

# REPCO HOME FINANCE

## Growth regains momentum; asset quality on strong turf

India Equity Research | Banking and Financial Services



Repc Home Finance (RHF) earnings growth (considering pretax as FY15 has deferred tax provisioning hit) optically seems lower at 21% YoY when compared with the 26% run-rate during 9mFY15. However, this was primarily owing to prudent stance of increasing provisioning coverage to 60% plus and higher employee cost. Operationally, business metrics and asset quality performance continued to impress. Key highlights: 1) after the Q3FY15 blip, disbursements gained traction (up >45% YoY) resulting in 29% loan growth (9% QoQ); 2) GNPLs dropped by >60bps to 1.3% (seasonal in nature); and 3) NIMs maintained the robust 4.5% mark. The potential to grow manifolds in under-served markets, further drawing support from adequate CAR of 20%, will sustain RHF's loan CAGR of 25% plus and help it post impressive 27% plus earnings CAGR, 2.4% RoA and 19% RoE over FY15-17E. Maintain 'BUY'.

### Disbursements perk up after Q3FY15 blip

Disbursement, after the minor blip in Q3FY15 (when it grew by mere 7% YoY), gathered traction (up >45% YoY) in Q4FY15, feeding into 29% YoY/9% QoQ growth in loan book. The proportion of self-employed segment where RHF has developed strong forte further inched up to ~57%. Gaining confidence from huge potential untapped in this under-served segment, management expects to sustain the growth momentum in medium term target at 25-30%. We are building loan CAGR of 26% over FY15-17E and expect mix between salaried-self employed and home loan-LAP to be broadly stable.

### Asset quality robust, coverage rises over 60%

Underpinned by target customer segments (non-salaried), RHF's NPL profile is seasonal in nature with usual spike seen during Q1 and Q3. However, the quantum of uptick/fall is structurally declining with higher thrust on recoveries — reduced volatility in GNPLs. In contrast to historical trend of provisioning release in Q4, credit cost was elevated to shore up coverage, a prudent move even though final write-off costs are low.

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

RHF operates in a niche segment, which is under-served by banks and larger housing finance companies (HFCs). In this backdrop, we expect the company to be key beneficiary of our optimistic stance on the mortgage finance sector, given emerging opportunities in non-salaried segment and Tier II/III locations. The stock is trading at 3.5x FY17E P/ABV and 19x FY17E P/E. Retain 'BUY/SO' with TP of INR770.

#### Financials

	(INR mn)							
Year to March	Q4FY15	Q4FY14	Growth (%)	Q3FY15	Growth (%)	FY15E	FY16E	FY17E
Net Interest Inc.	746	589	26.6	636	17.3	2,382	3,024	3,802
PAT	349	315	10.7	307	13.4	1,231	1,610	2,026
BV per share						130	153	183
Diluted EPS						19.7	25.8	32.5
P/Adj Book (x)						4.9	4.2	3.5
Diluted P/E (x)						31.4	24.0	19.1

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 621
Target Price	: INR 770
52-week range (INR)	: 725 / 369
Share in issue (mn)	: 62.4
M cap (INR bn/USD mn)	: 39 / 608
Avg. Daily Vol.BSE/NSE('000)	: 201.1

#### SHARE HOLDING PATTERN (%)

	Current	Q3FY15	Q2FY15
Promoters *	37.3	37.3	37.4
MF's, FI's & BK's	16.0	16.5	16.3
FII's	29.4	30.1	25.0
Others	17.4	16.2	21.4
* Promoters pledged shares (% of share in issue)			NIL

#### PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	(3.6)	(3.0)	(0.6)
3 months	(6.5)	(5.4)	(6.5)
12 months	61.9	24.4	44.4

**Kunal Shah**  
+91 22 4040 7579  
kunal.shah@edelweissfin.com

**Nilesh Parikh**  
+91 22 4063 5470  
nilesh.parikh@edelweissfin.com

**Prakhar Agarwal**  
+91 22 6620 3076  
prakhar.agarwal@edelweissfin.com

May 19, 2015

### NIMs stable deriving support from lower funding costs

NIMs were stable at 4.5% benefiting from the over 25bps QoQ decline in funding costs as the company diversified its borrowing profile and tapped lower cost funding sources (viz., NCDs, CPs, raised INR1.6bn through these routes during the quarter), which along with lower bank funding rate (base rate may be pruned by banks) reduced the funding cost. On the other hand, this to an extent was offset by lower yields by similar amount (to 12.5%). Given the niche created in self-employed category, we expect RHF to sustain yields. However, as the interest rate tables turns and banks prune base rate (already visible in Q1FY16), we expect funding cost to ease in turn aiding NIMs.

