

# RURAL ELECTRIFICATION CORPORATION

## Stress recognised upfront; growth looking up

India Equity Research | Banking and Financial Services



Rural Electrification Corporation's (REC) Q4FY18 earnings were impacted by conservative application of RBI's reclassification norm (additional slippage of INR96bn). Encouragingly, upgrades have crystallised during the quarter (INR70bn from state restructured book); consequently, stress pool (NNPL + restructured) fell to 8.3% (11.5% in Q3FY18)—a trend, management believes, will sustain. Meanwhile, operating performance was soft as NII fell >10% QoQ, a derivative of lower NIMs (down >70bps following interest income reversal). We believe as structural improvement plays through power sector NIMs will continue to be under pressure. This along with elevated credit cost (coverage at 20%) leads us to prune our FY19/20 EPS by 14%/4%. Despite this, the stock has potential to generate RoE of 14-15% with dividend yield of 7%. Juxtaposing this with valuation of 0.7x FY20 P/ABV renders risk reward favourable. Hence maintain BUY.

### Stress recognised upfront; upgrades crystallising as guided

Conservative application of RBI's asset reclassification (applicable to banks only) led to GNPLs rising to INR171bn (INR67bn in Q3FY18); this was entirely private projects led, with >85% from private restructured book. This and INR70bn of upgrades from public restructured book led to overall stress book declining to 8.3% (11.5% in Q3FY18). REC expects further upgrades in FY19, a key monitorable. Meanwhile, coverage dipped to 20% (provided additional 10% on NPLs), which will keep credit cost elevated.

### Growth momentum sustained; NIMs pressure mars revenue

NIMs (calc) fell >70bps QoQ largely due to interest income derecognition (of INR11bn), even as loan growth was better than expected (up 19% YoY) leading to revenue miss (down >20% YoY). Even excluding income derecognition, yields were under pressure (implying structural improvement across the power value chain), leading to below-trend NIMs. We expect yield pressure to persist and are building in declining trend in margin.

### Outlook and valuations: Stress pool steady; maintain 'BUY'

FY18 earnings were impacted by stress upfront in private power projects, while there was no negative surprise in state utility projects with resolution starting to crystallise. Despite NIMs pressure, as incremental spreads are lower with structural improvement across the power value chain, REC entails potential to deliver ~14-15% RoE, rendering favourable risk-reward. We maintain 'BUY/SP' with TP of INR154.

#### Financials

	(INR mn)							
Year to March	Q4FY18	Q4FY17	Growth (%)	Q3FY18	Growth (%)	FY18	FY19E	FY20E
Net revenue	19,223	25,558	(24.8)	21,686	(11.4)	86,476	95,576	111,351
Net profit #	8,343	13,192	(36.8)	12,964	(35.6)	46,836	48,751	60,129
Dil. EPS (INR) #	4.2	6.7	(36.7)	6.6	(35.5)	23.7	24.7	30.4
BV per share (INR)						179.7	194.6	215.2
Price/Book (x)						0.7	0.6	0.6
Price/Earnings (x)						5.0	4.8	3.9

#excluding extraordinaries

#### EDELWEISS 4D RATINGS

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

#### MARKET DATA (R: RURL.BO, B: RECL IN)

CMP	: INR 120
Target Price	: INR 154
52-week range (INR)	: 210 / 108
Share in issue (mn)	: 1,974.9
M cap (INR bn/USD mn)	: 236 / 3,484
Avg. Daily Vol.BSE/NSE('000)	: 6,436.8

#### SHARE HOLDING PATTERN (%)

	Current	Q3FY18	Q2FY18
Promoters *	58.3	58.3	58.9
MF's, FI's & BK's	8.9	8.9	7.5
FII's	23.6	23.6	24.4
Others	9.2	9.2	9.2
* Promoters pledged shares (% of share in issue)	:		NIL

#### PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	(5.3)	(0.0)	4.8
3 months	(17.3)	1.9	5.6
12 months	(41.6)	11.4	12.8

