

HDFC reported earnings growth of 17% YoY to INR11.7bn in Q1FY14, marginally below 20% historical average as incremental growth was led by individual loans. Lower fee income (down 12% YoY), zero investment profits was partially offset by 36% growth in dividend income and 40% higher surplus from MF investments. NPLs, in non-individual category, rose from 0.91% in FY13 to 1.08% in Q1FY14 due to delay in one developer loan account (technical in nature). Individual loan growth momentum was strong at 24% YoY (after sell-downs)—the proportion was up 4 percentage points over the last five quarters. We expect HDFC to maintain consistent track record of 20% loan growth, stable NIMs and controlled asset quality. The stock is currently trading at 3.5x FY15E core mortgage book. We maintain 'HOLD' with TP of INR917.

Strong momentum in individual loans

After sell-downs of INR11.34bn, individual loan growth momentum was still strong at 24% YoY (6% QoQ). Non-individual loans generally see modest growth in Q1 and it was almost flat in Q1FY14 as well. Even after the sell-down of INR63bn in the past 12 months, the proportion of individual loans has increased from 63% to 67%. Defying perception of rising competition, we believe HDFC will maintain 20% growth.

Following historical trends, NIMs came off in Q1

NIMs (calculated) came off 100bps QoQ/flat YoY at 3.1% as was historically witnessed in Q1s. Incremental growth from low yielding retail loans may be a cause. HDFC proactively borrowed money in April and May to fund growth for 2-3 months and its funding costs should not be impacted if RBI measures are temporary in nature. Reliance on bank loans has come off significantly (to <10%) in favour of debt market borrowings. We expect HDFC to maintain NIMs at ~3.5% over FY14-15E.

Outlook and valuations: Consistent core; maintain 'HOLD'

Our channel checks with home loan DSAs indicate that intensifying competition is not significantly impacting HDFC's growth trajectory. Building in stable NIM (at 3.5%), we expect 18% earnings CAGR and RoE of 22% over FY13-15E. Our SOTP value is INR917/share (valuing FY15E core book at 4.3x and investments at INR297). We maintain 'HOLD/ Sector Performer'.

Financials

Year to March	Q1FY14	Q1FY13	Growth (%)	Q4FY13	Growth (%)	FY13	FY14E	FY15E
Inc. from oper. (INR mn)	17,936	15,265	17.5	21,214	(15.5)	69,061	81,800	96,264
PAT (INR mn)	11,731	10,019	17.1	15,552	(24.6)	48,483	56,728	66,480
BV per share (INR)						162	180	199
Adj book value						109	125	144
Diluted EPS (INR)	7.5	6.7	12.1	10.3	(27.6)	31.4	36.6	42.7
Price/Book (x)						5.0	4.5	4.0
Diluted P/E (x)						25.6	22.0	18.8

EDELWEISS 4D RATINGS

Absolute Rating	HOLD
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Low
Sector Relative to Market	Equalweight

MARKET DATA (R: HDFC.BO, B: HDFC IN)

CMP	: INR 803
Target Price	: INR 917
52-week range (INR)	: 931 / 631
Share in issue (mn)	: 1,554.1
M cap (INR bn/USD mn)	: 1,248/ 21,032
Avg. Daily Vol.BSE/NSE('000)	: 3,283.0

SHARE HOLDING PATTERN (%)

	Current	Q4FY13	Q3FY13
Promoters *	-	-	-
MF's, FI's & BK's	13.0	13.2	13.8
FII's	73.6	73.7	73.2
Others	13.3	13.1	13.1
* Promoters pledged shares (% of share in issue)			NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	(4.7)	3.6	2.3
3 months	(1.8)	4.3	6.0
12 months	15.8	15.0	33.1

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Rise in NPLs in non-individual category, though technical in nature

GNPLs rose in the non-individual category from 0.91% to 1.08% due to slippage in one developer account (though technical in nature and should get upgraded during the course of this fiscal). Besides this, performance is equally satisfactory in both individual as well as non-individual segment. In retail segment, NPLs went up by merely 3bps to 0.61%. HDFC has not yet reversed provisions of INR2.7bn that it has been holding towards dual rate products -- though eligible to reverse as the loans have completed one year of satisfactory performance. Considering the deteriorating macro economic conditions, asset quality performance particularly in non-individual category will be a key monitorable, though HDFC, in decades of its history across cycles, has not witnessed any significant stress on balance sheet.

