

# REPCO HOME FINANCE

## Asset quality retains strong turf; growth healthy

India Equity Research | Banking and Financial Services

Repc Home Finance's (RHF) Q4FY14 PAT of INR315mn (up 14% YoY) came broadly in line with our estimate. While PAT growth optically seems lower at 14% YoY when compared with run-rate of 50% in 9mFY14, the vector driving the same is increase in provisioning coverage to 50% plus. Overall, the business metrics continue to impress with: 1) 32% loan growth at INR46.4bn aided by similar growth rate of disbursements; 2) healthy asset quality with GNPA dropping by 60bps to 1.5% (seasonal in nature); and 3) NIMs maintaining robust 4.6% mark. The potential to grow manifolds in an under-served market underpinned by sufficient CRAR of ~25% will sustain RHF's loan CAGR of 27% plus and help it post impressive 28% plus earnings CAGR, 2.7% RoA/~19% RoE over FY15/16. Maintain 'BUY' with TP of INR480 (assigning 3x FY16E P/ABV).

### Asset quality robust; coverage increase a step in right direction

Underpinned by target customer segments (non-salaried), RHF's NPL profile is seasonal in nature with usual spike in Q1 and Q3 and decline in others. But quantum of uptick/fall is structurally falling with increased thrust on recoveries — reduced volatility in GNPLs. Instead of historical trend of provisioning release in Q4, credit cost was elevated to shore up coverage. A good move even though final write-off costs are low.

### With yet another quarter of 4.6% NIMs, FY14 closes with 70bps rise

NIM for Q4FY14 came in steady at 4.6%. Both YoA and CoF came in stable at 12.6%/9.3% as composition remained same on both sides. Non-salaried to salaried proportion remains at 55:45% with borrowing mix unchanged at NHB at 25%/banks at 65%. FY14 was a good year with YoA increasing 25bps to 12.6% (driven by LAP, up from 15% to 19%) and costs moderating by 25bps to 9.3%. Consequently, NIMs touched a high of 4.65%. Given priority status/low-ticket loans, ~25% of NHB borrowings at a low ~8%, and ~65% from banks at finer rates coupled with limited competition, and healthy mix of loans to self employed and LAP will lead to stable NIMs at 4% plus.

### Outlook and valuations: Superior sustainable RoA; maintain 'BUY'

We like RHF's model for its well-balanced loan mix, profitability and most importantly its scalability. We foresee loan CAGR of 27% plus (with large under-served markets) leading to PAT CAGR of 28% and sustainable RoA/RoE of 2.7%/ 18-19% over FY15/16E. The stock is currently trading at 2.5x FY16E P/ABV. Maintain 'BUY/SO'.

Financials		(INR mn)						
Year to March	Q4FY14	Q4FY13	Growth (%)	Q3FY14	Growth (%)	FY14	FY15E	FY16E
Net Interest Inc.	589	438	34.5	509	15.7	1,908	2,403	3,056
PAT	315	277	13.7	271	16.1	1,101	1,412	1,816
BV per share						119	140	166
Diluted EPS						17.6	22.6	29.1
P/Adj Book (x)						3.5	3.0	2.5
Diluted P/E (x)						22.6	17.6	13.7

#### EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperformer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

#### MARKET DATA (R: RHFL.BO, B: REPCO IN)

CMP	: INR 399
Target Price	: INR 480
52-week range (INR)	: 421 / 185
Share in issue (mn)	: 62.2
M cap (INR bn/USD mn)	: 25/ 427
Avg. Daily Vol.BSE/NSE('000)	: 82.1

#### SHARE HOLDING PATTERN (%)

	Current	Q3FY14	Q2FY14
Promoters *	37.4	37.4	37.4
MF's, FI's & BK's	10.5	12.0	12.4
FII's	6.6	6.4	6.3
Others	45.5	44.2	44.0
* Promoters pledged shares (% of share in issue)	:	NIL	

#### PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	12.7	0.4	2.1
3 months	17.8	10.5	27.0
12 months	120.1	13.5	3.5

