

MUTHOOT FINANCE

A bright spot in a dark sky

India Equity Research | Banking and Financial Services



In a sharp contrast to its NBFC peers, Muthoot Finance (Muthoot) reported a better-than-expected Q4FY20 owing to strong growth momentum. The key highlight is robust AUM growth of >20% YoY/8% QoQ on the back of gold price tailwinds—a trend expected to sustain. This coupled with a superior NIM (albeit normalised vis-a-vis Q3FY20 following lower penal collections) supported strong revenue traction. Asset quality remains strong with gross-stage 3 assets declining to sub-2.2% (2.5% in Q3FY20). Other businesses—home finance, Belstar and insurance broking—have been understandably held back by adverse circumstances. We believe the current environment offers a unique growth and asset tailwind to gold financing, forcing our hand to raise FY21/FY22E EPS by 16%/26%—a rarity in these times. We are also raising target to 2.5x consolidated FY22E BVPS (from 2x), thereby leading to a revised TP of INR1,160 (earlier INR883). Frankly, our FY22E RoE of 28% and the low asset quality risk could have justified an even higher multiple, but we recognise that gold financing is after all a mature credit category. Supernormal profitability at low risk would shine through on account of i) a paucity of credit substitutes, ii) gold price tailwind and iii) thinning out of NBFC gold loan competition over the last few years, but a cyclical mean reversion is inevitable. Maintain 'BUY'.

Growth: Shines through as gold price dazzles

AUM growth of >20% YoY/8% QoQ stands out (accretion of >INR30bn being the highest in many quarters). Gold price tailwind helped, reflected in >16% YoY/6% QoQ rise in AUM per gram (~75% of growth). We are raising FY21/FY22 loan growth estimates from 16%/15% to 23%/21%, given gold tailwinds.

Revenue: Momentum surprises, traction to sustain

Despite lower penal interest and a negative carry of higher liquidity, >15% margins underscore pricing power. We expect core NIM to expand by ~50bps over the next two years. Moreover, controlled operating cost and limited credit cost (specific to gold segment) would support an impressive earnings trajectory.

Outlook and valuation: Superior returns ratios; maintain 'BUY'

Muthoot's outlook supported by a gold price tailwind promises accelerated earnings momentum. We see a unique medium term combination of strong growth and an impressive RoE of 28%, not to mention the low asset quality risk. Retain 'BUY/SO'.

Financials						(INR mn)		
Year to March	Q4FY20	Q4FY19	Growth (%)	Q3FY20	Growth (%)	FY20	FY21E	FY22E
Net revenue	16,326	12,694	28.6	16,194	0.8	59,226	71,309	85,982
Net profit	8,151	5,116	59.3	8,034	1.5	30,115	37,099	46,437
Dil. EPS (INR)	20.3	12.8	59.4	20.3	-	75.3	92.8	116.1
Adj. BV (INR)						275.1	349.5	446.2
Price/ Adj book (x)						2.7	2.1	1.7
Price/ Earnings (x)						9.9	8.1	6.4

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: MUTT.BO, B: MUTH IN)

CMP	: INR 1,000
Target Price	: INR 1,160
52-week range (INR)	: 478 / 1,012
Share in issue (mn)	: 401.0
M cap (INR bn/USD mn)	: 401 / 5,278
Avg. Daily Vol.BSE/NSE('000)	: 1,027.8

SHARE HOLDING PATTERN (%)

	Current	Q3FY20	Q2FY20
Promoters *	73.4	73.4	73.5
MF's, FI's & BK's	6.3	7.8	7.5
FII's	14.4	14.5	15.0
Others	5.9	4.2	4.0
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	27.9	11.2	14.8
3 months	60.1	13.0	1.4
12 months	61.0	(15.3)	(24.3)

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Performance of subsidiaries

- **Muthoot Homefin:** Growth moderated during the quarter amid the challenging business environment—loan book contracted 2.4% QoQ to ~INR19.8bn. The focus within this vertical continues to be on extending affordable housing finance, particularly to economically weaker section (EWS) and lower income group (LIG) customers. Given the challenging environment, focus on other business is likely to be muted.
- **Belstar Investment and Finance's** loan portfolio stood at INR26.3bn (up >15% QoQ) with 603 branches spread across Tamil Nadu, Karnataka, Madhya Pradesh, Maharashtra, Kerala, Chattisgarh, Odisha, Gujarat, Rajasthan, Bihar, Uttar Pradesh, and one union territory (Puducherry). Revenue for the quarter stood at INR1.3bn, which translated into PAT of INR220mn (INR260mn in Q3FY20).
- **Muthoot Insurance Brokers** clocked softer growth with premium collection of INR795mn (down 6% QoQ).
- **Asia Asset Finance's** loan portfolio grew 6% QoQ to LKR13.8bn (up ~10% YoY) with 29 branches across Sri Lanka. Revenue came in at LKR817mn (up 5% YoY); however, it reported a loss of LKR20mn.