### Other highlights

- Operating expenses during the quarter was higher at INR155mn (up 36% YoY/15% QoQ) – the growth was largely due to higher staff expenses (up 54% YoY/ 24% QoQ) as there was provision on perquisite accruing from ESOP allocation (although there is no cash it had to provide INR80mn for full year FY15). Besides, quarterly adjustment to DA in February also led to some uptick in salary cost.

**Table 1: Higher contribution from non-salaried, RHF's strong forte**

Loan composition (%)	Q314	Q414	Q115	Q215	Q315	Q415
- Non Salaried	54.5	55.0	55.3	55.7	55.9	56.8
- Salaried	45.5	45.0	44.7	44.3	44.1	43.2
Loan mix (%)						
- Individual Home Loans	82.5	81.3	80.8	80.5	80.7	80.8
- Loans against Property	17.5	18.7	19.2	19.5	19.3	19.2

Source: Company

**Table 2: Seasonal dip in GNPL, even below Q4FY14 level (%)**

	Q314	Q414	Q115	Q215	Q315	Q415
Gross NPA	2.0	1.5	2.5	1.7	2.0	1.3
Net NPA	1.3	0.7	1.6	0.8	1.2	0.5
Provision Coverage	37.4	51.0	35.7	51.5	42.1	62.0

Source: Company

**Table 3: Margins stable deriving support from lower funding cost**

(%)	Q314	Q414	Q115	Q215	Q315	Q415
Yield	12.6	12.6	12.6	12.7	12.8	12.5
Cost of Debt	9.4	9.3	9.8	9.8	9.9	9.6
Spread	3.2	3.3	2.8	3.0	2.9	2.9
NIM	4.6	4.7	4.4	4.5	4.5	4.5

Source: Company

**Table 4: Borrowing mix—raised INR1.6bn from NCDs and CPs during the quarter (%)**

	Q314	Q414	Q115	Q215	Q315	Q415
Banks	64.7	65.0	64.0	69.0	72.0	67.6
National Housing Bank	26.0	25.0	26.0	22.0	20.0	21.4
Repco Bank	9.3	10.0	10.0	9.0	9.0	7.9
NCDs	-	-	-	-	-	2.0
CPs	-	-	-	-	-	1.2

Source: Company

**Financial snapshot**

(INR mn)

Year to March	Q4FY15	Q4FY14	% change	Q3FY15	% change	FY15	FY16E	FY17E
Interest income	1,913	1,498	27.8	1,756	9.0	6,699	8,535	10,753
Interest exp	1,168	909	28.5	1,120	4.2	4,318	5,511	6,951
Net int. inc. (INR mn)	746	589	26.6	636	17.3	2,382	3,024	3,802
Other income	1	1	0.0	1	27.3	231	295	363
Operating expenses	155	114	35.9	135	15.3	547	652	774
Staff costs	105	69	53.7	85	23.7	547	652	774
Other operating expenses	50	46	9.2	50	0.8	183	218	258
Provisions	62	41	51.7	26	136.5	203	246	345
Depreciation	10	7	49.2	7	32.9	30	35	42
Profit before tax	520	429	21.3	469	10.9	1,862	2,421	3,046
Tax	171	114	50.5	161	6.3	631	811	1,021
Profit after tax	349	315	10.7	307	13.4	1,231	1,610	2,026
Loan book (INR mn)	60,129	46,619	29.0	55,007	9.3	60,129	76,735	96,689
Sanctions	8,345	5,376	55.2	5,243	59.2	23,989	29,986	37,483
Disbursements	7,505	5,120	46.6	4,749	58.0	21,812	26,828	32,999
GNPLs	1.3	1.5		2.0		1.3	1.5	1.6
NNPLs	0.5	0.7		1.2		0.5	0.6	0.6
Provision coverage (%)	62.1	51.0		42.1		62.1	60.0	60.0

