya Birla Health Insurance (ABHI)

During FY24, ABHI achieved GWP of INR 37bn, experiencing strong 36% YoY growth (3-year CAGR stands at 42%). Q4FY24 reported 52% YoY growth making it the fastest growing SAHI player. ABHI's market share within SAHI rose 82bps from 10.4% in FY23 to 11.2% in FY24 driven by a strong growth of 49% in group business. Share of group business increased from 44% in FY23 to 48% in FY24.

During FY24, ABHI's GDPI reported growth of 36% YoY. Within that, retail GDPI grew 35% YoY and group GDPI remained strong at 37% YoY. (Source: IRDAI)

The growth in FY24 retail business (26% YoY) was driven by proprietary channel which witnessed 43% YoY growth. Proprietary channel's share increased to nearly 31% in FY24 compared to 27% in FY23. All large bancassurance partnerships have experienced good growth. In FY24, company had activated new partnerships of India Post Payment Bank (IPPB) and Yes Bank.

Corporate business experienced 49% YoY growth driven by sharp focus on profitability through careful customer segmentation, cross-sell/upsell strategies, corporate wellness initiatives, and industry-leading OPD business. ABHI is strategically concentrating on mid corporate and SME segments to build a sustainable and profitable corporate and affinity business.

Management focus remains on diversifying product portfolio with launch of Activ One. This is one of the most comprehensive indemnity products in the industry with seven variants targeting various customers segments. The product has been well received by market within a period of five months, aiding market share increase.

Looking forward, given the compelling opportunity, company's business model and a supportive regulatory environment, management maintains optimistic outlook on growth potential of health insurance industry. Its vision is to aggressively expand the franchise while upholding best-in-class unit economics and a steadfast focus on profitability.

Exhibit 21: ABHI's approach- health first data-driven model

Source: Company data, I-Sec Research

ABHI's market share continues to improve; 100% COR guidance by FY26 is noteworthy: ABHI maintained good traction in overall growth and follows differentiated health first and data-driven approach for better risk selection and risk pool management and diversify distribution with focus on proprietary channels. Its endeavour is to achieve a combined ratio of 100% by FY26. Market share improved amongst SAHI to 11.2% in FY24 (up 82bps YoY). The company's combined ratio remained stable at 110% in FY24. Within retail GWP, proprietary/banca/broker/digital GWP grew 43%/25%/23%/3% YoY in FY24, respectively. We value the business at 5x FY26E net worth of INR 11bn to arrive at target mcap of INR 55bn. Risk includes regulatory changes like introduction of composite licenses.

Aditya Birla Life Insurance (ABLI)

Over the last three years, ABLI has built its franchise on consistent growth of 20%. This growth is value accretive from net VNB perspective, which expanded from 10.6% levels three years back to a healthy 23% net VNB in FY23. In FY24, it stood at 20.2%. The decrease in G-sec rates in Q4 along with higher proportion of ULIPs led to a decline in VNB margins. FY24 EV stood at INR 115bn (growth of 28% YoY), with operating RoEV of 18.8% in FY24.

During FY24, ABLI's total APE reported growth of 2% YoY. Within that, individual APE grew 2% and group APE reported 4% YoY growth. (source: IRDAI)

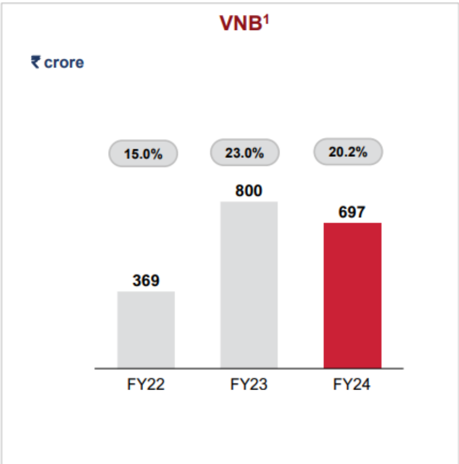
Individual business had a healthy product mix with traditional business accounting for 73% of overall business. 29% of business came from upselling to existing customers helping productivity in both proprietary as well as partnership channels.

