May 17, 2017

Rating matrix		
Rating	:	Buy
Target	:	₹ 1750
Target Period	:	12-15 months
Potential Upside	:	13%

What's changed?	
Target	Changed from ₹ 1650 to ₹ 1750
EPS FY18E	Changed from ₹ 65.2 to ₹ 58.7
EPS FY19E	Introduced at ₹ 69.3
Rating	Unchanged

Quarterly performance

	Q4FY17	Q4FY16	YoY (%)	Q3FY17	QoQ (%)
Revenue	76.4	75.2	1.5	65.9	15.8
EBITDA	47.1	51.9	(9.3)	44.3	6.3
EBITDA (%)	61.6	69.0	-734 bps	67.2	-553 bps
PAT	38	35.5	8.1	45.2	-14.9

Key financials

(%)	FY16	FY17	FY18E	FY19E
Revenue	273.4	313.4	350.4	410.0
EBITDA	172.1	186.6	213.5	254.9
Net Profit	117.6	151.5	172.5	203.7
EPS	40.0	51.5	58.7	69.3

Valuation summary

	FY16	FY17	FY18E	FY19E
P/E	38.7	30.1	26.4	22.4
Target P/E	43.7	34.0	29.9	25.3
Mcap to sales	17.2	16.3	14.6	12.4
Dividend yield	2.1	2.1	2.3	2.6
Price/BV	11.2	9.2	9.1	7.7
RoE	28.8	30.4	34.3	34.6

Stock data

Particulars	
Market Capitalization	₹ 4572 crore
Total Debt	NIL
Cash & Cash Equivalents (₹ Crore)	₹ 462 crore
EBITDA Margin Q4FY17 (%)	61.7
52 week H/L (₹)	1695 /956
Networth (₹ crore)	500.0
Face value	₹ 10
DII Holding (%)	38.2
FII Holding (%)	37.8

Price performance

Return %	1M	3M	6M	12M
CARE	2.5	17.1	16.1	60.7
Crisil	-6.6	-9.4	-14.1	-10.7
ICRA	1.0	4.8	5.6	-2.6

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Credit Analysis & Research (CARE) ₹ 1550

Business momentum to drive earnings ahead….

- Reported rating revenues were at ₹ 76.4 crore (up 2% YoY). This was on account of slower growth in volume of rated debt, which increased 7.7% YoY and lower surveillance fee in Q4
- Other income traction stayed strong and was in line at ₹ 8.4 crore, up 2.4x YoY. This higher increase was due to redemption of liquid investment schemes and maturity of FMPs
- EBITDA came in at ₹ 47 crore while the EBIDTA margin was at 61.7% vs. 69% last year. EBITDA margin was impacted by certain other expenses, which came in at ₹ 12 crore vs. usual trajectory of ~₹ 6 crore
- PAT was at ₹ 38.5 crore (up 8% YoY) vs. ₹ 44.9 crore estimate. PAT margins improved from 47.2% in Q4FY16 to 50.4% in Q4FY17
- On a full year basis, PAT increased 28% YoY to ₹ 151 crore on the back of a 6% rise in rating income, 2.8x traction in other income and flat expenses YoY
- The company declared a final dividend of ₹ 10, which cumulated to total dividend of ₹ 28 per share for FY17

Second largest rating company

CARE, the second largest rating company by market share, is a pure play on the rating business with ~99% (₹ 281 crore) of its FY17 core revenue generated from the rating segment. The highlight of CARE's business is its best-in-class EBITDA margin of 60%+ and PAT margin of ~50%. The business model is asset light with not much capex (₹ 10-15 crore) while it generates strong operating cash flow. Post its listing, the dividend payout ratio improved from 30% (FY12) to ~65% (FY17). PAT traction had moderated in FY16 with bank credit growth slowdown impacting rating revenues. An upturn in capex cycle and development of the bond market is required for healthy revenue traction.

Exhibiting capability to grow relatively faster since 2008

In 1993, CARE was the third credit rating agency (CRA) to be incorporated in India. However, it gained significant ground to become second largest CRA by revenue post FY09. It clocked 50% revenue CAGR in FY08-11 vs. 30% by peers. CARE is strong in the bank loan rating (BLR) and bond market while it has an insignificant presence in the SME space as of now. We expect it to maintain its rating revenue market share of ~29% ahead.

EBIDTA margin among best in rating industry

CARE earns best margins among rating agencies with ~65% EBITDA margin and 54% PAT margin in FY17. These strong margins can be attributed to i) relatively lower employee cost, ii) high proportion of large ticket bank loans & bonds (high margin) and iii) offices being largely owned saving on lease cost. The management indicated the company would endeavour to maintain such best in class margins, going ahead.