### Q3FY15 earnings concall takeaways

#### With respect to growth metrics

- **Disbursement during the quarter were lower following 1) lower draw downs from the sanctions pool (large part of the sanctions happened in last week of December corresponding to which disbursement has not happened) and 2) higher base.** However, going into January the disbursements has normalized and management expects to track normalized growth in Q4FY15 (20% disbursement growth possible).
- LAP book to be maintained at around current levels ( ~20% ) , have comfortable LTV of 50% in this segment. GNPL in LAP is 2.9% (normalized credit cost is ~50bps)
- In terms of growth from non-southern market :Maharashtra is doing well, however MP, Orissa are contributing to the growth, however the contribution is not very significant as company has not been very aggressive as currently they are in the evaluation mode.
- Slowdown has been happening in the major cities in South such as Chennai, Cochin, Trichy etc. However as the company has 2/3rd of the business comes from other cities so company is confident of maintain the growth rate.
- **Loan book growth to be maintained within 25-30% over medium to longer term.**

#### With respect to NIMs

- Aims to maintain of spread of 3% plus and NIMs of 4% plus.
- **Raised INR500mn through CPs recently at 8.6%. Going forward management expect further INR500mn of CP issuance during the quarter and also tap NCDs route during the quarter.**
- Cost of funds has increased owing to change in NHB requirement (capping on-lending yield to 200bps) has made company to shift to higher cost borrowing from the banks.

#### Other highlights

- Plans to expand the branch network by 15 branches / year, with 1/3<sup>rd</sup> in non-southern region and 2/3<sup>rd</sup> in southern region.
- Cost/income ratio was at 20% (including ESOPs) and 18% ( excluding ESOPs). Managemnt expects to trace back cost –to-income ratio of 18% (including ESOPs).
- In terms of geographical presence: part of the GNPLs were coming from Kerela and Tehelgana and incrementally in Orissa and West-Bengal.

#### Data points

- Disbursement during the quarter in HL were INR3.81bn and in LAP INR940mn
- **Incremental ticket size in home loan INR1.43mn, Home equity : INR2.3mn. In terms of salaried incremental ticket size is INR1.16mn, and non-salaried : INR1.98mn.**
- Employees : 534
- Avg ticket size – INR1.2mn.
- Yields in the retail home loan : 12.1%, LAP at 15.9%
- **6% is the pre-payment rate – no increased witnessed over past 9 months.**
- Plot loans account for 5% of the loan book – with the requirement that construction should begin within 36 months.

## Q2FY15 earnings concall takeaways

Repco Home Finance reported PAT of INR 327 mn in Q2FY15 (growth of 12% YoY/32% QoQ) better than our expectation of INR 310 mn. Beat was not only due to lower credit cost but also led by higher NII. Net interest income grew 21% YoY/9% QoQ to INR 638 mn and loan loss provisioning was lower 70-80% both YoY as well as QoQ.

- **Asset quality improved significantly** with GNPLs coming down from 2.49% in Q1FY15 to 1.65% in Q2FY15. It has also improved provisioning coverage to 51.5%.
- **GNPLs in home loan 1.59% in Q2FY15 (2.31% in Q1FY15) and in home equity of 1.89% (3.25%)**
- Added more staff during the quarter to 490 and annual promotion has started
- **Yield in home loan 12.1% and home equity 15.9%** similar to level in Q2FY14. Uniform interest rate followed across the country.
- In new markets, growth may not be as high as Southern markets as it trying to establish its brand in these place.

### Outlook

- **Guidance of 3% spread and 4% NIM**
- Would want to take **provisioning coverage to 70% by end of this fiscal**
- Sustainable loan growth of atleast 25%
- **Will diversify borrowing profile** and tap CP market definitely before the end of this fiscal. Some internal process
- **RoA at 2.5%** and RoEs expected to go up due to gearing will move to pre-IPO level over the medium term.

### 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 2015, RHF had 146 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, over 60% 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

### Key Assumptions

Year to March	FY14	FY15	FY16E	FY17E
<b>Macro</b>				
GDP(Y-o-Y %)	6.9	7.4	8.0	8.7
Inflation (Avg)	9.5	6.7	5.0	5.0
Repo rate (exit rate)	8.0	7.5	6.8	6.5
USD/INR (Avg)	60.5	61.0	62.0	62.0
<b>Sector</b>				
Credit growth	14.0	12.0	15.0	17.0
Bank's base rate (%)	9.5	9.3	9.2	9.2
Wholesale borrowing cost (%)	9.0	8.8	8.5	8.5
G-sec yield	7.6	7.8	7.3	7.0
<b>Company</b>				
Yield on advances	12.5	12.5	12.5	12.4
Cost of funds	9.2	9.5	9.4	9.3
Spread	3.3	3.0	3.0	3.1
Employee cost growth	49.3	59.1	19.2	18.6
Other opex growth	76.7	19.2	19.2	18.6
Dividend payout	6.8	7.5	10.0	10.0
Tax rate (%)	26.2	33.9	33.5	33.5
Balance sheet assumption (%)				
Disbursement growth	46.9	27.2	23.0	23.0
Repayment/prepayment rate	15.5	15.5	15.5	15.5
Gross NPLs	1.5	1.3	1.5	1.6
Net NPLs	0.7	0.5	0.6	0.6

