

INDIABULLS HOUSING FINANCE

Pragmatic mover

India Equity Research | Banking and Financial Services

Indiabulls Housing Finance (IHFL), a prominent mortgage financier (with AUM of INR450bn), emerged much stronger after down-sizing riskier assets post FY09. The company is undergoing structural metamorphosis with steady 20% plus asset growth, credit rating upgrades and active sell-downs supporting its best-in-class NIMs. We believe an optimal product strategy with stringent risk mitigants to manage NPLs, stable franchise, high liquidity and low gearing will help sustain superior return ratios (RoA/RoE of 4%/30% plus). Moreover, high dividend yield and consistent earnings delivery, will lend predictability and result in further re-rating of the stock. We initiate coverage with 'BUY' and target price of INR653 (upside > 30%) assigning it 3.1x FY16E adjusted book based on Gordon growth model.

Optimal product strategy: Yield generators and quality stabilisers

IHFL's unique business model is marked by an optimal product strategy—while the relatively safer home loans constitute ~50% of its portfolio, higher yielding loan against property (LAP) and corporate mortgage loans account for the balance. Besides being market leader in LAP, clear market segmentation and low LTV help contain NPLs in line with home loans. Even within corporate mortgage loans, 75% is towards low-risk lease rental discounting and balance is towards residential construction financing.

Consistency and stability: Fundamental cornerstones

With strengthening borrowing profile (triggered by recent rating upgrades) and ramp up of sales force, IHFL is now capitalised to cash in on emerging opportunities. Management is targeting steady 20-25% asset growth and stable NIMs supported by recent rating upgrades, active sell-downs and liquidity buffer, despite some pressure on yields. This, along with operating leverage benefits and controlled asset quality, will drive earnings CAGR of 20% over FY14-17E.

Outlook and valuations: Pragmatic mover; initiate with 'BUY'

We believe IHFL is an attractive opportunity in India's mortgage finance industry, which besides scaling up AUMs to INR740bn, also endeavours to instill stability in its franchise and operating metrics and deliver consistent earnings growth. This will lead to further re-rating of the stock. Based on Gordon growth model, we value the stock at 3.1x FY16 adjusted book. We initiate coverage with 'BUY/Sector Outperformer'.

Financials

Year to March	FY14	FY15E	FY16E	FY17E
Net revenues (INR mn)	25,232	31,426	37,970	44,774
Net profit (INR mn)	15,100	18,957	22,641	26,273
Diluted EPS (INR)	45.8	52.8	61.9	71.8
EPS growth (%)	20.2	15.2	17.2	16.0
Diluted P/E (x)	10.8	9.4	8.0	6.9
P/Adj. book (x)	3.1	2.7	2.4	2.1
ROAE (%)	29.0	31.0	31.2	31.6

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: INBF.BO, B: IHFL IN)

CMP	: INR 496
Target Price	: INR 653
52-week range (INR)	: 513 / 188
Share in issue (mn)	: 355.1
M cap (INR bn/USD mn)	: 176 / 2,824
Avg. Daily Vol.BSE/NSE('000)	: 555.2

SHARE HOLDING PATTERN (%)

	Current	Q1FY15	Q4FY14
Promoters *	27.9	28.4	41.8
MF's, FI's & BK's	3.1	3.2	3.4
FII's	40.5	41.0	38.3
Others	28.6	27.4	16.5
* Promoters pledged shares (% of share in issue)	:		4.9

RELATIVE PERFORMANCE (%)

	Sensex	Stock	Stock over Sensex
1 month	(1.3)	7.7	14.4
3 months	4.4	25.7	(45.7)
12 months	32.3	103.6	(193.6)

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

[Click on image to view video](#)

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

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



January 12, 2015

Chart 1: Optimal product strategy + emerging opportunities...

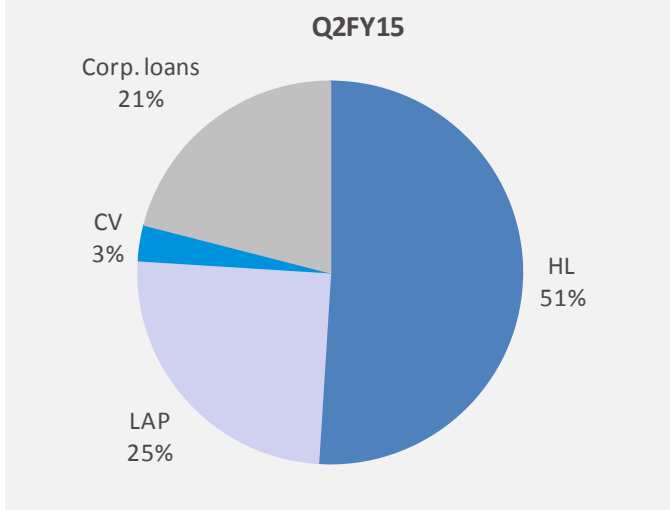


Chart 2: ... will feed into consistent AUM accretion

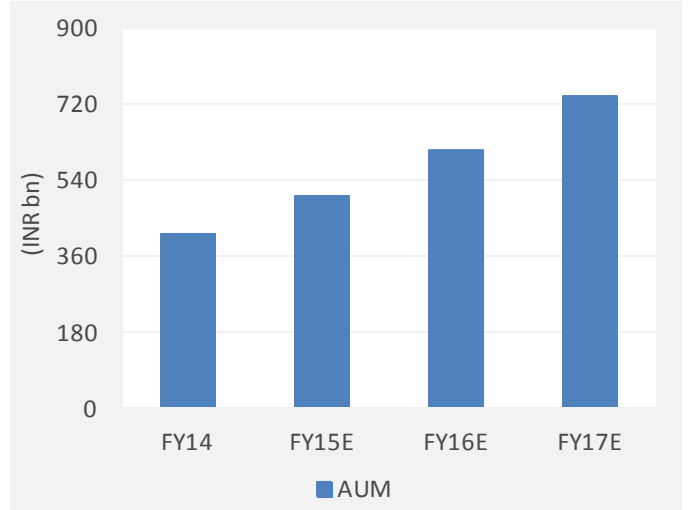


Chart 3: Recent ratings upgrade to help tap debt market

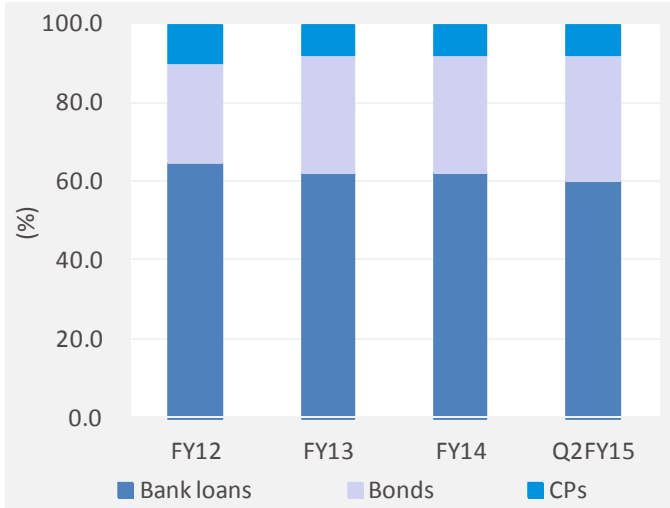


Chart 4: Liquid and well-capitalised balance sheet

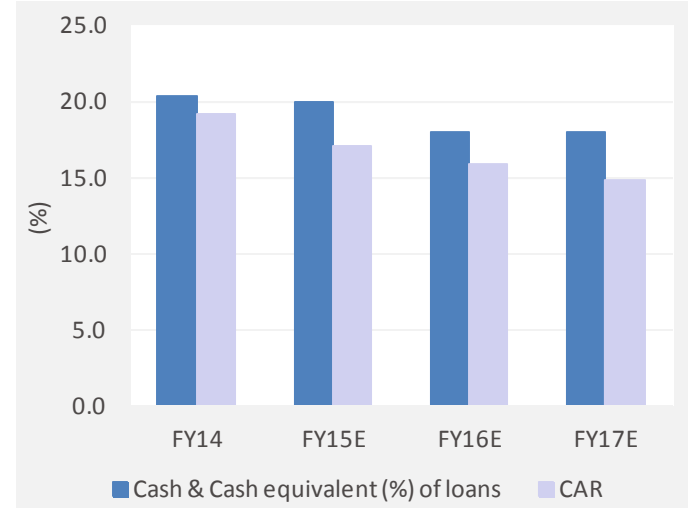


Chart 5: Superior return ratios...

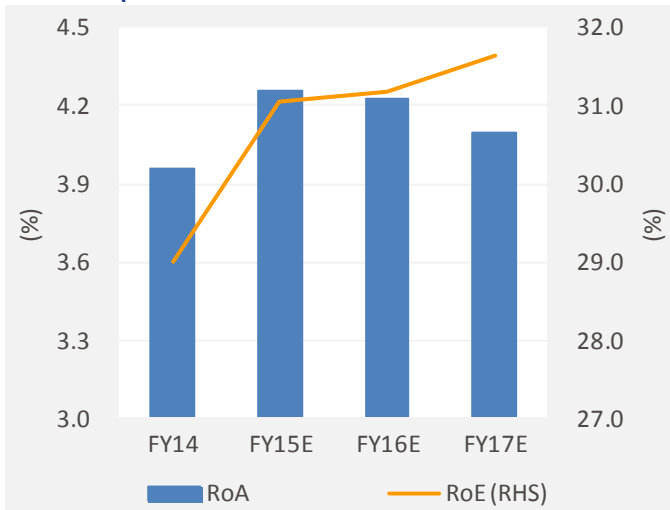
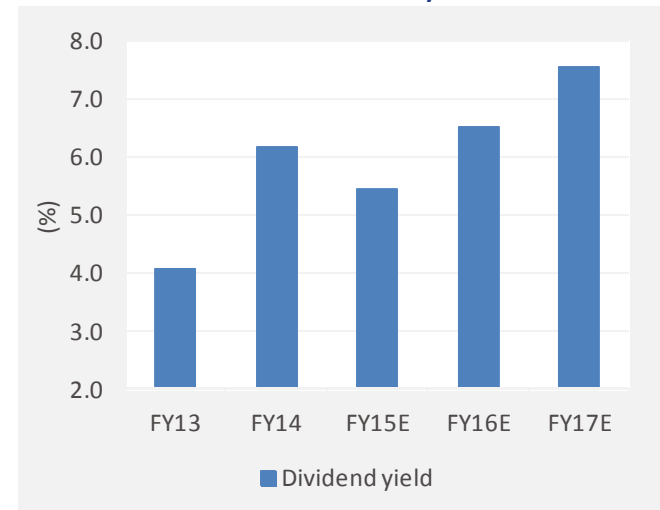


Chart 6: ... and best-in-class dividend yield



Source: Company, Edelweiss research

Investment Rationale

Stability and consistency: Fundamental cornerstones

Consistency in operating metrics is management’s fundamental cornerstone where it targets to maintain current optimal mix across business segments with steady 20-25% asset growth

Considering the plethora of opportunities that are available in the mortgage finance space and IHFL’s strong foothold, particularly in high-yielding segments (LAP/self employed category, construction loans), along with growth management is focussed on achieving stability and quality in franchise. Consistency in operating metrics is management’s fundamental cornerstone where it targets to maintain current optimal mix across business segments (no major deviation is expected over next 2-3 years) with steady 20-25% asset growth. This will be further supported by recent credit ratings upgrade instilling confidence in funding cost coupled with high capital adequacy (low gearing) and liquid balance sheet. Alongwith this, operating leverage benefits will drive earnings CAGR of 20% over FY14-17E. On culmination of these, we expect RoA to sustain upwards of 4% and RoE above 30% (highest among HFCs) by FY17E.

Chart 7: Endeavour to maintain current optimal mix across business segments...

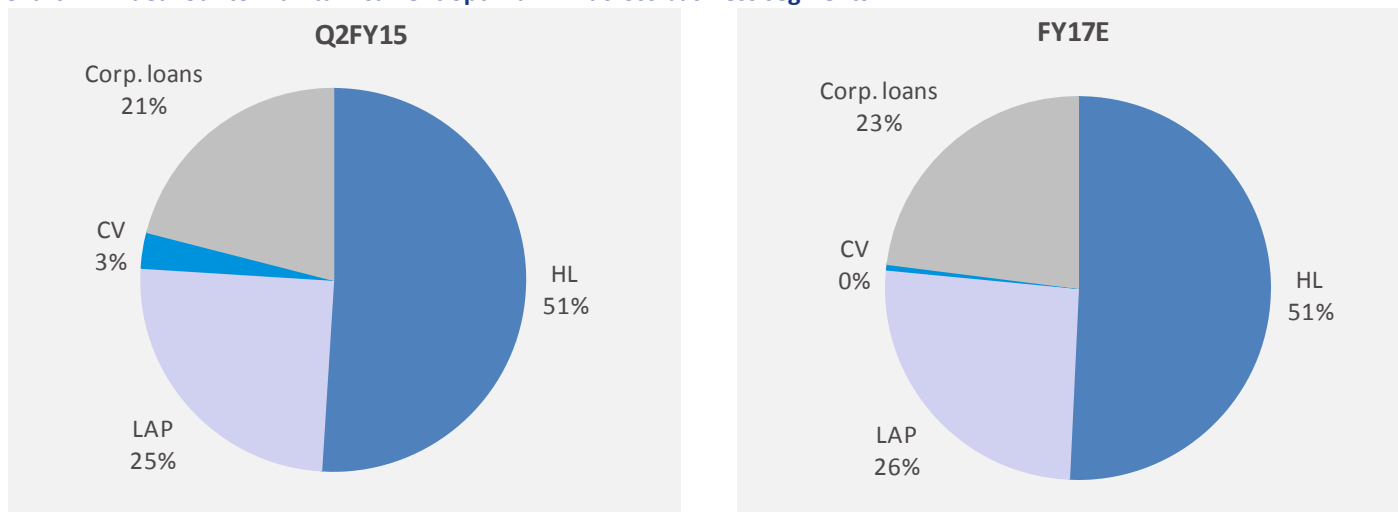


Chart 8: ...with steady 20% plus AUM accretion...