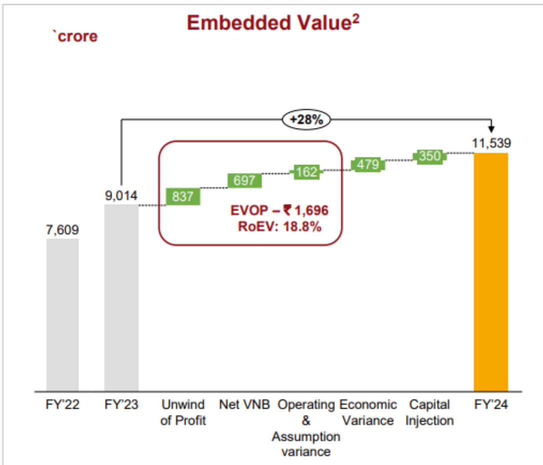
The company has launched two plans, Salaried Term Plan – industry-first product for the salaried segment in the area of protection and Platinum Gain plan– industry-first product in ULIP with feature of trail commissions for distributors.

Digital adoption across various areas has resulted in 100% new business customers being on-boarded digitally. 83% of all services are available digitally, covering 67% of customer transactions and customer self-service ratio is now at 91%.

Going forward, the company will drive premium growth from a diversified mix of both proprietary and partnership channels backed by productivity and capacity, with continued investment in proprietary channels. Further, the company expects three new banca partners - Axis Bank, Bank of Maharashtra and IDFC First Bank, to contribute 10-15% of topline in FY25. Its endeavour is to grow the business at a CAGR of more than 20%, close to doubling current size over the next 3 years. Management believes VNB margins will settle at around 18-20% based on the expectations of G-sec rates and product mix. Absolute net VNB growth will also be close to double, in line with new business growth expectation. The company will continue to be best-in-class in digital infrastructure, across prospecting and onboarding in sales, underwriting, and customer service as well as claims.

Exhibit 22: Exhibit: VNB trend and EV Walk





Source: Company data, I-Sec Research

VNB margin of 20.2%/ RoEV of 28% sum up a good FY24; target of business doubling in three years should lead to multiple expansion.

Life insurance business reported net VNB of INR 7bn in FY24 as against INR 8bn in FY23. Net VNB margin stood at 20.2% in FY24 vs 23% in FY23. Persistency has increased across 13/25/61M cohorts while 37M remained stable. ABSLI's FY24 individual FYP grew 2% YoY (vs industry growth of 5% YoY) and market share declined from 4.42% in FY23 to 4.16% in FY24. Renewal premium grew 24% YoY in FY24 (80% of which was collected digitally). Within product mix, non-par savings saw a decline (73% of the mix as of FY24 vs 81% in FY23) while ULIP (24% mix in FY24 vs 17% in FY23) and retail protection (3% mix in FY24 vs 2% in FY23) increased in FY24. Upselling accounted for 29% mix in individual first year premium in FY24 (vs 25% in FY23). Digital initiatives have shown healthy signs (100% of new business was processed digitally, 49% of total applications were auto-written). We factor-in INR 7.9bn/INR 9.9bn of VNB in FY25/26E with VNB margin of 19%/20%, respectively. We value the company at INR 230bn based on 1.5x FY26E EV of INR 153bn. Risks include regulatory changes like hike in surrender value and further lower tax exemptions.

Aditya Birla Sun Life AMC (ABSL)

ABSL's revenue from operations grew 7.1% QoQ to INR 3.7bn with yields increasing to 44.09bp in Q4FY24 from 43.85bps in Q3FY24. Total operating expenses grew 9.2% on a QoQ basis. Employee expense increased 6.1% QoQ while other expenses increased 12.7% QoQ in Q4FY24. Core EBITDA increased 5.5% QoQ to INR 2.05bn.