Lower fee income; zero investment profits

- Fee income declined by 12% YoY as incremental growth was led by low fee-generating retail loans. As we see build up in non-individual loans through the course of this fiscal, we will see traction back in fee income.
- Profit on sale of investments was NIL (compared to INR3.2bn in FY13).
- Dividend income of INR21.7bn primarily constituted dividend from HDFC Bank.
- Unhedged forex exposure has come off to USD 56 mn and hit due to rupee depreciation was insignificant.

Operating expenses higher than expected

- Staff expenses grew 22% due to increased employee addition. With RBI making norms stricter for lending in terms of meeting KYC and other documentation, they have hired few employees at branch levels to maintain their competitive edge with respect to quick turnaround time and efficient service levels.
- Establishment expenses were higher (>40% growth YoY as well QoQ) due to higher rental expenses and should moderate as it relocates offices.

ZCBs: Blended cost net of tax adjusted against net worth

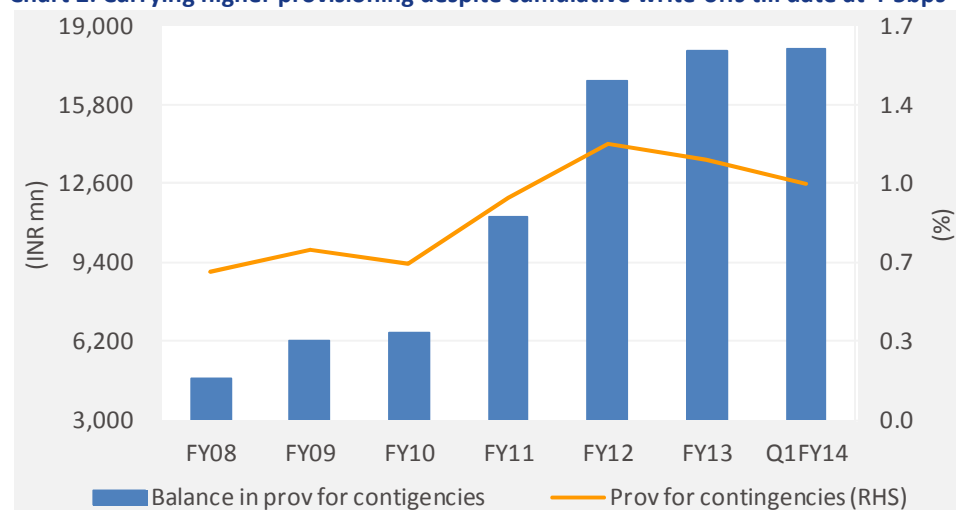
- HDFC will carry zero coupon bonds (ZCBs) on a steady state basis at ~INR75bn, equivalent to the value of its investments in HDFC Bank and insurance companies. The average cost of ZCBs is 9.5-9.7% and it has adjusted interest on ZCBs of INR967mn (net of tax) in Q1FY14 from reserves.
- In our estimate, the blended cost of ~9-10% on these are knocked off from securities premium account as per its accounting policy—INR5bn (INR4 per share).

