

BHARAT FINANCIAL INCLUSION

Conservative stance dents earnings; growth intact

India Equity Research | Banking and Financial Services



Bharat Financial Inclusion (BFI) reported Q4FY17 loss of INR2.35bn, lower than our and Street's estimates on higher credit cost (INR3.35bn) as the company sustained its aggressive NPL recognition policy (60dpd versus RBI's mandate of 90dpd). But, core operating performance was healthy (AUM growth of >19%), indicating swift recovery post demonetisation. Management continues to target >50% YoY exit AUM surge in FY18 (average AUM growth of 25-30% with similar spurt in core operating profit), but anticipates further credit cost (up fronted in H1FY17), thus guiding for 50% PAT growth. On account of higher provisions, we prune FY18/19E EPS by >35%/13% (excluding MAT credit). Meanwhile, management stated that BFI is looking for a strategic partnership (including merger etc). Demonetisation and one-off events have taken a toll on near-term earnings. Improving collection efficiency, along with conservative recognition policies, entails potential upside risk to earnings through better than anticipated recovery. Maintain 'BUY'.

Conservative policies hit credit cost; recovery trend encouraging

Demonetisation and state elections (leading to farm loan waiver) led to higher credit cost (comprising hit of on-balance sheet AUM of INR2.4bn, managed book of INR637mn and securitised book of INR297mn). Meanwhile, collection efficiency was encouraging—improved from 95.5% in February to 96.6% in March (efficiency, excluding 3 Maharashtra districts, has reached ~99%). Factoring in complete write-off of this portfolio, there will be further hit of INR1.9bn. The overdue portfolio (at risk) has been trending down and stands at INR7.1bn (INR10.7bn in Q3FY17, INR8bn in Feb 2017), of which portfolio that has seen movement in account is INR3.5bn, indicating better-than-anticipated recovery prospects; we have not factored this in our estimates.

Outlook and valuations: Temporary lull in earnings; maintain 'BUY'

These are challenging times for MFIs manifested in temporary lull in earnings. However, in light of its robust franchise (~6.7mn members) and strong business practices, we expect BFI to scrape through these challenging times and get back to RoE trajectory upwards of 20% by FY19E. Well capitalised balance sheet and strong management lend comfort. We maintain 'BUY/SO' with revised target price of INR894 (earlier INR962, on 2.9x FY19E P/BV). Key monitorables: a) improvement in collection efficiency; and b) any strategic partnership.

Financials

	(INR mn)							
Year to March	Q4FY17	Q4FY16	% Growth	Q3FY17	% Growth	FY17	FY18E	FY19E
Net revenue	2,448	2,365	3.5	2,910	(15.9)	11,055	14,286	19,224
Net profit *	(2,510)	845	NA	1,142	NA	845	4,034	7,569
Dil. EPS (INR) *	(18.3)	6.6	NA	9.0	NA	6.2	29.4	55.2
BV (INR)						178.5	232.9	308.3
Price/ BV (x)						4.4	3.4	2.6
Price/ Earnings (x)						127.7	26.7	14.3

* excluding extra-ordinaries

EDELWEISS 4D RATINGS

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

MARKET DATA (R: BHAF.BO, B: BHAFIN IN)

CMP	: INR 787
Target Price	: INR 894
52-week range (INR)	: 939 / 465
Share in issue (mn)	: 138.0
M cap (INR bn/USD mn)	: 109 / 1,728
Avg. Daily Vol.BSE/NSE('000)	: 3,473.2

SHARE HOLDING PATTERN (%)

	Current	Q3FY17	Q2FY17
Promoters *	1.7	1.7	1.8
MF's, FI's & BK's	13.9	14.4	13.3
FII's	65.0	66.0	70.3
Others	19.5	17.9	14.7
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	(2.6)	1.5	3.8
3 months	(4.4)	6.9	10.5
12 months	27.8	18.7	32.6

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Core profitability healthy; growth guidance intact

While steadfast focus has been on asset quality of late, BFI’s core operating performance has been healthy. AUM came in at INR91.5bn, up >19% YoY. However, NII growth was restricted to 4% YoY following lower NIMs as yields were impacted by: a) INR190mn interest income reversal; and b) higher securitisation (average daily on-balance sheet at INR66bn in Q4FY17 versus INR70bn in Q3FY17). But the impact was cushioned by lower borrowing cost (marginal borrowing cost <10%). Management is targeting >50% YoY exit AUM growth in FY18 (average AUM growth of 25-30% with similar growth in core operating profit). Lower penetration, lack of credible alternatives to MFIs along with BFI’s strong rural connect and sound business practices lend comfort on BFI achieving this target. We have built in AUM growth of >40% over FY17-19E.