#### Kunal Shah

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

#### Prakhar Agarwal

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

#### Abhishek Agrawal

+91 22 4040 7402  
abhishek.agrawal@edelweissfin.com

May 29, 2018

## Banking and Financial Services

**Table 1: Key takeaways from Q4FY18 earnings**

(INR mn)	Q4FY18	Q4FY17	YoY (%)	Q3FY18	QoQ (%)	Comments
Interest income	54,446	57,174	(4.8)	54,701	(0.5)	
Interest expense	37,427	34,225	9.4	34,342	9.0	
Net interest income	17,019	22,949	(25.8)	20,359	(16.4)	Soft NII traction, following interest income reversal of INR11bn which percolated to NIMs dip of > 70bps QoQ
Non-interest income	2,204	2,609	(15.5)	1,327	66.1	
Net revenues	19,223	25,558	(24.8)	21,686	(11.4)	
Operating expenses	1,006	532	88.9	885	13.6	
-Staff expense	381	599	(36.5)	464	(17.9)	
-Depreciation	16	13	21.1	14	15.0	
-Other opex	609	(80)	NA	407	NA	
Operating profit	18,218	25,026	(27.2)	20,801	(12.4)	
Provisions	5,573	6,162	(9.6)	2,053	171.4	Upfronting of stress, has driven sharp rise in credit cost. Lower coverage suggest that credit cost will run at elevated levels
Profit before tax	12,645	18,864	(33.0)	18,748	(32.6)	
Tax expense	4,302	5,682	(24.3)	5,784	(25.6)	
Profit after tax	8,343	13,182	(36.7)	12,964	(35.6)	
EPS (INR)	4.2	6.7	(36.7)	6.6	(35.5)	
<b>Key Metrics</b>						
Loan book	23,94,490	20,19,290	18.6	22,40,140	6.9	Growth momentum improved largely supported by T&D segment
Disbursements	2,22,850	2,05,720	8.3	1,28,920	72.9	
Sanctions	1,28,070	2,70,940	(52.7)	3,88,850	(67.1)	
GNPA	1,71,280	48,730	251.5	67,060	155.4	GNPLs rise largely contributed by slippage of private restructured book (forming > 85% of slippages)
NNPA	1,36,120	32,340	320.9	45,390	199.9	
GNPA (%)	7.2	2.4		3.0		
NNPA (%)	5.7	1.6		2.0		
Restructured (%)	2.6	11.6		9.5		Restructured book dip following upgrade in PSU entity and slippages in private segment
NNPA + Restructured (%)	8.3	13.2		11.5		Overall stress pool gradually tapering off