#### Kunal Shah

+91 22 4040 7579  
kunal.shah@edelweissfin.com

#### Nilesh Parikh

+91 22 4063 5470  
nilesh.parikh@edelweissfin.com

#### Suruchi Chaudhary

+91 22 6623 3316  
suruchi.chaudhary@edelweissfin.com

#### Prakhar Agarwal

+91 22 6620 3076  
prakhar.agarwal@edelweissfin.com

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**Loan book maintains traction at 32%**

Disbursement during the quarter continued strong traction—grew 31% YoY—feeding into loan growth of 32%. Management had guided for loan book growth of 25-30% in FY14 largely driven by expansion in under-served and under-penetrated areas of Tier II and III cities and consolidation of position in existing areas. Management expects individual and LAP mix to be ~80% and 20% respectively, by FY15E with balance being maintained (~50% proportion) in terms of salaried and non-salaried segments. We expect loan CAGR of 27% over FY14-16E.

**Table 1: Loan mix composition stays same with LAP now forming 19% of advances**

Loan composition(%)	Q313	Q413	Q114	Q214	Q314	Q414
- Non Salaried	52.7	53.1	53.4	54.0	54.5	55.0
- Salaried	47.3	46.9	46.6	46.0	45.5	45.0
<b>Loan mix(%)</b>						
- Individual Home Loans	85.9	85.1	84.7	83.7	82.5	81.3
- Loans against Property	14.1	14.9	15.3	16.3	17.5	18.7

Source: Company

**Table 2: Provision coverage sees 14% increase utilising the drop in GNPA's (%)**

	Q313	Q413	Q114	Q214	Q314	Q414
Gross NPA	2.9	1.5	2.2	1.7	2.0	1.5
Net NPA	2.3	1.0	1.5	0.9	1.3	0.7
Provision Coverage	21.8	33.7	32.1	45.3	37.4	51.0

Source: Company

**Table 3: Margins stick to 4.6-4.7% range up from 3.8% a year back**

(%)	Q313	Q413	Q114	Q214	Q314	Q414
Yield	12.4	12.3	12.6	12.6	12.6	12.6
Cost of Debt	9.7	9.6	9.4	9.3	9.4	9.3
Spread	2.7	2.8	3.2	3.3	3.2	3.3
NIM	3.8	4.0	4.7	4.7	4.6	4.7

Source: Company

**Table 4: Borrowing mix steady QoQ, though NHB share dropped to 25% YoY (%)**

	FY12	FY13	Q114	Q214	Q314	Q414
Banks	43.0	51.0	57.5	62.8	64.7	65.0
National Housing Bank	47.2	37.0	34.6	30.0	26.0	25.0
Repc Bank	9.8	12.0	7.9	7.2	9.3	10.0

Source: Company

**Financial snapshot**

(INR mn)

(INR mn)	Q4FY14	Q4FY13	% change	Q3FY14	% change	FY14	FY15E	FY16E
Interest Income	1,498	1,138	31.6	1,358	10.3	5,156	6,679	8,583
Interest Expenses	909	700	29.8	849	7.0	3,248	4,276	5,527
Net Interest Income	589	438	34.5	509	15.7	1,908	2,403	3,056
Other Income	1	2		4		198	257	309
Operating Expenses	114	81	40.8	103	10.8	388	469	568
-Staff expenses	69	52	32.5	56	22.1	388	469	568
-Other Opex	46	29	55.4	47	(2.8)	153	186	224
Provisions	41	(16)	(350.0)	35	16.8	227	270	327
Depreciation	7	6	6.6	7	(11.0)	24	29	35
PBT	429	369	16.1	368	16.5	1,491	1,921	2,470
Taxes	114	92	23.4	97	17.7	390	509	655
PAT	315	277	13.7	271	16.1	1,101	1,412	1,816