Chart 1: Strong traction in individual loans drives higher loan growth



Source: Company

Chart 2: Carrying higher provisioning despite cumulative write-offs till date at 4-5bps



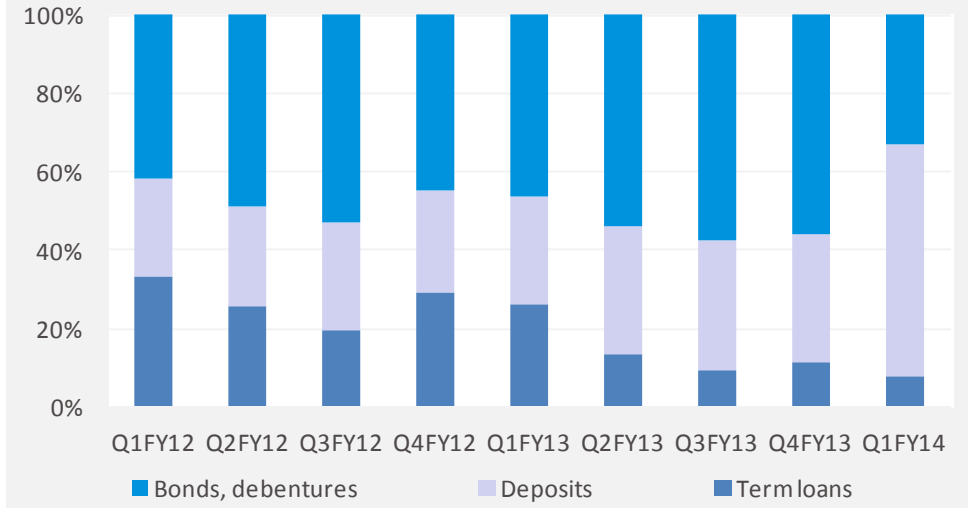
Source: Company

Table 1: NIMs (calc) came off following historically trend in Q1s

(%)	Q1FY14	Q1FY13	Change (bps)	Q4FY13	Change (bps)
Yield on home loans	11.6	12.2	(55)	12.4	(74)
Yield on assets	10.6	11.0	(36)	11.4	(76)
Cost of funds	9.3	9.6	(23)	8.9	40
Margins	3.1	3.1	6	4.1	(100)

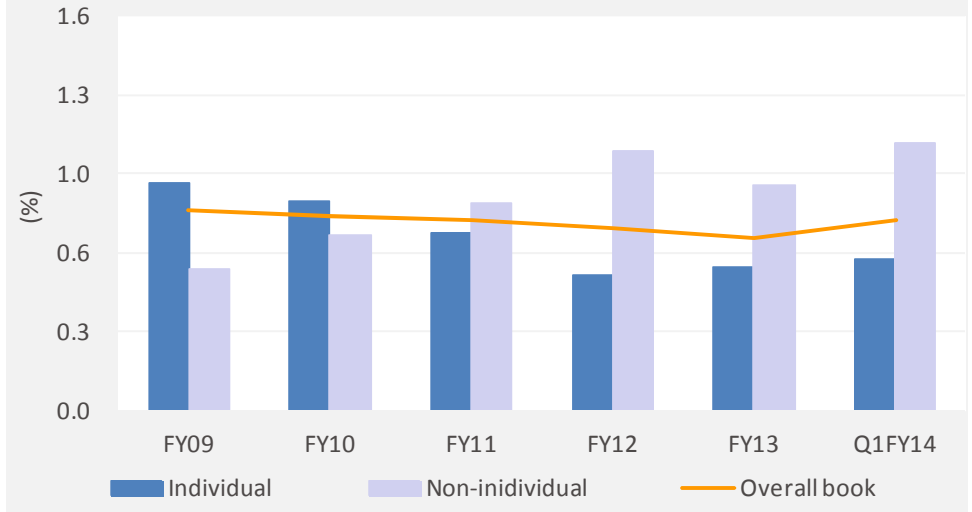
Source: Company, Edelweiss research

Chart 3: Shying away from bank borrowings in favour of bond market



Source: Company

Chart 4: NPLs inch up in non-individual category



Source: Company

Table 2: Book value accretion after adjusting for interest on ZCBs and provisioning