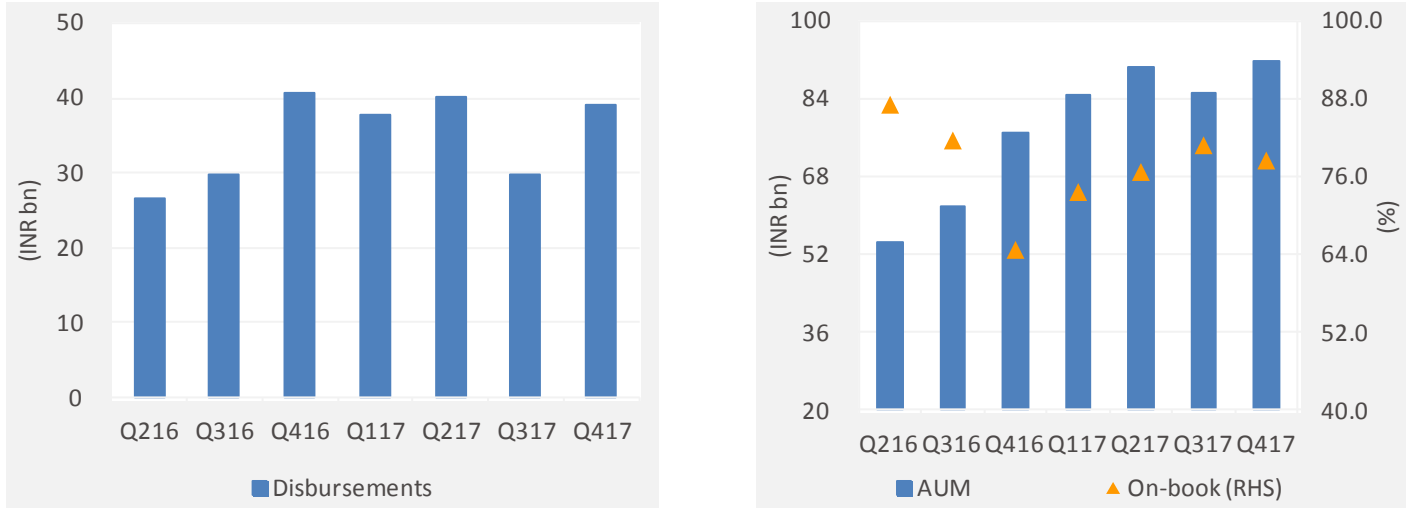
One of the most efficient MFIs; operating leverage benefit to sustain

BFI has been consistently improving its operating efficiency, reflected across parameters. Utilisation of resources, i.e., loan officers, branches etc., is way superior than in FY10. Besides reach, a healthy dose of technology in business is also driving the next leg of efficiency gains for the company. BFI is following the strategy of merging close-by centers, leveraging on technology (~75% of disbursements in April 2017 were cashless) to improve efficiency of loan officers and expects benefits to play out going forward.

Other highlights

- In another development, the Board has authorised the MD & CEO to appoint advisers/bankers to map and evaluate various strategic initiatives including merger etc.
- Revenue momentum during the quarter was supported by non-interest income. Loan processing fees came in at INR320mn (up 39% YoY) with treasury income at INR300mn (versus run rate of INR150mn over the past 6 quarters). Meanwhile, non-MFI portfolio was lower at INR324mn (down >68% YoY). Consequently, fee income from this portfolio was softer at INR26mn (INR60mn in previous quarter). BFI, with a large customer base of 6.7mn, is planning to leverage its franchise by providing loans for other purposes as well to facilitate customers’ business activities (has started 2 wheeler and home improvement loans).

Chart 1: Healthy disbursements feed into strong AUM growth (>19% YoY), indicating swift recovery post demonetisation