**(INR mn)**

Sanctions	5,385	4,258	26.5	4,403	22.3	18,225	21,870	26,244
Disbursements	5,120	3,897	31.4	4,427	15.6	17,153	21,441	25,729
Loan book	46,619	35,447	31.5	43,194	7.9	46,680	60,185	75,683

**Asset Quality (%)**

GNPLs	1.5	1.5		2.0		1.5	1.7	1.8
NNPLs	0.7	1.0		1.3		0.7	0.8	0.7
Provision Coverage	51.0	33.7		37.4		51.0	55.0	60.0

### Q3FY14 concall highlights

#### Asset Quality:

- **Lot of thrust was given to recoveries which led to increase being capped merely at 36 bps to 2.03%** (as compared to historical trend of 80-120bps QoQ rise in GNPLs in Q3 due to seasonality)
- 0.07% write off of cumulative disbursements.
- GNPL in LAP is 2.35% (2.2% in Q2FY14).
- **Stress in Andhra Pradesh is relatively higher than other states:** GNPA in AP is 3.8% in Q3FY14 (though it can come down significantly from 5.38% in Q3FY13 – specific steps taken to shore up recoveries in this State).

#### Borrowing profile:

- Repco's borrowing under NHB declined as it has resorted more to bank borrowings, given the recent change in NHB guideline.
- **Outstanding borrowing from NHB is 26% (36% in FY13) - average cost of borrowing from NHB stands at 8.1%.** Two-third of borrowing from NHB is under RHF route.
- Incremental cost of borrowings from banks-10.25% - near the base rate.

#### Growth metrics:

- Loan book registered healthy growth of 32% YoY to INR43.2bn. Demand in Tier 2 & Tier 3 cities continues to be strong.

#### Relevant data points

- **Operating expenses came in significantly higher at INR 103 mn** – up 86% YoY and 40% QoQ. This included **exceptional items** of: i) onetime advertisement expenses on TV commercial of INR 14 mn – this being a festive season, ii) onetime renewal insurance premium paid of INR 21 mn; iii) ESOP expenses of INR 10 mn (granted 2.44 lac ESOPs at INR 75 per share against CMP of INR 285).
- Disbursement breakup – 55% non-salaried and 45% salaried.
- **Ticket size of outstanding book: Housing – INR1.04mn, LAP – INR1.27mn.** LTV for LAP is 50% and for home loans is 50-55%.
- **Average yield on LAP is 15.5-15.9%. Yield on home loans is 12.5%.**
- Sanction loans in 3-7 days for salaried employees.
- CAR: 24.95%
- NIMs for Q3FY14: 4.6%, Q2FY14: 4.7% and Q3FY13: 3.8%
- Rating of AA- from ICRA and CARE.

#### Outlook

- Board has prescribed the cap of 20% for LAP proportion (which currently stands at 17.5%).
- Management expect to track 25-30% growth run-rate for FY14.

## Q2FY14 earnings call - key takeaways

### Borrowing profile:

- Repco's borrowing under NHB declined as it had enough liquidity given the capital raising. However given the recent change in NHB guideline, management highlighted the need to look at this source of financing.
- Outstanding borrowing from NHB is 30% (36% in FY13)- average cost of borrowing from NHB stands at 8.12%.
- ~67% of borrowing from NHB is under RHF route (INR6.6bn).
- Incremental cost of borrowings from banks-10.25%.

### Growth metrics:

- Loan book registered healthy growth of 30% YoY to INR40.3bn . Management expect to track 25-30% growth run-rate for FY14.
- Loan book composition : Tamil Nadu : ~63%, Andhra Pradesh : ~13%, Karnataka : ~12% , Maharashtra : ~4.4%.
- Gujarat and Maharashtra expansion plans are on expected lines . Orissa and west Bengal the performance are yet to pick up.
- Average size of loan ~INR10.1lakhs.
- Current ~70% of the outstanding loans have ticket size of less than INR2mn

### Asset Quality :

- Individual accounts were taken up and a lot of thrust was given to recoveries which led to decline in headline GNPLs
- Growth in Andhra Pradesh have been a bit of concern, due to this repayment may get delayed.
- NPA composition : LAP - 2.2%, Home loan -1.6%
- General provisions : INR20.5mn, Specific provisions : INR127.3mn.