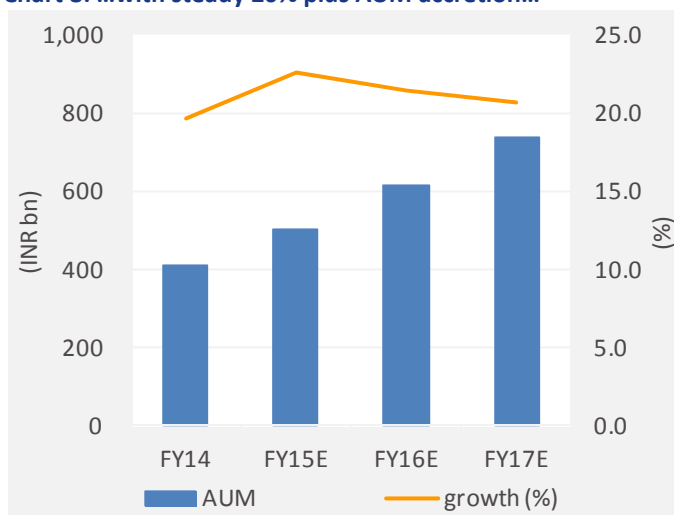
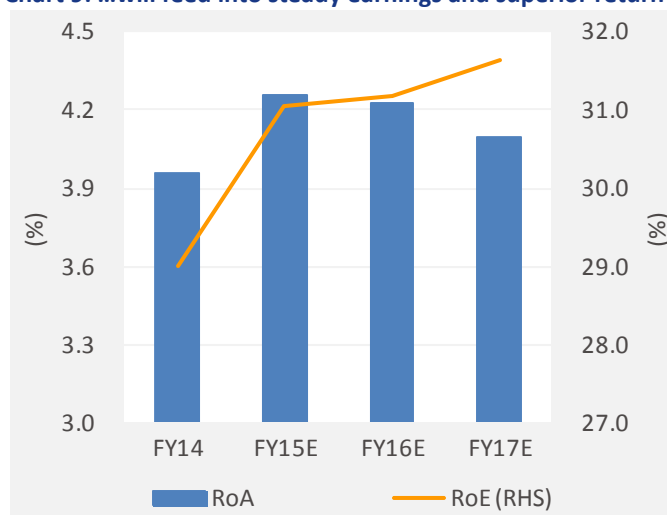


Chart 9: ...will feed into steady earnings and superior return



Source: Company, Edelweiss research



“High quality, mortgage backed secured lending has been the bedrock of our business”

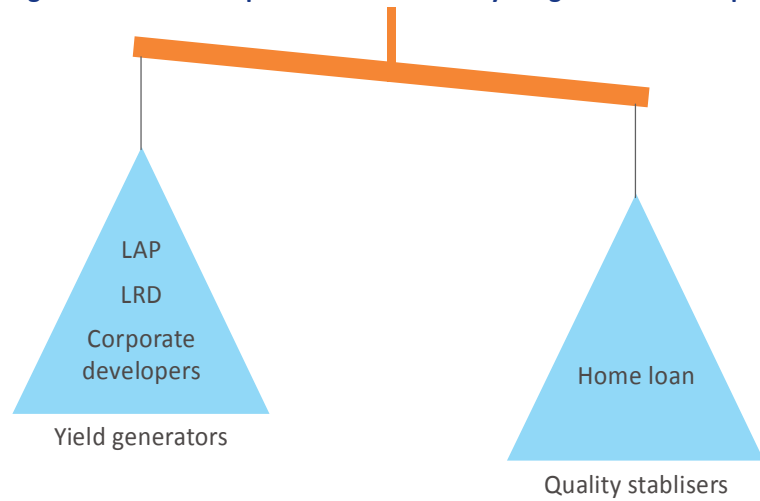
–Sameer Gehlaut,
Chairman
Indiabulls Housing Finance

An optimal product strategy marks it business model, which focuses on yield generators and asset quality stabilisers.

Optimal product strategy: Yield generators and quality stabilisers

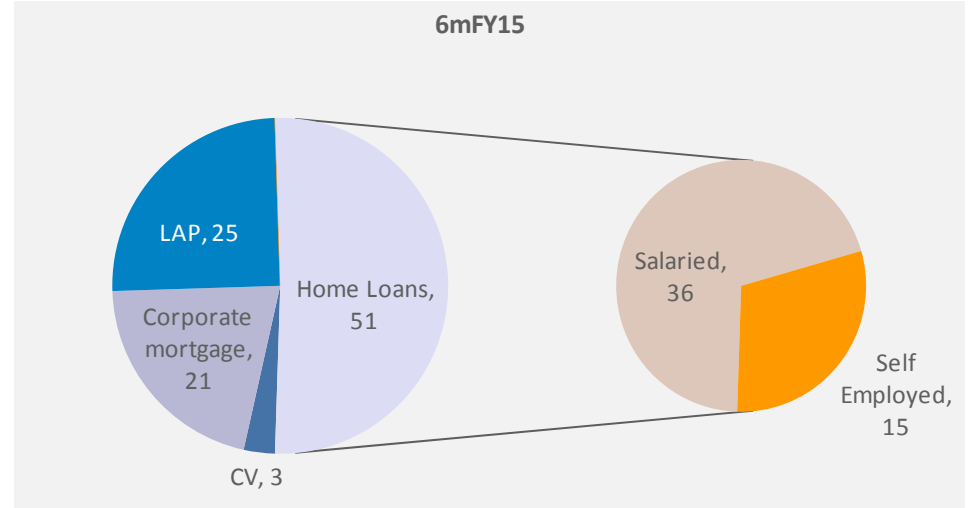
Capitalising on a unique business model, in the past 5 years, IHFL has successfully built a significant base (fourth largest HFC with AUM of INR450bn), clocking over 25% CAGR. An optimal product strategy marks it business model, which focuses on yield generators and asset quality stabilisers. While ~50% of its loan portfolio comprises the relatively safer home loans, balance is tilted towards high-yielding loan against property (LAP) and construction loans.

Fig. 1: Well-balanced product mix between yield generators and quality stabilisers



Source: Company, Edelweiss research

Chart 10: Loan book proportionately distributed between high yield, low risk products



Source: Company, Edelweiss research

Fig. 2: Optimal product strategy supports financial metrics

Yield profile	<ul style="list-style-type: none"> Best-in-class yield of 13% plus in highly commoditised space
Asset quality	<ul style="list-style-type: none"> <30bps NPL in home loans and LAP and <200bps in commercial credit. Thus, credit cost is contained below 75bps CV has been the only area of stress in past 12-18 months
Operating cost	<ul style="list-style-type: none"> Lean structure with cost/income less than 17%
Return ratios	<ul style="list-style-type: none"> Generates superior RoA/RoEs of 2.5%/30% plus

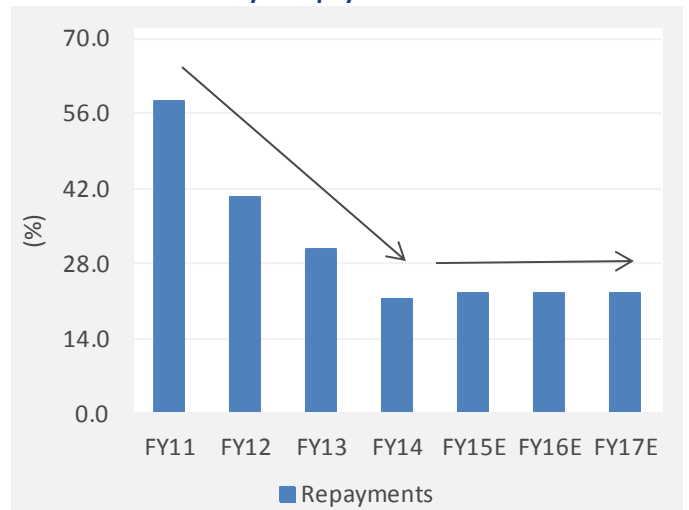
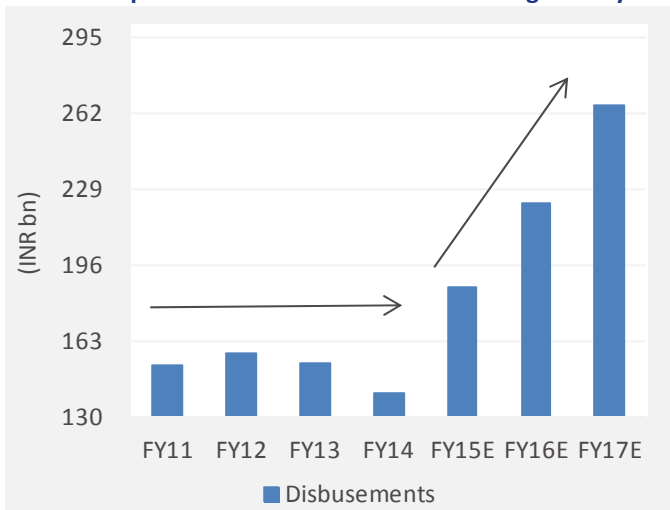
Source: Company, Edelweiss research

Despite potential available in mortgage finance space, disbursements have broadly remained range bound (INR140-160bn) due to liability-side constraint.

Higher proportion of relatively shorter duration LAP and corporate mortgage loans could bring some volatility in disbursement growth and repayment trend. Despite potential available in mortgage finance space in past 4 years, disbursements have broadly remained range bound (INR140-160bn). This was primarily due to higher dependence on wholesale borrowings. AUMs have still managed to log 25% plus growth in past 4 years, as it has focused on longer duration loans and aligned lending rates with competitors (to prevent balance transfers to peers), which has led to substantial decline in repayment rate.

With strengthened borrowing profile (triggered by recent rating upgrades and scope to diversify borrowing) and having ramped up sales force with better vintage, IHFL is now capitalised to cash in on emerging opportunities in the mortgage finance space. Going forward, we expect disbursements to post 23% CAGR over FY14-17E, from INR140bn to INR265bn, and repayment rate to average around 23%, thereby supporting AUM growth of ~21-22% to INR740bn.

Chart 11: Uptick in disbursements amidst easing liability constraints with lower volatility in repayment rates



Source: Company, Edelweiss research

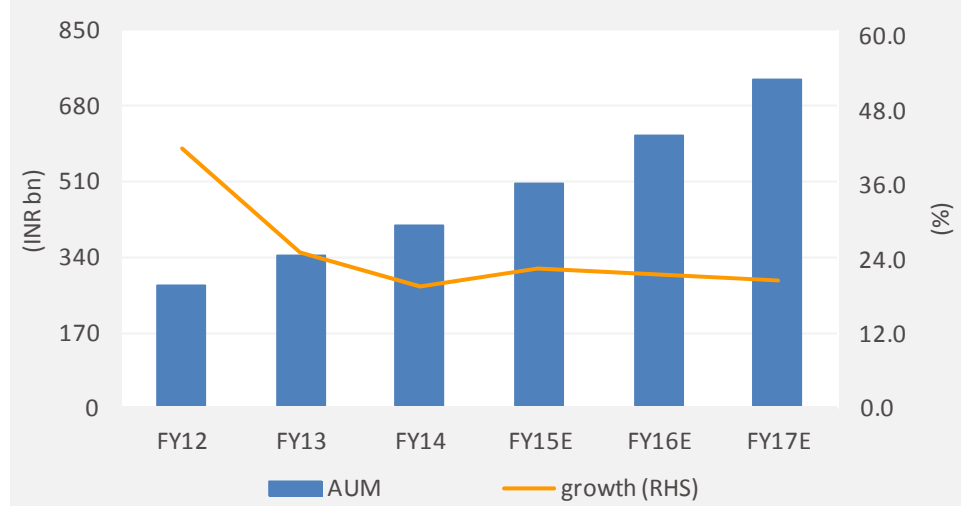


“Our clear focus is the middle class consumer & we have tailored our product offering to suit his specific needs”

**-Gagan Banga,
Vice-Chairman, MD&CEO,
Indiabulls Housing Finance**

In this highly commoditised home loan market, the company has focused on ramping up its franchise with 1,800 sales force who have better vintage and getting closer to customers at the property site.

Chart 12: ...feeding into healthy AUM accretion

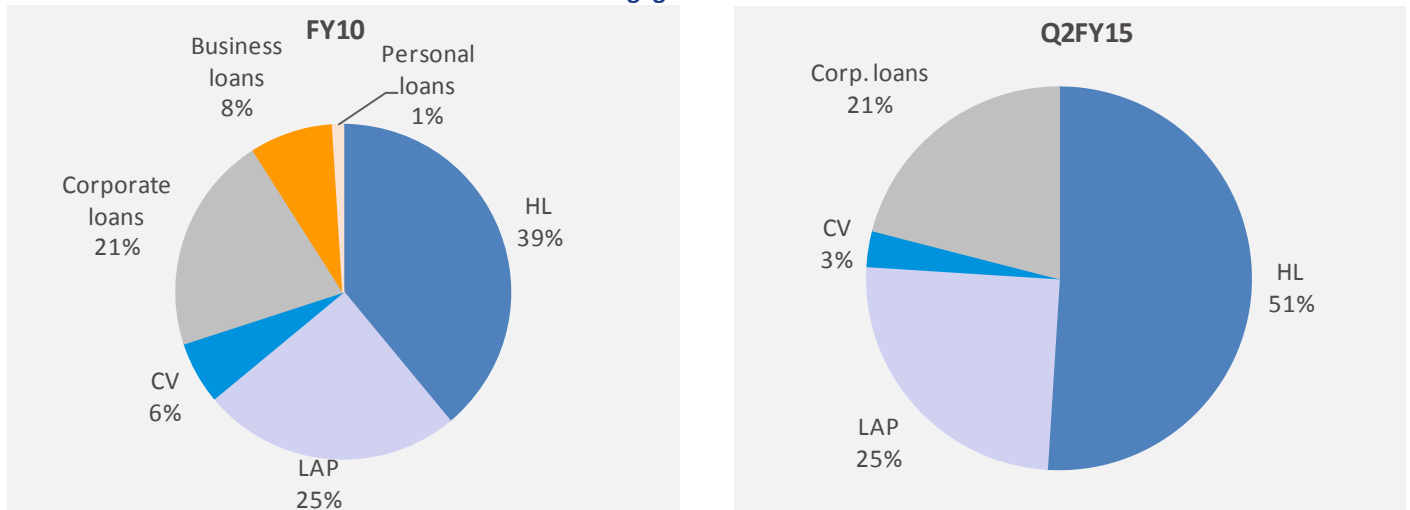


Source: Company, Edelweiss research

Core home loans: Ploughing ahead with tight leash on NPLs

IHFL has transformed from a diversified financier (completely running down its business loans/personal loans) to a focused mortgage player, by reverse merging with its housing finance arm in 2013. In this highly commoditised market, the company has focused on ramping up its franchise with 1,800 sales force who have better vintage and getting closer to customers. Besides this, with confidence in improving borrowing profile, it has realigned lending rates with competitors and expanded footprint to establish a strong brand. This has helped it grow its core home loan portfolio at >40% CAGR (accounting for 48% of its portfolio versus 39% in FY10). In line with industry trend, top-5 cities constitute 40-45% and top-10 cities ~70% of home loans. However, ticket size is relatively higher than leading peers at INR2.4mn. Loans to highly competitive low-yielding salaried segment constituted ~70% of IHFL’s home loan portfolio. The company targets to maintain the 70:30 salaried to self-employed composition. The segment generates average yield of 10.75-11.20% (differential in yield between categories is 65-70bps). Asset quality in this segment is the best-in-class.