Source: Company

Chart 2: Scope for securitisation rising

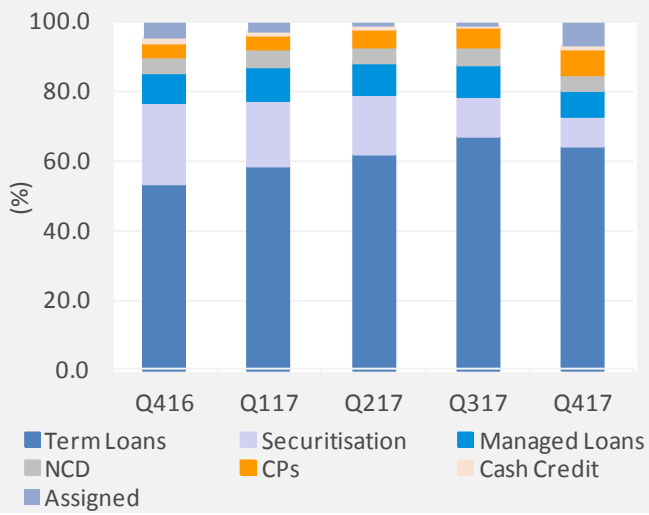


Chart 3: NIMs decline, partly due to interest reversal

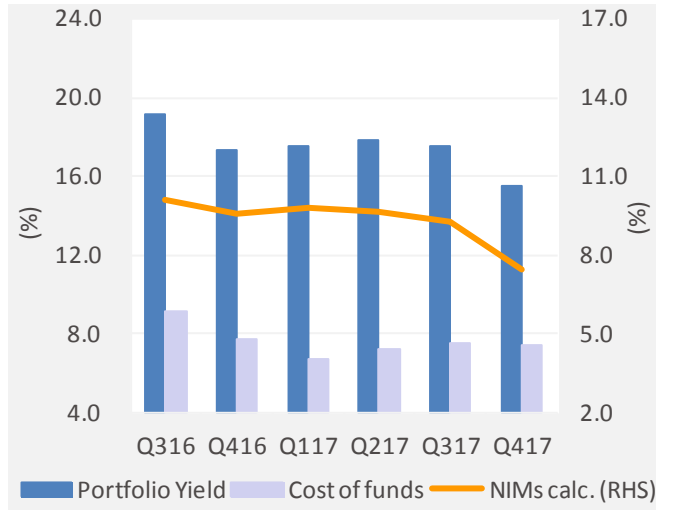


Chart 4: GNPLs rise to ~6% given aggressive recognition policies...

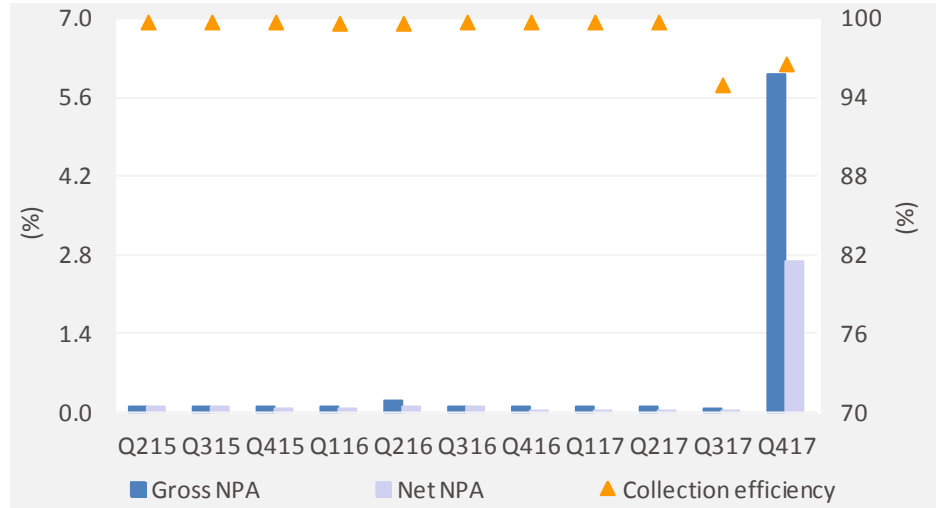
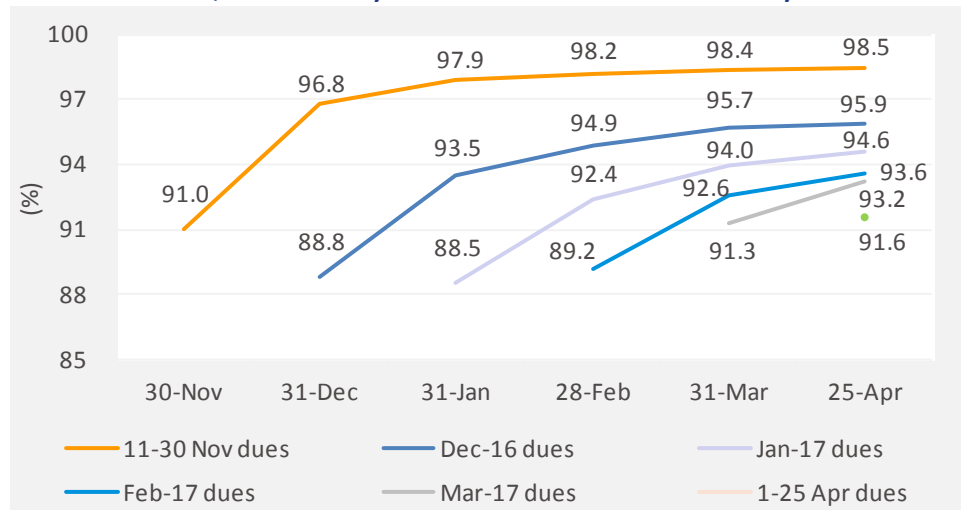
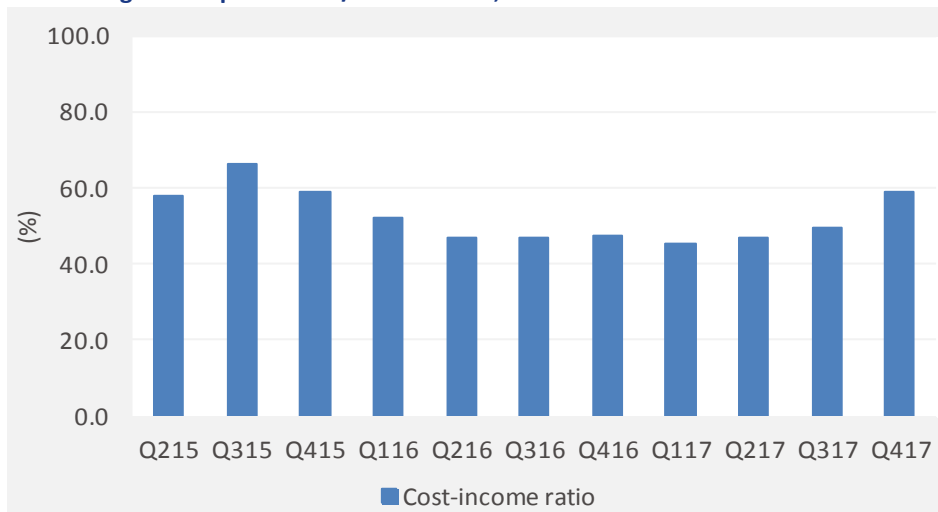