### Relevant data points

- Yield increased mainly due 1% point increase in proportion of self employed category (54%) and of loan against properties as well (16.3%).
- Yield on LAP portfolio-15.9%.
- Within LAP : salaried segment accounts for 23% and balance 77% is accounted by non-salaried.
- Incremental ticket size : Housing – INR1.2mn, LAP – INR1.5mn.

### Outlook

- Loan growth likely to be in range of 25-30%. Largely driven by higher penetration levels.
- Board has prescribed the cap of 20% for LAP proportion (which currently stands at 16%).
- Margins to be sustained over FY14. Spread to sustain above of 3%.

### Company Description

Repco is a housing finance company registered with the NHB and headquartered in Chennai, Tamil Nadu. It is promoted by the Government of India - owned The Repatriates Cooperative Finance and Development Bank (Repco Bank) and was incorporated in April 2000. Key point to highlight is that the promoter is a registered co-operative society.

As of March 2014, RHF had over 100 branches and satellite centres located in Tamil Nadu, Karnataka, Andhra Pradesh, Kerala, Maharashtra, Odisha, West Bengal, Gujarat and the Union Territory of Puducherry.

Further, two thirds of its centres are located in Tier 2 and Tier 3 cities. The company's marketing strategy consists of advertising via loan camps and word of mouth referrals from existing customers. As a result, most of its customers are walk-ins and the company does not use marketing intermediaries. Branches source loans and carry out the preliminary checks on credit worthiness of the borrower, post which the application is sent to the centralised processing unit for approval. Branches are also responsible for assistance in documentation, disbursing loans and in monitoring repayments and collections

### Investment Rationale

Repco Home Finance (Repco) has created a niche for itself, servicing both salaried and self employed category in Tier-II and Tier-III - a customer segment left under-served by large housing finance companies and banks. We like the company for its differentiated approach, strong risk management practises and most importantly for its scalable business model and superior and sustainable return ratios.

### Key Risks

**Slowdown in real estate sector:** Repco is mainly present in 8 states. Currently, 63.5% of its loan book is coming from Tamil Nadu alone. Any slowdown in real estate sector, especially in Tamil Nadu will have negative impact on growth and earnings.

**Regulatory risk:** Repco is regulated by National Housing Bank (NHB), a wholly-owned subsidiary of the Reserve Bank of India (RBI). Adverse regulatory change will have negative impact on the growth and profitability of the company

## Financial Statements

Assumptions				
	FY13	FY14	FY15E	FY16E
GDP (Y-o-Y%)	5.0	4.8	5.4	6.3
Inflation (Avg)	7.4	6.2	5.5	6.0
Repo rate (exit rate)	7.5	8.0	7.8	7.3
USD/INR (Avg)	54.5	62.0	60.0	58.0
Credit growth (%)	14.7	14.0	16.0	18.0
Bank's base rate (%)	9.7	9.5	9.3	9.2
Wholesale borrowing cost (%)	8.9	8.7	8.5	8.3
G-sec yield (%)	7.8	8.5	7.8	7.0
Operating metric assumptions (%)				
Yield on advances	12.3	12.5	12.5	12.6
Cost of funds	9.5	9.3	9.5	9.5
Spread	2.8	3.2	3.0	3.1
Employee cost growth	34.3	49.3	21.0	20.9
Other opex growth	19.2	76.7	21.0	20.9
Tax rate	25.1	26.2	26.5	26.5
Dividend payout	8.5	6.8	10.0	10.0
Balance sheet assumption (%)				
Disbursement growth	12.0	46.9	25.0	20.0
Repayment/prepayment rate	15.1	15.5	15.5	15.5
Gross NPLs	1.5	1.5	1.7	1.8
Net NPLs	1.0	0.7	0.8	0.7
Provisioning coverage	0.3	0.5	0.6	0.6