Chart 13: Transformed from diversified financier to mortgage focused lender



Source: Company

Chart 14: Relatively higher ticket size

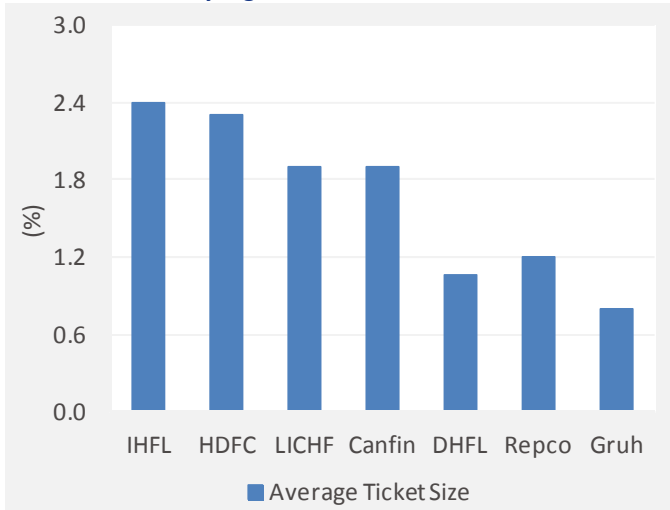
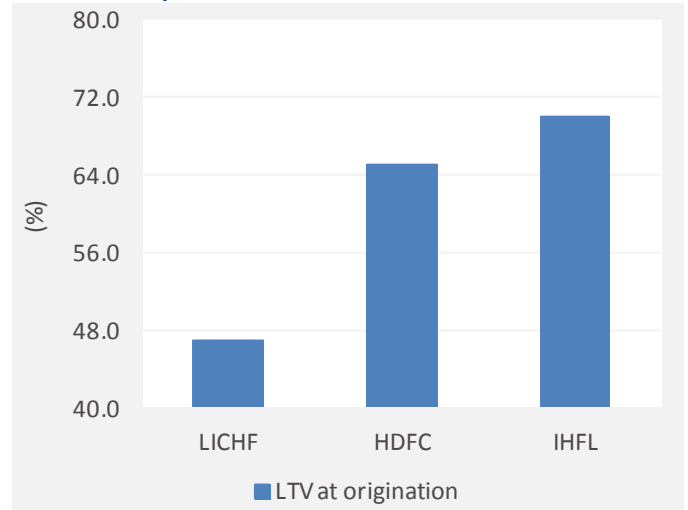


Chart 15: Coupled with more LTV to offer



Source: Company

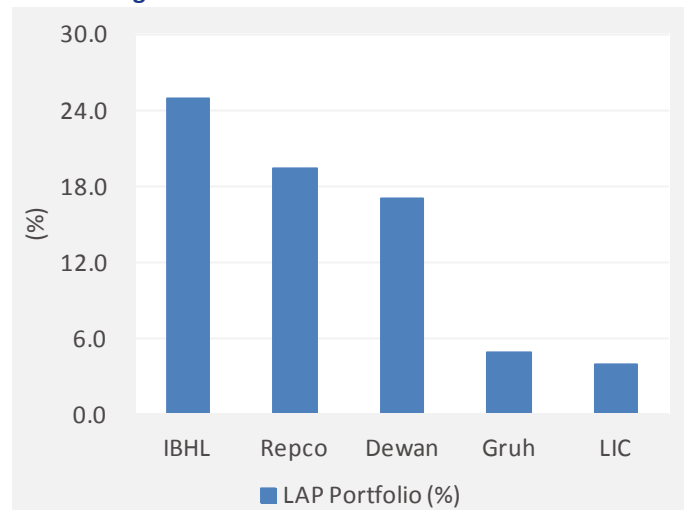
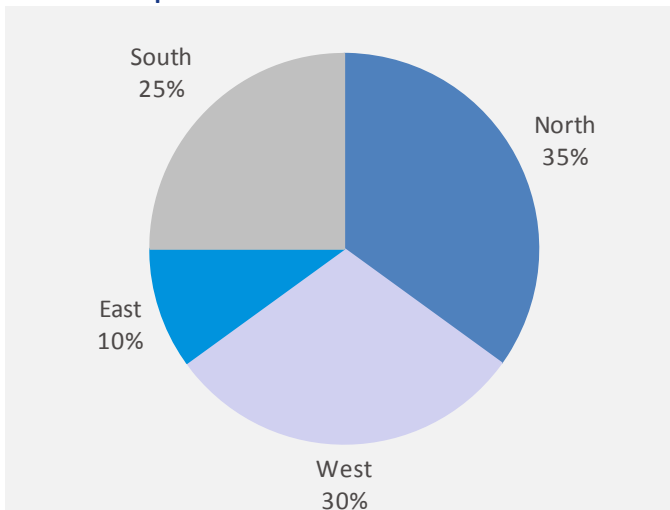
IHFL has a widespread distribution network and strong relationships (across the value chain), the company is on path to further bolster its share.

Capturing high-yield LAP segment astutely

Well-heeled to bolster market share

IHFL is an established LAP financier with AUM of INR105bn (FY14). According to CRISIL, of the total retail LAP market of INR1.0-1.5tn, HFCs enjoy 30% share and NBFCs 70%. Currently, LAP accounts for ~25% of the company’s AUM, leading to high single-digit market share (8-10% of structured market). Moreover, with 50% of the LAP market concentrated in the North and West (as per CRISIL estimates) where IHFL has a widespread distribution network and strong relationships (across the value chain), the company is on path to further bolster its share.

Chart 16: LAP portfolio concentrated in North and West where IHFL has strong distribution network



Source: Crisil, Company

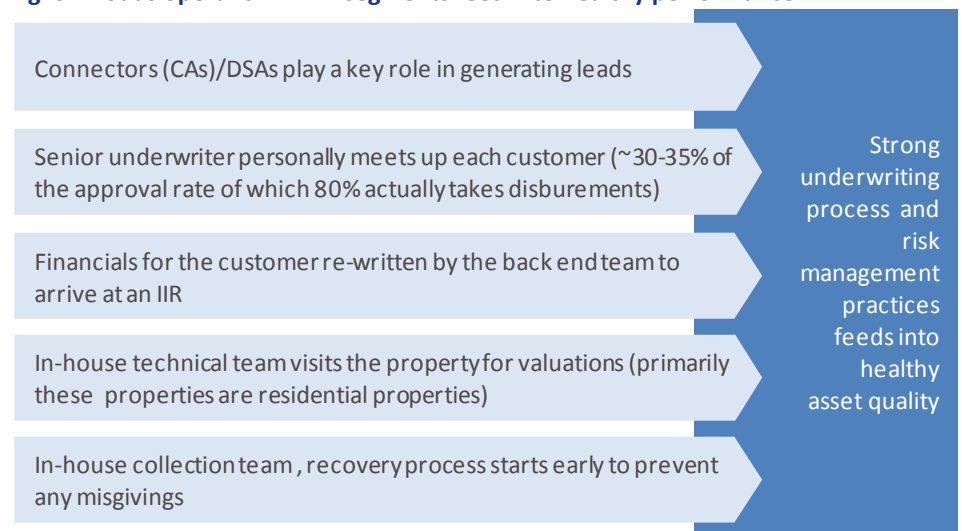
Clear differentiator is its key customer segments: SMEs, distributors and self-employed professionals. It does not service lower-end traders/shop owners (kirana stores)

Niche positioning lends cutting edge over competition

IHFL is a distinguished player in LAP segment owing to: 1) customer-centric model; 2) experienced personnel with strong underwriting skills; 3) draws on local knowledge to achieve faster turnaround time (<10 working days); 4) clear market segmentation; 5) strong relationships; and 6) established brand.

Primarily operating in metros and tier II cities (NCR region accounts for 21-22% of LAP portfolio, followed by Mumbai at 15%), IHFL operates from 25 master service centre hubs (MSCs) with clearly segmented markets. The company targets property worth INR15-20mn, which with 50% LTV translates in to ticket size of INR7mn, a segment which banks also cater to. However, clear differentiator is its key customer segments: SMEs, distributors and self-employed professionals. It does not service lower-end traders/shop owners (kirana stores) where the risk-reward is relatively high.

Fig. 3: Modus operandi in LAP segments feed into healthy performance



Source: Company

Gradual moves to tap high potential...

- LAP segment has high growth potential given: 1) demand environment for SME improves (funds required for business growth) as macros improve; 2) untapped markets concentrating on tier-II cities; and 3) incrementally, demand from self-employed professional segment is set to rise.
- There is huge untapped potential in this space, but management has been cherry picking low-risk customers and maintained sustainable growth rates of 18-20%. Management clearly indicated its market segmentation strategy is a winner and would extend it going ahead.

Management has been cherry picking low-risk customers and maintaining sustainable growth rates of 18-20%.

Fig. 4: Industry offers higher potential, however, IHFL has made clear segmentation

	* Huge opportunistic potential		* Not to go overboard (pick and choose customer base)
	* Untapped market of small trader self employed segment		* Not to focus on low ticket size players (viz. Kirana stores etc)
	* Potential galore in tier II/tier III cities		* Focus on expanding market in tier I (do not focus on property value of less than ~INR15mn)

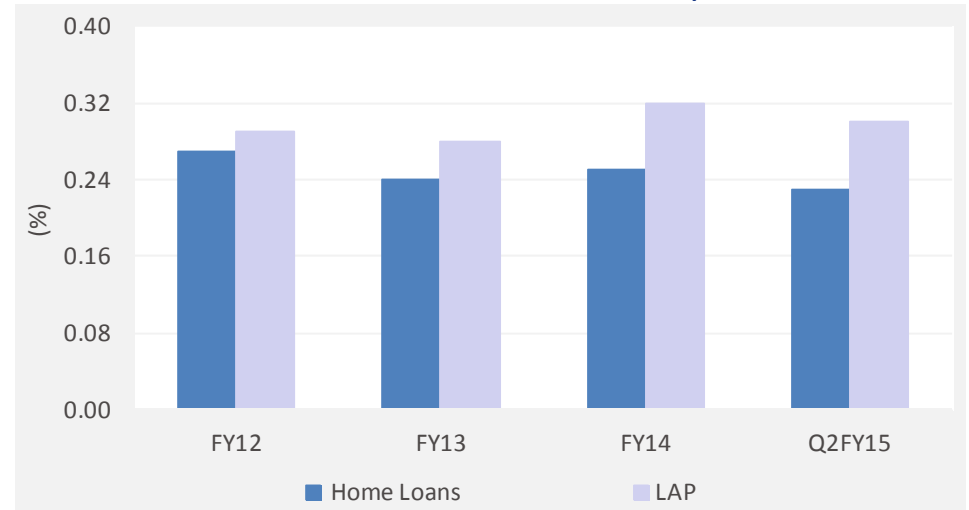
Source: Company

IHFL has been able to maintain asset quality in LAP segment—GNPLs at ~30bps (in line with home loan portfolio) in past 24-30 months

...in bid to contain asset quality at par with home loans

- Commendably, IHFL has been able to maintain asset quality in LAP segment—GNPLs at ~30bps in past 24-30 months. Inherent credit risks in LAP products are also lower due to: 1) lower LTVs at origination; 2) instalment to income ratio capped at 75-80% of visible cash flows; and 3) stringent appraisal, leading to mere 30-35% approval rate.

Chart 17: GNPLs in LAP well contained in line with home loan portfolio



Source: Company

The lone risk we visualise in this segment is the pressure on yields owing to heightened competition

Pressure on yields, only risk

- The lone risk we visualise in this segment is the pressure on yields owing to heightened competition. Reported yield on outstanding portfolio is upwards of 15%, though incremental loans are generated at an average yield of 13-14%, suggesting moderation by 100-150bps over next couple of years.

Management is in the quest to optimise yields and diversify risks by concentrating the portfolio around LRD (accounts for major 75% share)

Corporate mortgage loans: Focus on LRD, high-end developer loans

Corporate mortgage Loans is another high growth segment for IHFL (>25% CAGR in past 4 years) and has consistently constituted >20% of AUM. Here also management is in the quest to optimise yields and diversify risks by concentrating the portfolio around lease rental discounting (LRD; accounts for major 75% share) and residential construction financing.

LRD for marquee commercial properties at attractive rates upwards of 13%

- The company does not consider LRD where lease is upwards of INR60/sq ft/month. As a result, its portfolio is concentrated in Bengaluru, Chennai, Gurgaon, Pune and Vashi.
- The moderate rental rates and factoring in the investment made by the tenant is intrinsic, largely reduces the risk of vacancy solely for lower rents elsewhere.
- Moreover, LRD arrangement is chunky provided to high-end developers.
- The company primarily entertains arrangement for marquee commercial properties with high grade category tenants.
- Another key appraisal criteria is multiple tenants in a LRD building. This along with the rent to EMI cover ensures that a one-off vacancy doesn't impact EMI servicing rental cashflows.

Competitive edge helps it generate attractive rates, upwards of 13% in a highly competitive LRD loan includes:

- Entertains marquee projects of leading developers with strong established relationships.
- Allows flexibility to provide top-up loans in case of escalation during lease renewal.
- While it has not faced any major stress in this segment and has mitigants built in against key risk emerging from fall in rental yields and vacancy risk.

Residential construction financing involved lending to city centric residential projects

Residential construction finance constitutes 25% of corporate mortgage loan book, which involves lending to city centric residential projects with fast moving inventory. The financing is solely for construction with the investment in land representing the major equity investment of the developer. Being city centric the equity investment of the developer is significant and with the development solely mortgaged to IHFL, the value of land itself adequately covers the loan. Another key appraisal parameter is loan cover computed as the ratio of net receivables (net of future expenses) from sold units to the loan amount, should be atleast 1.2x (including unsold inventory the loan cover is typically upwards of 3x). Funding is restricted to 40% of construction cost and also focuses on execution track record of the developer, his reputation and relationship with existing banks and HFCs.

Well positioned to leverage on growth opportunities

The self-employed segment and LAP products are emerging long-term growth drivers for mortgage segment. IHFL with its: 1) pan-India presence; 2) diversified mortgage product offerings; and 3) strong foothold and branding will be able to leverage on these opportunities. Healthy CAR and lower net gearing with rising distribution/tie-ups will help it garner market share resulting in AUM growth of > 20% over FY14-17E.