Table 1: Key takeaways from Q4FY20 earnings

(INR mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Interest income	23,506	18,319	28.3	22,806	3.1	
Interest expense	7,700	6,111	26.0	6,938	11.0	
Net interest income	15,806	12,208	29.5	15,869	(0.4)	
Non-interest income	520	485	7.1	325	59.8	
Net revenues	16,326	12,694	28.6	16,194	0.8	Revenue traction continued following strong growth and superior NIMs
Operating expenses	5,304	4,547	16.7	4,751	11.6	
-Staff expense	3,088	2,741	12.7	2,580	19.7	
-Depreciation	122	119	2.5	110	11.5	
-Other opex	2,094	1,687	24.1	2,062	1.6	
Operating profit	11,021	8,147	35.3	11,443	(3.7)	
Provisions	48	205	NM	640	(92.5)	Asset quality continues to be steady
Profit before tax	10,974	7,942	38.2	10,803	1.6	
Tax expense	2,822	2,827	(0.2)	2,769	1.9	
Profit after tax	8,152	5,115	59.4	8,034	1.5	
EPS (INR)	20.3	12.8	59.4	20.3	-	

Source: Company, Edelweiss research

Table 1: Key takeaways from Q4FY20 earnings (Contd...)

(INR mn)	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)	Comments
Key Metrics						
Gross retail loan AUM	4,16,106	3,42,461	21.5	3,84,982	8.1	AUM growth picked up sharply following gold price tailwinds
Gold loans	4,07,724	3,35,853	21.4	3,77,245	8.1	
Other loans	8,382	6,608	26.8	7,737	8.3	
Gold holding (tonnes)	176	169	4.1	173	1.7	
Subsidiaries						
Asia Asset Finance						
Loan portfolio (LKR)	13,839	12,569	10.1	13,014	6.3	
PAT (LKR)	(20)	48	(141.7)	36	(155.6)	
Muthoot Homefin						
Loan portfolio	19,769	19,075	3.6	20,248	(2.4)	
PAT	12	59	(79.7)	105	(88.6)	
Muthoot Insurance Brokers						
Premium collection	1,063	887	19.8	854	24.5	
PAT	(14)	54	(125.9)	52	(126.9)	
Belstar Investment & Finance						
Loan portfolio	26,310	18,419	42.8	22,849	15.1	
PAT	220	204	7.8	260	(15.4)	

Source: Company, Edelweiss research

Table 2: Trades at 2.1x FY22E P/BV for RoE (consol) at 25% plus

	Standalone				Consolidated			
	FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E
Net profit (INR mn)	19,721	30,115	37,099	46,437	21,157	31,598	38,743	48,360
Networth (INR mn)	91,709	1,14,804	1,45,117	1,84,184	93,145	1,16,288	1,46,762	1,86,106
RoAUM (%)	6.3	8.1	8.1	8.3	5.2	5.0	6.2	6.3
RoE (%)	23.3	29.2	28.5	28.2	24.6	30.2	29.5	29.1
EPS (INR)	49.3	75.3	92.8	116.1	52.9	79.0	96.9	120.9
Book value (INR)	229.6	287.4	363.2	461.0	232.9	290.7	366.9	465.3
Diluted P/E	20.3	13.3	10.8	8.6	18.9	12.7	10.3	8.3
P/BV	4.4	3.5	2.8	2.2	4.3	3.4	2.7	2.1

Source: Company, Edelweiss research

Table 3: Asset quality remains benign

(INR mn)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Stage 3 loan asset	9,326	11,474	12,267	9,769	8,992
% Stage 3 asset on gross loan asset	2.7	3.2	3.4	2.5	2.2
ECL provision	6,359	6,896	7,014	7,178	5,427
ECL provision as % of gross loan assets	1.9	1.9	2.0	1.9	1.3
Excess provision outstanding in books	1,737	1,199	1,199	1,191	2,954