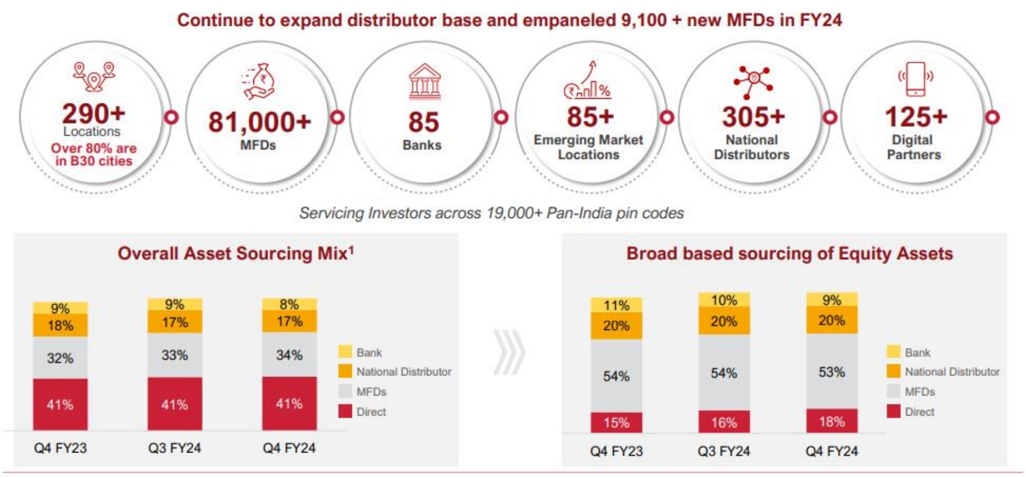
ABSL's QAAUM for Q4FY24 grew 6.5% QoQ to INR 3.32tn while ending AUM increased 4% QoQ to INR 3.34trn in Q4FY24. ABSL's overall market share saw a decline of 20bps QoQ to 6.1%. Equity/liquid/passive QAAUM market share dipped 10/37/4bps QoQ in Q4FY24, while debt's market share improved by 26bps. ABSL witnessed 4.1% QoQ growth in its B30 AAUM, which stood at INR 578bn in Q4FY24. B30 AAUM's contribution to total AUM has remained stable at 17.5% in Q4FY24. Monthly SIP flow increased 24.6% QoQ to INR 12.5bn. New SIP registrations in Q4FY24 stood at 596k, up 1.5x QoQ. Number of live outstanding SIP folios increased QoQ to 3.58mn in Q4FY24 vs 3.24mn in Q3FY24. SIP flow market share increased to 6.5% in Mar'24 from 5.7% in Dec'23. With performance gap narrowing vis-à-vis peers, increased traction in SIPs, flows coming back (increased from INR 10.1bn in Dec'23 to INR 12.5bn in Mar'24, 24.6% growth), management expects stabilisation of market share and also possible improvement ahead.

New SIP registration for the quarter was ~0.6mn (monthly run rate of 0.2-0.22mn), improving MoM vs 0.21/0.21/0.24 in Q1/Q2/Q3FY24, respectively.

During Q4FY24, overall direct channel contributed 41%, while MFDs/national distributors/banks contributed 34%/17%/8%. For equity asset sourcing, the pie was dominated by MFDs with 53% and direct channel contributing 18%. National distributors and banks contribute 20% and 9%, respectively, for equity assets. Distribution strength includes 85 banks, 290+ locations (80% in B-30), 305+ national distributors, 81,000+ MFDs, 125+ digital partners, 85+ emerging market locations. ABSL continued to expand its distributor base and empanelled 2,700 + new MFDs in Q4FY24.

On alternative business front, good investment performance experience in PMS helped ABSL AMC in getting products being sold in some of the organised channels through the launch of ABSL India Special Opportunities Fund (CAT III AIF). Its passive assets stand at around INR 289bn and have built a strong customer base of around 0.69mn folios.