Chart 18: Pan-India presence across tier-I/II/III cities to help capitalise on growth opportunities

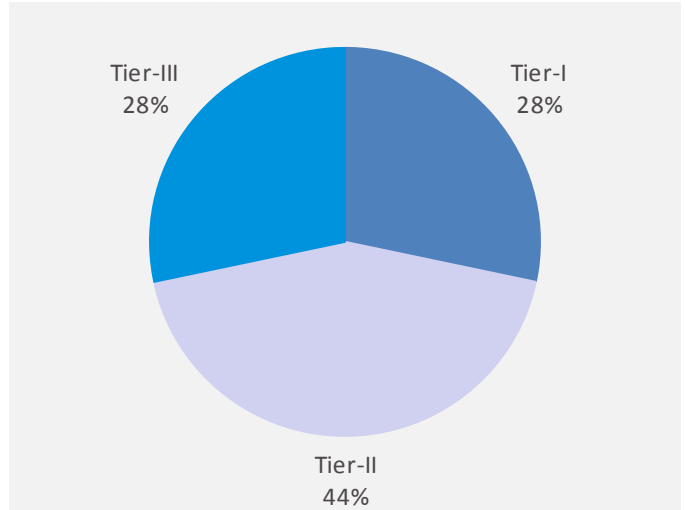
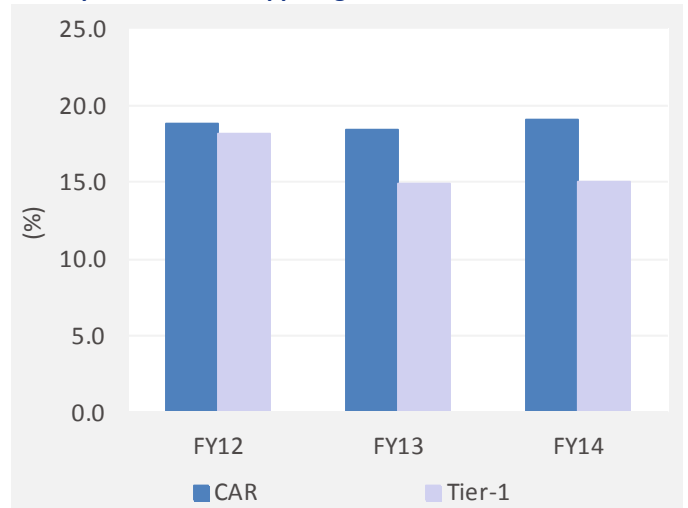
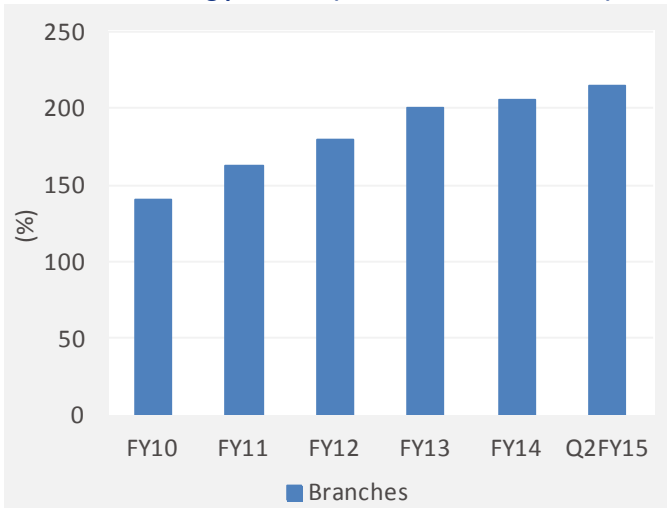


Chart 19: Increasing presence (to add 10-12% branches) and adequate capitalisation to support growth



Source: Company

Incremental business being generated is at 50-75bps lower than the reported yield in home loans and 100-150bps lower in LAP

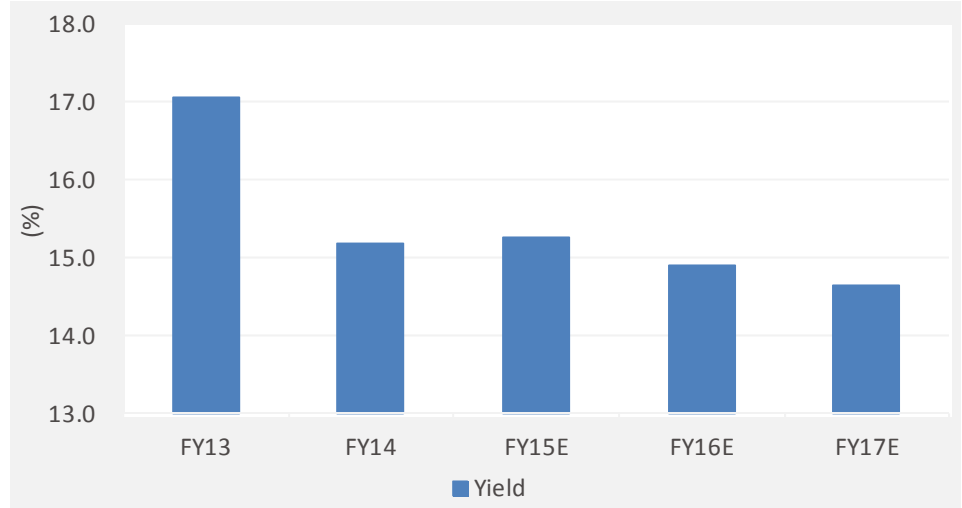
Yields under pressure; levers for funding cost improvement

Incremental business at lower yields to create pressure

IHFL has been reporting best-in-class yield of >15% over past 24-30 months backed by optimal product strategy (50% of its home loan portfolio fetched 11.5% yield with 15-16% for balance portfolio in LAP and corporate mortgage loans). With the objective to maintain stability in operating metrics, management does not expect to deviate from current product mix in the near future. However, incremental business being generated is at 50-75bps lower than the reported yield in home loans and 100-150bps lower in LAP. As a result, we expect yields to moderate by ~50bps over next couple of years.

Provide wider access to debt borrowing at relatively lower cost, which will help replace the higher cost bank borrowings

Chart 20: Rising competition and fall in interest rates to pressurise yields



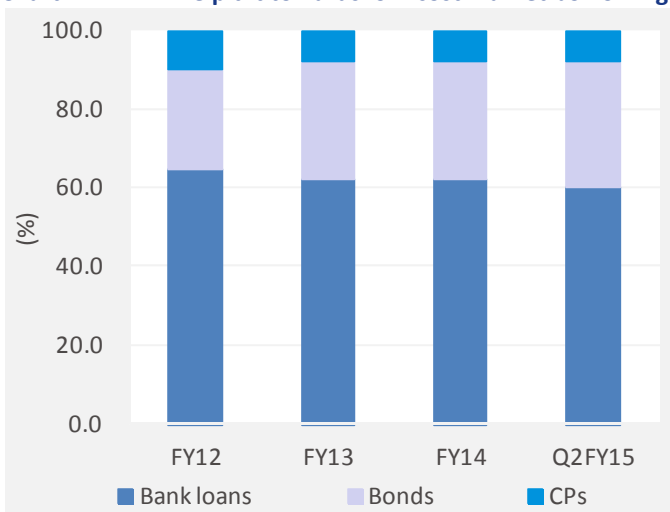
Ratings upgrade provides scope to diversify borrowing profile

Recent rating upgrades (CRISIL and ICRA have upgraded credit rating from AA to AA+ whereas CARE and Brickwork ratings has upgraded from AA+ to AAA) will provide wider access to debt borrowing at relatively lower cost, which will help replace the higher cost bank borrowings (bank loans account for >60% of total borrowing versus 48% in FY10). These rating upgrades will also help the company to manage ALM better with access to long-term resources.

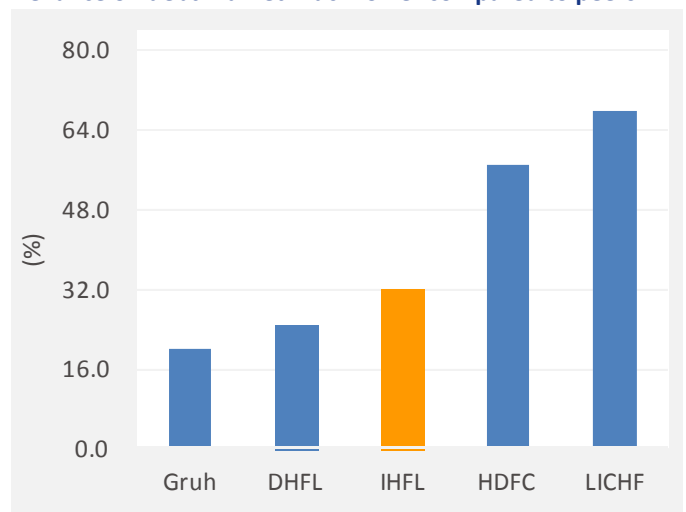
Table 1: Long-term ratings upgraded by rating agencies...

	Long Term Rating	Short Term Rating
CARE Ratings	AAA	
Brickwork Ratings	AAA	
CRISIL	AA+	A1+
ICRA	AA+	A1+
India Ratings & Research		A1+

Chart 21: ... will help tilt towards low-cost market borrowing



Reliance on debt market much lower compared to peers



Source: Company

Management plans to fund ~20-25% of incremental growth via securitisation/assignment route.

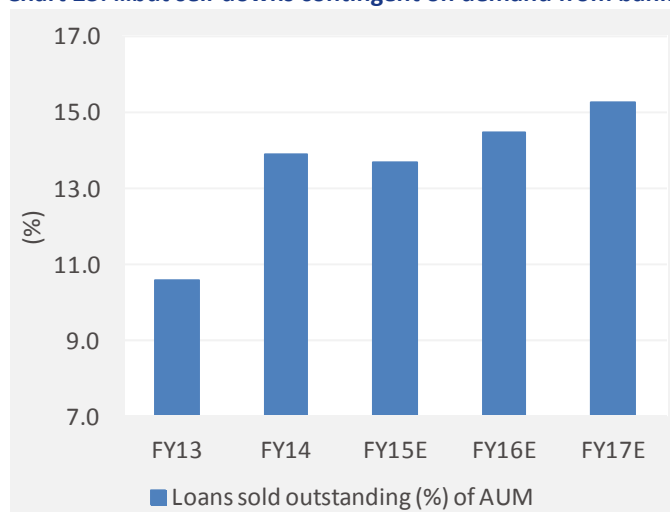
Active sell-downs to continue as 40% of book qualifies for PSL

With 40% of its LAP and 60% of its home loans qualifying for priority sector lending (PSL), IHFL has been actively selling down loans on consistent basis (off-book accounts for 14% of AUMs on which spread of 3.4% is to be earned over the loan tenor). Management plans to fund ~20-25% of incremental growth via securitisation/assignment route. Considering the declining demand from banks for buy-out portfolio along with few regulatory relaxations, we expect proportion of off-balance sheet book to gradually inch up to 15% by FY17E.

Chart 22: Significant portion of book qualifies for PSL...



Chart 23: ...but sell-downs contingent on demand from banks



Source: Company, Edelweiss research

Liquidity buffer to avoid volatility in NIMs

IHFL's conservative strategy aims to maintain adequate liquidity buffer in the balance sheet (consistently maintains cash equivalent to 20% of the portfolio). This is done with the inherent aim to meet any sudden funding shortage and reduce volatility in funding costs. Moreover, the company has low gearing and maintains healthy capital adequacy ratio with Tier I capital at 15%.

Chart 24: Higher liquidity buffer to avoid volatility in cost

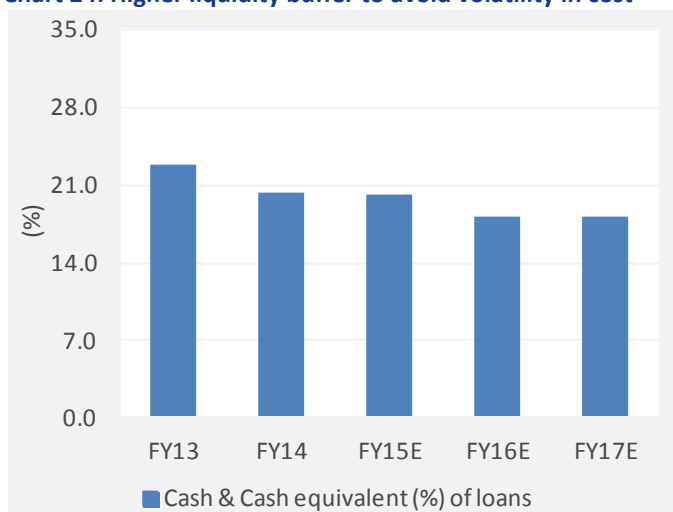
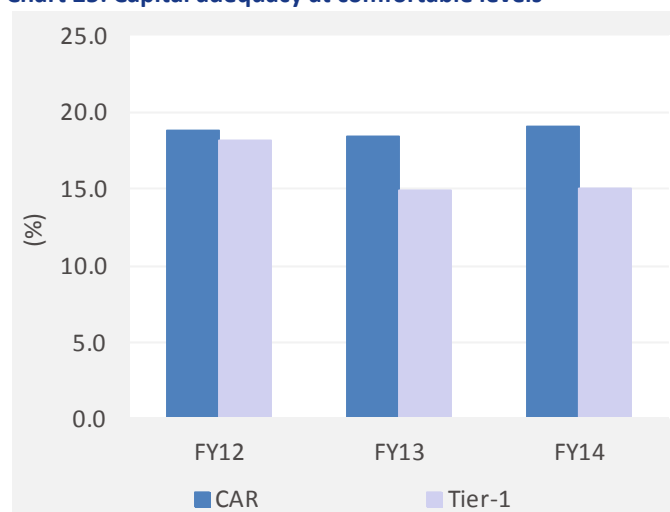
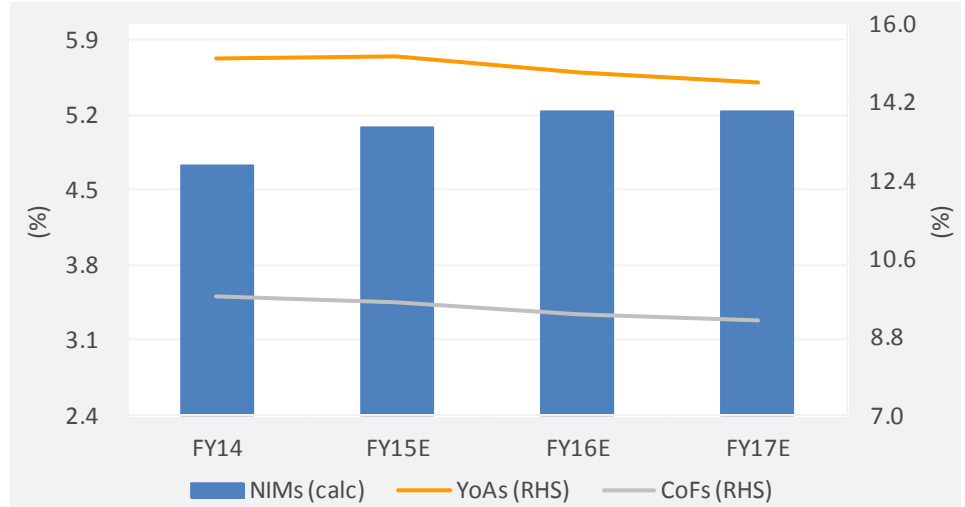


Chart 25: Capital adequacy at comfortable levels



Source: Company, Edelweiss research

Chart 26: Improving funding cost to offset yield pressure; NIMs to sustain



Source: Company, Edelweiss research

Home loans and LAP GNPLs are below 30bps—the best-in-class and even better than lead players like HDFC and LIC Housing

Historical baggage of CV loans leading to higher credit cost

The commercial vehicle (CV) loans portfolio, which is running off as the product has been discontinued, is a large contributor to the company’s NPA levels. In comparison, home loans and LAP GNPLs are below 30bps—the best-in-class and even better than lead players like HDFC and LIC Housing. Even in the high-yielding corporate mortgage loans’ segment, GNPLs are below 200bps. Currently, CV and corporate mortgage loans constitute >75% of GNPLs. However, the corporate mortgage loan NPLs are legacy accounts and do not contain any LRD or residential construction loans.

