

# RURAL ELECTRIFICATION CORPORATION

## No unpleasant asset quality surprise; earnings intact



India Equity Research | Banking and Financial Services

Rural Electrification Corporation's (REC) Q4FY17 PAT, at INR13.2bn (up 14% YoY), came marginally lower than estimate on higher credit cost (as provision coverage jumped >500bps QoQ to > 33%). As the company has been following RBI's norms from FY15, there was no unpleasant asset quality surprise in Q4FY17, unlike peers. Incremental stress pool (NNPLs + restructured book) rose to 13.3% from 11.4% in Q3FY17, broadly due to rise in restructured book to 11.6% from 9.7% in Q3FY17. REC has proactively derecognised income and made minimum required provisions on a few accounts in the watchlist, thereby limiting the P&L impact in future. While we were sceptical on UDAY's implementation, progress so far has been encouraging, on growth as well as NIMs fronts. We expect the stock to trade at 1.1x FY19E P/BV for RoE of 16-17% and dividend yield of 3%. Maintain 'BUY'.

### No unpleasant surprises

GNPLs came in at 2.41% (2.32% in Q3FY17); however, coverage rose to 33.6% (27.7% in Q3FY17) leading to NNPLs dipping to 1.6% (1.68% in Q3FY17). Meanwhile, restructured book rose to INR235bn (up 20% QoQ) following 23% QoQ rise in private segment (to INR126bn) and 17% QoQ jump in public segment (to INR109bn, across 4 projects, of which 3 have been completed within time limit of 4 years and will be upgraded by FY19). Of the restructured pool, management has highlighted that in 1 or 2 accounts no major positive development is expected and could slip into NPL in FY18. However, it has proactively created contingent provisions for the same to minimise earnings impact going forward. Given that REC will move towards 90-day NPL recognition from FY18, we are building in higher GNPLs of 6% by FY19.

### Outlook and valuations: Earnings intact; maintain 'BUY'

REC has been conservatively following RBI norms & has not sprung any negative surprise like peers with respect to stress in state utility projects. However, key monitorable is its private sector exposure, though, in our view, significant recognition is unlikely over near-to-medium term. Also, with large part of repayment under UDAY scheme already being effected, we believe with similar level of disbursement traction, growth visibility has improved for FY18-19. Despite NIM pressure, as incremental spreads are lower with structural improvement across power value chain, it has potential to deliver 16% RoE. The stock is trading at 0.95x FY19 P/BV. We maintain 'BUY/SO' with TP of INR238.

Financials		(INR mn)						
Year to March	Q4FY17	Q4FY16	Growth (%)	Q3FY17	Growth (%)	FY17	FY18E	FY19E
Net revenue	25,558	23,309	9.6	25,846	(1.1)	1,03,748	1,04,398	1,14,365
Net profit #	13,192	11,600	13.7	17,544	(24.8)	62,830	59,040	63,994
Dil. EPS (INR) #	6.7	5.9	13.7	8.9	(24.8)	31.8	29.9	32.4
BV per share (INR)						168.7	191.2	216.1
Price/Adj book (x)						1.3	1.3	1.2
Price/Earnings (x)						6.5	6.9	6.3

#excluding extraordinaries

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: RURL.BO, B: RECL IN)

CMP	: INR 206
Target Price	: INR 238
52-week range (INR)	: 224 / 78
Share in issue (mn)	: 1,974.9
M cap (INR bn/USD mn)	: 406 / 6,285
Avg. Daily Vol.BSE/NSE('000)	: 8,614.2

#### SHARE HOLDING PATTERN (%)

	Current	Q2FY17	Q1FY17
Promoters *	58.9	60.6	60.6
MF's, FI's & BK's	10.9	11.8	11.9
FII's	21.3	17.5	16.5
Others	8.9	10.0	11.0
* Promoters pledged shares (% of share in issue)	:	NIL	

#### PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	1.6	3.4	4.3
3 months	34.8	8.4	12.4
12 months	156.2	17.7	32.2

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**Loan growth flattish; UDAY impact lower than envisaged**

Disbursements were strong at INR206bn (up 72% YoY), leading to flattish loan growth despite repayment of >INR300bn under UDAY scheme. Positively, during this period, we have seen other avenues (renewable and generation segments, among others) cushion the growth impact (we were anticipating decline versus stable book now). With large part of discom debt already repaid, there will not be much further run-down from UDAY’s implementation. Against this backdrop, rising demand for refinancing, working capital and traction in other avenues (renewable and generation segments, among others) will support growth henceforward.