Revenue, PAT traction to improve; maintain BUY rating

CARE emerged as a strong player in the rating business with strong margins and improving market share with best brand recall after Crisil. The company had strong RoE of 30%+, which is expected to improve by FY19E. Falling interest rate outlook, peaking of NPA cycle, rising bond issuances, etc, all augur well for rating agencies. We roll over to FY19 estimates and expect PAT CAGR of 16% in FY17-19E on the back of improving revenue trajectory. We remain structurally positive on the rating business. We revise our target price higher to ₹ 1750 (earlier ₹ 1650) as we roll over to FY19E, valuing at 25x FY19E EPS & maintain **BUY**.

Variance analysis

	Q4FY17	Q4FY17E	Q4FY16	Q3FY17	YoY (%)	QoQ (%)	Comments
Net Sales	76.4	87.2	75.2	65.9	1.5	15.8	Lower increase in volumes of debt rated and survelliance income led to lower-than-expected revenue growth
Expenditure							
Employee Expenses	17.3	19.5	17.1	15.8	1.0	9.3	
As % of revenue	22.6	22.4	22.8	24.0			
Other Expenses	12.0	7.2	6.2	5.8	93.3	106.1	Spike in other expenses was on account of cost incurred for developing SME business, service tax and some provisions made
As % of revenue	15.7	8.2	8.2	8.8			
Total Expenses	29.3	26.7	23.3	21.6	25.6	35.3	
As % of revenue	38.4	30.6	31.0	32.8			
EBITDA	47.1	60.5	51.9	44.3	-9.3	6.3	
EBITDA Margin	61.6	69.4	69.0	67.2	-734 bps	-553 bps	EBITDA margin came in lower-than-expected
Other Income	8.4	8.6	2.5	16.3	241.2	-48.5	Other income increased due to profit booked on maturity of certain investments made for a longer tenure
Depreciation + interest exp	0.8	1.0	0.9	0.8	-16.3	0.2	
PBT	54.7	68.1	53.5	59.8	2.4	-8.5	
Taxes	16.3	23.2	17.9	14.7	-8.9	11.2	
PAT	38.4	44.9	35.5	45.2	8.1	-14.9	
PAT Margin	50.3	51.5	47.2	68.5	305 bps	-1819 bps	

Source: Company, ICICIdirect.com Research

Change in estimates

	FY18E			FY19E
(₹ Crore)	Old	New	% Change	Introduced
Net Sales	341	312	-8.4	368
EBITDA	233	214	-8.4	255
EBITDA Margin %	68.4	68.4	1 bps	69.2
PAT	192	173	-10.0	204
EPS	54	59	9.0	69

Source: Company, ICICIdirect.com Research

Assumptions

			Current		Earlier
	FY16	FY17	FY18E	FY19E	FY18E
Revenue growth (%)	3.0	5.9	11.3	17.9	17.0
Staff expenses to revenue (%)	26.3	23.9	22.4	21.2	24.6
Total expenses to revenue (%)	35.0	33.5	31.6	30.8	31.6
EBITDA growth (%)	6.2	8.4	14.5	19.4	16.5
EBITDA margin (%)	65.0	66.5	68.4	69.2	68.4
Tax rate (%)	33.5	29.9	30.3	30.3	31.4
PAT growth (%)	-16.2	28.8	13.9	18.1	21.3
PAT margin (%)	44.4	54.0	55.2	55.3	56.2

Source: Company, ICICIdirect.com Research

Company Analysis

Gaining market share

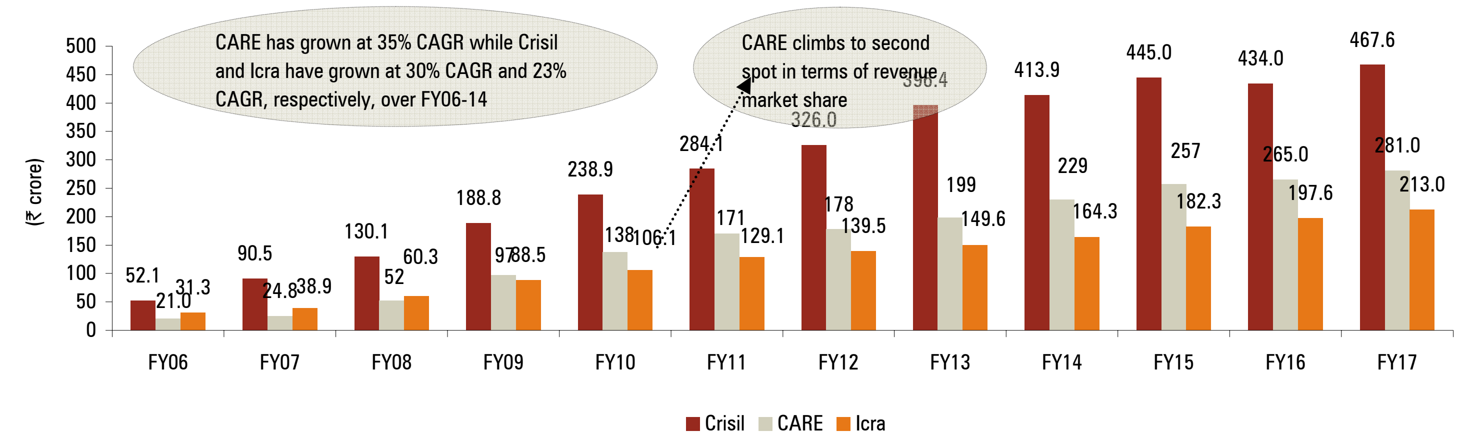
Almost the entire revenue of CARE is derived from the rating business unlike Crisil and Icra that derive 37% and 58%, respectively, from the rating business.