(INR mn)	FY10	FY11	FY12	FY13	FY14E	FY15E
Networth (Opening)	131,374	151,977	173,165	190,176	250,000	278,483
Add: Profits	28,265	35,350	41,226	48,483	56,728	66,480
Add: equity/warrant issuances	6,316	9,776	3,071	39,451	2,709	2,709
Add: Issuances (Sh. Capital)	3,303	9,776	3,071	39,451	2,709	2,709
Add: Issuances (Warrant)	3,013	-				
Less: Dividend	11,905	15,516	18,897	22,517	26,460	30,906
Less: Dividend	10,336	13,202	16,247	19,329	22,691	26,592
Less: Tax on Div.	1,717	2,142	2,636	3,039	3,769	4,314
Less: Prior year dividend	(148)	172	15	149		
Total	154,050	181,587	198,595	255,593	282,977	316,766
Less: Utilization						
Provisioning		2,986	3,499	1,213	1,708	2,059
Interest on zero coupon bonds (net of tax)	1,988	5,321	4,851	4,380	5,076	5,196
Utilized from Shelter assistance reserve	85	115	69		100	101
Reversal of teaser loan provisioning					(2,389)	
Networth (Closing)	151,977	173,165	190,176	250,000	278,483	309,411
Book value per share (INR)	105.9	118.1	128.8	161.7	179.6	198.9
Contribution to growth in book value (%)	15.7	13.9	9.8	31.5	11.4	11.1
- Internal accruals	21.5	23.3	23.8	25.5	22.7	23.9
- Equity infusion	4.8	6.4	1.8	20.7	1.1	1.0
- Dividend	(9.1)	(10.2)	(10.9)	(11.8)	(10.6)	(11.1)
- Utilization	(1.6)	(5.5)	(4.9)	(2.9)	(1.8)	(2.6)

Source: Edelweiss research

Table 3: SOTP valuation (FY15E)

	Method	AUMs/book /earnings (INR mn)	Multiple (x)	Value of business (INR mn)	HDFC holding(%)	Value of HDFC's interest (INR mn)	Value per share (INR)
HDFC core mortgage business	PB	223,233	4.3	959,903	100.0	959,903	621
HDFC Bank	Fair value	1,741,950	1.0	1,741,950	23.2	404,132	261
Asset management	% of AUM	1,134,368	5.0	56,718	60.0	34,031	22
Venture Capital	% of AUMs	79,501	10.0	7,950	100.0	7,950	5
HDFC Life Insurance	Appraisal value	4,605	30.2	139,253	72.4	100,777	65
Others						26,276	17
Value of subs						573,167	371
Value (at 20% holding company discount)						458,533	297
Total						1,418,436	917

Source: Edelweiss research

Financial snapshot

(INR mn)

Year to March	Q1FY14	Q1FY13	% change	Q4FY13	% change	FY13	FY14E	FY15E
Interest income	52,198	46,464	12.3	53,392	(2.2)	198,184	230,476	268,036
Interest exp	37,633	33,882	11.1	34,398	9.4	138,909	160,308	185,579
Net int. inc. (INR mn)	14,565	12,582	15.8	18,994	(23.3)	59,275	70,168	82,457
Dividend income	2,171	1,596	36.1	814	166.6	4,807	5,768	6,922
Others	1,200	1,087	10.4	1,405	(14.6)	4,979	5,863	6,885
Net income from ops	17,936	15,265	17.5	21,214	(15.5)	69,061	81,800	96,264
Other income	80	74	8.7	116	(31.2)	351	351	351
Net revenues	18,016	15,339	17.5	21,330	(15.5)	69,412	82,151	96,615
Other expenses	1,880	1,694	11.0	1,309	43.6	6,603	7,767	9,064
Depreciation	55	48	15.7	73	(24.1)	236	248	261
PBT before extraordinary item	16,081	13,597	18.3	19,948	(19.4)	62,573	74,136	87,290
Profit on sale of investments	-	202	NA	1,049	NA	3,156	3,000	3,000
Profit before tax	16,081	13,799	16.5	20,997	(23.4)	65,728	77,136	90,290
Provision for taxes	4,350	3,780	15.1	5,445	(20.1)	17,245	20,408	23,809
PAT	11,731	10,019	17.1	15,552	(24.6)	48,483	56,728	66,480
Diluted EPS (INR)	7.5	6.7	12.1	10.3	(27.6)	31.4	36.6	42.7
NII/GII (%)	27.9	27.1		35.6		29.9	30.4	30.8
Cost/income (%)	10.7	11.4		6.5		7.8	7.6	7.5
Tax rate (%)	27.1	27.4		25.9		26.2	26.5	26.4
Balance sheet data (INR bn)								
Borrowings	1,633	1,438	13.5	1,588	2.8	1,588	1,920	2,319
Mortgage assets	1,770	1,483	19.4	1,696	4.4	1,700	2,046	2,452