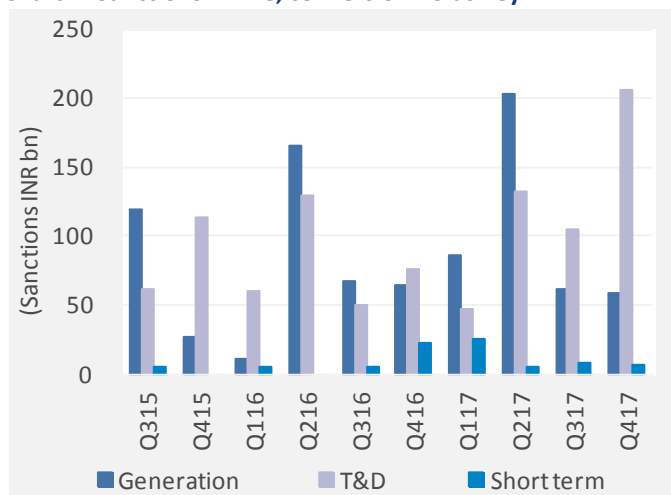
**NIMs benefit from lower funding cost**

After a minor blip in Q3FY17 (impacted by higher interest income reversal of INR1bn) NIMs (calc) stood at 4.57% (versus 4.46% in Q3FY17), benefit flowing largely from lower funding cost. While we do pay heed to the fact that implementation of UDAY will exert pressure on lending yields, best-in-class funding profile will enable REC to structurally maintain >3% spreads and >4% margins and deliver structural 16-17% RoEs.

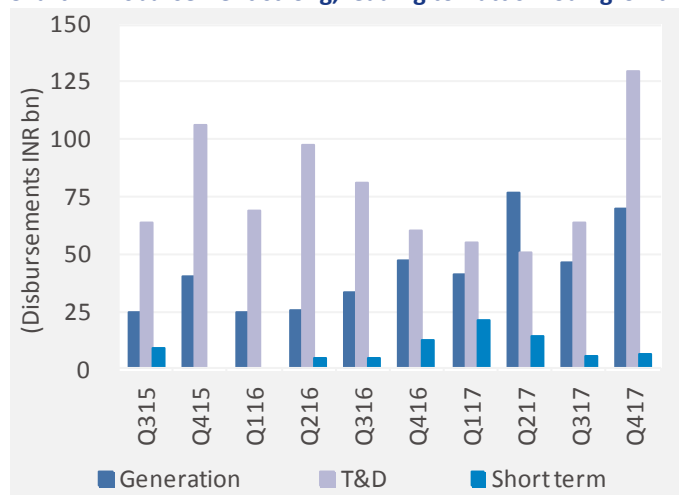
**Other highlights**

- **Restructured pool in state power projects:** stands at INR109bn across 4 projects, of which 3 projects have been completed within time limit of 4 years and will be upgraded by FY19. Similarly, restructured pool across private projects stands at INR125.7bn around 8 projects. Of the restructured pool, management has highlighted that Lanco Vidharbha & Lanco Babandh (with total exposure of INR15bn) could slip into NPL in FY18. However, it has proactively stopped recognizing income on Lanco Vidharbh & has also provided 15%.
- REC will start following 90dpd NPL recognition norm from April 1, 2017. However, it does not expect any major rise in GNPLs because of this.