Within the rating business, CARE is mainly active in the bank loan rating (BLR) segment (50% of fresh debt volume rated, 60% of the fresh assignments and ~45% of rating revenues in FY17) followed by corporate debt rating (CDR). It is still at a very nascent stage in SME rating. Going ahead, we expect the BLR and bond market segments to drive overall rating revenue growth. The SME segment is expected to witness further improvement in FY18E as management sees it has a large opportunity.

CARE is mainly active in the BLR segment. It derives 50% of fresh debt volume rated, 60% of the fresh assignments and ~50% of rating revenues from the BLR segment

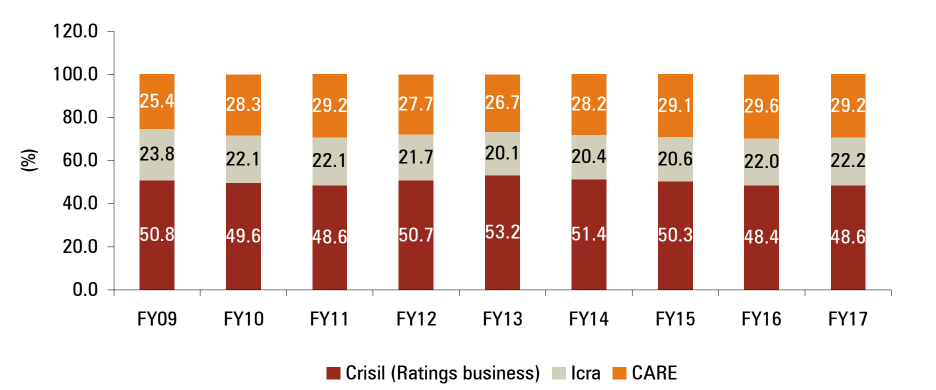
In terms of rating revenues, the company remained the third largest rating agency for most years since its incorporation. However, implementation of Basel II guidelines in FY08 helped increase rating volumes for rating agencies, in general, and proved to be a game changer for CARE, in particular. In the past six years, CARE has outpaced the industry in terms of rating revenue CAGR. It witnessed a CAGR of 28% in FY08-14 vs. 22% for all three rating companied combined.

Exhibit 1: CARE consistently second largest rating agency by revenue since FY09



Source: Company, ICICIdirect.com Research

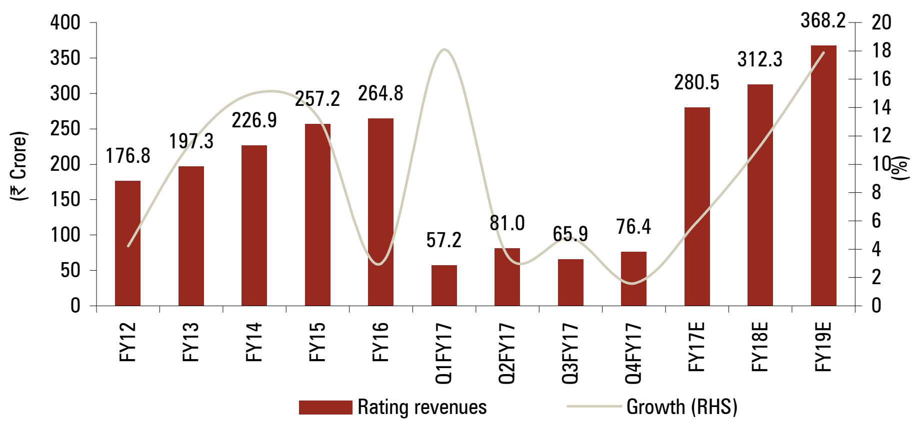
Exhibit 2: CARE has been gaining market share; expect it to maintain its second slot



Source: Company, ICICIdirect.com Research

Quarterly revenue performance

Exhibit 3: Rating revenue traction muted in FY16 but improved in FY17



Source: Company, ICICIdirect.com Research

Going ahead, a strong improvement in revenues would depend on the macro environment

Overall volume of debt rated was up 7.7% YoY to ₹ 376000 crore in Q4FY17. However, the same traction was not reflected in rating revenue, which was at ₹ 76.4 crore, up 1.6% YoY. The non linearity in traction of volume rated and rating revenues is due to “fee cap” on certain clients, which were charged at a particular fixed rate irrespective of increase in volumes.