Income statement				
(INR mn)				
Year to March	FY13	FY14	FY15E	FY16E
Interest income	3,914	5,156	6,679	8,583
Interest expended	2,657	3,248	4,276	5,527
Net interest income	1,258	1,908	2,403	3,056
- Fee & forex income	146	198	257	309
Net revenues	1,403	2,106	2,660	3,365
Operating expense	243	388	469	568
- Employee exp	141	211	255	308
- Depreciation /amortisation	15	24	29	35
- Other opex	87	153	186	224
Preprovision profit	1,160	1,718	2,191	2,797
Provisions	92	227	270	327
Profit before tax	1,068	1,491	1,921	2,470
Provision for tax	268	390	509	655
Profit After Tax	800	1,101	1,412	1,816
Reported PAT	800	1,101	1,412	1,816
Basic EPS (INR)	12.7	17.6	22.7	29.2
Shares outstanding (mn)	63	62	62	62
Diluted EPS (INR)	12.7	17.6	22.6	29.1
Dividend per share (INR)	1.1	1.2	2.3	2.9
Dividend payout (%)	8.5	6.8	10.0	10.0

Growth ratios (%)				
Year to March	FY13	FY14	FY15E	FY16E
Revenues	20.4	50.1	26.3	26.5
NII growth	21.8	51.7	25.9	27.2
Opex growth	25.3	59.7	21.0	20.9
PPP growth	19.4	48.1	27.5	27.7
Provisions growth	(40.6)	145.6	18.9	21.1
Net profit	30.2	37.6	28.2	28.6

Operating ratios				
Year to March	FY13	FY14	FY15E	FY16E
Yield on advances	12.3	12.5	12.5	12.6
Net interest margins	3.9	4.6	4.5	4.5
Cost of funds	9.5	9.3	9.5	9.5
Spread	2.8	3.2	3.0	3.1
Cost-income	17.3	18.4	17.6	16.9
Tax rate	25.1	26.2	26.5	26.5

## Banking and Financial Services

Balance sheet		(INR mn)			
As on 31st March	FY13	FY14	FY15E	FY16E	
Equity capital	622	622	622	622	
Reserves & surplus	5,724	6,789	8,060	9,694	
Shareholders funds	6,345	7,411	8,681	10,315	
Short term debt	9,190	11,575	15,165	19,275	
Long term debt	21,792	27,445	35,958	45,702	
Borrowings	30,982	39,020	51,124	64,977	
Deferred tax liability	(112)	(187)	(212)	(237)	
<b>Sources of funds</b>	<b>37,215</b>	<b>46,244</b>	<b>59,593</b>	<b>75,056</b>	
Total net fixed assets	45	50	50	50	
Non current investments	81	124	81	81	
Cash and equivalents	1,471	153	253	318	
Loans and advances	35,586	46,811	60,185	75,683	
Other current assets	630	66	108	136	
Total current assets (ex cash)	37,687	47,030	60,546	76,137	
Others current liabilities	597	960	1,083	1,211	
Total current liabilities &	597	960	1,083	1,211	
Net current assets (ex cash)	37,090	46,070	59,463	74,926	
<b>Uses of funds</b>	<b>37,215</b>	<b>46,244</b>	<b>59,593</b>	<b>75,056</b>	

RoE decomposition (%)					
Year to March	FY13	FY14	FY15E	FY16E	
Net interest income/assets	3.9	4.6	4.5	4.5	
Net revenues/assets	4.3	5.1	5.0	5.0	
Operating expense/assets	0.7	0.9	0.9	0.8	
Provisions/assets	0.3	0.5	0.5	0.5	
Taxes/assets	0.8	0.9	1.0	1.0	
Total costs/assets	1.9	2.4	2.4	2.3	
ROA	2.5	2.6	2.7	2.7	
Equity/assets	14.4	16.5	15.2	14.1	
ROAE (%)	17.1	16.0	17.5	19.1	