Levers for better asset quality include:

Higher proportion of in-house sourcing: Company has intentionally low reliance on marketing intermediaries and most of the leads are generated by in-house employees. This way the company has direct control over its clients which ensures quality of loans underwritten.

Lower loan-to-value (LTV), higher collateral for non-mortgage book: IHFL maintains average LTV of ~70% (at origination) for home loans and <50% for LAP, thereby cushioning against any fall in asset price. Moreover, healthy collateral for non-mortgage book and large provision pool of over INR5bn helps the company maintain stable asset quality.

Corporate mortgage loans book also concentrated around low-risk LRD: Though a significant portion of the company’s book is tilted towards corporate mortgage loans (>20%), what is comforting is that 75% of this is LRD where lease is lower than INR60/sq ft; the balance 25% is towards construction financing, which is largely to high-end developers.

We have conservatively built in higher stress in the company’s corporate mortgage loans and LAP portfolio and estimate GNPLs to rise from INR3.4bn (0.83%) in FY14 to INR7bn (0.95%) in FY17. IHFL has an exposure of INR6bn to *Palais Royale* (Mumbai’s tallest building located in Worli – developed by Shree Ram Urban Infrastructure), which is in the midst of a legal tussle pertaining to parking space and FSI violations; the matter is pending a Supreme Court decision. As per management, major part of the problem is resolved and the loan continues to service repayments.

Chart 27: GNPLs contained <1% after down-sizing riskier assets

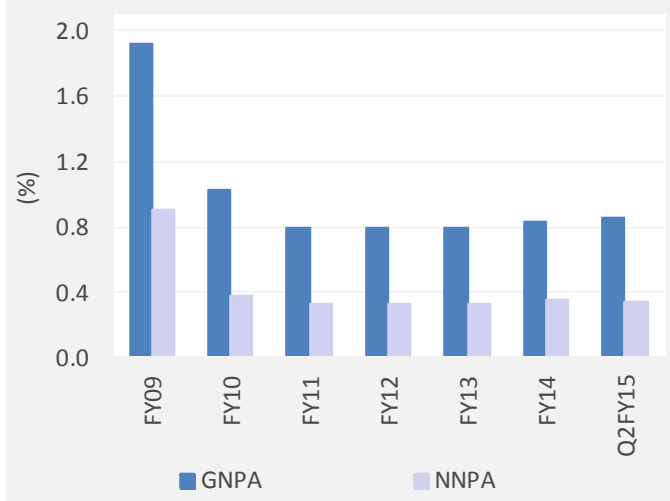


Chart 28: Credit costs capped at lower levels

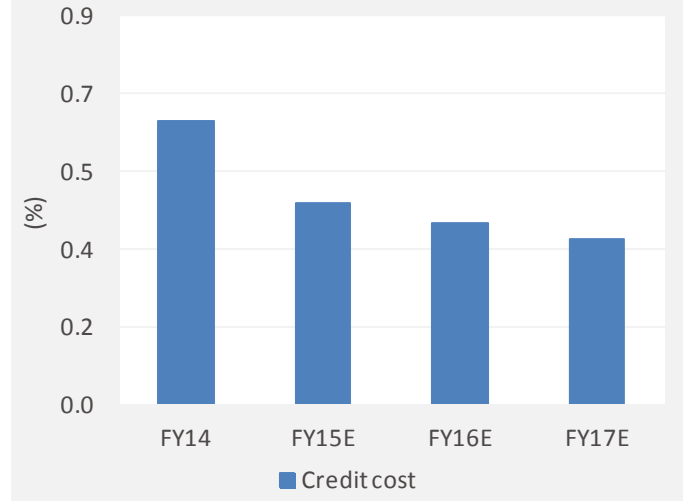


Chart 29: Higher proportion of in-house sourcing

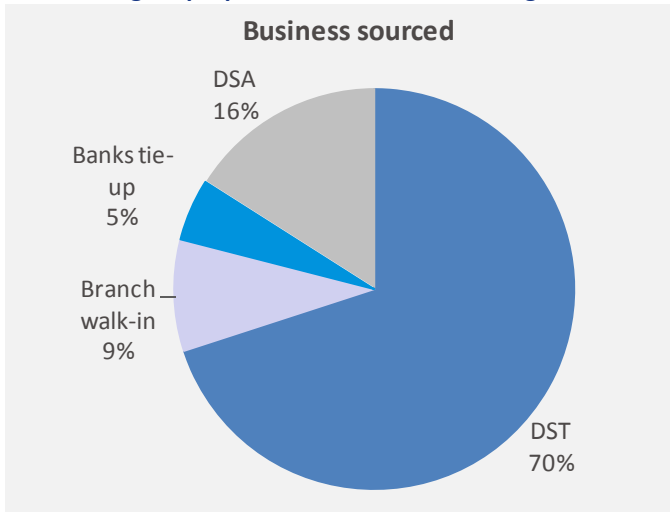


Chart 30: Asset quality at striking distance of best-in-class

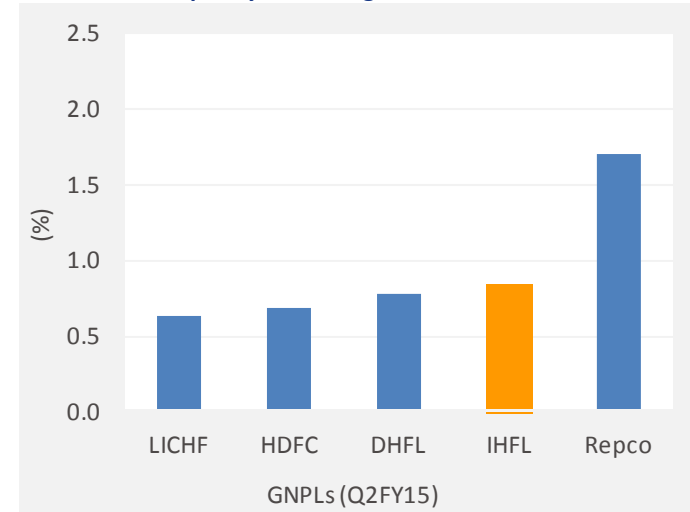
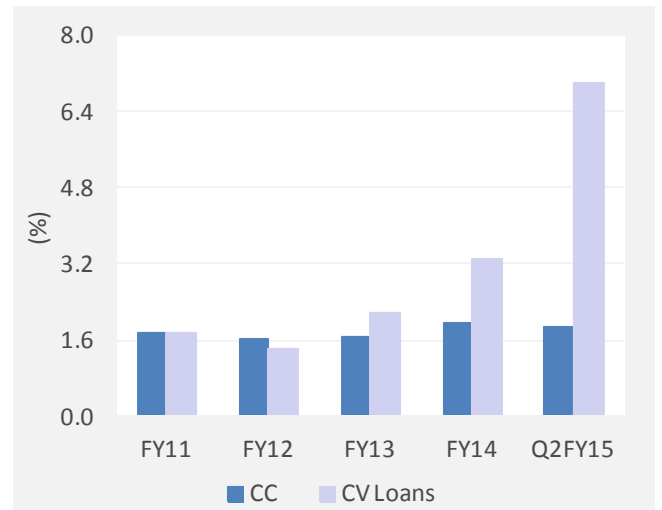
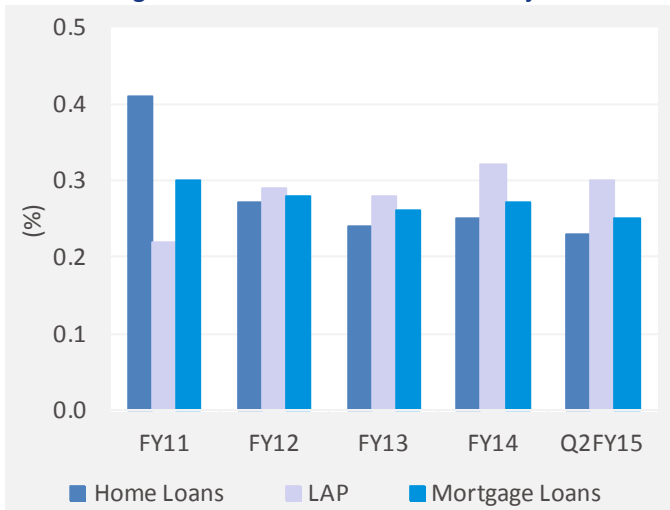


Chart 31: Segment-wise NPLs – CV loans the major contributor



Source: Company

Valuations

After down-sizing riskier assets (personal and business loans) post volatility in earnings and growth in FY09, IHFL has emerged much stronger and evolved to become a leading mortgage financier.

Certain characteristics imbibed into company's DNA...

- **Consistency in operating metrics:** After having built scale (fourth largest HFC with AUM of INR450bn), IHFL is focussed on building stability and quality in franchise.
- **Optimal business model:** Focused on both yield generators and asset quality stabilisers.
- **Adequate liquidity buffer and high capital adequacy:** In keeping with its conservative strategy, IHFL in the past 5 years has been consistently maintaining a liquid balance sheet (cash equivalent to 20% of portfolio) to avoid volatility in funding costs. The company has also been consistently maintaining much higher-than-required by regulations Tier 1 ratio at 15%.
- **High dividend yield of more than 6%.**

Coupled with structural levers...

- **Steady 20-25% asset growth:** Long-term structural growth drivers for the mortgage segment are in place with emerging opportunity in the self-employed segment and LAP. IHFL, with pan-India presence, diversified offerings, strong foothold and branding, will be able to leverage these opportunities.
- **Credit rating upgrades** to help it effectively diversify its borrowing profile and source longer duration liabilities.
- **Risk mitigants in place to manage asset quality:** In-house sourcing, lower LTV, limited portfolio concentration in corporate mortgage loans, customised appraisal, etc.

To sustain superior return ratios

We expect IHFL to sustain superior return ratios (RoA of 4%, RoEs of ~30%). However, lending yield is the only metric which we believe could face some pressure owing to intensifying competition and incremental business being done at relatively lower-than-reported book yield. However, the same will be offset by the above-mentioned positive triggers.

We believe IHFL is an attractive opportunity in India's mortgage finance industry, which besides scaling up AUMs to INR740bn, also endeavours to bring stability in its franchise and operating metrics and deliver consistent earnings growth. This will lead to further re-rating of the stock. Based on the Gordon growth model, we value the stock at 3.1x FY16E adjusted book. We initiate coverage with '**BUY/Sector Outperformer**' recommendation/rating and target price of INR653.

IHFL is an attractive opportunity in India's mortgage finance industry, which besides scaling up AUMs to INR740bn, also endeavours to bring stability in its franchise and operating metrics and deliver consistent earnings growth.

Table 2: Assumptions for Gordon growth model

Risk free rate	8.0
Equity risk premium	4.0
Beta	1.3
Cost of equity	13.4

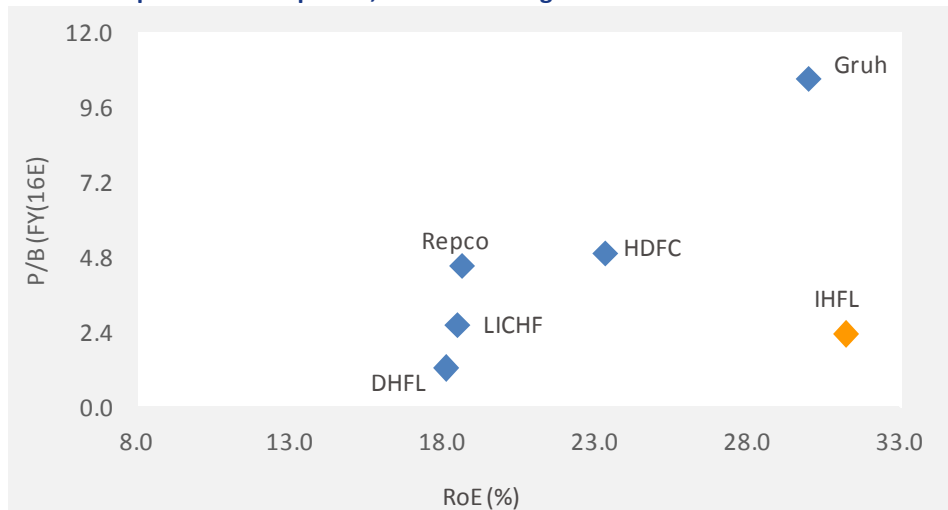
Growth assumptions	Years	Rate
Explicit forecast period	2	
Time to reach HG period/End of explicit period ROE	3	31.6
High economic return period & ROE	3	26.0
Transitory period	5	
Time to reach stable period	13	
Stable ROE		23.0
Terminal growth rate (RI)		6.0

Table 3: Intrinsic value calculation

Intrinsic value	(INR mn)
Book Value	67,451
Sum of Discounted RI	102,130
PV of Continuing value	69,166
Equity Value	238,747
No. of shares O/S	366
Intrinsic value/share	653

Source: Edelweiss research

Chart 32: Superior returns profile, but still trading at a discount



Source: Company

Chart 33: Despite recent run-up, still lot of potential for re-rating



Source: Company

Table 4: Peer comparison

Company	CMP (INR)	Mcap (INR bn)	AUMs/Loans (H1FY15- INR bn)					FY15 (x)		FY16 (x)	
			CAR	ROA	ROE	GNPA	P/E	P/B	P/E	P/B	
HDFC	1,113	1,750	2,326	17.9	2.8	30.0#	0.7	25.3	5.9	21.6	4.9
LICHF	473	239	975	16.3	1.6	19.9	0.6	17.3	3.0	15.3	2.6
Indiabulls Housing	496	176	450	19.1	4.0	28.0	0.9	9.4	2.6	8.0	2.3
Dewan Housing Finance	427	55	494	16.2	1.4	16.0	0.8	8.7	1.3	6.9	1.2
Gruh Finance	294	107	79	16.7	3.0	32.0	0.4	37.6	14.1	30.1	10.5
Repco Home Finance	698	44	52	21.9	2.6	16.8	1.7	33.5	5.3	26.3	4.5
GIC Housing Finance	271	15	59	17.3*	1.7	17.0	1.4	13.5	2.1	11.6	1.9
Can Fin Homes	657	13	70	13.8*	1.5	17.0	0.3	15.3	2.5	12.1	2.1

Source: Bloomberg, Edelweiss research

Note: # core RoEs and * As of FY14

Key Risks

Slowdown in real estate sector

Any slowdown in the real estate sector will adversely hit growth and earnings. It will also impact the default rates and recoverability in the event of default.

Regulatory risks

Adverse regulatory changes like increase in risk weights, cap on the interest spread under refinance schemes, etc., can impact IHFL's growth and profitability. Changes in the terms and eligibility conditions of the refinance schemes can also impact margins.