Chart 5: ...however, swift recovery with cumulative collection efficiency > 94%



Source: Company

Chart 6: Slight hiccup with cost/income ratio; to correct in near term



Source: Company

Table 1: Operating tree

Non-AP analysis	FY12*	FY13	FY14	FY15	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
No. of branches	1,461	1,156	1,139	1,135	1,191	1,325	1,359	1,391	1,399
No. of loan officers (Sangam Managers) ^	10,362	5,996	4,802	5,415	7,331	9,482	10,210	9,365	9,269
No. of active borrowers (in '000)	4,257	2,596	3,262	3,648	4,637	5,095	5,499	5,530	5,324
Number of loans disbursed (in '000)	2,730	2,995	4,133	5,621	2,386	2,249	2,263	1,583	1,758
Loan portfolio (INRmn)	13,200	20,160	28,370	41,710	76,770	84,630	90,460	85,310	91,500
Analysis									
No. of loan officers/branch	7.1	5.2	4.2	4.8	6.2	7.2	7.5	6.7	6.6
No. of active borrowers/ loan officers	411	433	679	674	633	537	539	590	574
Loan outstanding/active borrower (INR)	3,101	7,766	8,697	11,434	16,556	16,610	16,450	15,427	17,186

Source: Company

* includes AP data as well

^ Loan officers include trainees

Financial snapshot

(INR mn)