**Chart 1: Sanctions in line, conversion holds key**



**Chart 2: Disbursement strong, leading to flattish loan growth**



Source: Company

Chart 3: Incremental borrowings largely funded by bonds

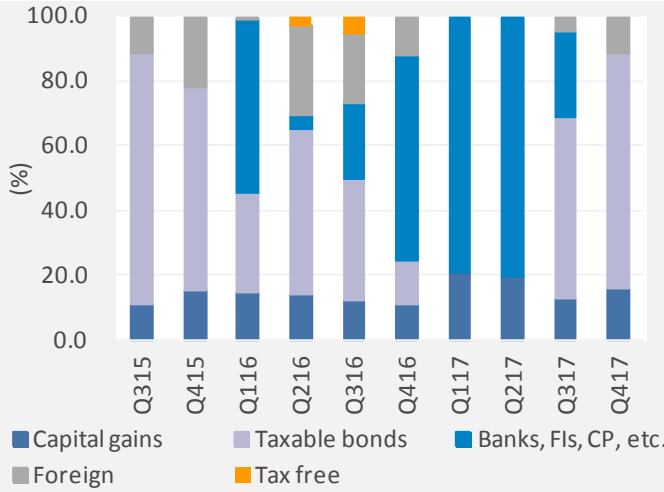


Chart 4: Borrowing profile - Largely funded by bonds

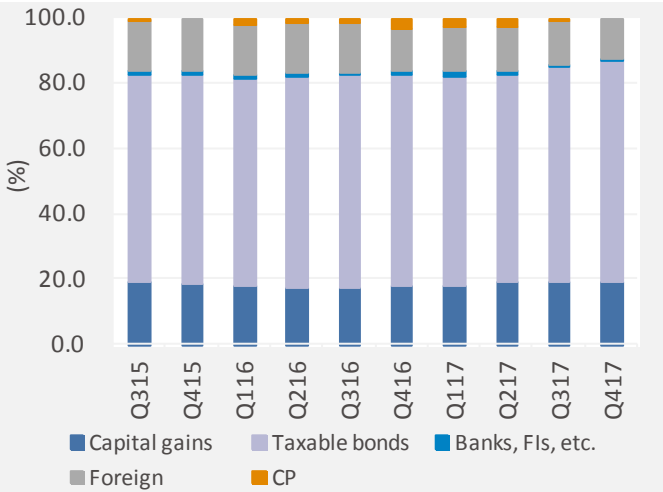
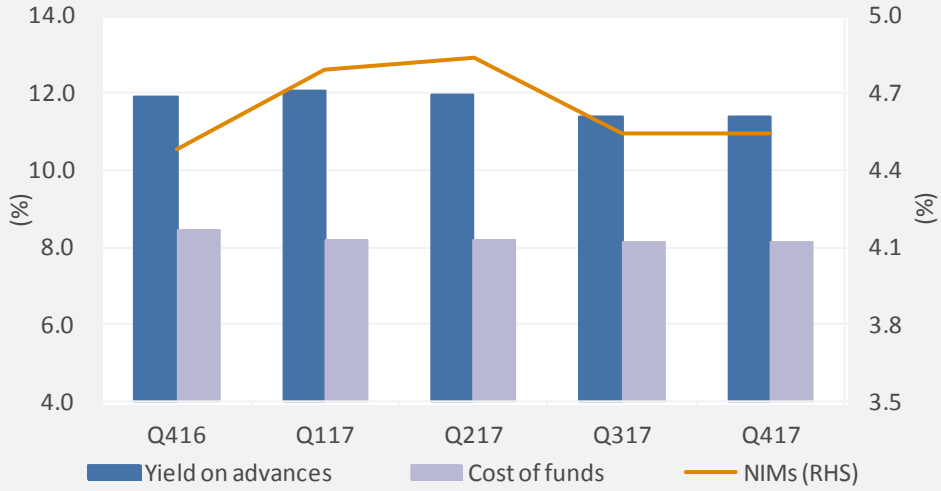
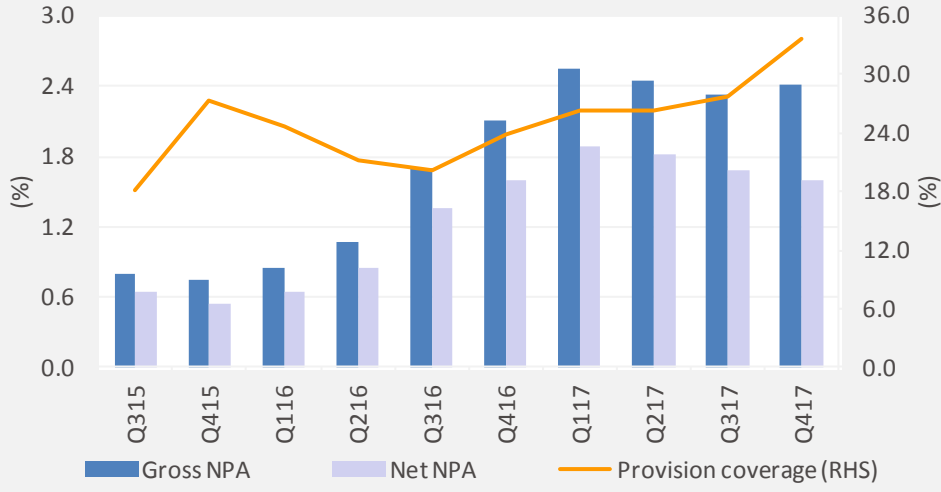