Company Description

HDFC is India's largest provider of housing finance, primarily focusing on retail housing. The company has widened its distribution network to 300 plus offices in India. It also covers over 90 locations through its outreach programme, which has helped the corporation disburse housing loans in more than 2,400 towns and cities in India. It has also supplemented the distribution channel through the appointment of direct selling agents (DSA). As on June, 2013, 73.6% of the shares are held by foreign institutional investors/foreign direct investments. Besides the core business of mortgages, HDFC has evolved into a financial conglomerate, diversifying into other businesses through its subsidiaries viz., HDFC Standard Life Insurance (73%), HDFC Asset Management Company (60%), HDFC Bank (23.2%), and HDFC General Insurance Company (74%).

Investment Theme

HDFC is the strongest and the most venerable play on Indian mortgages over the long term. We expect the company, with its strong brand recall, superior real estate knowledge, and revamped distribution strategy, to attain 20% CAGR in loan disbursement over FY13-15E. Besides the core business, HDFC's insurance, AMC, banking, BPO, and real estate private equity businesses are also growing at a rapid pace and the estimated value of its investments/subsidiaries explains HDFC's ~35% market capitalisation. Value of stakes in HDFC Bank and HDFC Standard Life form a significant portion of its unrealised gains. The stock has always traded at a premium to other financial stocks due to its stable earnings profile, superior asset quality and strong management.

Key Risks

Increase in competition and sustained slack in the mortgage market can lead to lower growth than our estimates.

Risk of fraud and NPA accretion due to increase in interest rates and fall in property prices is inherent to the mortgage business.

Financial Statements

Key Assumptions

Year to March	FY12	FY13E	FY14E	FY15E
Macro				
GDP(Y-o-Y %)	6.2	5.0	5.6	6.5
Inflation (Avg)	8.9	7.4	5.2	6.0
Repo rate (exit rate)	8.5	7.5	6.8	6.0
USD/INR (Avg)	48.0	54.5	58.0	56.0
Sector				
Credit growth	17.1	14.7	15.0	16.0
Deposit growth	13.4	13.5	15.0	16.0
Bank's base rate (%)	10.5	9.7	9.5	9.3
Wholesale borrowing cost (%)	10.5	8.9	8.7	8.5
G-sec yield	8.5	7.8	7.6	7.5
Company				
Operating metric assumptions (%)				
Yield on advances	10.9	12.2	11.7	11.4
Net interest margins	3.5	3.5	3.5	3.4
Cost of funds	8.8	9.3	9.1	8.8
Profit on sale of investment (INR mn)	2,702	3,156	3,000	3,000
Dividend income (INR mn)	3,097	4,807	5,768	6,922
Employee cost growth	10.0	20.0	15.0	15.0
Interest on ZCBs (INR mn)	7,363	4,380	5,076	5,196
Other opex growth	10.0	15.0	15.0	15.0
Dividend payout	45.7	46.1	46.6	46.5
Tax rate (%)	27.2	26.2	26.5	26.4
Balance sheet assumption (%)				
Disbursement growth	17.9	15.9	20.0	20.0
Repayment/prepayment rate	36.2	34.1	35.5	36.5
Individual loans/total loans	63.0	65.5	65.8	66.1
Gross NPLs	0.7	0.7	0.7	0.7
Sell-downs to HDFC Bank	35,000	51,750	40,000	35,000