CARE’s SME segment is low compared to peers (comprising ~9% of revenue). The company was focused on improving the SME rating revenue proportion by increasing the locations and hiring employees. However, due to a reduction in budgetary allocation towards subsidising rating fees of SMEs in FY16 to ₹ 26 crore from ₹ 85 crore earlier by the MSME ministry the SME rating revenue was muted. Still, with the increase in allocation and large opportunity seen in this segment, proportion of SME rating revenue should see improvement.

Going ahead, expect revenue traction of 15% CAGR in FY17-19E

As we said above, the company has grown its rating revenues at 26% CAGR to ₹ 257 crore in FY08-15. However, growth has moderated considerably in the past three years at 13% CAGR in FY12-15 in line with the slowdown in the economy and credit growth. Further, in FY16, it was merely 3% to ₹ 265 crore, which improved to 6% YoY in FY17 to ₹ 281 crore.

A strong improvement in revenue would depend on the macro environment and largely on credit growth in the system, which was tepid at ~5% YoY in FY17. The focus of the company would be on expanding the CDR segment whose proportion in terms of volumes of debt rated and rating revenue would increase. However, the BLR segment would continue to remain the key segment for at least the next few years. Further, a pick-up in SME ratings would aid revenue traction ahead.

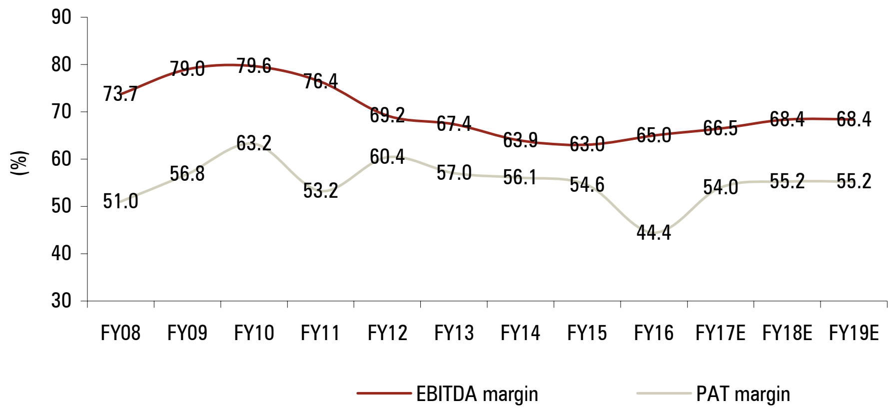
PAT margins to remain best in class…

Limited competition in the rating industry and pricing power enable rating agencies to earn healthy margins. Even among rating agencies, CARE has managed to earn superior EBITDA margins of ~65% and PAT margin of 50%+.

Among rating agencies, CARE has managed to earn superior EBITDA margins of 60%+ and PAT margin of ~50%

Going ahead, we expect PAT margin to stay in the range of 50-55% levels.

Exhibit 4: Margin still looks lucrative



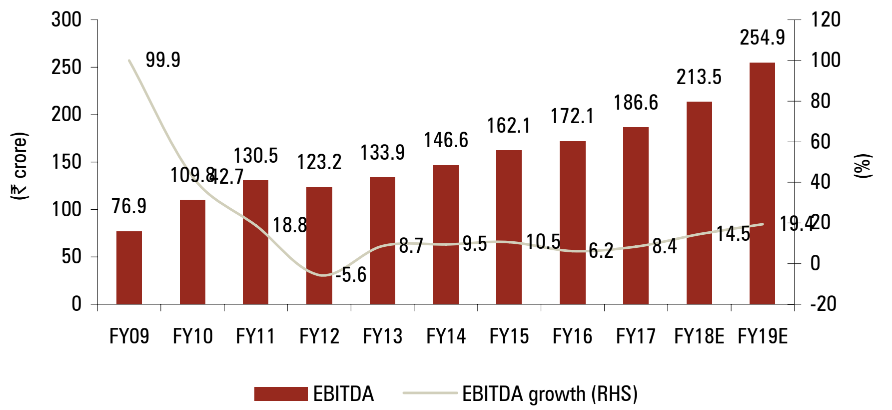
Source: Company, ICICIdirect.com Research

EBITDA growth to improve on improving revenues

In the past four years, there was a substantial decline in EBITDA margin from 76% in FY11 to 63% by FY15. The EBITDA traction fell to 6% in FY11-15. Going ahead, we expect it to grow at 17% CAGR to ₹ 255 crore over FY17-19E largely reflecting topline growth.

Going ahead, we expect EBITDA to grow at 17% CAGR to ₹ 255 crore in FY17-19E

Exhibit 5: EBITDA growth to largely reflect topline growth



Source: Company, ICICIdirect.com Research

SME segment may be additional leg up in long run

SME remains the growth area but is a low ticket size and low margin business. However, it is mainly the volume business for CRAs. At present, merely ~1,00,000 SMEs among 3 crore SMEs has been rated in India. Hence, the current penetration is very low at ~0.3%. In the SME rating space, Crisil is the leader. It rated ~12,857 SME instruments in FY14 compared to 1407 by CARE and 1563 by Icra.
SME rating contribution in overall revenue improved from 6% in FY16 to 9% in FY17. It has begun investing in manpower but is yet to enter the SME market at full throttle.