Exhibit 23: Exhibits: Growth in multi-channel distribution network



Source: Company data, I-Sec Research

Improvement in SIP market share and sales efforts across products are encouraging

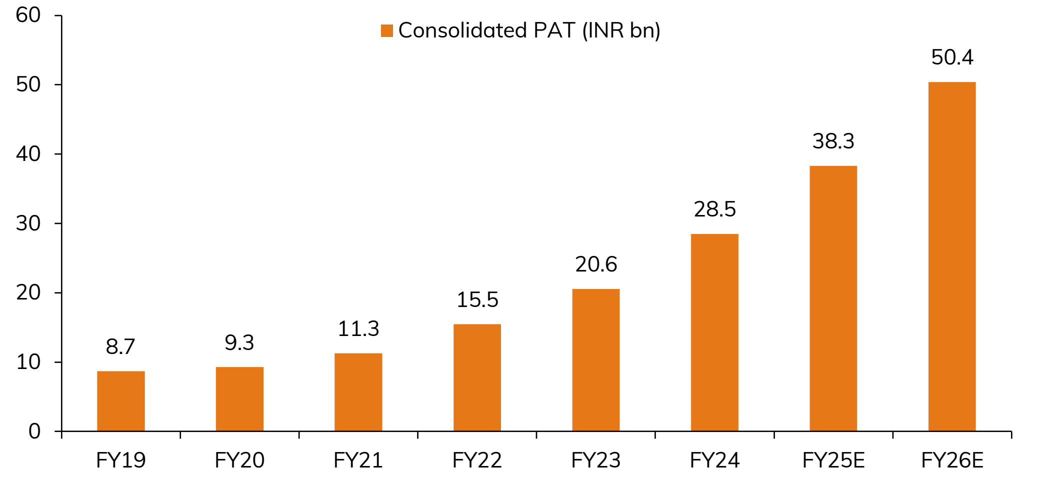
Aditya Birla Sun Life AMC (ABSL) is likely to benefit from the prospects of better fund performance/AUM growth, strong retail franchise, and product/distribution/sales initiatives to augment flows. This will also be aided by strategic hires. While SIP flow market share has improved (79bps increase from Dec'23 to Mar'24), equity market share is yet to witness any meaningful stabilisation.

Exhibit 24: SOTP valuation suggest upside of >20%

SOTP	Valuation (INR mn)	ABCL Stake (%)	ABCL value (INR mn)	Per Share (INR)	% of total	Comments
Lending			**514,515**	**198**	**69%**	
NBFC	467,218	100.0%	467,218	180	63%	2.1x FY26E ABV
Housing Finance	47,297	100.0%	47,297	18	6%	1.5x FY26E ABV
Non – Lending			**228,845**	**88**	**31%**	
Life Insurance	229,537	51.0%	117,064	45	16%	1.5x FY26E EV
Asset Management	166,229	45.1%	75,036	29	10%	I-Sec target market cap
Health Insurance	54,984	46.0%	25,293	10	3%	5x FY26E BV
Others			11,453	4	2%	
Total Valuation			**743,360**	**286**	**100%**	
Holding Company Discount (%)				15%		Except NBFC
Holding Company Discount				16		
Target Price (INR)				**270**		

Source: Company data, I-Sec research

Exhibit 25: Expect consolidated PAT to grow at ~33% over FY24-FY26E



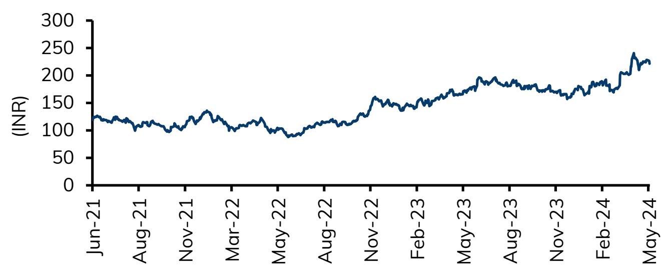
Source: Company data

Exhibit 26: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	69.0	69.0	69.0
Institutional investors	19.5	19.0	19.3
MFs and others	1.9	2.1	1.8
FIs/Banks	0.0	0.0	0.0
Insurance	2.3	2.2	2.2
FIIs	15.3	14.7	15.3
Others	11.5	12.0	11.7