Income statement

(INR mn)

Year to March	FY12	FY13	FY14E	FY15E
Interest income	161,551	198,184	230,476	268,036
Interest expended	111,568	138,909	160,308	185,579
Net interest income	49,983	59,275	70,168	82,457
Non interest income	9,290	10,137	11,983	14,158
- Fee & forex income	2,684	2,413	2,775	3,192
- Misc. income	3,408	5,200	6,179	7,333
- Investment profits	3,198	2,523	3,028	3,634
Income from operations	59,273	69,412	82,151	96,615
Net revenues	59,273	69,412	82,151	96,615
Operating expense	4,519	5,389	6,228	7,200
- Employee exp	2,058	2,462	2,831	3,256
- Depreciation /amortisation	205	236	248	261
- Other opex	2,256	2,691	3,149	3,683
Preprovision profit	54,754	64,023	75,922	89,415
Profit on sale of investments	2,702	3,156	3,000	3,000
Provisions	800	1,450	1,786	2,125
Profit before tax	56,656	65,728	77,136	90,290
Provision for tax	15,430	17,245	20,408	23,809
Profit After Tax	41,226	48,483	56,728	66,480
Reported PAT	41,226	48,483	56,728	66,480
Basic EPS (INR)	27.9	31.4	36.6	42.7
Shares outstanding (mn)	1,477	1,546	1,551	1,555
Diluted EPS (INR)	27.9	31.4	36.6	42.7
Dividend per share (INR)	11.0	12.5	14.6	17.1
Dividend payout (%)	45.7	46.1	46.6	46.5

Growth ratios (%)

Year to March	FY12	FY13	FY14E	FY15E
Revenues	16.5	17.1	17.3	17.0
NII growth	17.7	18.6	18.4	17.5
Opex growth	18.6	19.3	15.6	15.6
PPP growth	19.6	16.9	18.6	17.8
Provisions growth	14.3	81.3	23.2	19.0
Net profit	16.6	17.6	17.0	17.2

Operating ratios

Year to March	FY12	FY13	FY14E	FY15E
Yield on advances	10.9	12.2	11.7	11.4
Yield on assets	11.2	11.6	11.5	11.2
Net interest margins	3.5	3.5	3.5	3.4
Cost of funds	8.8	9.3	9.1	8.8
Spread	2.4	2.3	2.3	2.4
Cost-income	7.7	7.8	7.6	7.5
Tax rate	27.2	26.2	26.5	26.4

Balance sheet		(INR mn)			
As on 31st March	FY12	FY13	FY14E	FY15E	
Equity capital	2,954	3,093	3,102	3,111	
Reserves & surplus	187,222	246,907	275,381	306,299	
Shareholders funds	190,176	250,000	278,483	309,410	
Short term debt	642,898	635,312	768,107	927,407	
Long term debt	748,377	952,968	1,152,161	1,391,110	
Borrowings	1,391,275	1,588,280	1,920,269	2,318,517	
Deferred tax liability	(6,282)	(6,314)	(7,598)	(9,103)	
Sources of funds	1,575,169	1,831,966	2,191,154	2,618,824	
Total net fixed assets	2,340	2,379	2,331	2,270	
Non current investments	120,116	133,412	141,470	150,674	
Current Investments	1,954	2,723	2,887	3,075	
Cash and equivalents	54,729	57,511	69,205	82,918	
Loans and advances	1,404,217	1,700,460	2,046,221	2,451,659	
Other current assets	85,563	52,507	53,590	54,569	
Total current assets (ex cash)	1,546,462	1,813,201	2,171,903	2,592,221	
Others current liabilities	93,749	117,026	124,552	126,340	
Total current liabilities &	93,749	117,026	124,552	126,340	
Net current assets (ex cash)	1,452,714	1,696,175	2,047,352	2,465,880	
Uses of funds	1,575,169	1,831,966	2,191,154	2,618,824	
Book value per share (INR)	128.8	161.7	179.6	198.9	
Loan growth	20.3	20.7	20.3	19.8	
Deposit growth	47.4	43.1	21.0	20.0	
EA growth	19.1	16.3	19.6	19.5	