Chart 5: NIMs broadly steady



Source: Company

Chart 6: Asset quality steady



Source: Company

### Financial snapshot

(INR mn)

Year to March	Q4FY17	Q4FY16	% change	Q3FY17	% change	FY17	FY18E	FY19E
Interest income	57,174	60,154	(5.0)	55,728	2.6	230,797	235,317	258,804
Interest exp	34,225	37,535	(8.8)	33,731	1.5	134,644	139,232	153,525
Net income from ops	22,949	22,619	1.5	21,997	4.3	96,153	96,086	105,279
Other income	1,844	203	806.8	3,114	(40.8)	186	195	204
Net revenues	25,558	23,309	9.6	25,846	(1.1)	103,748	104,398	114,365
Staff costs	599	357	67.8	397	50.8	1,781	1,885	2,092
Other expenses	(80)	568	NA	543	NA	1,686	1,939	2,230
Depreciation	13	14	(2.9)	13	0.8	50	145	146
Pre prov op profit (PPOP)	25,026	22,371	11.9	24,892	0.5	100,231	100,429	109,898
Provisions	6,152	4,644	32.5	153	3,912.9	11,095	17,274	19,766
Profit before tax	18,874	17,727	6.5	24,739	(23.7)	89,136	83,155	90,132
Tax	5,682	6,127	(7.3)	7,195	(21.0)	26,305	24,115	26,138
PAT (excl. extraordinary)	13,192	11,600	13.7	17,544	(24.8)	62,830	59,040	63,994
Diluted EPS (INR)	6.7	5.9	13.7	8.9	(24.8)	31.8	29.9	32.4
Cost to income (%)	2.1	4.0		3.7		3.4	3.8	3.9
Tax Rate	30.1	34.6		29.1		29.5	29.0	29.0
B/V per share (INR)	-	-		-		168.7	191.2	216.1
Adj book value / share	-	-		-		157.3	164.1	174.7
Price/ Adj. book (x)	-	-		-		1.3	1.3	1.2
Price/ Earnings	-	-		-		6.5	6.9	6.3