Year to March	Q4FY17	Q4FY16	% change	Q3FY17	% change	FY17	FY18E	FY19E
Interest income	3,609	3,230	11.7	4,020	(10.2)	15,240	20,362	28,092
Interest exp	1,646	1,340	22.8	1,643	0.2	6,220	8,407	11,653
Net int. inc. (INR mn)	1,963	1,890	3.9	2,377	(17.4)	9,020	11,955	16,438
Other income	485	475	2.1	533	(9.0)	2,035	2,331	2,786
Net revenues	2,448	2,365	3.5	2,910	(15.9)	11,055	14,286	19,224
Operating expenses	1,452	1,120	29.6	1,440	0.8	5,530	6,822	8,079
Operating profit	996	1,245	(20.0)	1,470	(32.3)	5,525	7,464	11,145
Provisions & writeoff	3,346	140	NM	38	NM	3,590	2,292	916
Profit before tax	(2,350)	1,105	NA	1,432	NA	1,935	5,171	10,229
Tax	160	260	(38.5)	290	(44.8)	1,090	1,138	2,659
PAT *	(2,510)	845	NA	1,142	NA	845	4,034	7,569
Reported PAT	(2,350)	845	NA	1,432	NA	2,905	5,171	9,242
Diluted EPS (INR) *	(18.3)	6.6	NA	9.0	NA	6.2	29.4	55.2
Loan portfolio	91,500	76,770	19.2	85,310	7.3	91,500	132,499	187,475
-Loan Outstanding	71,760	49,650	44.5	68,910	4.1	71,760	103,349	149,980
-Assigned loans	19,740	27,118	(27.2)	16,400	20.4	19,740	29,150	37,495
Disbursements	39,020	40,660	(4.0)	29,810	30.9	146,670	202,942	266,385
Asset quality								
Gross NPA	4,281	41	NA	41	NA	4,281	5,167	5,999
Gross NPA (%)	6.0	0.1		0.1		6.0	5.0	4.0
Net NPA	1,853	19	NA	19	NA	1,853	1,033	1,800
Net NPA (%)	2.7	0.0		0.0		2.7	1.0	1.2
Valuation metrics								
Book value / share						178.5	232.9	308.3
Price/ Book (x)						4.4	3.4	2.6
Price/ Earnings						127.7	26.7	14.3

* excluding extra-ordinaries

Change in Estimates

	FY18E			FY19E			Comments
	New	Old	% change	New	Old	% change	
NII	11,955	12,784	(6.5)	16,438	17,849	(7.9)	
PPOP	7,464	9,014	(17.2)	11,145	12,753	(12.6)	
Provisions	2,292	736	211.6	916	980	(6.5)	Factoring in higher-than-expected provisions
PAT (excl. extra-ord.)	4,034	6,292	(35.9)	7,569	8,712	(13.1)	
PAT (incl. extra-ord.)	5,171	8,335	(38.0)	9,242	8,712	6.1	
NIMs	10.7	11.6		10.3	11.4		

Q4FY17 Earnings Call Highlights

- **Management has cited a FY18 portfolio growth guidance of 50%, with 50% growth in PAT as well**
 - **Guidance assumes total provisions/write-offs of ~INR2.5bn (of which ~INR1.9bn is for >8 weeks expired contracts)**
 - **Bulk of the provisions will come during Q1, with small amounts during Q2**
 - Management is fairly confident of recovery and anticipates a far better picture by Sep 30
 - **Focus will continue to be on JLG model, rural regions and lower ticket size (TS) loans**
 - Growth would be driven by customer acquisition (~35-40% contribution), with remaining growth attributable to increase in TS
 - Confident that the company will acquire 3mn fresh customers during next year in-line with earlier guidance
 - Growth will driven by states of West Bengal, Bihar, Rajasthan and Kerala
 - ~60-70% of loan disbursements occur during 2nd half of the year owing to customer acquisition impact
- **Collections have seen improvements in all major states (vis-à-vis February), with collection efficiency improving to ~96.7%**
 - Excluding Maharashtra (~83-84% collection efficiency), overall collection efficiency stood at ~99%
 - Collection efficiency in Uttar Pradesh is ~96-97% (vs. 74-75% earlier)
 - Shortfall of ~14-15% in Maharashtra is primarily from three districts
 - Managed loans have lower collection efficiency of ~83.4%, as these loans are primarily in parts of Maharashtra and Karnataka
 - Total guarantee in managed loans is ~10%, with ~5% cash collateral and ~5% corporate guarantee
 - ~1,672 zero collection centers, with ~80% (~1,80,000) of centers showing ~100% collection efficiency
- Strategic review is with the aim to explore opportunities in order to leverage on existing technology and processes of the company
- Following 60dpd policy, provisions stood at ~INR3.4bn resulting in loss of ~INR2.4bn during Q4FY17
 - Had 60dpd policy not been followed, FY17 profits would have been ~INR6bn (vs. reported FY17 PAT of ~INR2.9bn)
- Plan to open ~0.2mn Kirana stores during the year, which are essentially delivery points for small cross-sell products like solar lamps, etc.
 - Going forward, the product suite offered through these channels may be expanded (for eg., sales points for e-commerce channels)
- Will be adding ~200 branches during the financial year, resulting in ~10-15% increase in headcount

Company Description

BFI follows the Joint Liability group Model. The methodology involves lending to individual women, utilising five member groups where groups serve as the ultimate guarantor for each member.