Source: Company, Edelweiss research

Chart 1: Sanctions soft, improvement holds key

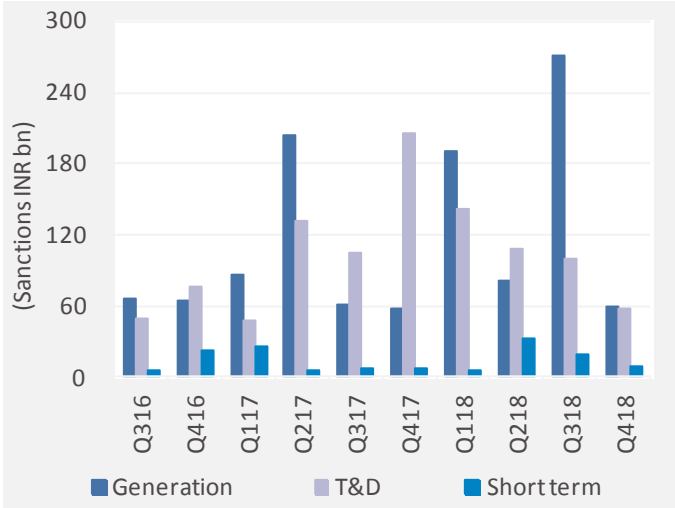


Chart 2: Disbursements supported by T&D segment

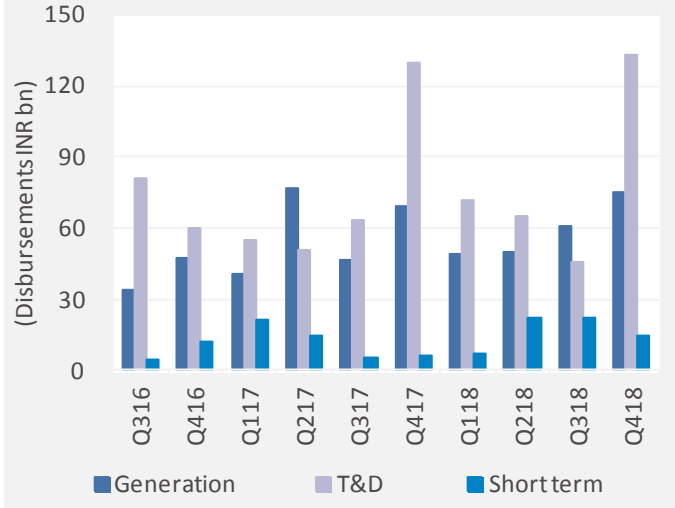


Chart 3: Incremental borrowings largely funded by CPs

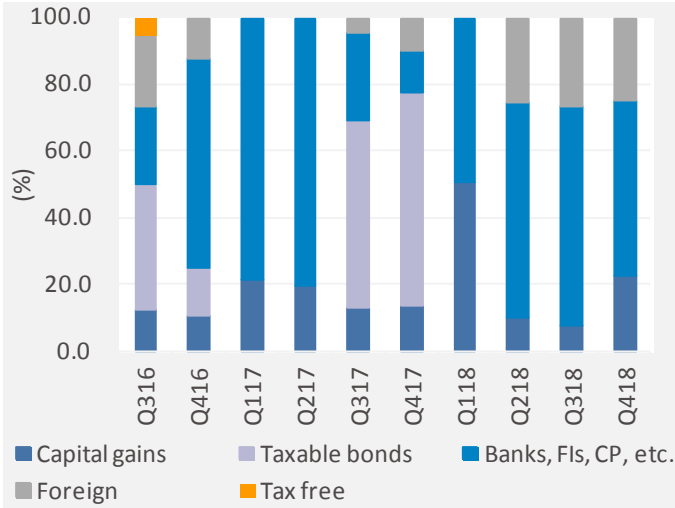


Chart 4: Borrowing profile - Largely funded by bonds

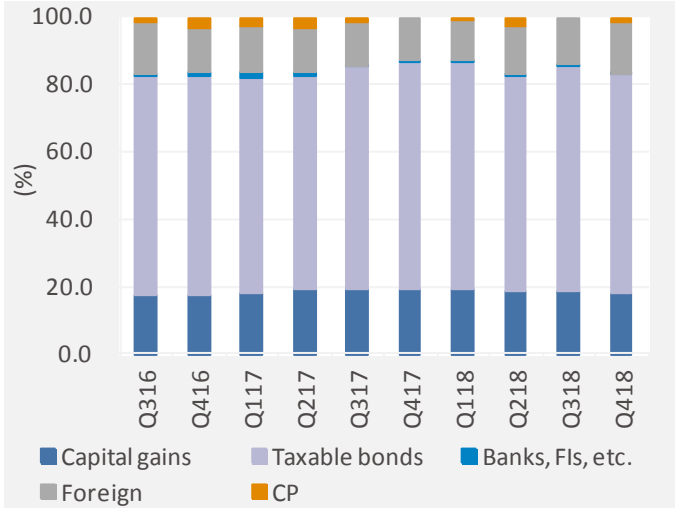
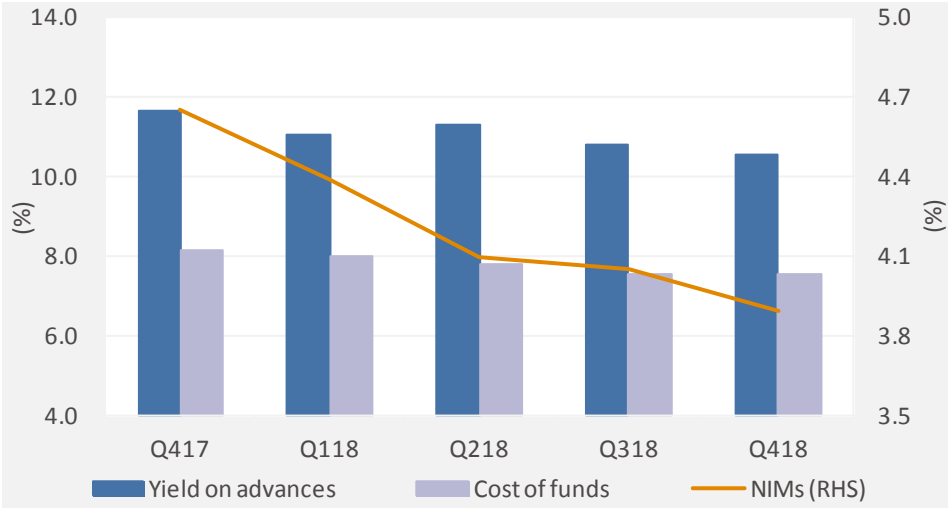
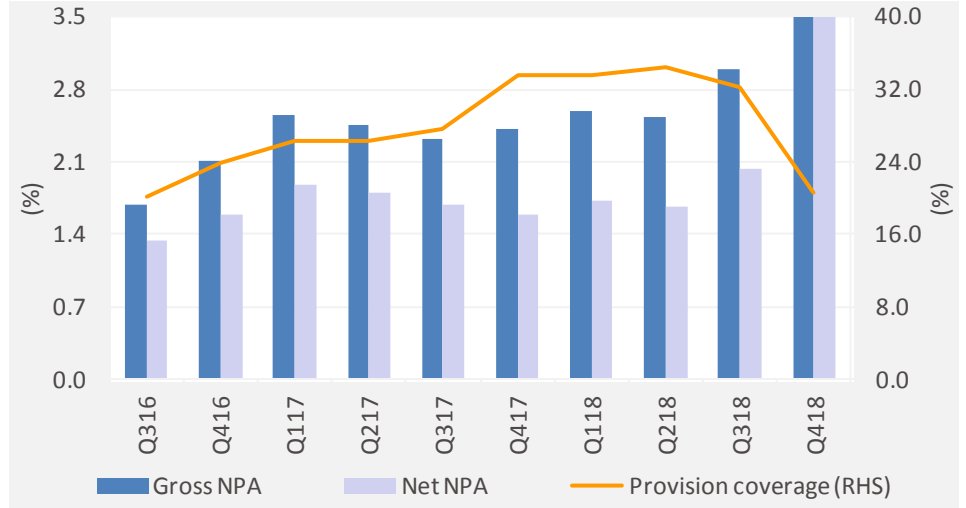