### Income statement

(INR mn)

Year to March	FY14	FY15	FY16E	FY17E
Interest income	5,168	6,699	8,535	10,753
Interest expended	3,248	4,318	5,511	6,951
Net interest income	1,920	2,382	3,024	3,802
- Fee & forex income	186	231	295	363
Net revenues	2,106	2,613	3,319	4,165
Operating expense	388	547	652	774
- Employee exp	211	335	399	473
- Depreciation /amortisation	24	30	35	42
- Other opex	153	183	218	258
Preprovision profit	1,718	2,065	2,667	3,392
Provisions	227	203	246	345
Profit Before Tax	1,491	1,862	2,421	3,046
Less: Provision for Tax	390	631	811	1,021
Profit After Tax	1,101	1,231	1,610	2,026
Reported Profit	1,101	1,231	1,610	2,026
Basic EPS (INR)	17.5	19.7	25.8	32.5
No. of Diluted shares outstanding	62	62	62	62
Diluted EPS (INR)	17.5	19.7	25.8	32.5
Dividend per share (DPS)	1.2	1.5	2.6	3.2
Dividend Payout Ratio (%)	6.8	7.5	10.0	10.0

### Growth ratios (%)

Year to March	FY14	FY15	FY16E	FY17E
Revenues	50.1	24.1	27.0	25.5
NII growth	52.7	24.0	27.0	25.7
Opex growth	59.7	41.1	19.2	18.6
PPP growth	48.1	20.2	29.1	27.2
Provisions growth	145.6	(10.3)	20.9	40.4
Adjusted Profit	37.6	11.8	30.8	25.8

### Operating ratios

Year to March	FY14	FY15	FY16E	FY17E
Yield on advances	12.5	12.5	12.5	12.4
Net interest margins	4.6	4.5	4.5	4.4
Cost of funds	9.2	9.5	9.4	9.3
Spread	3.3	3.0	3.0	3.1
Cost-income	18.4	21.0	19.7	18.6
Tax rate	26.2	33.9	33.5	33.5

## Banking and Financial Services

Balance sheet		(INR mn)			
As on 31st March	FY14	FY15	FY16E	FY17E	
Share capital	622	624	624	624	
Reserves & Surplus	6,789	7,498	8,946	10,770	
Shareholders' funds	7,411	8,121	9,570	11,393	
Short term borrowings	9,912	12,966	16,786	21,293	
Long term borrowings	29,108	38,078	49,295	62,530	
Total Borrowings	39,020	51,044	66,081	83,823	
Long Term Liabilities & Provisions	557	749	737	928	
Deferred Tax Liability (net)	(187)	342	487	675	
<b>Sources of funds</b>	<b>46,802</b>	<b>60,257</b>	<b>76,874</b>	<b>96,820</b>	
Gross Block	135	135	135	135	
Net Block	48	86	86	86	
Intangible Assets	2	3	3	3	
Total Fixed Assets	50	89	89	89	
Non current investments	124	124	81	81	
Cash and cash equivalents	219	175	460	580	
Loans & Advances	46,811	60,368	76,735	96,689	
Other Current Liabilities & Short	402	500	491	619	
Total Current Liabilities &	402	500	491	619	
Net Current Assets (ex cash)	(402)	(500)	(491)	(619)	
<b>Uses of funds</b>	<b>46,802</b>	<b>60,257</b>	<b>76,874</b>	<b>96,820</b>	
Book Value per share (INR)	119.2	130.2	153.5	182.7	