## Q4FY17 analyst meet takeaways

### With respect to asset quality

- REC has been following RBIs prudential norms right from FY15 when it was effected even for older loans. Therefore, there was no negative surprise element in this quarter unlike peer.
- GNPLs stand at INR48.7bn - during this fiscal 2 accounts slipped into NPL - Ind Bharat INR4bn & Lanco Teestha INR2.4bn.
- Restructured pool in state power projects: stand at INR 109 bn across 4 projects of which 3 projects are completed within time limit of 4 years & will be upgraded in 2 years time by FY19. Similarly restructured pool across private projects stand at INR125.71bn around 8 projects. Of the restructured pool, management has highlighted that Lanco Vidharbha & Lanco Babandh (with total exposure of INR 15 bn) could slip into NPL in FY18. However, proactively it has stopped recognizing income on Lanco Vidharbh & has also provided 15%.
- RKM phase I has commissioned - however given stay order from high court still continuing, it has made 9.5% ad hoc provisioning on this account.
- Company would start following 90day recognition norm from 1<sup>st</sup> April 2017, however they do not expect any major rise in GNPLs because of this.

### With respect to growth

- Till date, repayment of loans UDAY scheme is to the tune of INR 427 bn (of this INR 340 bn was in FY17). No further repayments are expected to come for repayment in FY18.
- Renewable portfolio is now 1.0-1.5% of loan book. In FY18 contemplating INR10-15k crs of sanctions & INR5-7k crs of disbursements.
- Loan growth guidance of 15-20%. Overall for the entire power sector, funding requirement for generation capacity addition is the tune of INR 10 tn by FY22 & for transmission capacity addition is INR 2.6 tn. Over & above this for distribution infrastructure investments of INR 5 tn is needed.

### With respect to NIMs

- Yields on outstanding book is at 11.38%. With incremental yields on loan being lower by 125-175 bps & incremental cost of borrowing being at 6.85%, it expects incremental spreads are 75-100bps lower than book spread.

### Company Description

Rural Electrification Corporation (REC), incorporated in 1969, is a leading public institution primarily involved in the financing of T&D and generation projects across India. It was established by GoI for the purpose of developing the T&D infrastructure in rural India and currently acts as a nodal agency for RGGVY, a GoI initiative for rural electrification. Over the last decade, the company has diversified into urban areas and it plays a strategic role in GoI's plan to improve the transmission and distribution infrastructure of India. REC, along with Power Finance Corporation (PFC), is the nodal agency for APDRP, a GoI initiative to improve the financial viability of state power utilities. Loans to T&D projects constituted ~51% of the total loan book.

### Investment Theme

REC, being a specialized power financier, plays a strategic role in GoI's ongoing financing plans for development of the power sector. Superior domain knowledge, financing expertise and government support will enable it to leverage emerging financing opportunities.

REC has been conservatively following RBI norms & has not sprung any negative surprise like peers with respect to stress in state utility projects. However, key monitorable is its private sector exposure, though, in our view, significant recognition is unlikely over near-to-medium term. Also, with large part of repayment under UDAY scheme already being effected, we believe with similar level of disbursement traction, growth visibility has improved for FY18-19. Despite NIM pressure, as incremental spreads are lower with structural improvement across power value chain, it has potential to deliver 16% RoE.

### Key Risks

- REC's growth depends on its ability to remain effectively competitive in the power financing space and to pass the cost of funds to customers. Also, benefits under Section 54EC are being curtailed continuously and there are uncertainties surrounding the level of benefits REC will receive from these instruments, going forward.
- REC's gross NPAs are at low levels. Any major slippage or ineffective recoveries can raise NPAs significantly, adversely affecting profitability and growth.
- REC's ability to borrow from banks may be restricted with the limit on exposure of a bank in infrastructure finance companies at 10% of bank's capital funds.