Source: Bloomberg

Exhibit 27: Price chart



Source: Bloomberg

Financial Summary (Consolidated)

Exhibit 28: Consolidated PAT

(INR mn, year ending March)

	FY23	FY24P	FY25E	FY26E
NBFC	16	22	30	40
HFC	2	3	4	5
AMC	3	4	4	4
Life Insurance	1	1	1	1
Health Insurance	(1)	(1)	(0)	0
Others	(0)	(0)	(0)	(0)
Total	**21**	**28**	**38**	**50**

Source Company data, I-Sec research

Exhibit 29: Consolidated Net Worth

(INR bn, year ending March)

	FY23	FY24P	FY25E	FY26E
NBFC	114	152	183	222
HFC	20	23	26	32
AMC	13	14	16	18
Life Insurance	29	35	37	39
Health Insurance	6	5	5	5
Others	(3)	13	15	16
Total	**179**	**242**	**281**	**332**

Source Company data, I-Sec research

Exhibit 30: Consolidated RoE

(%, Year ending March)

	FY23	FY24P	FY25E	FY26E
NBFC	15	17	18	20
HFC	13	14	15	18
AMC	25	26	25	24
Life Insurance	3	3	3	3
Health Insurance	-24	-16	-4	6
Consolidated	**13**	**14**	**15**	**16**

Source Company data, I-Sec research

Exhibit 31: Per share data

(INR, Year ending March)

	FY23	FY24P	FY25E	FY26E
EPS	20	13	15	19
BVPS	84	103	118	137
P/E (x)	11	17	15	12
P/B (x)	2.7	2.2	1.9	1.6

Source Company data, I-Sec research

Financial Summary - Aditya Birla Finance Limited

Exhibit 32: Profit & Loss

(INR mn, year ending March)

	FY23	FY24P	FY25E	FY26E
Interest Income	78,060	1,20,445	1,57,867	2,02,665
Interest Expense	38,572	64,682	83,527	1,05,415
NII	**39,489**	**55,763**	**74,339**	**97,251**
Non-interest income	4,616	7,200	9,708	12,370
Total Income	**44,105**	**62,962**	**84,048**	**1,09,621**
Employee cost	7,228	9,379	11,570	13,973
Non-employee cost	6,079	8,985	11,059	13,321
Opex	**14,168**	**19,567**	**24,074**	**29,027**
Pre-provision operating profit	**29,937**	**43,395**	**59,974**	**80,594**
Non-tax provisions	9,035	13,524	19,369	26,989
PBT	**20,902**	**29,871**	**40,606**	**53,605**
Less; Tax	5,364	7,662	10,416	13,750
PAT	**15,538**	**22,209**	**30,190**	**39,855**
YoY growth	40%	43%	36%	32%

Source Company data, I-Sec research

Exhibit 33: Balance sheet

(INR mn, year ending March)

	FY23	FY24P	FY25E	FY26E
Share Capital	6,621	6,894	6,894	6,894
Total Reserves	1,07,641	1,45,546	1,75,736	2,15,591
Shareholder's Funds	**1,14,262**	**1,52,440**	**1,82,630**	**2,22,485**
Borrowings	7,09,672	9,22,920	11,72,108	14,88,578
Current Liabilities	17,294	36,758	33,161	29,924
Total Liabilities	**8,41,228**	**11,12,118**	**13,87,899**	**17,40,986**
Fixed assets	3,102	4,205	4,626	5,089
Advances	7,88,495	10,39,053	13,38,277	16,90,870
Investments	37,027	58,624	35,143	35,602
DTA	4,065	4,688	4,219	3,797
Current assets	8,539	5,548	5,635	5,628
Total Assets	**8,41,228**	**11,12,118**	**13,87,899**	**17,40,986**
YoY growth (%)	47.7	32.2	24.8	25.4