RoE decomposition (%)					
Year to March	FY14	FY15	FY16E	FY17E	
Net interest income/assets	4.6	4.5	4.5	4.4	
Net revenues/assets	5.0	4.9	4.9	4.8	
Operating expense/assets	0.9	1.0	1.0	0.9	
Provisions/assets	0.5	0.4	0.4	0.4	
Taxes/assets	0.9	1.2	1.2	1.2	
Total costs/assets	2.4	2.6	2.5	2.5	
ROA	2.6	2.3	2.4	2.4	
Equity/assets	16.4	14.6	13.1	12.2	
Return on Average Equity (ROAE)	16.0	15.8	18.2	19.3	

Valuation parameters					
Year to March	FY14	FY15	FY16E	FY17E	
Adjusted Diluted EPS (INR)	17.5	19.7	25.8	32.5	
Y-o-Y growth (%)	38.0	12.7	30.8	25.8	
Book value per share (INR)	119.2	130.2	153.5	182.7	
Adjusted book value per share	115.4	126.8	148.5	175.8	
Diluted Price to Earnings Ratio	35.4	31.4	24.0	19.1	
Price to Book Ratio (P/B) (x)	5.2	4.8	4.0	3.4	
Price/ Adj. BV (x)	5.4	4.9	4.2	3.5	
Dividend Yield (%)	0.2	0.2	0.4	0.5	

### Peer comparison valuation

Name	Market cap (USD mn)	Diluted Price to Earnings		Price to Book Ratio		Return on Average Equity	
		FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
Repc Home Finance	608	24.0	19.1	4.0	3.4	18.2	19.3
Dewan Housing Finance	981	8.0	6.4	1.2	1.0	15.4	16.9
HDFC	30,675	28.6	24.4	6.1	5.5	22.6	23.9
Indiabulls Housing Finance	3,155	8.8	7.7	2.8	2.5	34.5	34.6
LIC Housing Finance	3,351	12.6	10.7	2.1	1.9	18.2	18.6
Magma Fincorp	301	12.5	9.9	1.2	1.1	11.2	11.3
Mahindra & Mahindra Financial Services	2,420	12.7	11.4	2.4	2.1	19.9	19.3
Manappuram General Finance	445	8.9	7.1	1.0	0.9	11.5	13.2
Muthoot Finance	1,195	9.1	7.4	1.4	1.2	15.6	17.4
Power Finance Corp	5,608	5.0	4.4	0.9	0.8	20.1	19.7
Reliance Capital	1,627	10.5	9.1	0.7	0.7	6.5	7.2
Rural Electrification Corporation	4,632	4.6	4.1	1.0	0.9	22.9	21.4
Shriram City Union Finance	1,841	16.4	13.1	2.5	2.2	16.3	17.7
Shriram Transport Finance	-	14.3	12.1	1.9	1.7	13.7	14.4
Median	-	11.5	9.5	1.6	1.4	17.2	18.2
AVERAGE	-	12.6	10.5	2.0	1.8	17.1	17.7

Source: Edelweiss research



## Additional Data

### Directors Data

T.S. KrishnaMurthy	Chairman	R.Varadarajan	Managing Director
B.Anand	Director	Thomas Paul Diamond	Director
G.R.Sundaravadivel	Director	V. Nadasabapathy	Director
K K Pathak	Director	Sanjeevane Kuty	Director

Auditors - R. Subramanian and Company

*\*as per last annual report*

### Holding - Top10

	Perc. Holding		Perc. Holding
Smallcap World Fund	6.48	Capital World Investors	6.11
Templeton Asset Management	3.84	SBI Funds Management	3.29
Parvest Equity India	3.13	BNP Paribas Investment Partners	3.13
Birla Sun Life Asset Management	3.09	India Capital Fund	3.09
Grantham Mayo Van Otterloo	2.70	Goldman Sachs Asset Management	2.22

*\*as per last available data*

### Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
29 Oct 2014	Creador I Llc	Sell	399434	470.07
20 Oct 2014	Creador I Llc	Sell	325000	470.05

*\*in last one year*

### Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
27 Oct 2014	Creador I, LLC	Sell	3105000.00
22 Aug 2014	First Carlyle Growth VI	Sell	11027721.00