Earlier, in Q3FY15, the management reiterated its focus on strengthening the SME rating segment. The company is present in 80 locations across India and plans to reach 150 locations in the next two or three years with revenue from the SME rating segment set to rise to ~20% of total revenue over the next few years.

Enjoys healthy operating cash flows

CARE generates strong operating cash flow of > ₹ 100 crore+ while on an average its capex is merely ₹ 4-5 crore each year

Owing to the nature of its business, the capex requirement in the rating business is very low. In the past three years, CARE has incurred a capex of ~₹ 16 crore. To enhance revenue, the major expenses incurred, if required, are for increasing the employee strength (the cost of which is managed well by CARE compared to its peers) rather than for any major capex. Hence, CARE enjoys healthy operating cash flows.

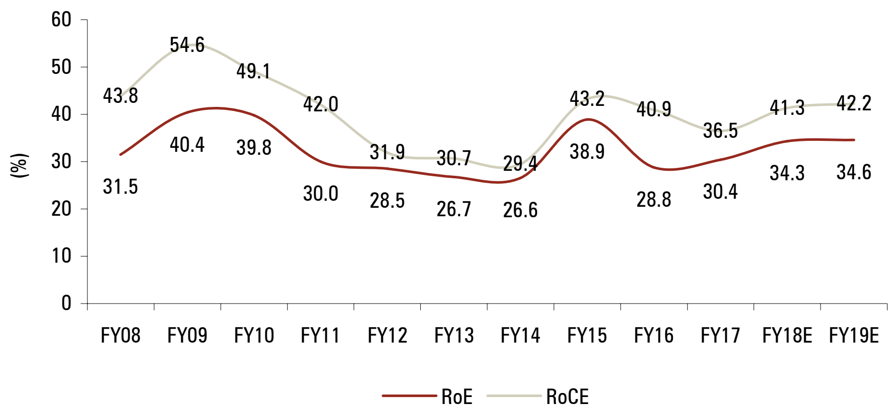
Potential for return ratios to scale up higher

Return ratios to improve, going ahead

With limited capital requirement, incremental profit growth is expected to further enhance return ratios. The dividend payout ratio is expected to be ~60-65%. We expect CARE to report a RoE of ~34% in FY18E and ~35% in FY19E.

The company has a cash and investment pile of >₹ 300 crore, which may be utilised for acquisition, buyback or returned to shareholder in the form of dividend. The optimum utilisation of this investment pile is key to generate return ratios and shareholder returns from a long term perspective.

Exhibit 6: Return ratios to see improvement in FY18E



Source: Company, ICICIdirect.com Research

CARE earns decent return ratios with RoCE of 37% and RoE of 30% as on FY17. From a long-term perspective, the company has huge potential to improve its return ratios significantly as and when growth improves. Currently, the credit growth in the economy is sluggish and in line with modest GDP growth. As the economy revives, the credit and debt market volume levels would pick up, the impact of which would be reflected in improving sales and profit traction of CARE. As the business is asset light in nature, the major chunk of higher profits is expected to flow to shareholders in the form of dividend, thereby improving return ratios significantly.

Valuation

CARE emerged as a strong player in rating business with strong margins and improving market share with best brand recall after Crisil. The company had strong RoE of 30%+, which is expected to improve by FY19E. Falling interest rate outlook, peaking of NPA cycle, rising bond issuances, etc, all augur well for rating agencies. We roll over to FY19 estimates and expect PAT CAGR of 16% over FY17-19E on the back of improving revenue trajectory. We remain structurally positive on rating business. We revise our target price higher to ₹ 1750 (earlier ₹ 1650) as we roll over to FY19E, valuing at 25x FY19E EPS. We maintain **BUY**.

CARE's major shareholders are Indian banks and financial institutions with no foreign partner compared to its other listed peers. Any interest on part of a strategic investor in the company would be an upside risk to our call.