## Financial Statements

## Key Assumptions

Year to March	FY16	FY17	FY18E	FY19E
<b>Macro</b>				
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
<b>Sector</b>				
Credit growth	9.3	9.0	12.0	14.0
Borrowings 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
<b>Company</b>				
<b>Op. metric assump. (%)</b>				
Yield on advances	12.3	11.4	10.7	10.2
Cost of funds	8.7	8.0	7.7	7.4
Net interest margins	5.1	4.8	4.5	4.3
Dividend income	24	24	24	22
Employee cost growth	5.0	20.9	10.0	10.0
Other opex growth	7.9	4.0	12.9	12.6
Tax rate (%)	30.5	29.5	29.0	29.0
<b>Balance sheet assumption (%)</b>				
Disbursement growth	7.5	26.1	6.4	4.9
Disb. to sanction ratio	70.3	69.2	70.1	70.1
Repayment/prepay. rate	9.0	11.0	11.0	11.0
Gross NPLs	1.7	2.4	4.5	6.0
Prov Cov	27.2	33.6	27.0	27.0
Net NPLs	1.2	1.6	3.3	4.4

## Income statement

(INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Interest income	235,476	230,797	235,317	258,804
Interest expended	140,452	134,644	139,232	153,525
Net interest income	95,025	96,153	96,086	105,279
Non interest income	1,164	7,408	8,117	8,882
Income from operations	96,188	103,562	104,203	114,161
Other income	178.43	186.16	194.67	204.03
Net revenues	96,367	103,748	104,398	114,365
Operating expense	3,382	3,517	3,969	4,467
- Employee exp	1,375	1,781	1,885	2,092
- Depn /amortisation	55	50	145	146
- Other opex	1,952	1,686	1,939	2,230
Preprovision profit	92,985	100,231	100,429	109,898
Provisions	10,898	11,095	17,274	19,766
Loan loss provisions	5,670	7,070	11,880	14,926
Other provisions	3,696	2,615	3,262	2,487
Profit Before Tax	82,087	89,136	83,155	90,132
Less: Provision for Tax	25,036	26,305	24,115	26,138
Profit After Tax	57,050	62,830	59,040	63,994
Extraordinaries	(772)	(368)	(368)	(368)
Reported Profit	56,279	62,463	58,672	63,626
Shares o/s (mn)	1,975	1,975	1,975	1,975
Basic EPS (INR)	28.9	31.8	29.9	32.4
Diluted shares o/s (mn)	1,975	1,975	1,975	1,975
Adj. Diluted EPS (INR)	28.9	31.8	29.9	32.4
Dividend per share (DPS)	6.0	6.5	6.3	6.3
Dividend Payout Ratio(%)	24.2	23.8	24.4	22.5

## Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
Revenues	9.7	7.7	0.6	9.5
NII growth	9.3	1.2	(0.1)	9.6
Opex growth	7.9	4.0	12.9	12.6
PPP growth	9.7	7.8	0.2	9.4
Provisions growth	35.7	1.8	55.7	14.4
Adjusted Profit	3.7	10.1	(6.0)	8.4

## Operating ratios

Year to March	FY16	FY17	FY18E	FY19E
Yield on advances	12.3	11.4	10.7	10.2
Yield on assets	12.6	11.6	10.9	10.5
Cost of funds	8.7	8.0	7.7	7.4
Net interest margins	5.1	4.8	4.5	4.3
Spread	3.9	3.6	3.3	3.1
Cost-income	3.5	3.4	3.8	3.9
Tax rate	30.5	29.5	29.0	29.0

Balance sheet		(INR mn)			
As on 31st March	FY16	FY17	FY18E	FY19E	
Share capital	9,875	19,749	19,749	19,749	
Reserves & Surplus	258,242	293,124	334,948	381,603	
Shareholders' funds	268,117	312,874	354,697	401,353	
Short term borrowings	253,647	251,276	288,479	331,058	
Long term borrowings	1,437,334	1,423,895	1,634,714	1,875,994	
Total Borrowings	1,690,981	1,675,170	1,923,193	2,207,051	
Long Term Liabilities	18,061	20,382	22,851	25,442	
Def. Tax Liability (net)	498	403	403	403	
<b>Sources of funds</b>	<b>1,977,656</b>	<b>2,008,829</b>	<b>2,301,144</b>	<b>2,634,249</b>	
Gross Block	1,813	1,963	2,113	2,263	
Net Block	1,288	1,564	1,568	1,571	
Capital work in progress	137	165	166	166	
Intangible Assets	79	84	89	94	
Total Fixed Assets	1,503	1,813	1,823	1,832	
Non current investments	23,433	25,612	29,320	33,047	
Cash and Equivalents	18,519	46,418	19,313	17,009	
Loans & Advances	2,012,780	2,003,770	2,326,718	2,666,425	
Current assets (ex cash)	50,108	58,339	67,250	74,297	
Other assets	7,488	11,490	9,447	9,952	
Other Current Liab	136,176	138,613	152,726	168,313	
Total Current Liab	136,176	138,613	152,726	168,313	
Net Curr Assets-ex cash	(86,068)	(80,274)	(85,477)	(94,017)	
<b>Uses of funds</b>	<b>1,977,656</b>	<b>2,008,829</b>	<b>2,301,144</b>	<b>2,634,249</b>	
BVPS (INR)	144.9	168.7	191.2	216.1	