*\*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	SP	M
DCB Bank	BUY	SO	M	Dewan Housing Finance	BUY	SO	M
Federal Bank	BUY	SO	L	HDFC	HOLD	SU	L
HDFC Bank	BUY	SO	L	ICICI Bank	BUY	SO	L
IDFC	BUY	SO	L	Indiabulls Housing Finance	BUY	SO	M
IndusInd Bank	BUY	SO	L	Karnataka Bank	BUY	SP	M
Kotak Mahindra Bank	HOLD	SU	M	LIC Housing Finance	BUY	SO	M
Magma Fincorp	BUY	SO	M	Mahindra & Mahindra Financial Services	HOLD	SU	M
Manappuram General Finance	BUY	SP	H	Max India	BUY	SO	L
Multi Commodity Exchange of India	BUY	SO	M	Muthoot Finance	BUY	SO	M
Oriental Bank Of Commerce	BUY	SP	L	Power Finance Corp	BUY	SO	M
Punjab National Bank	BUY	SP	M	Reliance Capital	BUY	SP	M
Repco Home Finance	BUY	SO	M	Rural Electrification Corporation	BUY	SO	M
Shriram City Union Finance	BUY	SP	M	Shriram Transport Finance	HOLD	SP	M
South Indian Bank	BUY	SP	M	State Bank of India	BUY	SO	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
	Stock return < 1.25 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
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

Edelweiss  
Ideas create, values protect

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)

Nirav Sheth

Head Research

[nirav.sheth@edelweissfin.com](mailto:nirav.sheth@edelweissfin.com)

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

Allahabad Bank, Axis Bank, Bajaj Finserv, Bank of Baroda, DCB Bank, Dewan Housing Finance, Federal Bank, HDFC, HDFC Bank, ICICI Bank, IDFC, Indiabulls Housing Finance, 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, Shriram Transport Finance, South Indian Bank, Union Bank Of India, Yes Bank

**Recent Research**

Date	Company	Title	Price (INR)	Recos
15-May-15	<b>Magma Fincorp</b>	Growth rationalisation strategy to aid RoAs; <i>Result Update</i>	94	Buy
14-May-15	<b>Multi Commodity Exchange</b>	Back in the reckoning; <i>Result Update</i>	1,053	Buy
14-May-15	<b>Manappuram Finance</b>	Growth sustains momentum; NIM dip restricts revenue; <i>Result Update</i>	35	Buy

**Distribution of Ratings / Market Cap**

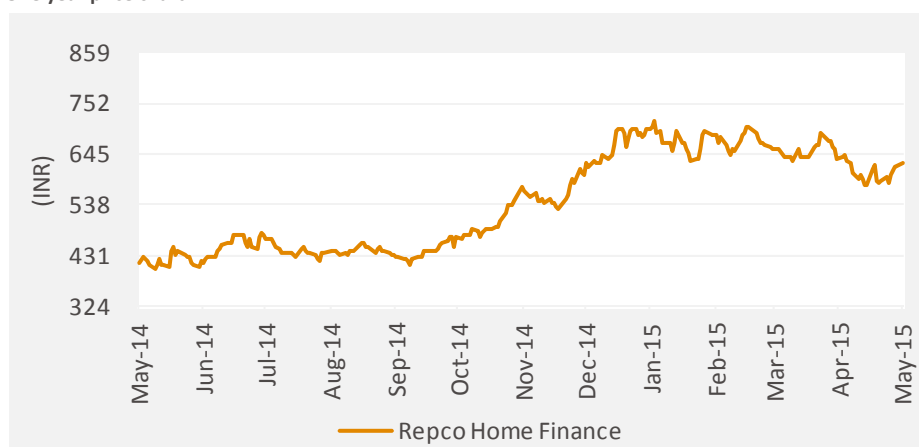
**Edelweiss Research Coverage Universe**

	Buy	Hold	Reduce	Total
Rating Distribution*	155	45	8	208
* stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	151	54	3	

**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

**One year price chart**



### DISCLAIMER

This report has been prepared by Edelweiss Securities Limited (“Edelweiss”) and distributed as per Regulation 22(1) of SEBI (Research Analysts) Regulations 2014 having SEBI Registration No. INH200000121 in the capacity of a Research Analyst. This report does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors. This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. 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 Edelweiss and affiliates/ group companies to any registration or licensing requirements within such jurisdiction. The distribution of this report in certain jurisdictions may be restricted by law, and persons in whose possession this report comes, should observe, any such restrictions. The information given in this report is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. Edelweiss reserves the right to make modifications and alterations to this statement as may be required from time to time. Edelweiss or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Edelweiss is committed to providing independent and transparent recommendation to its clients. Neither Edelweiss nor any of its affiliates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including loss of revenue or lost profits that may arise from or in connection with the use of the information. Past performance is not necessarily a guide to future performance. The disclosures of interest statements incorporated in this report are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The information provided in these reports remains, unless otherwise stated, the copyright of Edelweiss. All layout, design, original artwork, concepts and other Intellectual Properties, remains the property and copyright of Edelweiss and may not be used in any form or for any purpose whatsoever by any party without the express written permission of the copyright holders.