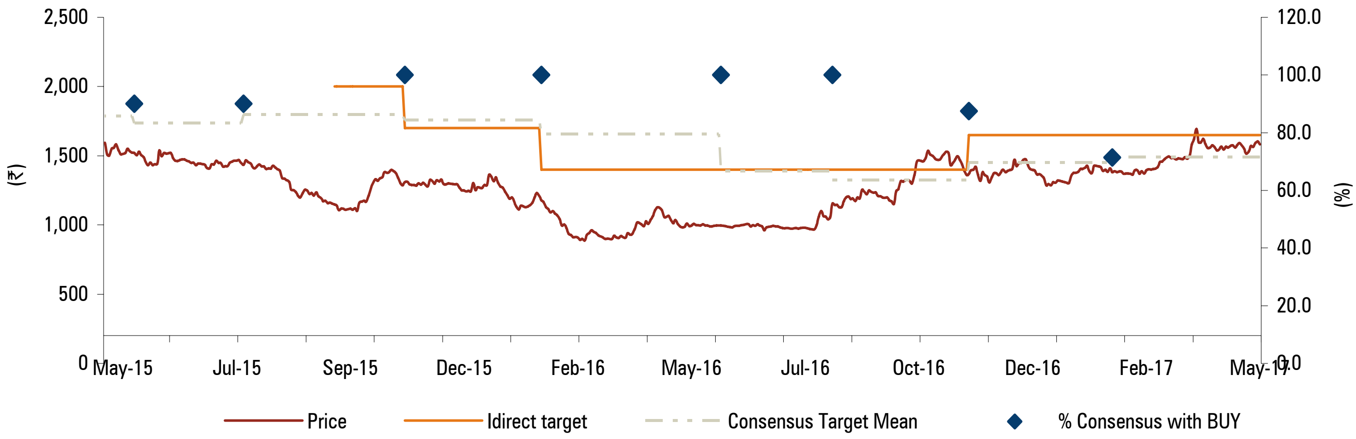
Exhibit 7: DuPont analysis; RoE expected to improve

(%)	FY15	FY16	FY17	FY18E	FY19E
PAT/Sales	54.6	44.4	54.0	55.2	55.3
Sales/Asset	70.8	64.4	55.8	61.6	62.1
Asset/Equity	100.8	100.6	100.8	100.8	100.7
ROE	38.9	28.8	30.4	34.3	34.6

Source: Company, ICICIdirect.com Research

Prospects for the rating business remain benign in the long term. CARE has proved its ability to gain market share in the rating segment along with maintaining best-in-class margins. Hence, we remain bullish on the stock from a long term perspective.

Recommendation history vs. consensus estimate



Source: Bloomberg, Company, ICICIdirect.com Research

Key Events

Date	Event
FY05	Signs MoU with NSIC as approach rating agency for SSIs
FY06	Launches new products such as rating of SMEs, SSIs, mutual funds, issuer rating and IPO grading
FY07	Develops grading methodolgy for infra projects, ultra mega power projects
FY08	Executes MoUs with 19 banks to provide rating facilities under Basel II framework
FY10	Establishes CARE Knowledge Centre at Ahmedabad. Commences providing technical assistance to rating agency in Ecuador
FY11	Acquires license to operate in Maldives. Launches new products including equigrade, ESCO grading, etc.
FY12	Acquires 75.1% stake in Kalypto Technologies
FY12	Acquires indirect recognition as an external credit assessment institution from Hong Kong Monetary Authority
FY13	Comes out with IPO at ₹ 750 with objective to provide exit to existing investors
FY15	Pays dividend of ₹ 71 in H1FY15 (₹ 65 per share special dividend in Q2FY15)

Source: Bloomberg, Company, ICICIdirect.com Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Franklin Advisers, Inc.	31-03-2017	10.8%	3.19M	0
2	Life Insurance Corporation of India	31-03-2017	9.79%	2.88M	0
3	Canara Bank Ltd	31-03-2017	8.90%	2.62M	0
4	Franklin Templeton Asset Management (India) Pvt. Ltd.	31-03-2017	4.88%	1.44M	0
5	Reliance Nippon Life Asset Management Limited	31-03-2017	3.42%	1.01M	0
6	Goldman Sachs Asset Management International	31-03-2017	3.35%	0.99M	+0.51M
7	Norges Bank Investment Management (NBIM)	31-03-2017	3.17%	0.93M	0
8	UTI Asset Management Co. Ltd.	31-03-2017	2.70%	0.80M	-0.04M
9	Bajaj Group of Industries	31-03-2017	2.07%	0.61M	0
10	Goldman Sachs Asset Management (India) Private Ltd.	31-03-2017	2.05%	0.60M	+0.01M

Source: Reuters, ICICIdirect.com Research

Shareholding Pattern

(in %)	Dec-15	Mar-16	Sep-16	Dec-16	Mar-17
Promoter	0.0	0.0	0.0	0.0	0.0
FII	31.0	30.5	31.1	36.0	37.8
DII	45.7	44.1	44.3	40.1	38.2
Others	23.3	25.4	24.6	23.9	24.0

Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Goldman Sachs Asset Management International	+13.41M	+0.51M	The Vanguard Group, Inc.	-7.25M	-0.28M
Morgan Stanley Investment Management Inc. (US)	+1.06M	+0.04M	State Bank of India	-3.30M	-0.17M
Jupiter Asset Management Ltd.	+0.58M	+0.03M	Mirae Asset Global Investments (India) Pvt. Ltd.	-2.66M	-0.10M
BlackRock Institutional Trust Company, N.A.	+0.41M	+0.02M	UTI Asset Management Co. Ltd.	-0.93M	-0.04M
Mirae Asset Global Investments Co., Ltd.	+0.29M	+0.02M	J.P. Morgan Asset Management (Hong Kong) Ltd.	-0.35M	-0.01M