High-yield businesses susceptible to risks too

The self-employed category accounts for ~15% of IHFL's portfolio, 25% by LAP and 7-9% by construction financing. This indicates the company's high asset quality risks as these borrower segments are susceptible to volatile income stream.

Concerns about related party transactions overblown

The Indiabulls group has business interests in diversified sectors including real estate, securities, etc. Generally, HFCs with related companies in real estate development space are viewed with skepticism by investors. However, our interaction with IHFL's management potentially alleviated such concerns to a large extent. Management highlighted only three related party transactions have been executed:

- Acquired commercial space in Indiabulls Blue for INR3.15bn;
- Pays rent to Indiabulls Real Estate for occupying office space in Indiabulls Finance Centre; and
- Provides loans to the customers of Indiabulls Real Estate (exposure limited to INR7bn).



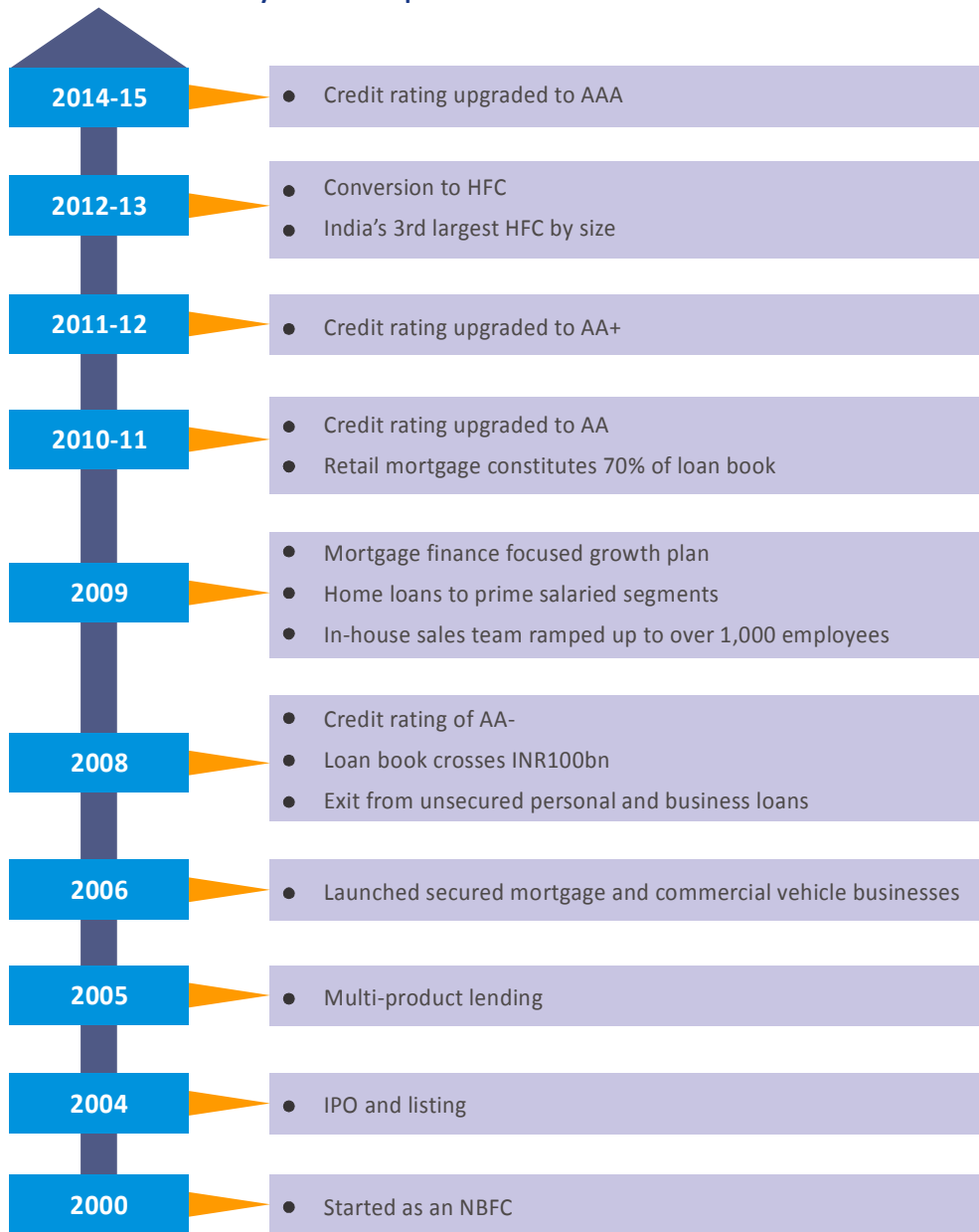
"The reorganisation is an attempt to ring-fence the group's housing finance company against "contagion risks of any other business (namely, power and infrastructure), besides bringing in specialised focus towards the real estate business"

–Sameer Gehlaut,
Chairman
Indiabulls Housing Finance

Company Description

IHFL is the fourth largest housing finance company in India with AUM of INR450bn. It was established as a wholly-owned subsidiary of Indiabulls Financial Services (IBFSL), a leading non-banking financial firm providing home loans, commercial vehicle loans and business loans that was established in 2000. In early 2013, keeping with IHFL’s long-term commitment to the housing finance business, the company was reversed-merged into its housing finance subsidiary IHFL. IHFL offers a broad suite of lending and other financial products to target client base of middle and upper-middle income individuals and small- and medium-sized enterprises, or SMEs. It has presence across 200+ locations across India and in house sales team of sourcing agents.

Fig. 5: Business model has evolved over years with experience





Source: Company


Management Overview


Fig. 6: Strong executive management team alongwith high profile independent directors





- 


Mr. Sameer Gehlaut - Chairman
Mr. Gehlaut has been the Chairman of the Board
- 


Mr. Gagan Banga - Vice-Chairman, MD & CEO
Mr. Banga holds MBA degree and has 15 years of industry experience. He also serves on boards of various other companies.
- 


Mr. K.C.Chakrabarty - Director
Mr. Chakrabarty, a seasoned and accomplished banker, has more than three decades of work experience with his last role as Deputy Governor of Reserve Bank of India.
- 


Mr. Surinder Singh Nijjar - Director
Mr. Nijjar has earlier served as retired justice at Supreme Court of India.
- 


Mr. Bisheshwar Prasad Singh - Director
Mr. Singh has earlier served as retired justice at Supreme Court of India.
- 

Ms. Manjari Kacker - Director
Ms. Kacker has served as former member of Central Board of Direct Taxes.
- 

Mr. Labh Singh Sitara - Director
Mr. Sitara has served in Indian Army. He has also been conferred with the Dhyan Chand Award by the President of India.
- 

Mr. Samsher Singh Ahlawat - Director
Mr. Ahlawat has over 20 years of banking experience with senior management positions.
- 

Mr. Prem Prakash Mirdha - Director
Mr. Mirdha has hails from a business background with an expertise in the SME sector.
- 

Mr. Ashwini Kumar Hooda - Director
Mr. Hooda serves as Deputy MD.
- 

Mr. Ajit Kumar Mittal - Director
Mr. Mittal has Master's degree in Economics and is an MBA from University of Illinois, U.S.A. He has worked for more than twenty years at the Reserve Bank of India (RBI) and has been at the forefront of macroeconomic and financial sector issues. He has been with Indiabulls Housing for over 7 years now.

Source: Company

Banking and Financial Services

Table 5: Subsidiary information (INR mn)

Name of the Subsidiary	Percentage Holding (%)	NW		Total Assets		Turnover		PAT	
		FY14	FY13	FY14	FY13	FY14	FY13	FY14	FY13
Indiabulls Collection Agency	100	163	150	96	14	16	16	13	12
Indiabulls Sales	100	14	5	32	29	173	131	9	3
Indiabulls Insurance Advisors	100	(1,039)	(1,044)	7	32	6	3	4	2
Nilgiri Financial Consultants	100	65	57	36	39	10	7	8	6
Indiabulls Finance Company Private	100	3,694	3,366	8,342	4,098	779	436	327	272
Indiabulls Capital Services	100	(105)	(107)	54	92	5	10	2	5
Indiabulls Infrastructure Credit	100	3,169	2,947	14,042	4,816	1,741	117	245	75
Indiabulls Advisory Services	100	56	52	30	5	5	5	4	1
Indiabulls Asset Holding Company	100	(0)	(0)	0	0	-	-	(0)	(0)
Indiabulls Life Insurance Company	100	(47)	(44)	2	2	-	-	(4)	(6)
Indiabulls Asset Management Company	100	169	134	48	43	43	80	(29)	(1)
Indiabulls Trustee Company	100	6	6	6	6	1	1	0	0
Indiabulls Holdings	100	1	1	0	0	-	0	(0)	(0)
Indiabulls Venture Capital Management Company	100	0	0	0	0	-	0	(0)	(0)
Indiabulls Venture Capital Trustee Company	100	0	0	0	0	-	0	(0)	(0)
Indiabulls Asset Reconstruction Company	75	76	72	43	5	5	6	4	4
Indiabulls Alternative Asset Management Company	100	-	-	-	-	1	-	1	-

Source: Company

Note: IICL and IFCPL consists of erstwhile Commercial Vehicle (CV) and non-housing loans

Industry Overview

Fig. 7: Mortgage Finance - A space to be in

Characteristics of mortgage space	<ul style="list-style-type: none"> ✓ Salaried segment over serviced leading to high competition ✓ No switching costs resulting in thin lending rate differential ✓ Lending concentrated in few states and cities within respective states
New growth catalysts	<ul style="list-style-type: none"> ✓ Opportunities galore in under-serviced segments: Self-employed (50% of India's workforce) and LAP ✓ Deeper penetration into tier II/III cities; states like MP, Rajasthan, Chattisgarh, WB, UP offer huge potential
Government & regulatory incentives	<ul style="list-style-type: none"> ✓ Government support: Housing for all by 2022, 100 smart cities, REITs ✓ Regulatory incentives: Viability gap funding, limit raised for PSL credit/affordable housing, NHB refinancing
Game of scale	<ul style="list-style-type: none"> ✓ With no swiching cost, cost advantage becomes critical determinant in housing finance ✓ Prefer players that can leverage on opportunity to build scale in low-ticket segments

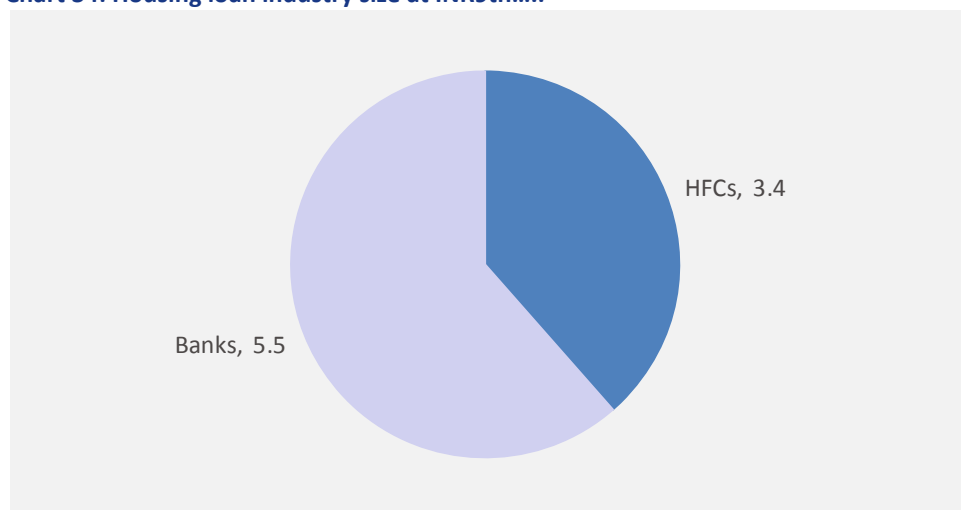
Source: Edelweiss research

Mortgage finance: Continuously evolving space

Mortgage finance space has been continuously evolving over the past decade. The key characteristics that shaped up the mortgage financing space over FY03-14 were

- Salaried segment was over serviced, leading to higher competition
- Banks' incremental focus led to aggressive pricing
- With waiver of prepayment penalty, lending rate differential between financiers became thin (less than 50bps)

Chart 34: Housing loan industry size at INR9tn.....



Source: NHB, RBI

Chart 35: HFCs outpaced overall banking growth

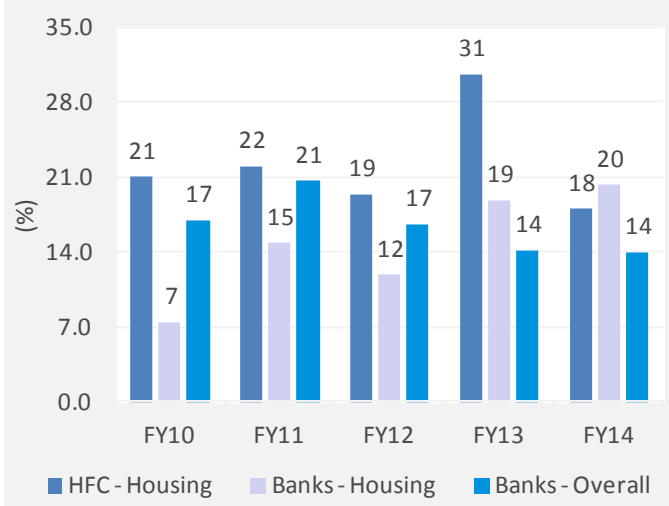
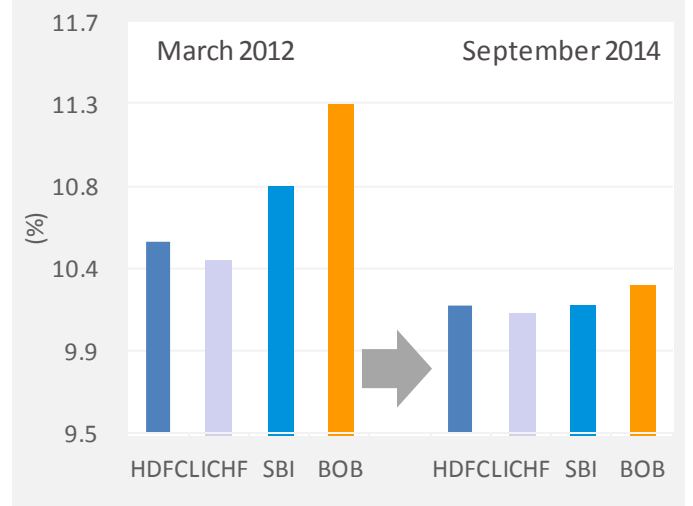


Chart 36: Intense competition lowering yield differential



Source: NHB, RBI, Company

Structural growth drivers

Mortgage finance market offers a large opportunity landscape for both banks as well as HFCs – largely a derivative of 1) lower penetration level of mortgage financing vis-à-vis other countries 2) rising urbanization 3) Acute housing shortage 4) favorable demographics and 5) Regulatory/ government support among others.