Chart 5: NIMs under pressure following higher interest income reversal



Source: Company

Chart 6: GNPA's rise, recovery trend holds key



Source: Company

## Financial snapshot

(INR mn)

Year to March	Q4FY18	Q4FY17	% change	Q3FY18	% change	FY18	FY19E	FY20E
Interest income	54,446	57,174	(4.8)	54,701	(0.5)	218,912	252,077	297,940
Interest exp	37,427	34,225	9.4	34,342	9.0	138,295	163,009	193,750
Net income from ops	17,019	22,949	(25.8)	20,359	(16.4)	80,617	89,068	104,191
Other income	330	1,844	(82.1)	1,043	(68.4)	195	204	214
Net revenues	19,223	25,558	(24.8)	21,686	(11.4)	86,476	95,576	111,351
Staff costs	381	599	(36.5)	464	(17.9)	1,769	1,969	2,193
Other expenses	609	(80)	NA	407	49.5	1,611	1,853	2,131
Depreciation	16	13	21.1	14	15.0	56	198	195
Pre prov op profit(ppop)	18,218	25,026	(27.2)	20,801	(12.4)	83,041	91,555	106,833
Provisions	5,573	6,162	(9.6)	2,053	171.4	14,154	22,892	22,144
Profit before tax	12,645	18,864	(33.0)	18,748	(32.6)	68,887	68,663	84,688
Tax	4,302	5,672	(24.1)	5,784	(25.6)	22,051	19,912	24,560
PAT	8,343	13,192	(36.8)	12,964	(35.6)	46,836	48,751	60,129
Diluted EPS (INR)	4.2	6.7	(36.7)	6.6	(35.5)	23.7	24.7	30.4
Cost to income (%)	5.2	2.1		4.1		4.0	4.2	4.1
Tax Rate	34.0	30.1		30.9		32.0	29.0	29.0
B/V per share (INR)						179.7	194.6	215.2
Adj book value / share						131.5	149.5	171.5
Price/ Adj. book (x)						0.9	0.8	0.7
Price/ Earnings						5.0	4.8	3.9

## Change in Estimates

	FY19E			FY20E			Comments
	New	Old	% change	New	Old	% change	
NII	89,068	94,388	(5.6)	104,191	105,435	(1.2)	Factoring in continued pressure on margins
PPOP	91,556	99,394	(7.9)	106,833	110,848	(3.6)	
Provisions	22,892	19,307	18.6	22,144	22,545	(1.8)	Factoring in elevated levels of credit cost as coverage remains low
PAT	48,751	56,862	(14.3)	60,129	62,695	(4.1)	
NIMs	3.5	3.8		3.5	3.7		

### 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

FY18 earnings were impacted by stress upfront in private power projects, while there was no negative surprise in state utility projects with resolution starting to crystallise. Despite NIMs pressure, as incremental spreads are lower with structural improvement across the power value chain, REC entails potential to deliver ~14-15% RoE, rendering favourable risk-reward. We maintain **'BUY/SP'**.