Source: Reuters, ICICIdirect.com Research

Financial summary

Profit and loss statement — ₹ Crore

(₹ Crore)	FY16	FY17	FY18E	FY19E
Net Sales	264.8	280.5	312.3	368.2
Growth (%)	3.0	5.9	11.3	17.9
Other Income	8.6	32.9	38.1	41.9
Total Revenue	273.4	313.4	350.4	410.0
Raw Material Expenses	0.0	0.0	0.0	0.0
Employee Expenses	69.7	66.9	70.1	20.7
Marketing Expenses	0.0	0.0	0.0	0.0
Other operating expenses	23.1	27.1	28.7	5.0
Total Operating Expenditure	92.7	94.0	98.8	25.6
EBITDA	172.1	186.6	213.5	254.9
Growth (%)	6.2	8.4	14.5	19.4
Interest	0.0	0.0	0.0	0.0
PBDT	180.7	219.4	251.6	384.4
Depreciation	3.9	3.1	4.1	4.4
PBT	176.8	216.3	247.5	380.0
Total Tax	59.1	64.8	74.9	88.6
PAT	117.6	151.5	172.5	291.4
Growth (%)	-16.2	28.8	13.9	68.9
EPS	40.0	51.5	58.6	69.2

Source: Company, ICICIdirect.com Research

Cash Flow statement

(₹ Crore)	FY16	FY17	FY18E	FY19E
Profit after Tax	117.6	151.5	172.5	203.7
Add: Depreciation	3.9	3.1	4.1	4.4
Cash Flow before WC changes	121.6	154.7	176.7	208.1
Net Increase in Current Assets	-8.9	-2.1	-2.5	-7.9
Net Increase in Current Liabilities	6.6	-11.3	-2.0	5.4
Net Cash Flow from Operating Activities	119.3	141.3	172.1	205.6
(Purchase)/Sale of liquid investments	-46.4	-59.1	-15.0	-15.0
(Purchase)/Sale of Fixed Assets	-2.7	-4.8	-4.8	-4.8
Net Cash flow from Investing Activities	-49.5	-62.6	-19.8	-19.8
Proceeds from issues of Equity Shares	0.4	0.0	0.0	0.0
One time adj. in P&L Appropriation				
Adj. in General Reserves	0.0	0.0	0.0	0.0
Dividend and Dividend Tax Paid	-93.6	-96.5	-103.4	-117.2
Interest Paid				
Net Cash flow from Financing Activities	-69.9	-61.4	-168.4	-117.2
Net Cash flow	-0.1	17.4	-16.1	68.7
Opening Cash / Cash Equivalent	12.9	12.8	30.2	14.1
Closing Cash / Cash Equivalent	12.8	30.2	14.1	82.8

Source: Company, ICICIdirect.com Research

Balance sheet — ₹ Crore

(₹ Crore)	FY16	FY17	FY18E	FY19E
Liabilities				
Equity Capital	29.4	29.5	29.5	29.5
Reserve and Surplus	379.0	469.1	473.2	559.8
Total Shareholders funds	408.4	498.5	502.7	589.3
Deferred Tax Liability	2.6	3.9	3.9	3.9
Source of Funds	411.0	502.4	506.6	593.1
Assets				
Total Gross Block	77.9	82.7	87.5	92.3
Less: Accumulated Depreciation	22.9	26.1	30.2	34.6
Net Block	54.9	56.6	57.3	57.7
Total Fixed Assets	54.9	56.6	57.3	57.7
Liquid Investments	392.0	451.1	466.1	481.1
Debtors	22.2	23.5	26.2	30.8
Loans and Advances	12.4	12.9	12.2	14.4
Other Current Assets	4.8	5.1	5.6	6.7
Cash	12.8	30.2	14.1	82.8
Total Current Assets	52.2	71.6	58.1	134.6
Creditors	2.2	2.3	2.6	3.0
Provisions	53.1	38.1	29.7	24.5
Application of funds	411.0	502.4	506.6	593.1

Source: Company, ICICIdirect.com Research

Key Ratios

	FY16	FY17	FY18E	FY19E
Per share data (₹)				
EPS	40.0	51.5	58.6	69.2
Cash EPS	41.3	52.5	60.0	70.7
BV	138.9	169.3	170.7	200.1
Operating profit per share	58.5	63.3	72.5	86.5
Cash Per Share	137.7	163.4	163.0	191.5
Operating Ratios (%)				
EBITDA Margin	65.0	66.5	68.4	69.2
PAT Margin	44.4	54.0	55.2	55.3
Return Ratios (%)				
RoE	28.8	30.4	34.3	34.6
RoCE	40.9	36.5	41.3	42.2
Valuation Ratios (x)				
P/E	38.7	30.1	26.4	22.4
EV / EBITDA	24.2	21.9	19.1	15.7
EV / Net Sales	15.7	14.5	13.1	10.9
Sales / Equity	0.6	0.6	0.6	0.6
Market Cap / Sales	17.2	16.3	14.6	12.4
Price to Book Value	11.2	9.2	9.1	7.7
Payout ratio (%)	80	64	60	58
Solvency Ratios (x)				
Current Ratio	0.6	0.9	0.8	1.7
Quick Ratio	0.6	0.9	0.8	1.7