Sanctions and disbursements				
Year to March	FY16	FY17	FY18E	FY19E
Sanctions (INR mn)	654,710	838,710	880,646	924,678
Disbursements (INR mn)	460,260	580,390	617,257	647,788
Disb. to sanction ratio	70.3	69.2	70.1	70.1
Disbursements growth (%)	7.5	26.1	6.4	4.9
Sanctions growth (%)	6.6	28.1	5.0	5.0

RoE decomposition (%)				
Year to March	FY16	FY17	FY18E	FY19E
Net int. income/assets	5.1	4.8	4.5	4.3
Non int. income/assets	0.1	0.4	0.4	0.4
Invst. profits/Assets	-	-	-	-
Net revenues/assets	5.2	5.2	4.8	4.6
Operating expense/assets	0.2	0.2	0.2	0.2
Provisions/assets	0.6	0.6	0.8	0.8
Taxes/assets	1.3	1.3	1.1	1.1
Total costs/assets	2.1	2.1	2.1	2.0
ROA	3.1	3.2	2.7	2.6
Equity/assets	14.3	15.6	16.5	16.3
ROAE (%)	21.3	20.3	16.6	15.9

Valuation parameters				
Year to March	FY16	FY17	FY18E	FY19E
Adj. Diluted EPS (INR)	28.9	31.8	29.9	32.4
Y-o-Y growth (%)	3.7	10.1	(6.0)	8.4
BV per share (INR)	144.9	168.7	191.2	216.1
Adj. BV per share (INR)	136.0	157.3	164.1	174.7
Diluted P/E (x)	7.1	6.5	6.9	6.3
P/B (x)	1.4	1.2	1.1	1.0
Price/ Adj. BV (x)	1.5	1.3	1.3	1.2
Dividend Yield (%)	2.9	3.2	3.0	3.0



## Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		P/B (X)		ROAE (%)	
		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Rural Electrification Corporation	6,285	6.9	6.3	1.1	1.0	16.6	15.9
Capital First	1,034	18.8	14.8	2.6	2.3	14.9	16.6
Dewan Housing Finance	1,998	11.6	10.2	1.5	1.4	13.7	14.3
HDFC	38,837	30.2	26.3	5.8	5.2	20.0	20.8
Indiabulls Housing Finance	7,310	13.6	11.4	3.6	3.1	27.7	29.2
LIC Housing Finance	5,558	16.5	15.0	2.8	2.4	19.6	18.9
Mahindra & Mahindra Financial Services	2,923	27.8	19.0	2.8	2.5	10.2	13.8
Manappuram General Finance	1,135	8.8	7.6	2.0	1.8	24.9	24.9
Muthoot Finance	2,442	11.4	10.1	2.1	1.8	19.7	19.4
Power Finance Corp	5,589	5.3	5.2	0.9	0.8	17.8	16.1
Reliance Capital	2,156	11.3	9.0	0.8	0.8	7.4	8.6
RepcO Home Finance	739	22.1	18.3	3.6	3.0	17.5	18.0
Shriram City Union Finance	2,238	17.1	12.0	2.5	2.1	15.7	19.3
Shriram Transport Finance	3,526	13.5	8.8	1.8	1.5	14.2	18.8
Median	-	13.6	10.8	2.3	2.0	17.1	18.4
AVERAGE	-	15.4	12.4	2.4	2.1	17.1	18.2