### 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 rising. Any major slippage or ineffective recoveries can raise NPAs further, 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	FY17	FY18	FY19E	FY20E
<b>Macro</b>				
GDP(Y-o-Y %)	6.6	6.5	7.1	7.6
Inflation (Avg)	4.5	3.6	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.0	6.5
USD/INR (Avg)	67.1	64.5	66.0	66.0
<b>Sector</b>				
Credit growth	9.0	12.0	14.0	17.0
Borrowings growth (%)	14.0	12.0	13.0	14.0
Bank's base rate (%)	9.0	9.0	9.0	9.0
Wholesale borr. cost (%)	8.5	8.5	8.5	8.5
G-sec yield	6.5	6.5	7.0	7.1
<b>Company</b>				
<b>Op. metric assump. (%)</b>				
Yield on advances	11.4	9.9	9.6	9.8
Cost of funds	8.0	7.5	7.4	7.5
Net interest margins	4.8	3.7	3.5	3.5
Dividend payout	24	45	39	32
Employee cost growth	21.0	10.0	10.0	10.0
Other opex growth	4.0	(2.3)	17.0	12.4
Tax rate (%)	29.5	32.0	29.0	29.0
<b>Balance sheet assumption (%)</b>				
Disbursement growth	26.1	6.3	17.9	11.1
Disb. to sanction ratio	69.2	57.4	65.1	68.8
Repayment/prepay. rate	11.0	11.0	11.0	11.0
Gross NPLs	2.4	7.2	6.5	6.0
Prov Cov	33.6	20.5	30.0	37.0
Net NPLs	1.6	5.7	4.5	3.8

## Income statement

(INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Interest income	230,797	218,912	252,077	297,940
Interest expended	134,644	138,295	163,009	193,750
Net interest income	96,153	80,617	89,068	104,191
Non-interest income	7,408	5,664	6,304	6,946
Income from operations	103,562	86,282	95,372	111,137
Other income	186.16	194.67	204.03	214.32
Net revenues	103,748	86,476	95,576	111,351
Operating expense	3,517	3,436	4,020	4,518
- Employee exp	1,781	1,769	1,969	2,193
- Depn /amortisation	50	56	198	195
- Other opex	1,686	1,611	1,853	2,131
Preprovision profit	100,231	83,041	91,555	106,833
Provisions	11,095	14,154	22,892	22,144
Loan loss provisions	7,070	18,770	19,325	18,045
Other provisions	2,615	(6,841)	972	1,047
Profit Before Tax	89,136	68,887	68,663	84,688
Less: Provision for Tax	26,305	22,051	19,912	24,560
Profit After Tax	62,830	46,836	48,751	60,129
Extraordinaries	(368)	(368)	(368)	(368)
Reported Profit	62,463	46,469	48,383	59,761
Shares o/s (mn)	1,975	1,975	1,975	1,975
Basic EPS (INR)	31.8	23.7	24.7	30.4
Diluted shares o/s (mn)	1,975	1,975	1,975	1,975
Adj. Diluted EPS (INR)	31.8	23.7	24.7	30.4
Dividend per share (DPS)	6.5	9.2	8.3	8.3
Dividend Payout Ratio(%)	23.8	44.9	38.9	31.6

## Growth ratios (%)

Year to March	FY17	FY18	FY19E	FY20E
Revenues	7.7	(16.6)	10.5	16.5
NII growth	1.2	(16.2)	10.5	17.0
Opex growth	4.0	(2.3)	17.0	12.4
PPP growth	7.8	(17.2)	10.3	16.7
Provisions growth	1.8	27.6	61.7	(3.3)
Adjusted Profit	10.1	(25.5)	4.1	23.3

