

Maintain 'buy' on Reliance Cap; TP ₹754

Edelweiss

Reliance Capital (RCAP) hosted an analyst meet attended by Anil Ambani and management team from across business segments to spell out its growth strategy.

The chairman appears firm to wind down major part of non-core businesses by FY18. This will help efficient capital allocation to focused business areas. RCAP's focus on profitable growth with run down in non-core assets will not only enhance capital efficiency but also improve core business performance.

Though profitability of insurance remains under pressure, we expect improvement post consolidation. We believe potential improvement in earnings will narrow down the discount between current price and inherent fair value of core businesses.

We maintain 'BUY/SP' with SoTP-based TP of ₹754. The focus is to turnaround life insurance business with various strategic initiatives already taken over last year or so (viz., unprofitable and poor quality businesses have been weeded out, similar channels have been merged to leverage supervisory costs and build efficiencies).

Non-par business is effectively hedged and management doesn't see any major drag on that portfolio.

RCAP is in discussion for partnering with banks and other financial institutions to strengthen its distribution. Management seemed open to the idea of consolidation in life insurance space, given an opportunity to evaluate such prospects.