BFI is the second largest micro-finance (MF) player in India with gross loan portfolio of INR91.5bn spread over >5mn active borrowers within its fold (of total MFI size of >29mn customers). Despite the AP crisis, where the company had to write-down a significant chunk of its portfolio, BFI has regained its position garnering 10-12% market share in terms of loan book size, customer base and branch presence.

Investment Theme

These are challenging times for MFIs manifested in temporary lull in earnings. However, in light of its robust franchise (~6.7mn members) and strong business practices, we expect BFI to scrape through these challenging times and get back to RoE trajectory upwards of 20% by FY19E. Well capitalised balance sheet and strong management lend comfort. Key monitorables: a) improvement in collection efficiency; and b) any strategic partnership.

Key Risks

- **Political and regulatory risk:** Vulnerable to political risk, similar to one witnessed in Andhra Pradesh in 2010.
- **Competition risk:** Growth expectations could be constrained by evolution of differentiated banking structure, banking penetration via BC model and impact of government initiatives such as Jan Dhan Yojana
- **Fastest growing segment and over-leveraging:** Increasing competition resulting in over-leveraging of a customer as lenders would tend to entice the customer
- **Borrowing profile concentrated towards banks:** Large part of the company's borrowing is from banks, while its entry to the other sources was hampered in wake of AP crises.

Financial Statements

Key Assumptions

Year to March	FY16	FY17	FY18E	FY19E
Macro				
GDP(Y-o-Y %)	7.2	6.5	7.1	7.7
Inflation (Avg)	4.9	4.8	5.0	5.2
Repo rate (exit rate)	6.8	6.3	6.3	6.3
USD/INR (Avg)	65.0	67.5	67.0	67.0
Sector				
Credit growth	9.3	9.0	12.0	14.0
Deposit growth (%)	8.6	14.0	12.0	13.0
Bank's base rate (%)	9.5	9.0	9.0	9.0
Wholesale borr. cost (%)	8.5	8.5	8.5	8.5
G-sec yield	7.5	6.5	6.5	6.5
Company				
-On book - Yield On adv	24.2	20.2	19.5	19.0
-Off book - Yield On adv	7.1	9.1	9.5	8.5
Employee cost growth	25.9	39.0	24.5	17.6
Other opex growth	23.1	29.6	20.9	20.2
Disbursement growth	75.4	21.3	38.4	31.3
Securit. (% of disb.)	35.3	21.6	22.0	20.0
Repayment rate	52.8	59.0	55.0	53.0
Gross NPLs	0.1	6.0	5.0	4.0
Prov Cov	53.7	56.7	80.0	70.0
Net NPLs	0.0	2.7	1.0	1.2

Income statement

(INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Interest income	11,370	15,240	20,362	28,092
Interest expended	4,850	6,220	8,407	11,653
Net interest income	6,520	9,020	11,955	16,438
- Fee & forex income	1,700	2,035	2,331	2,786
Net revenues	8,220	11,055	14,286	19,224
Operating expense	4,034	5,530	6,822	8,079
- Employee exp	2,920	4,060	5,053	5,944
- Depn /amortisation	80	130	149	187
- Other opex	1,034	1,340	1,620	1,948
Preprovision profit	4,186	5,525	7,464	11,145
Provisions	246	3,590	2,292	916
Profit Before Tax	3,940	1,935	5,171	10,229
Less: Provision for Tax	910	1,090	1,138	2,659
Profit After Tax	3,030	845	4,034	7,569
Extra-ordinaries *	-	2,060	1,138	1,672
Reported Profit	3,030	2,905	5,171	9,242
Shares o /s (mn)	127	137	137	137
Basic EPS (INR)	23.8	6.2	29.4	55.2

* MAT credit entitlement

Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
Revenues	65.2	34.5	29.2	34.6
NII growth	63.1	38.3	32.5	37.5
Opex growth	25.9	37.1	23.4	18.4
PPP growth	136.2	32.0	35.1	49.3
Provisions growth	(250.6)	1,359.3	(36.1)	(60.0)
Adjusted Profit	61.5	(72.1)	377.4	87.7

Operating ratios

Year to March	FY16	FY17	FY18E	FY19E
Yield on advances	19.2	18.1	18.2	17.6
Cost of funds	7.7	7.3	7.6	7.4
Net interest margins	11.0	10.7	10.7	10.3
Spread	11.5	10.9	10.6	10.2
Cost-income	49.1	50.0	47.8	42.0
Tax rate	23.1	56.3	22.0	26.0