Valuation metrics					
Year to March	FY13	FY14	FY15E	FY16E	
Diluted EPS (INR)	12.7	17.6	22.6	29.1	
EPS growth (%)	(2.8)	39.0	28.2	28.6	
Book value per share (INR)	102.1	119.2	139.7	166.0	
Adjusted book value per share	98.2	115.5	134.5	159.8	
Diluted P/E (x)	31.4	22.6	17.6	13.7	
Price/ BV (x)	3.9	3.3	2.9	2.4	
Price/ Adj. BV (x)	4.1	3.5	3.0	2.5	
Dividend yield (%)	0.3	0.3	0.6	0.7	

### Peer comparison valuation

Name	Market cap (USD mn)	Diluted PE (X)		Price/BV (X)		ROAE (%)	
		FY15E	FY16E	FY15E	FY16E	FY15E	FY16E
Repco Home Finance	427	17.6	13.7	2.9	2.4	17.5	19.1
HDFC	23,787	22.2	19.0	4.5	4.1	21.3	22.6
Infrastructure Development Finance Co	3,097	8.9	8.3	1.1	1.0	13.2	12.8
LIC Housing Finance	2,488	9.8	8.4	1.7	1.5	19.2	19.2
Magma Fincorp	240	7.8	6.4	1.0	0.9	13.7	14.8
Mahindra & Mahindra Financial Services	2,345	12.5	10.2	2.4	2.0	20.6	21.6
Manappuram General Finance	347	5.9	4.8	0.7	0.7	12.9	14.4
Muthoot Finance	1,291	7.8	6.4	1.4	1.2	19.3	20.0
Power Finance Corp	4,996	4.9	4.4	1.0	0.8	21.0	20.2
Reliance Capital	1,605	12.0	10.7	0.7	0.7	6.8	7.2
Rural Electrification Corporation	4,254	4.9	4.4	0.9	0.8	23.3	22.0
Shriram City Union Finance	1,402	13.9	11.8	2.1	1.8	18.8	18.9
Median		8.9	8.3	1.0	0.8	18.8	19.1
AVERAGE		10.6	8.9	1.1	1.0	15.4	15.8

Source: Edelweiss research



## Additional Data

### Directors Data

T.S. KrishnaMurthy	Chairman	R.Varadarajan	Managing Director
S.C.Panda	Director	Iqbal Singh Chahal	Director
B.Anand	Director	Thomas Paul Diamond	Director
G.R.Sundaravadivel	Director	M. Shankar Narayanan	Director
V. Nadasabapathy	Director	C. Thangaraju	Director

Auditors - R. Subramanian and Company

*\*as per last annual report*

### Holding - Top10

	Perc. Holding		Perc. Holding
First Carlyle Growth VI	17.74	WCP Holdings 111	9.96
Creador I LLC	7.46	Prudential ICICI Asset Mgmt Co	4.17
SBI Funds Management	3.73	Nomura Asset Management Co Ltd	2.33
Birla Sun Life Asset Management	1.90	Templeton Asset Mgmt	1.65
DSP Blackrock Investment Manager	1.39	Parvest Equity India	1.37

*\*as per last available data*

### Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
15 Apr 2014	India Capital Management Ltd A/C India Capital Fund Ltd	Buy	486000	377.50
03 Apr 2014	Black Rock India Eq Fund Mauritius Ltd	Buy	546087	325.76
03 Apr 2014	Norges Bank - Government Pension Fund Global	Buy	596857	325.76
03 Apr 2014	The Master Trust Bk Of Japan Ltd. As Trustee Of Blackrk Ind Eq Fd	Buy	353604	325.76
03 Apr 2014	Wcp Holding Iii	Sell	2728100	325.04
31 Mar 2014	Icici Prudential Mutual Fund	Buy	884250	325.00
31 Mar 2014	Icici Prudential Tax Plan	Buy	399036	325.00
31 Mar 2014	Jupiter Paf Investments Ltd	Buy	1200000	325.00
31 Mar 2014	Wcp Holding Iii	Sell	3464000	325.02