Chart 37: Indian houses relatively unlevered

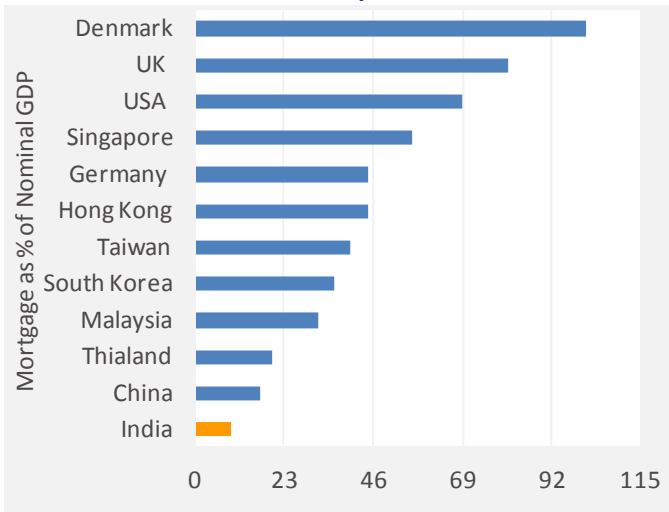
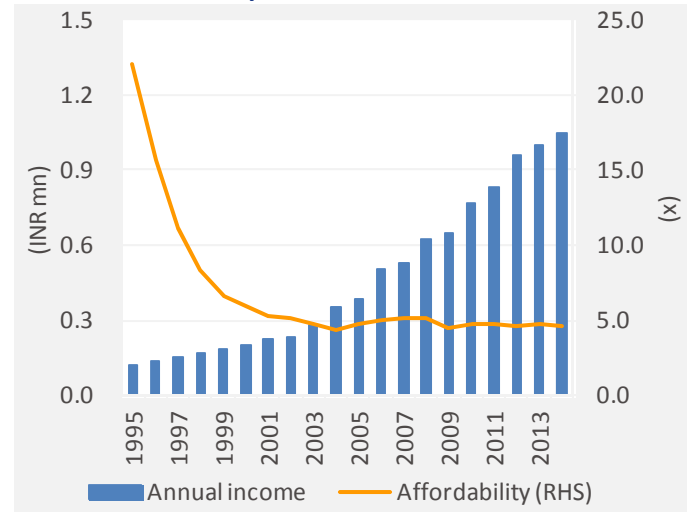


Chart 38: Affordability comfortable



Source: NHB, Company

Chart 39: Rising urbanisation to drive demand

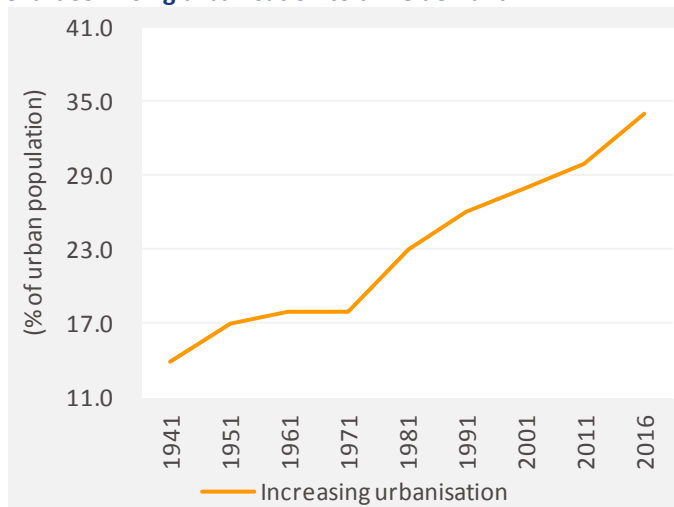
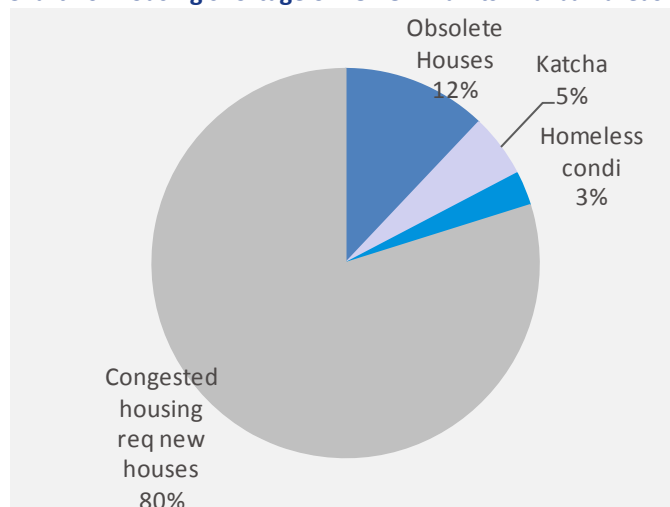


Chart 40: Housing shortage of 18.78mn units in urban areas



Source: NHB

New growth catalyst in pace

In conjunction to the structural drivers in place we foresee newer growth catalyst emerging in form of 1) under penetrated locations (viz tier II / III cities) and 2) arising needs of new customer segment (self employed and LAP) will be major growth catalyst. This along with government and regulatory support will provide stable growth for mortgage finance players.

Traction to increase for LAP where IHFL is market leader

LAP segment has high growth potential given: 1) demand environment for SME improves (funds required for business growth) as macros improve; 2) untapped markets concentrating on tier II cities; and 3) incrementally, demand from self-employed professional segment is set to rise. The risk factors in LAP is much lower, given shorter average duration (5-7 years for LAP versus about 10-15 years for home loans); higher yields capturing risk profile (12-14% LAP yields versus about 10-11% for home loans) and lower LTVs at origination (50-55% versus nearly 60-70% for home loans). Hence, we believe inherent credit risk is much lower for LAP products versus home loans. Currently, company has 8-10% of structured market. Moreover, with 50% of the LAP market concentrated in the North and West (as per CRISIL estimates) where IHFL has a widespread distribution network and strong relationships (across the value chain), the company is on path to further bolster its share.

Table 6: Operational characteristics of loan against property (LAP) and home loans (HL)

	LAP	HL		LAP	HL
ATS	INR5-6mn	INR1.0-2.0mn	Loan rates (%)	12-14%	10-11%
Tenure at origination	5 years mostly, 10 at most	15-20 years mostly, 30 at most	GNPLs	Marginally higher than HLs	Lowest among other asset classes
Actual Tenure	3-5 years	7-9 years	Credit losses	Comparable to HLs following adequate collateral	Lowest among other asset classes
Maximum LTV (at origination)	Based on market value - Residential: 55% - Commercial: 50%	>75%	Profitability	Higher yields and comparable credit cost feeds into higher profitability	RoAs of 1.5-1.6%
Nature of customer	Mostly self-employed	Mostly salaried			
End Use	Mostly business use	Buying property			

Source: Crisil, Edelweiss research

Financial Outlook

Healthy CAR and lower net gearing with rising distribution/tie-ups will help it garner market share.

AUM to clock 20% CAGR over FY14-17E

The self-employed segment and LAP products are emerging long-term growth drivers for mortgage segment. IHFL with its pan-India presence, diversified offerings and strong foothold will be able to leverage on these opportunities. Healthy CAR with rising distribution will help it garner market share. Going forward, we expect disbursements to increase at 23% CAGR over FY14-17E from INR140bn to INR265bn, thereby supporting AUM growth of 22%.

Chart 41: Healthy disbursement growth with steady repayments

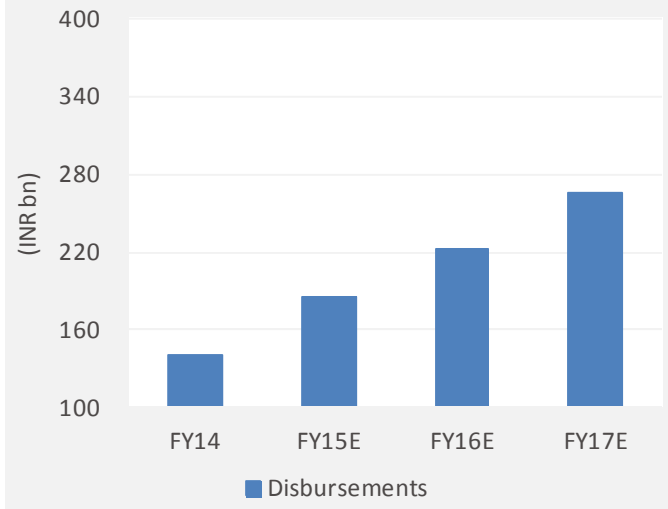
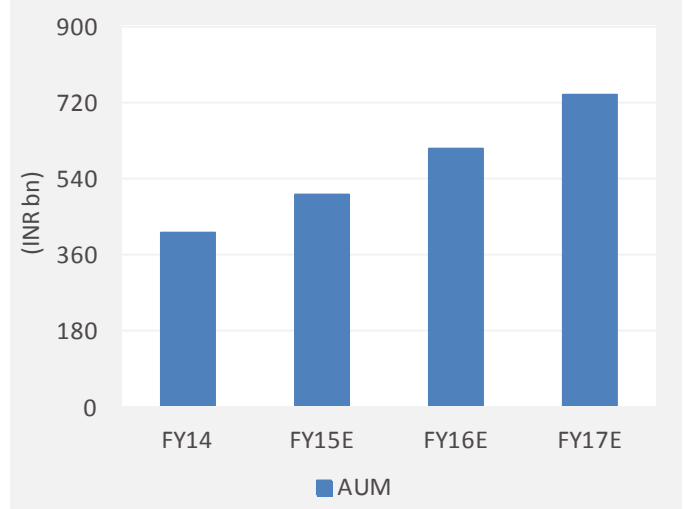


Chart 42: ...will feed into AUM CAGR of >20%

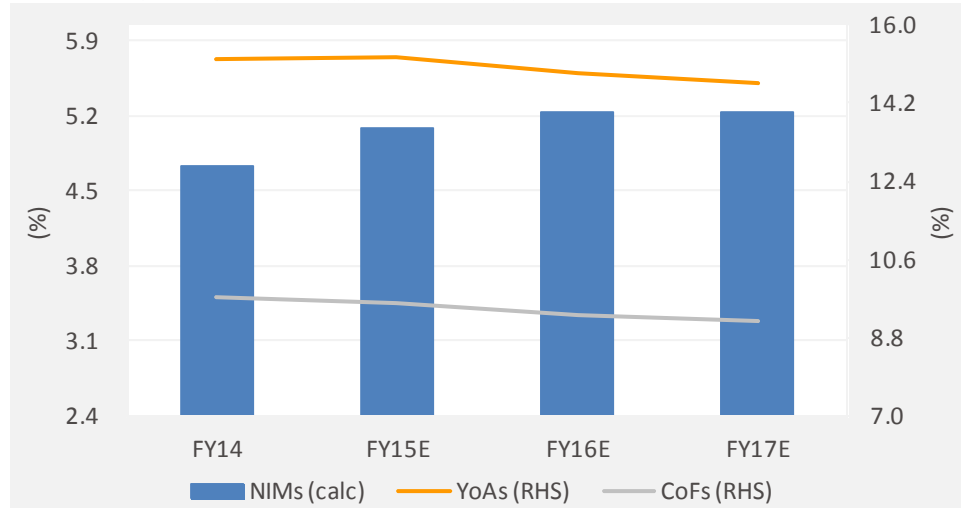


IHFL would resort to active sell-downs funding ~25-35% of incremental growth via assignment route. Balance sheet liquidity with low gearing will further support NIMs

Yields under pressure; levers for funding cost improvement

With incremental business being generated at 50-75bps lower than reported yield in home loans and 100-150bps lower in LAP, we expect yields to moderate by ~50bps. However, this will be partially offset by recent ratings upgrades bringing down funding cost. IHFL would resort to active sell-downs funding ~25-35% of incremental growth via assignment route. Balance sheet liquidity with low gearing will further support NIMs >5% levels.

Chart 43: Improving borrowing profile will help sustain best-in-class NIMs



Source: Company, Edelweiss research

Conservatively building in higher credit cost

We have conservatively built in higher stress in the company's corporate mortgage loans and LAP portfolio and estimate GNPLs to rise from INR3.4bn (0.83%) in FY14 to INR7bn (0.92%) in FY17.

Chart 44: Conservatively building in higher GNPLs...

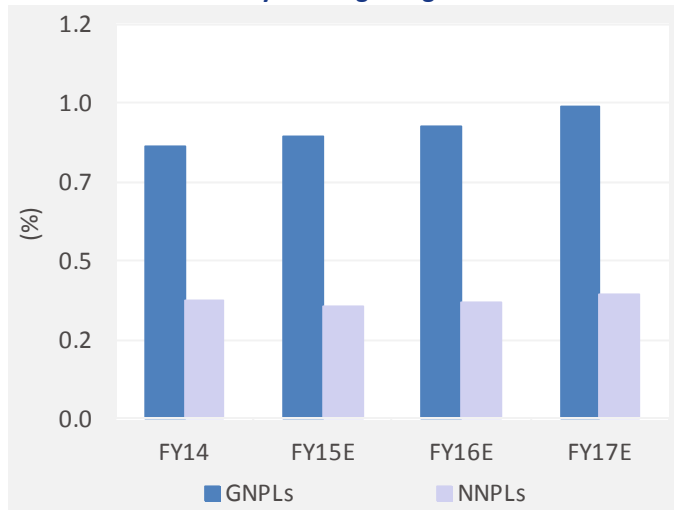
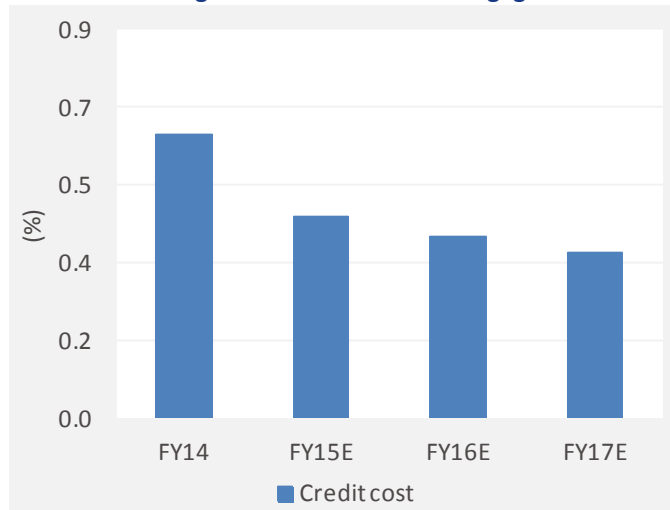


Chart 45: ...and higher credit cost from mortgage book



Source: Company, Edelweiss research

Company would continue to have zero coupon bonds of INR18-20bn on balance sheet, cost of which will be knocked off from net worth (post tax impact of INR1.8-1.9bn)

PAT to record >20% CAGR over FY14-17E

Above positive indicators, coupled with improved operating leverage benefits, will drive earnings CAGR of 20% plus over FY14-17E. On culmination of these, we expect RoA to inch up to 4% and RoE to ~30% (highest among mortgage finance companies) by FY17. However, company would continue to have zero coupon bonds of INR18-20bn on balance sheet, cost of which will be knocked off from net worth (post tax impact of INR1.8-1.9bn).