Balance sheet		(INR mn)			
As on 31st March	FY16	FY17	FY18E	FY19E	
Share capital	1,273	1,371	1,371	1,371	
Reserves & Surplus	12,557	23,090	30,541	40,873	
Shareholders' funds	13,830	24,461	31,912	42,244	
Short term borrowings	37,224	49,875	71,486	102,114	
Long term borrowings	15,953	21,375	30,637	43,763	
Total Borrowings	53,177	71,250	102,122	145,877	
Long Term Liabilities	4,226	5,036	7,293	10,319	
Sources of funds	71,233	100,747	141,327	198,440	
Gross Block	692	832	992	1,192	
Net Block	89	128	171	227	
Capital work in progress	14	16	17	19	
Intangible Assets	61	86	112	146	
Total Fixed Assets	165	230	300	393	
Non current investments	2	2	10	15	
Cash and Equivalents	17,663	26,911	35,022	44,333	
Sundry Debtors	64	70	77	85	
Loans & Advances	51,851	71,760	103,349	149,980	
Other assets	1,793	2,137	3,094	4,378	
Other Current Liab	304	363	525	743	
Total Current Liab	304	363	525	743	
Net Curr Assets-ex cash	1,488	1,774	2,569	3,634	
Uses of funds	71,233	100,747	141,327	198,440	
BVPS (INR)	108.6	178.5	232.9	308.3	

RoE decomposition (%)					
Year to March	FY16	FY17	FY18E	FY19E	
Net int. income/assets	11.0	10.7	10.7	10.3	
Net revenues/assets	13.9	13.1	12.8	12.0	
Operating expense/assets	6.8	6.6	6.1	5.1	
Provisions/assets	0.4	4.3	2.0	0.6	
Taxes/assets	1.5	1.3	1.0	1.7	
Total costs/assets	8.8	12.1	9.2	7.3	
ROA	5.1	1.0	3.6	4.7	
Equity/assets	20.5	22.8	25.2	23.2	
ROAE (%)	24.9	4.4	14.3	20.4	

Valuation parameters					
Year to March	FY16	FY17	FY18E	FY19E	
Adj. Diluted EPS (INR)	23.8	6.2	29.4	55.2	
Y-o-Y growth (%)	56.4	(74.1)	377.4	87.7	
BV per share (INR)	108.6	178.5	232.9	308.3	
Diluted P/E (x)	33.1	127.7	26.7	14.3	
P/B (x)	7.2	4.4	3.4	2.6	

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		P/B (X)		ROAE (%)	
		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Bharat Financial Inclusion	1,728	26.7	14.3	3.4	2.6	14.3	20.4
Dewan Housing Finance	2,080	13.9	12.5	2.1	1.9	16.3	16.1
Indiabulls Housing Finance	6,709	13.1	11.0	3.4	3.0	27.7	29.2
LIC Housing Finance	5,253	16.4	14.9	2.8	2.4	19.6	18.9
Mahindra & Mahindra Financial Services	2,985	27.9	19.1	2.8	2.5	10.2	13.8
Manappuram General Finance	1,224	8.8	7.3	2.2	1.9	26.5	27.4
Muthoot Finance	2,444	11.5	9.7	2.1	1.8	19.5	20.0
Power Finance Corp	6,574	6.3	5.9	1.0	0.9	16.1	15.3
Reliance Capital	2,614	13.6	10.9	1.0	0.9	7.4	8.6
Rural Electrification Corporation	6,225	6.8	6.4	1.1	1.0	17.2	16.1
Shriram City Union Finance	2,296	16.2	12.7	2.5	2.1	16.3	18.1
Shriram Transport Finance	3,667	13.6	8.9	1.8	1.5	14.2	18.8
Median	-	13.6	10.9	2.1	1.9	16.3	18.8
AVERAGE	-	13.7	11.2	2.0	1.7	17.5	18.9

Source: Edelweiss research

Additional Data

Directors Data

P.H. Ravi Kumar	Non-Executive Chairman	M. R. Rao	CEO & Managing Director
Geoff Woolley	Director	Dr. Tarun Khanna	Director
S. Balachandran	Director	Dr. Punita Kumar Sinha	Director
K G Alai	Director	Rajender Mohan Malla	Director

Auditors - S. R. Batliboi & Co. LLP

**as per last annual report*

Holding - Top 10

	Perc. Holding		Perc. Holding
Morgan Stanley	9.49	Amansa Capital	3.91
East Bridge Capital Master Fund	3.36	Tree Line Asia Master Fund	2.79
PineBridge Investments	2.75	IDFC Mutual Fund	2.56
Khosla Vinod	2.48	Alliance Bernstein	2.32
Credit Suisse / Singapore	2.24	Vanguard Group	2.16