Source Company data, I-Sec research

Exhibit 34: AUM details

(Year ending March)

	FY23	FY24P	FY25E	FY26E
AUM (INR bn)	806	1,056	1,361	1,719
YoY growth (%)	46.0	31.1	28.8	26.3
Mix (%)				
Personal & Consumer	19	17	14	13
Secured Business	40	43	46	50
Unsecured Business	10	10	10	10
Corporate/Mid-Market	31	30	29	27
Total	**100**	**100**	**100**	**100**

Source Company data, I-Sec research

Exhibit 35: Growth ratios

(%, Year ending March)

	FY23	FY24P	FY25E	FY26E
AUM	46	31	29	26
Shareholders equity	16	33	20	22
Borrowings	54	30	27	27
Assets	48	32	25	25
NII	40	41	33	31
Operating profit	40	45	38	34
PAT	40	43	36	32

Source Company data, I-Sec research

Exhibit 36: DuPont (% of AUM)

(%, Year ending March)

	FY23	FY24P	FY25E	FY26E
Interest Income	11.5	12.9	13.1	13.2
Interest Costs	5.7	6.9	6.9	6.8
Net Interest Income	**5.8**	**6.0**	**6.2**	**6.3**
Fee Income and Others	0.1	0.2	0.2	0.2
Total Income	**5.9**	**6.2**	**6.4**	**6.5**
Employee Costs	1.1	1.0	1.0	0.9
Other Opex	0.9	1.0	0.9	0.9
Total opex	2.0	2.0	1.9	1.8
Credit costs	1.3	1.5	1.6	1.8
PBT	**2.6**	**2.8**	**2.9**	**3.0**
PAT	**2.3**	**2.4**	**2.5**	**2.6**
Leverage	6.4x	7.0x	7.2x	7.6x
RoE	**15**	**17**	**18**	**20**

Source Company data, I-Sec research

Exhibit 37: Key ratios

(%, Year ending March)

	FY23	FY24P	FY25E	FY26E
NIMs on AUM (%)	5.8	6.0	6.2	6.3
Yield on AUM (%)	11.8	13.2	13.3	13.4
Cost of borrowings (%)	6.6	7.9	8.0	7.9
D/E (x)	6.2x	6.1x	6.4x	6.7x
Gross Stage-3 (%)	3.1	2.5	2.3	2.1
Net Stage-3 (%)	1.7	1.3	1.2	1.1
Credit cost (%)	1.3	1.5	1.6	1.8

Source Company data, I-Sec research

Financial Summary - Aditya Birla Housing Finance Limited

Exhibit 38: Profit & Loss

(INR mn, year ending March)

	FY23	FY24P	FY25E	FY26E
Interest Income	13,640	17,495	23,038	29,776
Interest Expense	7,484	9,990	13,427	17,509
NII	**5,972**	**7,504**	**9,611**	**12,267**
Non-interest income	434	646	917	1,217
Total Income	**6,406**	**8,150**	**10,528**	**13,484**
Employee cost	1,790	1,959	2,132	2,389
Non-employee cost	992	2,471	2,580	3,297
Opex	**2,782**	**4,430**	**4,712**	**5,686**
Pre-provision operating profit	**3,624**	**3,720**	**5,816**	**7,797**
Non-tax provisions	539	(50)	960	1,158
PBT	**3,085**	**3,770**	**4,856**	**6,639**
Less; Tax	676	860	1,082	1,483
PAT	**2,409**	**2,910**	**3,774**	**5,157**
YoY growth	22%	21%	30%	37%

Source Company data, I-Sec research

Exhibit 39: Balance sheet

(INR mn, year ending March)