## Operating ratios

Year to March	FY17	FY18	FY19E	FY20E
Yield on advances	11.4	9.9	9.6	9.8
Yield on assets	11.6	10.1	9.9	10.0
Cost of funds	8.0	7.5	7.4	7.5
Net interest margins	4.8	3.7	3.5	3.5
Spread	3.6	2.6	2.5	2.6
Cost-income	3.4	4.0	4.2	4.1
Tax rate	29.5	32.0	29.0	29.0

Balance sheet		(INR mn)			
As on 31st March	FY17	FY18	FY19E	FY20E	
Share capital	19,749	19,749	19,749	19,749	
Reserves & Surplus	293,124	312,305	338,796	376,343	
Shareholders' funds	312,874	332,054	358,545	396,092	
Long term borrowings	1,423,895	1,689,724	1,996,874	2,357,965	
Short term borrowings	251,276	298,187	352,390	416,111	
Total Borrowings	1,675,170	1,987,910	2,349,264	2,774,076	
Long Term Liabilities	20,382	22,851	25,762	28,995	
Def. Tax Liability (net)	403	670	670	670	
<b>Sources of funds</b>	<b>2,008,829</b>	<b>2,343,485</b>	<b>2,734,241</b>	<b>3,199,833</b>	
Gross Block	1,963	2,663	2,813	2,963	
Net Block	1,564	2,165	2,120	2,079	
Capital work in progress	165	225	221	218	
Intangible Assets	84	89	94	99	
Total Fixed Assets	1,813	2,479	2,435	2,396	
Non current investments	25,612	24,461	28,087	31,729	
Cash and Equivalents	46,418	19,023	16,748	16,940	
Loans & Advances	2,003,770	2,394,490	2,794,081	3,267,103	
Current assets (ex cash)	58,339	48,411	53,570	58,973	
Other assets	11,490	7,350	7,649	8,249	
Other Current Liab	138,613	152,728	168,330	185,557	
Total Current Liab	138,613	152,728	168,330	185,557	
Net Curr Assets-ex cash	(80,274)	(104,317)	(114,759)	(126,584)	
<b>Uses of funds</b>	<b>2,008,829</b>	<b>2,343,485</b>	<b>2,734,241</b>	<b>3,199,833</b>	
BVPS (INR)	168.7	179.7	194.6	215.2	

Sanctions and disbursements				
Year to March	FY17	FY18	FY19E	FY20E
Sanctions (INR mn)	838,710	1,075,340	1,118,354	1,174,271
Disbursements (INR mn)	580,390	617,120	727,777	808,312
Disb. to sanction ratio	69.2	57.4	65.1	68.8
Disbursements growth (%)	26.1	6.3	17.9	11.1
Sanctions growth (%)	28.1	28.2	4.0	5.0

RoE decomposition (%)				
Year to March	FY17	FY18	FY19E	FY20E
Net int. income/assets	4.8	3.7	3.5	3.5
Non int. income/assets	0.4	0.3	0.2	0.2
Invst. profits/Assets	-	-	-	-
Net revenues/assets	5.2	4.0	3.8	3.8
Operating expense/assets	0.2	0.2	0.2	0.2
Provisions/assets	0.6	0.7	0.9	0.7
Taxes/assets	1.3	1.0	0.8	0.8
Total costs/assets	2.1	1.8	1.8	1.7
ROA	3.2	2.2	1.9	2.0
Equity/assets	15.6	15.8	14.6	13.7
ROAE (%)	20.3	13.6	13.2	14.9

Valuation parameters				
Year to March	FY17	FY18	FY19E	FY20E
Adj. Diluted EPS (INR)	31.8	23.7	24.7	30.4
Y-o-Y growth (%)	10.1	(25.5)	4.1	23.3
BV per share (INR)	168.7	179.7	194.6	215.2
Adj. BV per share (INR)	157.3	131.5	149.5	171.5
Diluted P/E (x)	3.8	5.0	4.8	3.9
P/B (x)	0.7	0.7	0.6	0.6
Price/ Adj. BV (x)	0.8	0.9	0.8	0.7
Dividend Yield (%)	5.4	7.7	6.9	6.9



## Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		P/B (X)		ROAE (%)	
		FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Rural Electrification Corporation	3,484	4.8	3.9	0.6	0.6	13.2	14.9
Capital First	839	13.5	10.7	1.9	1.7	15.1	16.7
Dewan Housing Finance	2,922	13.6	11.8	2.0	1.8	16.0	16.7
HDFC	45,389	20.5	17.5	3.2	2.6	15.3	16.5
Indiabulls Housing Finance	7,665	12.1	10.0	3.4	2.9	30.5	31.4
LIC Housing Finance	3,746	11.4	9.7	1.7	1.5	17.8	18.1
Mahindra & Mahindra Financial Services	4,572	22.5	19.0	2.9	2.6	13.4	14.5
Manappuram General Finance	1,359	11.4	9.8	2.2	2.0	20.7	21.4
Muthoot Finance	2,365	8.9	7.9	1.7	1.5	21.1	20.4
Power Finance Corp	3,145	3.3	3.1	0.5	0.4	15.0	14.6
Repco Home Finance	563	14.9	12.7	2.4	2.1	17.4	17.4
Shriram City Union Finance	2,119	12.4	10.5	2.2	1.8	18.8	19.0
Shriram Transport Finance	5,169	12.9	10.5	2.3	1.9	19.5	20.2
Median		12.3	10.5	2.1	1.9	16.7	17.8
AVERAGE		12.8	11.3	2.1	1.9	17.3	18.6

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 Corp Of India	5.02	The Prudential Ass Ltd	3.19
HDFC Asset Management Co Ltd	2.77	Prudential PLC	1.64
Blackrock	1.26	Vanguard Group	1.20
Reliance Capital Trustee Co Ltd	1.15	Dimensional Fund Advisors Lp	1.08
SBI Funds Management	0.86	Grantham Mayo Van Otterloo & Co	0.60

*\*as per last available data*

### Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
31 May 2017	Barclays Global Fund Advisors A/C Ishares India Mauritius C	Buy	21715758	193.35

*\*in last one year*

### Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

*\*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	HOLD	SU	M
Bajaj Finserv	BUY	SP	L	Bank of Baroda	BUY	SP	M
Bharat Financial Inclusion	BUY	SP	M	Capital First	BUY	SO	M
DCB Bank	HOLD	SP	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	BUY	SP	L
Indiabulls Housing Finance	BUY	SO	M	IndusInd Bank	BUY	SP	L
Karnataka Bank	BUY	SP	M	Kotak Mahindra Bank	BUY	SO	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	SP	M
Manappuram General Finance	BUY	SO	H	Max Financial Services	BUY	SO	L
Multi Commodity Exchange of India	HOLD	SU	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	M
South Indian Bank	BUY	SO	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
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
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](mailto:research@edelweissfin.com)

Aditya Narain

Head of Research

[aditya.narain@edelweissfin.com](mailto:aditya.narain@edelweissfin.com)

## 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
28-May-18	<b>Max Financial Services</b>	Good performance; new strategic partnership on cards; <i>Result Update</i>	474	Buy
26-May-18	<b>Bank of Baroda</b>	Stress upfront performance; growth looking up; <i>Result Update</i>	141	Buy
23-May-18	<b>Repco Home Finance</b>	Trend reversal underway; sustenance key; <i>Result Update</i>	575	Buy

### Distribution of Ratings / Market Cap

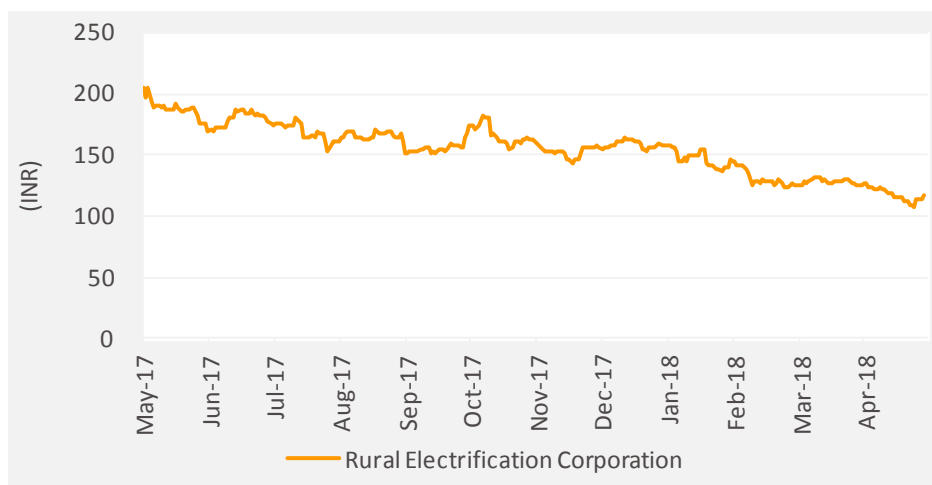
#### Edelweiss Research Coverage Universe

	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



**DISCLAIMER**

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 (list available on [www.edelweissfin.com](http://www.edelweissfin.com)) are organized around five broad business groups – Credit including Housing and SME Finance, Commodities, Financial Markets, Asset Management and Life Insurance.