Edelweiss shall not be liable for any delay or any other interruption which may occur in presenting the data due to any reason including network (Internet) reasons or snags in the system, break down of the system or any other equipment, server breakdown, maintenance shutdown, breakdown of communication services or inability of the Edelweiss to present the data. In no event shall the Edelweiss be liable for any damages, including without limitation direct or indirect, special, incidental, or consequential damages, losses or expenses arising in connection with the data presented by the Edelweiss through this report.

#### **Analyst Certification:**

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

#### **Additional Disclaimers**

##### **Disclaimer for U.S. Persons**

This research report is a product of Edelweiss Securities Limited, which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Edelweiss Securities Limited only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Edelweiss Securities Limited has entered into an agreement with a U.S. registered broker-dealer, Edelweiss Financial Services Inc. ("EFSI"). Transactions in securities discussed in this research report should be effected through Edelweiss Financial Services Inc.

#### **Disclaimer for U.K. Persons**

The contents of this research report have not been approved by an authorised person within the meaning of the Financial Services and Markets Act 2000 ("FSMA").

In the United Kingdom, this research report is being distributed only to and is directed only at (a) persons who have professional experience in matters relating to investments falling within Article 19(5) of the FSMA (Financial Promotion) Order 2005 (the "Order"); (b) persons falling within Article 49(2)(a) to (d) of the Order (including high net worth companies and unincorporated associations); and (c) any other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons").

This research report must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this research report relates is available only to relevant persons and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this research report or any of its contents. This research report must not be distributed, published, reproduced or disclosed (in whole or in part) by recipients to any other person.

#### **Disclaimer for Canadian Persons**

This research report is a product of Edelweiss Securities Limited ("ESL"), which is the employer of the research analysts who have prepared the research report. The research analysts preparing the research report are resident outside the Canada and are not associated persons of any Canadian registered adviser and/or dealer and, therefore, the analysts are not subject to supervision by a Canadian registered adviser and/or dealer, and are not required to satisfy the regulatory licensing requirements of the Ontario Securities Commission, other Canadian provincial securities regulators, the Investment Industry Regulatory Organization of Canada and are not required to otherwise comply with Canadian rules or regulations regarding, among other things, the research analysts' business or relationship with a subject company or trading of securities by a research analyst.

This report is intended for distribution by ESL only to "Permitted Clients" (as defined in National Instrument 31-103 ("NI 31-103")) who are resident in the Province of Ontario, Canada (an "Ontario Permitted Client"). If the recipient of this report is not an Ontario Permitted Client, as specified above, then the recipient should not act upon this report and should return the report to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any Canadian person.

ESL is relying on an exemption from the adviser and/or dealer registration requirements under NI 31-103 available to certain international advisers and/or dealers. Please be advised that (i) ESL is not registered in the Province of Ontario to trade in securities nor is it registered in the Province of Ontario to provide advice with respect to securities; (ii) ESL's head office or principal place of business is located in India; (iii) all or substantially all of ESL's assets may be situated outside of Canada; (iv) there may be difficulty enforcing legal rights against ESL because of the above; and (v) the name and address of the ESL's agent for service of process in the Province of Ontario is: Bamac Services Inc., 181 Bay Street, Suite 2100, Toronto, Ontario M5J 2T3 Canada.

#### **Disclosures under the provisions of SEBI (Research Analysts) Regulations 2014 (Regulations)**

Edelweiss Securities Limited ("ESL" or "Research Entity") is regulated by the Securities and Exchange Board of India ("SEBI") and is licensed to carry on the business of broking, depository services and related activities. The business of ESL and its associates are organized around five broad business groups – Credit including Housing and SME Finance, Commodities, Financial Markets, Asset Management and Life Insurance. There were no instances of non-compliance by ESL on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years except that ESL had submitted an offer of settlement with Securities and Exchange commission, USA (SEC) and the same has been accepted by SEC without admitting or denying the findings in relation to their charges of non registration as a broker dealer.

Copyright 2009 Edelweiss Research (Edelweiss Securities Ltd). All rights reserved