Source: Company

Chart 1: Superior NIMs helps sustain revenue traction

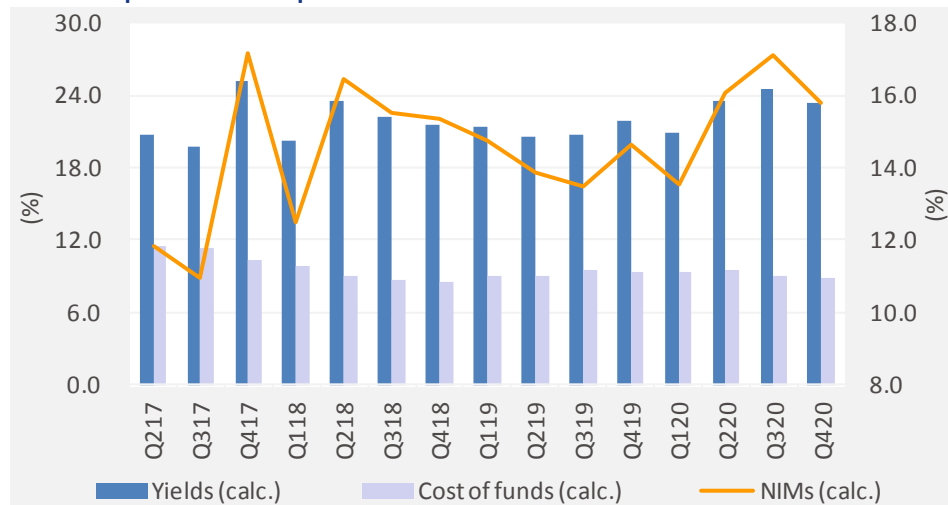


Chart 2: Borrowings composition

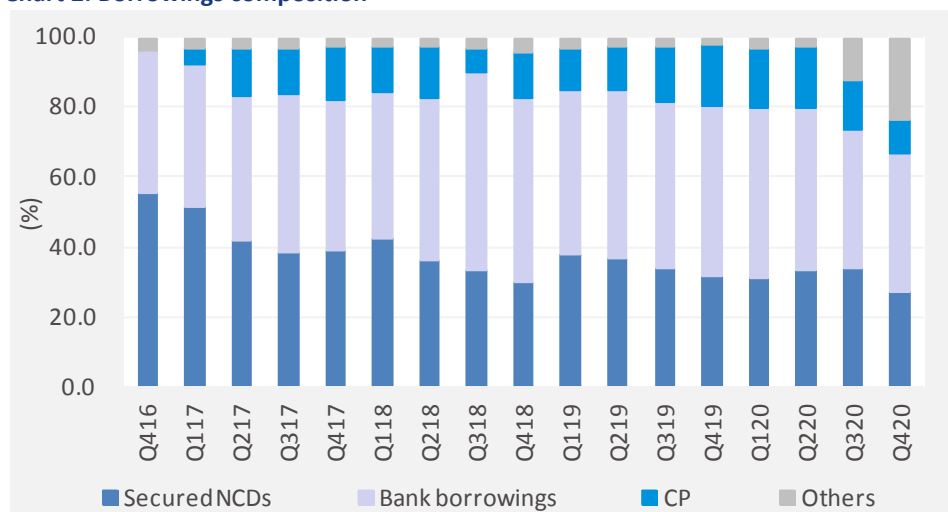