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Banking & Financial Services)

Sector / Company	CMP (₹)	TP(₹)	Rating	M Cap (₹ Cr)	EPS (₹) FY16	EPS (₹) FY17E	EPS (₹) FY18E	P/E (x) FY16	P/E (x) FY17E	P/E (x) FY18E	P/ABV (x) FY16	P/ABV (x) FY17E	P/ABV (x) FY18E	RoA (%) FY16	RoA (%) FY17E	RoA (%) FY18E	RoE (%) FY16	RoE (%) FY17E	RoE (%) FY18E
Bank of Baroda (BANBAR)	192	180	Hold	40,542	-23	7	12	-8.2	25.6	16.3	2.3	2.2	2.0	-0.8	0.2	0.4	-13	4	6
Punjab National Bank (PUNBAN)	167	160	Buy	33,792	-20	8	12	-8.2	20.1	13.6	9.1	5.0	3.2	-0.6	0.3	0.3	-10	4	6
State Bank of India (STABAN)	308	335	Buy	235,105	13	13	19	24.1	23.6	16.4	2.7	1.9	1.7	0.5	0.4	0.5	7	6	8
Indian Bank (INDIBA)	359	350	Buy	12,406	15	29	32	24.3	12.3	11.4	1.7	1.6	1.5	0.4	0.7	0.7	5	8	9
Axis Bank (UTIBAN)	504	540	Hold	120,339	35	15	22	14.6	32.8	22.8	2.4	2.5	2.3	1.7	0.7	0.8	17	7	9
City Union Bank (CITUNI)	175	166	Buy	9,028	7	8	10	23.5	21.7	18.3	3.8	3.4	2.9	1.5	1.5	1.5	16	15	15
Development Credit Bank (DCB)	194	165	Hold	4,946	7	7	8	28.5	27.7	22.9	3.4	3.0	2.5	1.1	0.9	1.0	12	11	12
Federal Bank (FEDBAN)	115	130	Buy	15,951	3	5	7	41.5	23.8	16.7	2.7	2.5	2.2	0.5	0.8	0.9	6	10	13
HDFC Bank (HDFBAN)	1,561	1,700	Buy	368,187	49	57	69	32.1	27.5	22.6	5.5	4.6	4.1	1.9	1.9	1.9	18	18	19
Indusind Bank (INDBA)	1,429	1,570	Buy	85,855	34	38	48	42.2	37.2	29.8	7.3	4.8	4.3	1.8	1.9	1.8	18	16	15
Jammu & Kashmir Bank (JAMKAS)	87	95	Buy	3,818	9	-28	8	10.2	-3.1	10.8	1.0	1.8	1.8	0.5	-1.6	0.4	7	-23	7
Kotak Mahindra Bank (KOTMAH)	951	950	Hold	235,105	11	19	23	83.5	51.3	40.7	7.7	6.8	5.8	1.1	1.7	1.8	9	13	14
Yes Bank (YESBAN)	1,463	1,650	Hold	73,551	48	60	73	30.5	24.3	20.0	4.5	3.1	2.6	1.6	1.7	1.8	21	20	19
NBFCs																			
LIC Housing Finance (LICHF)	690	750	Buy	32,170	33	38	47	21.0	18.0	14.7	3.9	3.2	2.7	1.4	1.4	1.5	20	19	19
Reliance Capital (RELCAP)	681	740	Buy	15,590	38	43	59	17.8	16.0	11.6	1.3	1.4	1.3	1.6	1.6	1.9	7	7	9
HDFC (HDFC)	1,552	1,750	Buy	245,250	45	47	52	34.5	33.1	29.9	7.3	6.3	5.7	2.6	2.4	2.3	22	20	20
PTC India Financial Services (PTCIND)	49	42	Hold	3,070	7	6	6	7.0	8.0	8.1	1.8	1.4	1.3	5.0	4.0	3.0	25	19	15
CARE (CARE)	1,549	1,750	Buy	4,533	40	51	59	38.7	30.1	26.4	11.2	9.2	9.1	40.9	36.5	41.3	29	30	34
Bajaj Finserv (BAFINS)	4,554	4,900	Buy	71,505	117	150	203	38.9	30.3	22.4	5.7	4.8	3.9	1.9	2.1	2.4	16	17	19
Bajaj Finance (BAJAF)	1,364	1,300	Buy	69,261	24	34	44	55.7	40.6	31.1	9.6	8.1	6.4	3.2	3.4	3.3	21	22	23

Source: Company, ICICIdirect.com Research

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