*\*in last one year*

### Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
07 Apr 2014	WCP Holdings III	Sell	3464000.00
05 Apr 2014	WCP Holdings III	Sell	3464000.00

*\*in last one year*



Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Allahabad Bank	BUY	SP	M	Axis Bank	BUY	SO	M
Bajaj Finserv	BUY	SO	L	Bank of Baroda	BUY	SO	M
Development Credit Bank	BUY	SO	M	Federal Bank	BUY	SO	L
HDFC	HOLD	SP	L	HDFC Bank	BUY	SO	L
ICICI Bank	BUY	SO	L	IndusInd Bank	BUY	SO	L
IDFC	HOLD	SU	L	ING Vysya	BUY	SO	L
Karnataka Bank	BUY	SP	M	Kotak Mahindra Bank	REDUCE	SU	M
LIC Housing Finance	BUY	SO	M	Magma Fincorp	BUY	SO	M
Mahindra & Mahindra Financial Services	BUY	SO	M	Manappuram General Finance	BUY	SP	H
Max India	BUY	SO	L	Multi Commodity Exchange of India	UNDER REVIEW	None	None
Muthoot Finance	BUY	SO	M	Oriental Bank Of Commerce	BUY	SP	L
Power Finance Corp	BUY	SO	M	Punjab National Bank	HOLD	SP	M
Reliance Capital	BUY	SP	M	Repco Home Finance	BUY	SO	M
Rural Electrification Corporation	BUY	SO	M	Shriram City Union Finance	BUY	SO	M
South Indian Bank	BUY	SP	M	State Bank of India	BUY	SP	L
Union Bank Of India	BUY	SP	M	Yes Bank	BUY	SO	M

### ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

### RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

### RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

### SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return



**Edelweiss Securities Limited**, Edelweiss House, off C.S.T. Road, Kalina, Mumbai – 400 098.  
Board: (91-22) 4009 4400, Email: [research@edelweissfin.com](mailto:research@edelweissfin.com)

Vikas Khemani	Head Institutional Equities	vikas.khemani@edelweissfin.com	+91 22 2286 4206
Nischal Maheshwari	Co-Head Institutional Equities & Head Research	nischal.maheshwari@edelweissfin.com	+91 22 4063 5476
Nirav Sheth	Head Sales	nirav.sheth@edelweissfin.com	+91 22 4040 7499

**Coverage group(s) of stocks by primary analyst(s): Banking and Financial Services**

Allahabad Bank, Axis Bank, Bajaj Finserv, Bank of Baroda, Development Credit Bank, Federal Bank, HDFC, HDFC Bank, ICICI Bank, Infrastructure Development Finance Co Ltd, IndusInd Bank, Karnataka Bank, Kotak Mahindra Bank, LIC Housing Finance, Max India, Multi Commodity Exchange of India, Manappuram General Finance, Magma Fincorp, Mahindra & Mahindra Financial Services, Muthoot Finance, Oriental Bank Of Commerce, Punjab National Bank, Power Finance Corp, Reliance Capital, Rural Electrification Corporation, Repco Home Finance, State Bank of India, Shriram City Union Finance, South Indian Bank, Union Bank Of India, ING Vysya, Yes Bank

**Recent Research**

Date	Company	Title	Price (INR)	Recos
13-May-14	<b>Bank of Baroda</b>	Asset quality in healthy spirit; <i>Result Update</i>	878	Buy
13-May-14	<b>Punjab National Bank</b>	Stress assets formation again at elevated level; <i>Result Update</i>	800	Hold
12-May-14	<b>Magma Fincorp</b>	Asset quality stress waning; spreads improving; <i>Result Update</i>	74	Buy

**Distribution of Ratings / Market Cap**

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	133	40	16	190
* 1 stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	126	55	9	

**Rating Interpretation**

Rating	Expected to
<b>Buy</b>	appreciate more than 15% over a 12-month period
<b>Hold</b>	appreciate up to 15% over a 12-month period
<b>Reduce</b>	depreciate more than 5% over a 12-month period

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