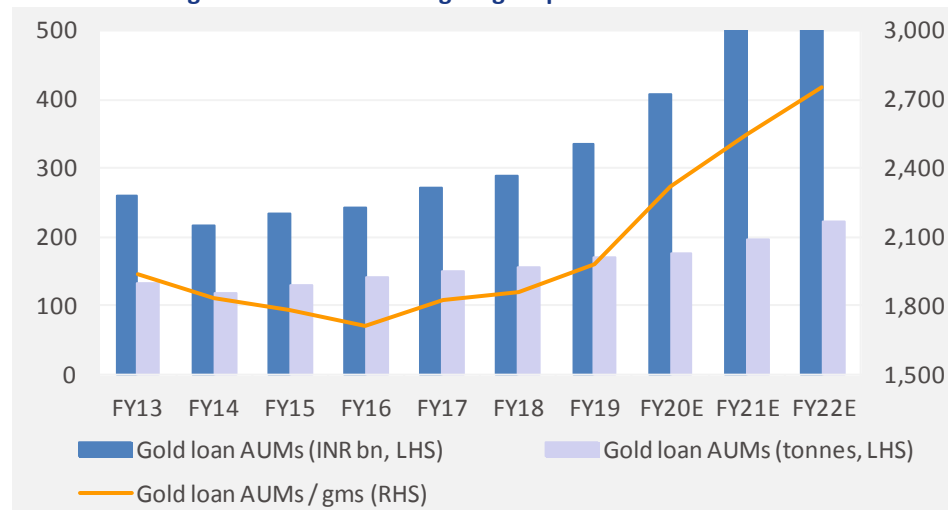
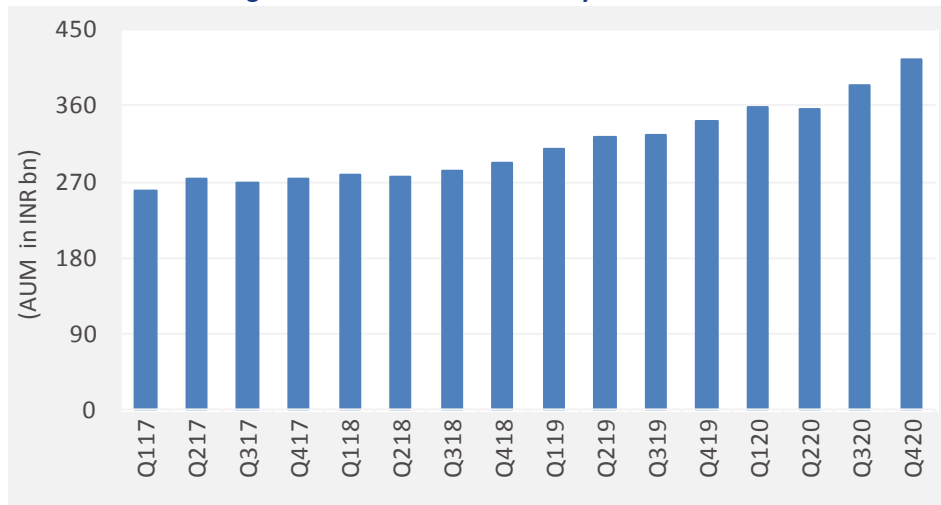
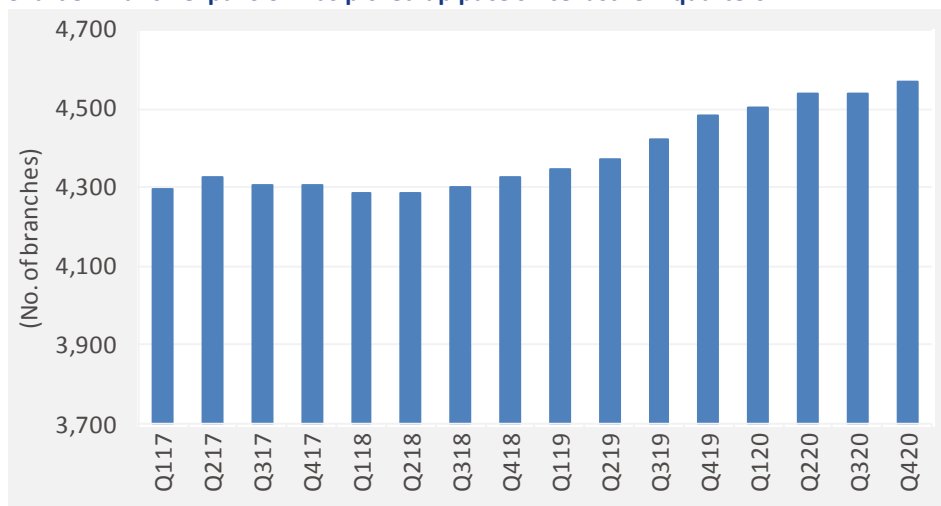
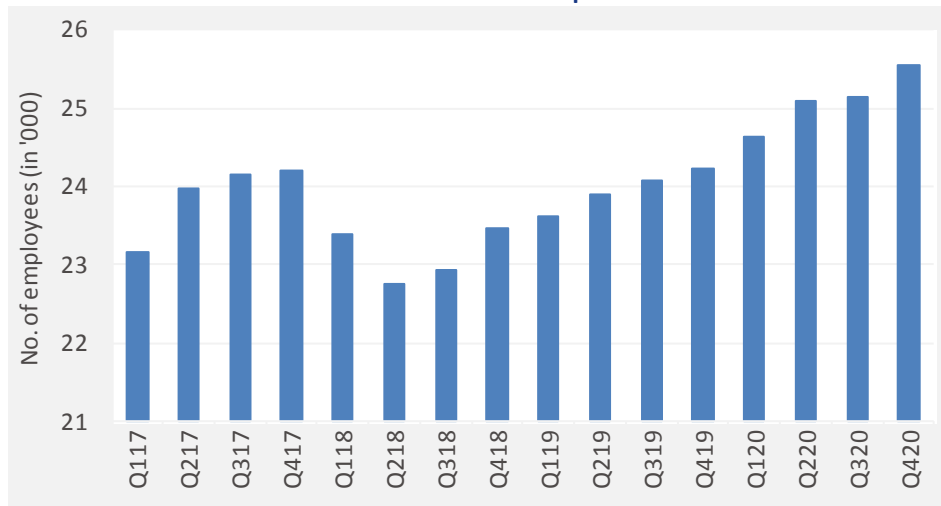