This Report has been prepared by Edelweiss Securities Limited in the capacity of a Research Analyst having SEBI Registration No. INH200000121 and distributed as per SEBI (Research Analysts) Regulations 2014. 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. Securities as defined in clause (h) of section 2 of the Securities Contracts (Regulation) Act, 1956 includes Financial Instruments and Currency Derivatives. 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 Securities 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 ESL and associates / 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. ESL reserves the right to make modifications and alterations to this statement as may be required from time to time. ESL or any of its associates / 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. ESL is committed to providing independent and transparent recommendation to its clients. Neither ESL nor any of its associates, 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. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. 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 ESL. All layout, design, original artwork, concepts and other Intellectual Properties, remains the property and copyright of ESL 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.

ESL 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 ESL to present the data. In no event shall ESL 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 ESL through this report.

We offer our research services to clients as well as our prospects. Though this report is disseminated to all the customers simultaneously, not all customers may receive this report at the same time. We will not treat recipients as customers by virtue of their receiving this report.

ESL and its associates, officer, directors, and employees, research analyst (including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the Securities, mentioned herein or (b) be engaged in any other transaction involving such Securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company(ies) discussed herein or act as advisor or lender/borrower to such company(ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance. ESL may have proprietary long/short position in the above mentioned scrip(s) and therefore should be considered as interested. The views provided herein are general in nature and do not consider risk appetite or investment objective of any particular investor; readers are requested to take independent professional advice before investing. This should not be construed as invitation or solicitation to do business with ESL.

ESL or its associates may have received compensation from the subject company in the past 12 months. ESL or its associates may have managed or co-managed public offering of securities for the subject company in the past 12 months. ESL or its associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. ESL or its associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. ESL or its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. Research analyst or his/her relative or ESL's associates may have financial interest in the subject company. ESL and/or its Group Companies, their Directors, affiliates and/or employees may have interests/ positions, financial or otherwise in the Securities/Currencies and other investment products mentioned in this report. ESL, its associates, research analyst and his/her relative may have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance.

Participants in foreign exchange transactions may incur risks arising from several factors, including the following: ( i) exchange rates can be volatile and are subject to large fluctuations; ( ii) the value of currencies may be affected by numerous market factors, including world and national economic, political and regulatory events, events in equity and debt markets and changes in interest rates; and (iii) currencies may be subject to devaluation or government imposed exchange controls which could affect the value of the currency. Investors in securities such as ADRs and Currency Derivatives, whose values are affected by the currency of an underlying security, effectively assume currency risk.

Research analyst has served as an officer, director or employee of subject Company: No

ESL has financial interest in the subject companies: No

ESL's Associates may have actual / beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report.

Research analyst or his/her relative has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No

ESL has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No

Subject company may have been client during twelve months preceding the date of distribution of the research report.

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.

A graph of daily closing prices of the securities is also available at [www.nseindia.com](http://www.nseindia.com)

### **Analyst Certification:**

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

### **Additional Disclaimers**

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

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

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

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

### Disclaimer for U.K. Persons

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

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

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

### Disclaimer for Canadian Persons

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

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

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

### Disclaimer for Singapore Persons

In Singapore, this report is being distributed by Edelweiss Investment Advisors Private Limited ("EIAPL") (Co. Reg. No. 201016306H) which is a holder of a capital markets services license and an exempt financial adviser in Singapore and (ii) solely to persons who qualify as "institutional investors" or "accredited investors" as defined in section 4A(1) of the Securities and Futures Act, Chapter 289 of Singapore ("the SFA"). Pursuant to regulations 33, 34, 35 and 36 of the Financial Advisers Regulations ("FAR"), sections 25, 27 and 36 of the Financial Advisers Act, Chapter 110 of Singapore shall not apply to EIAPL when providing any financial advisory services to an accredited investor (as defined in regulation 36 of the FAR. Persons in Singapore should contact EIAPL in respect of any matter arising from, or in connection with this publication/communication. This report is not suitable for private investors.

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