Sanctions and disbursements					
Year to March	FY12	FY13	FY14E	FY15E	
Sanctions (INR mn)	901,540	1,032,600	1,239,120	1,486,944	
Disbursements (INR mn)	711,130	824,520	989,424	1,187,309	
Disbursements to sanction ratio	78.9	79.8	79.8	79.8	
Disbursements growth (%)	17.9	15.9	20.0	20.0	
Sanctions growth (%)	19.9	14.5	20.0	20.0	

RoE decomposition (%)					
Year to March	FY12	FY13	FY14E	FY15E	
Net interest income/assets	3.5	3.5	3.5	3.4	
Non interest income/assets	0.6	0.6	0.6	0.6	
Investment profits/Assets	0.2	0.2	0.1	0.1	
Net revenues/assets	4.3	4.3	4.2	4.1	
Operating expense/assets	0.3	0.3	0.3	0.3	
Provisions/assets	0.1	0.1	0.1	0.1	
Taxes/assets	1.1	1.0	1.0	1.0	
Total costs/assets	1.4	1.4	1.4	1.4	
ROA	2.8	2.8	2.8	2.8	
Equity/assets	12.6	12.9	13.2	12.2	
ROAE (%)	22.7	22.0	21.5	22.6	

Valuation parameters					
Year to March	FY12	FY13	FY14E	FY15E	
Diluted EPS (INR)	27.9	31.4	36.6	42.7	
Y-o-Y growth (%)	15.8	12.3	16.7	16.9	
Book value per share (INR)	128.8	161.7	179.6	198.9	
Adjusted book value per share	73.4	108.5	125.3	143.5	
Diluted PE (x)	28.8	25.6	22.0	18.8	
Price/BV (x)	6.2	5.0	4.5	4.0	
Price/ Adj. Earnings (x)*	23.5	21.4	18.2	15.5	
Price/ Adj. BV (x)*	7.9	5.1	4.3	3.5	
Dividend yield (%)	1.4	1.6	1.8	2.1	

Peer comparison valuation

Name	Market cap (USD mn)	Diluted PE (X)		Price/BV (X)		ROAE (%)	
		FY14E	FY15E	FY14E	FY15E	FY14E	FY15E
HDFC	21,032	18.2	15.5	4.3	3.5	21.5	22.6
Infrastructure Development Finance Co	3,216	9.0	7.6	1.2	1.1	14.6	15.3
LIC Housing Finance	1,772	8.3	6.9	1.3	1.1	18.1	17.6
Mahindra & Mahindra Financial Services	2,396	13.8	11.0	2.7	2.3	21.2	22.7
Manappuram General Finance	183	4.1	3.4	0.4	0.4	10.7	12.0
Multi Commodity Exchange of India	635	15.5	13.2	3.0	2.7	20.0	20.9
Muthoot Finance	608	4.1	3.7	0.8	0.7	21.4	20.4
Power Finance Corp	2,961	3.4	2.9	0.6	0.5	20.1	19.9
Reliance Capital	1,531	10.6	9.3	0.7	0.7	6.7	7.3
Rural Electrification Corporation	3,197	4.3	3.9	0.9	0.8	23.0	21.4
Shriram City Union Finance	875	9.8	7.9	1.9	1.6	21.6	21.4
Median	-	9.0	7.6	0.8	0.7	20.1	19.9
AVERAGE	-	9.5	8.1	1.3	1.1	15.6	15.8