	FY23	FY24P	FY25E	FY26E
Share Capital	5,012	5,012	5,012	5,012
Total Reserves	14,668	17,588	21,362	26,519
Shareholder's Funds	**19,680**	**22,600**	**26,374**	**31,531**
Borrowings	1,19,372	1,59,470	2,15,285	2,73,411
Current Liabilities	2,244	2,356	2,474	2,598
Total Liabilities	**1,41,296**	**1,84,426**	**2,44,133**	**3,07,540**
Fixed assets	721	757	794	834
Advances	1,35,570	1,80,851	2,35,830	3,02,713
Investments	-	-	-	-
DTA	575	403	282	197
Current assets	4,431	2,416	7,227	3,796
Total Assets	**1,41,296**	**1,84,426**	**2,44,133**	**3,07,540**
YoY growth (%)	11.7	30.5	32.4	26.0

Source Company data, I-Sec research

Exhibit 40: AUM details

(Year ending March)

	FY23	FY24P	FY25E	FY26E
AUM (INR bn)	138	184	240	308
YoY growth (%)	15.0	33.4	30.4	28.4
Mix (%)				
Personal & Consumer	34	32	30	28
Secured Business	41	39	38	36
Unsecured Business	17	18	19	19
Corporate/Mid-Market	8	11	13	17
Total	**100**	**100**	**100**	**100**

Source Company data, I-Sec research

Exhibit 41: Growth ratios

(%, Year ending March)

	FY23	FY24P	FY25E	FY26E
AUM	15	33	30	28
Shareholders equity	14	15	17	20
Borrowings	11	34	35	27
Assets	12	31	32	26
NII	24	26	28	28
Operating profit	14	3	56	34
PAT	22	21	30	37

Source Company data, I-Sec research

Exhibit 42: DuPont (% of AUM)

(%, Year ending March)

	FY23	FY24P	FY25E	FY26E
Interest Income	10.6	10.9	10.9	10.9
Interest Costs	5.8	6.2	6.3	6.4
Net Interest Income	**4.8**	**4.7**	**4.5**	**4.5**
Fee Income and Others	0.0	0.0	0.0	0.0
Total Income	**4.8**	**4.7**	**4.6**	**4.5**
Employee Costs	1.4	1.2	1.0	0.9
Other Opex	0.6	1.4	1.1	1.1
Total opex	2.0	2.6	2.1	2.0
Credit costs	0.4	(0.0)	0.5	0.4
PBT	**2.4**	**2.1**	**2.0**	**2.1**
PAT	**1.9**	**1.8**	**1.8**	**1.9**
Leverage	7.0x	7.6x	8.7x	9.5x
RoE	**13**	**14**	**15**	**18**

Source Company data, I-Sec research

Exhibit 43: Key ratios

(%, Year ending March)

	FY23	FY24P	FY25E	FY26E
NIMs on AUM (%)	4.6	4.7	4.5	4.5
Yield on AUM (%)	10.7	11.1	11.1	11.1
Cost of borrowings (%)	6.6	7.2	7.2	7.2
D/E (x)	6.1x	7.1x	8.2x	8.7x
Gross Stage-3 (%)	3.1	2.5	2.3	2.1
Net Stage-3 (%)	1.7	1.3	1.2	1.1
Credit cost (%)	0.4	0.0	0.5	0.4

Source Company data, I-Sec research

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)
BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

ANALYST CERTIFICATION

I/We, Chintan Shah, CA; Renish Bhuva, CFA (ICFAI); Ansuman Deb, MBA, BE; Shubham Prajapati, CA; authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. Registered Office Address: ICICI Venture House, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400 025. CIN: L67120MH1995PLC086241, Tel: (91 22) 6807 7100. ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager, Research Analyst and Alternative Investment Fund. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities AIF Trust's SEBI Registration number is IN/AIF3/23-24/1292 ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, **E-mail Address** : complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Prabodh Avadhoot Email address: headservicequality@icicidirect.com Contact Number: 18601231122