**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
25 Oct 2016	Kismet Microfinance	Sell	39659.00
05 Oct 2016	Kismet Microfinance	Sell	79304.00
28 Sep 2016	Kismet Microfinance	Sell	66311.00
14 Sep 2016	Kismet Microfinance	Sell	15108.00
01 Aug 2016	Kismet Microfinance	Sell	27807.00

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Allahabad Bank	HOLD	SU	M	Axis Bank	BUY	SO	M
Bajaj Finserv	BUY	SP	L	Bank of Baroda	BUY	SP	M
Bharat Financial Inclusion	BUY	SO	M	Capital First	BUY	SO	M
DCB Bank	REDUCE	SU	M	Dewan Housing Finance	BUY	SO	M
Equitas Holdings	BUY	SO	M	Federal Bank	BUY	SP	L
HDFC	HOLD	SP	L	HDFC Bank	BUY	SO	L
ICICI Bank	BUY	SO	L	IDFC Bank	HOLD	SP	L
Indiabulls Housing Finance	BUY	SO	M	IndusInd Bank	BUY	SP	L
Karnataka Bank	BUY	SP	M	Kotak Mahindra Bank	HOLD	SP	M
L&T FINANCE HOLDINGS LTD	BUY	SP	M	LIC Housing Finance	BUY	SP	M
Magma Fincorp	BUY	SP	M	Mahindra & Mahindra Financial Services	HOLD	SU	M
Manappuram General Finance	BUY	SO	H	Max Financial Services	BUY	SO	L
Multi Commodity Exchange of India	BUY	SP	M	Muthoot Finance	BUY	SU	M
Oriental Bank Of Commerce	HOLD	SP	L	Power Finance Corp	HOLD	SP	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	SO	M	Shriram Transport Finance	BUY	SO	L
South Indian Bank	BUY	SP	M	State Bank of India	BUY	SP	L
Union Bank Of India	HOLD	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

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

Allahabad Bank, Axis Bank, Bharat Financial Inclusion, Bajaj Finserv, Bank of Baroda, Capital First, DCB Bank, Dewan Housing Finance, Federal Bank, HDFC, HDFC Bank, ICICI Bank, IDFC Bank, Indiabulls Housing Finance, IndusInd Bank, Karnataka Bank, Kotak Mahindra Bank, LIC Housing Finance, L&T FINANCE HOLDINGS LTD, Max Financial Services, 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
28-Apr-17	Federal Bank	All guns blazing; <i>Result Update</i>	107	Buy
28-Apr-17	Reliance Capital	Steady quarter; in turnaround mode; <i>Result Update</i>	665	Buy
28-Apr-17	IDFC Bank	Steady show; execution holds key; <i>Result Update</i>	66	Hold

Distribution of Ratings / Market Cap

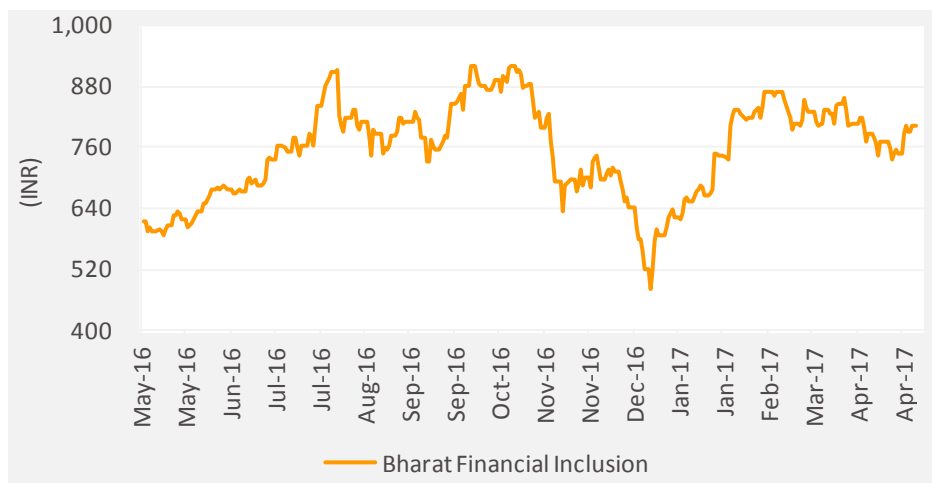
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

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



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