Source: Edelweiss research

## Additional Data

### Directors Data

Dr. P.V. Ramesh	Chairman & Managing Director	Ajeet Kumar Agarwal	Director
Sanjeev Kumar Gupta	Director	Arun Kumar Verma	Director
Arun Singh	Director	T.T. Ram Mohan	Director
Aravamudan Krishna Kumar	Director	Asha Swarup	Director

Auditors - Raj Har Gopal & Co.

*\*as per last annual report*

### Holding - Top 10

	Perc. Holding		Perc. Holding
Life Insurance Corporation of India	7.67	Hdfc Asset Management Company	1.76
Prudential Plc	1.57	Benchmark Asset Management Co Ltd	1.36
Vanguard Group	1.12	Robeco Groep Nv	0.94
Dimensional Fund Advisors Private Ltd	0.90	Wisdomtree Investment Inc	0.47
Grantham Mayo Van Otterloo	0.35	Jupiter Investment Management Group	0.32

*\*as per last available data*

### Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
31 May 2016	Integrated Core Strategies (Asia) Pte.Ltd.	Buy	5092346	160.21

*\*in last one year*

### Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
28 Mar 2017	President of India acting through Ministry of Power	Sell	9897155.00

*\*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 Ltd.	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	SO	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	SO	M
Oriental Bank Of Commerce	HOLD	SP	L	Power Finance Corp	BUY	SO	M
Punjab National Bank	BUY	SP	M	Reliance Capital	BUY	SP	M
Repco Home Finance	BUY	SO	M	Rural Electrification Corporation	BUY	SO	M
Shriram City Union Finance	BUY	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, Equitas Holdings Ltd., 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
30-May-17	<b>Power Finance Corporation</b>	Realignment with RBI norms takes a toll on earnings; <i>Result Update</i>	137	Buy
26-May-17	<b>Manappuram Finance</b>	Soft quarter; <i>Result Update</i>	91	Buy
26-May-17	<b>Repco Home Finance</b>	Recovery on horizon; <i>Result Update</i>	778	Buy

### Distribution of Ratings / Market Cap

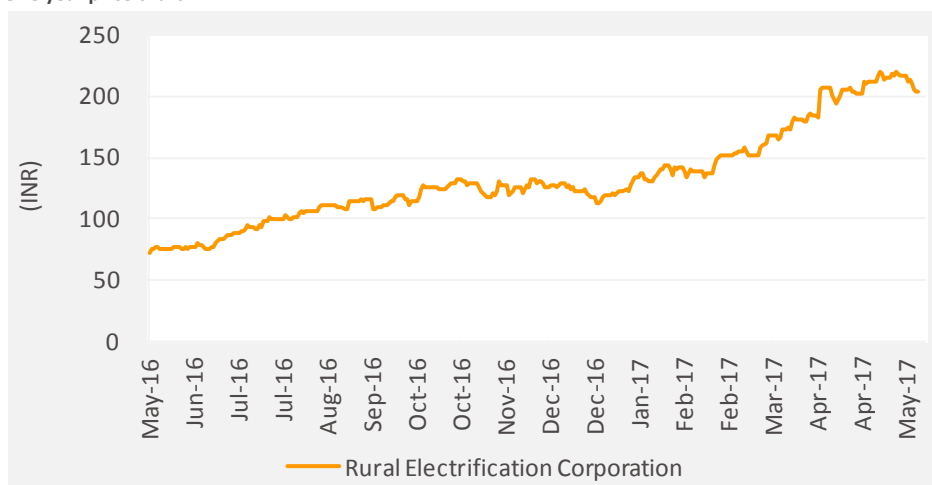
#### Edelweiss Research Coverage Universe

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

### One year price chart



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