Source: Edelweiss research

Additional Data

Directors Data

Keki M Mistry	Vice Chairman & MD & CEO	Keshub Mahindra	Vice Chairman
Shirish B Patel	Director	B S Mehta	Director
D M Sukthankar	Director	D N Ghosh	Director
S A Dave	Director	Ram S Tarneja	Director
N M Munjee	Director	Bimal Jalan	Director
J J Irani	Additional Director	V Srinivasa Rangan	Executive Director
Renu Sud Karnad	Managing Director		

Auditors - Deloitte Haskins & Sells

Holding – Top10

	Perc. Holding		Perc. Holding
Aberdeen Asset Management	6.63	Capital International Investments	5.07
Oppenheimer Funds	2.87	Vanguard Group	2.76
JP Morgan	2.31	Life Insurance Corporation	2.13
ICICI Prudential Life	2.09	Virtus Emerging Markets	1.60
Harris Trust & Savings Bank	1.60	Fidelity Management and Research	1.56

**in last one year*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
05 Oct 2012	Cmp Asia Ltd	Sell	57000000	761.77

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
24 Jul 2012	V. Srinivasa Rangan	Sell	26000.00
27 Jul 2012	V Srinivasa Rangan	Sell	26000.00
03 Aug 2012	V. Srinivasa Rangan	Sell	25000.00
06 Aug 2012	V Srinivasa Rangan	Sell	25000.00

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Allahabad Bank	BUY	SP	M	Axis Bank	BUY	SO	M
Bank of Baroda	BUY	SP	M	Development Credit Bank	BUY	SO	M
Federal Bank	BUY	SO	L	HDFC	HOLD	SP	L
HDFC Bank	HOLD	SP	L	ICICI Bank	BUY	SO	L
Indian Overseas Bank	HOLD	SU	M	IndusInd Bank	BUY	SP	L
IDFC	BUY	SO	L	ING Vysya	BUY	SO	L
Karnataka Bank	BUY	SO	M	Kotak Mahindra Bank	REDUCE	SU	M
LIC Housing Finance	BUY	SO	M	Magma Fincorp	BUY	SO	M
Mahindra & Mahindra Financial Services	BUY	SO	M	Manappuram General Finance	BUY	SP	H
Multi Commodity Exchange of India	BUY	SP	M	Muthoot Finance	BUY	SP	M
Oriental Bank Of Commerce	BUY	SO	L	Power Finance Corp	BUY	SO	M
Punjab National Bank	HOLD	SP	M	Reliance Capital	BUY	SO	M
Rural Electrification Corporation	BUY	SO	M	Shriram City Union Finance	BUY	SO	M
South Indian Bank	HOLD	SP	M	State Bank of India	BUY	SO	L
Union Bank Of India	BUY	SO	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

Edelweiss
Ideas create, values protect

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

Allahabad Bank, Axis Bank, Bank of Baroda, Development Credit Bank, Federal Bank, HDFC, HDFC Bank, ICICI Bank, Infrastructure Development Finance Co Ltd, IndusInd Bank, Indian Overseas Bank, Karnataka Bank, Kotak Mahindra Bank, LIC Housing Finance, 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, State Bank of India, Shriram City Union Finance, South Indian Bank, Union Bank Of India, ING Vysya, Yes Bank

Recent Research

Date	Company	Title	Price (INR)	Recos
19-Jul-13	Magma Fincorp	RoE improving, but asset quality key monitorable; <i>Result Update</i>	88	Buy
18-Jul-13	Axis Bank	Retail on track; NPL accretion marginally higher; <i>Result Update</i>	1,238	Buy
18-Jul-13	Kotak Mahindra Bank	Moderation in loan growth; inch up in credit cost; <i>Result Update</i>	712	Reduce

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	120	49	17	186
* - stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	118	56	12	

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

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