Chart 46: Consistent earnings growth...

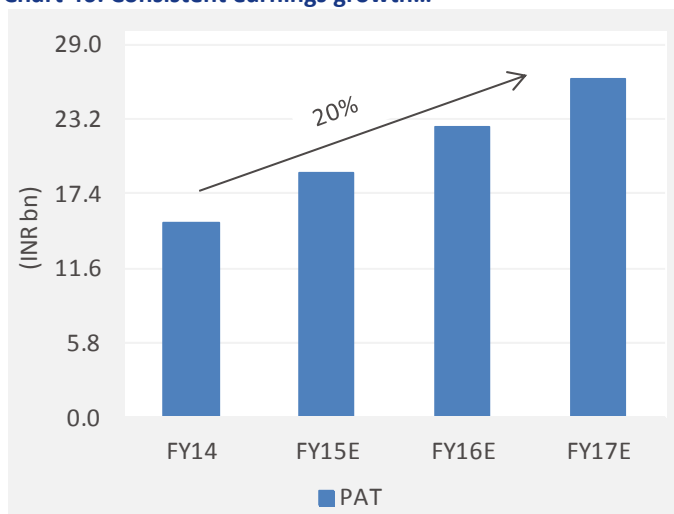
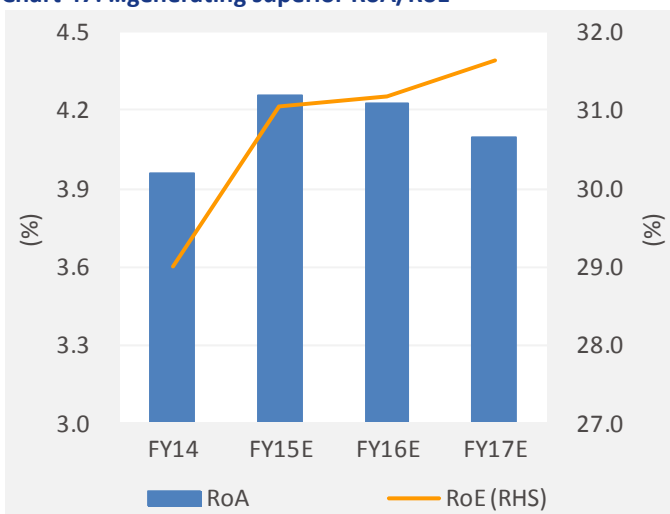


Chart 47: ...generating superior RoA/RoE



Source: Company, Edelweiss research

Financial Statements

Key assumptions				
Year to March	FY14	FY15E	FY16E	FY17E
GDP (Y-o-Y%)	4.7	5.4	6.3	7.3
Inflation (Avg)	9.5	6.8	5.5	5.5
Repo rate (exit rate)	8.0	7.8	6.8	6.3
USD/INR (Avg)	60.5	61.0	62.0	62.0
Credit growth (%)	14.0	16.0	18.0	18.0
Bank's base rate (%)	9.5	9.3	9.2	9.2
Wholesale borrowing cost (%)	8.7	8.5	8.3	8.3
G-sec yield (%)	7.6	7.5	7.4	7.4
Operating metric assumptions (%)				
Yield on advances	15.2	15.3	14.9	14.6
Cost of funds	9.7	9.6	9.3	9.2
Spread	5.4	5.6	5.6	5.5
Employee cost growth	8.3	31.2	16.4	13.3
Other opex growth	(24.6)	19.5	17.1	17.2
Tax rate	20.6	23.0	25.0	27.0
Dividend payout	64.0	45.0	45.0	45.0
Balance sheet assumption (%)				
Disbursement growth	(8.2)	32.3	19.7	18.9
Repayment/prepayment rate	21.2	22.6	22.7	22.6
Gross NPLs	0.8	0.9	0.9	0.9
Net NPLs	0.4	0.3	0.4	0.4
Provisioning coverage	0.6	0.6	0.6	0.6

Income statement					(INR mn)
Year to March	FY14	FY15E	FY16E	FY17E	
Interest income	50,159	59,514	70,931	84,269	
Interest charges	32,323	37,122	43,173	51,077	
Net interest income	17,837	22,392	27,758	33,191	
Fee & other income	2,082	2,406	2,968	3,622	
Other Income	5,313	6,628	7,245	7,961	
Net revenues	25,232	31,426	37,970	44,774	
Operating expense	3,514	4,457	5,196	5,954	
- Employee exp	2,206	2,894	3,369	3,818	
- Depreciation /amortisation	77	90	102	114	
- Other opex	1,232	1,473	1,725	2,021	
Provision profit	21,718	26,969	32,774	38,820	
Provisions	2,710	2,349	2,587	2,830	
PBT	19,008	24,620	30,188	35,991	
Taxes	3,908	5,663	7,547	9,718	
PAT	15,100	18,957	22,641	26,273	
Reported PAT	15,093	18,957	22,641	26,273	
Basic number of shares (mn)	334	359	366	366	
Basic EPS (INR)	46.3	52.8	61.9	71.8	
Diluted number of shares (mn)	329.5	359.1	365.8	365.8	
Diluted EPS (INR)	45.8	52.8	61.9	71.8	
DPS (INR)	29.3	23.8	27.9	32.3	
Payout ratio (%)	64.0	45.0	45.0	45.0	

Growth ratios (%)				
Year to March	FY14	FY15E	FY16E	FY17E
Operating income growth	10.2	25.5	24.0	19.6
Net revenues growth	20.0	24.5	20.8	17.9
Opex growth	(6.6)	26.8	16.6	14.6
PPP growth	25.8	24.2	21.5	18.4
Provisions growth	121.6	(13.3)	10.1	9.4
PAT growth	23.0	25.5	19.4	16.0

Operating ratios (%)				
Year to March	FY14	FY15E	FY16E	FY17E
Yield on advances	15.2	15.3	14.9	14.6
Cost of funds	9.7	9.6	9.3	9.2
Spread	5.4	5.6	5.6	5.5
Net interest margins	4.7	5.0	5.2	5.2
Cost-income	13.9	14.2	13.7	13.3
Tax rate	20.6	23.0	25.0	27.0

Balance Sheet		(INR mn)			
As on 31st March	FY14	FY15E	FY16E	FY17E	
Share capital	668	718	732	732	
Revenue and surplus	54,004	66,733	77,058	87,600	
Shareholder fund	54,672	67,451	77,789	88,331	
Long term borrowings	199,046	231,532	275,783	333,630	
Short term borrowings	164,788	191,682	228,317	276,207	
Loan funds	363,834	423,214	504,099	609,837	
Deferred tax liability/asset	(1,794)	(563)	946	2,746	
Sources of funds	416,712	490,102	582,835	700,914	
Total net fixed assets	460	520	568	604	
Non current investments	6,021	7,654	8,382	9,175	
Current investments	28,893	30,614	33,529	36,698	
Cash and cash equivalents	42,997	55,340	59,426	74,299	
Loans & advances	350,610	429,793	522,005	629,687	
Other assets	6	6	7	7	
Total current assets (ex cash)	422,506	515,753	614,967	740,692	
Other current liab. & prov.	12,276	33,825	41,082	49,557	
Total current liab. & prov.	12,276	33,825	41,082	49,557	
Net current assets (ex cash)	410,230	481,928	573,885	691,136	
Application of funds	416,712	490,102	582,835	700,914	
Earning assets	400,934	489,582	582,267	700,310	
Disbursements	140,540	185,979	222,684	264,832	
AUM	411,690	504,667	612,943	739,385	
- On book	354,445	435,612	524,372	626,423	
- Off-book	57,245	69,055	88,571	112,962	
Total borrowing	405,762	492,269	592,670	722,799	
Balance sheet ratios (%)					
AUM growth	19.6	22.6	21.5	20.6	
-On Book growth	15.1	22.9	20.4	19.5	
-Off Book growth	57.1	20.6	28.3	27.5	
EA growth	10.8	22.1	18.9	20.3	
Disbursement growth	(8.2)	32.3	19.7	18.9	
Gross NPA ratio	0.8	0.9	0.9	0.9	
Net NPA ratio	0.4	0.3	0.4	0.4	
Gross NPAs	3,417	4,322	5,442	7,010	
Net NPAs	1,473	1,729	2,177	2,804	
Provision coverage	56.6	60.0	60.0	60.0	

RoE decomposition (%)		FY14	FY15E	FY16E	FY17E
Year to March					
Net interest income/Assets		4.7	5.0	5.2	5.2
Other Income/Assets		1.9	2.0	1.9	1.8
Net revenues/Assets		6.6	7.1	7.1	7.0
Operating expense/Assets		0.9	1.0	1.0	0.9
Provisions/Assets		0.7	0.5	0.5	0.4
Taxes/Assets		1.0	1.3	1.4	1.5
Total costs/Assets		2.7	2.8	2.9	2.9
ROA		4.0	4.3	4.2	4.1
Equity/Assets		13.6	13.7	13.6	13.0
ROAE		29.0	31.0	31.2	31.6

Valuation metrics		FY14	FY15E	FY16E	FY17E
Year to March					
Diluted EPS (INR)		45.8	52.8	61.9	71.8
EPS growth (%)		20.2	15.2	17.2	16.0
Book value per share (INR)		163.7	187.9	212.7	241.5
Adjusted book value per share		160.6	184.5	208.5	236.1
Diluted P/E (x)		10.8	9.4	8.0	6.9
Price/ BV (x)		3.0	2.6	2.3	2.1
Price/ Adj. BV (x)		3.1	2.7	2.4	2.1
Dividend yield (%)		5.9	4.8	5.6	6.5

Additional Data

Directors Data

Sameer Gehlaut	Chairman	Gagan Banga	Vice-Chairman,MD & CEO
K.C.Chakrabarty	Director	Surinder Singh Nijjar	Director
Bisheshwar Prasad Singh	Director	Manjari Kacker	Director
Labh Singh Sitara	Director	Samsher Singh Ahlawat	Director
Prem Prakash Mirdha	Director	Ashwini Kumar Hooda	Director
Ajit Kumar Mittal	Director		

Auditors - M/s Deloitte Haskins & Sells

**as per last annual report*

Holding - Top10

	Perc. Holding		Perc. Holding
Copthall Mauritius Inv	5.65	HSBC Holding Plc	5.51
Mittal Saurabh Kumar	4.56	HSBC Bank Mauritius	4.34
Rattan Rajiv	4.12	Morgan Stanley Asia / Singapore	3.80
HSBC Global Inv Mauritius	3.77	Reliance Cap Trustee	2.12
Priapus Properties	1.98	Radius Township	1.83

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No data available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
6-Feb-14	Orthia Developers Private Limited	Buy	150,000
24-Feb-14	Orthia Developers Private Limited	Buy	887,390
28-Feb-14	Orthia Developers Private Limited	Buy	237,721
26-Mar-14	Morgan Stanley Asia (Singapore) Pte.	Buy	1,550,000
17-Apr-14	Morgan Stanley Asia(Singapore) Pte.	Buy	900,000
16-Jul-14	Group Entity	Sell	20,717,576
11-Aug-14	Cleta Buildtech Private Limited	Buy	50,000
1-Sep-14	Rajiv Rattan	Sell	1,205,630
2-Sep-14	Cleta Buildtech Private Limited	Buy	920,000
8-Sep-14	Cleta Buildtech Private Limited	Buy	920,000

**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	Dewan Housing Finance	BUY	SO	L
Federal Bank	BUY	SO	L	HDFC Bank	BUY	SO	L
HDFC	HOLD	SP	L	Indiabulls Housing Finance	BUY	SO	L
IndusInd Bank	BUY	SO	L	ICICI Bank	BUY	SO	L
IDFC	BUY	SO	L	ING Vysya	BUY	SO	L
Karnataka Bank	BUY	SP	M	Kotak Mahindra Bank	HOLD	SP	M
LIC Housing Finance	BUY	SO	M	Magma Fincorp	BUY	SO	M
MMFS	HOLD	SP	M	Manappuram General Finance	BUY	SP	H
Max India	BUY	SO	L	MCX	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	SP	M
Shriram Tansport Finance	BUY	SO	L	South Indian Bank	BUY	SP	M
State Bank of India	BUY	SO	L	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 Securities Limited, Edelweiss House, off C.S.T. Road, Kalina, Mumbai – 400 098.
Board: (91-22) 4009 4400, Email: research@edelweissfin.com

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, Dewan Housing Finance, Federal Bank, HDFC, HDFC Bank, ICICI Bank, Infrastructure Development Finance Co Ltd, IndusInd Bank, Indiabulls Housing Finance, 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, ING Vysya, Yes Bank

Recent Research

Date	Company	Title	Price (INR)	Recos
30-Dec-14	IndusInd Bank	The winning troika; <i>Visit Note</i>	792	Buy
22-Dec-14	Yes Bank	Retail franchise: Building foundation mantra to scalability; <i>Visit Note</i>	741	Buy
22-Dec-14	BFSI	HDFC sells stake in HDFC Life to Azim Premji Trust; <i>EdelFlash</i>		

Distribution of Ratings / Market Cap

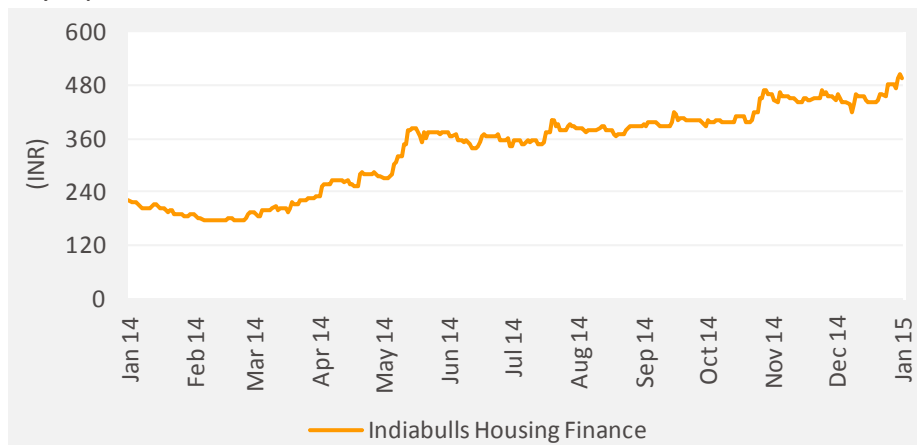
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	150	46	10	207
* 1 stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	143	58	6	

Rating Interpretation

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

One year price chart



DISCLAIMER

This report has been prepared by Edelweiss Securities Limited (Edelweiss). 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, Enclave Capital, LLC ("Enclave"). Transactions in securities discussed in this research report should be effected through Enclave Capital, LLC.

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. Research reports are distributed as per Regulation 22(1) of the Regulations. An application is filed for obtaining registration under Regulation 3 of the Regulations.

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