Chart 3: Growth gains momentum riding on gold price tailwind



Source: Company, Edelweiss research

Chart 4: Consolidated growth traction to be relatively softer for other business**Chart 5: Branch expansion has picked up pace since last few quarters****Chart 6: Headcount increases in line with branch expansion**

Source: Company, Edelweiss research

Financials snapshot

(INR mn)

Year to March	Q4FY20	Q4FY19	Growth (%)	Q3FY20	Growth (%)	FY20	FY21E	FY22E
Operating income	23,506	18,319	28.3	22,806	3.1	85,650	102,300	122,958
Interest expanded	7,700	6,111	26.0	6,938	11.0	28,008	32,653	38,723
Net operating income	15,806	12,208	29.5	15,869	(0.4)	57,642	69,646	84,235
Other income	520	485	7.1	325	59.8	1,584	1,663	1,746
Net revenues	16,326	12,694	28.6	16,194	0.8	59,226	71,309	85,982
Operating expenses	5,182	4,427	17.1	4,641	11.7	17,360	19,158	21,261
Pre-provision profit	11,143	8,267	34.8	11,553	(3.5)	41,865	52,151	64,721
Provisions and write off	48	205	(76.6)	640	(92.5)	956	1,811	1,895
Operating profit	11,096	8,062	37.6	10,913	1.7	40,909	50,340	62,826
Depreciation	122	119	2.5	110	11.5	433	543	495
Profit before tax	10,973	7,943	38.2	10,803	1.6	40,477	49,797	62,331
Tax	2,822	2,827	(0.2)	2,769	1.9	10,362	12,698	15,895
Profit after tax	8,151	5,116	59.3	8,034	1.5	30,115	37,099	46,437
Diluted EPS (INR)	20.3	12.8	59.4	20.3	0.0	75.3	92.8	116.1

Other information

Branches (No.)	4,567	4,480	1.9	4,536	0.7	4,567	4,667	4,767
Employees (No.)	25,554	24,224	5.5	25,149	1.6	25,224	25,776	26,329
AUM	407,724	335,853	21.4	377,245	8.1	407,724	504,148	611,761

Valuation metrics

Book value per share (INR)						287.4	363.2	461.0
Adjusted book value/share (INR)						275.1	349.5	446.2
Price/ BV (x)						2.6	2.1	1.6
Price/Earnings (x)						9.9	8.1	6.4

Q4FY20 Earnings Call Takeaway

Financial performance

Some business was lost due to lockdown in the month of march for 10 days

- However, satisfied with the overall growth in loan book and profit for the full year
- Comfortable liquidity position maintained since IL&FS crisis and all debt commitments are being fulfilled on time. Not opted for moratoriums from any lenders
 - A negative cost of carry of 4-5% due to excess liquidity on balance sheet – This liquidity builds confidence in the minds of lenders/investors
- With increase in gold price, average LTV ratios are far more favourable now compared to origination of loan
- Average ticket size has increased from 41K to 50K
- Raised US\$550mn from international bond market at very competitive rates with excellent credit rating of the company by international rating agencies
- Branch network for Standalone entity now comprises of 4,567 branches
- On Moratorium
 - No impact of moratorium seen on Muthoot Finance as bulk of the book is short term loan with duration of 12 months before auction of security takes place
 - Aspires to achieve a 15% growth in gold loan book - Funding for the same will not be a challenge as the company enjoys a good reputation in credit markets
- Almost all branches are open with more than 95% of staff are coming to work
- Customer footfall is 60-70% of usual bandwidth. Traction has increased in the last 3-4 weeks as the lockdown had restricted business activity initially
- On Margins
 - If cost of borrowing comes down, it will be passed on to the customers – lending rates offered by Muthoot are reasonable compared to other NBFCs. Usually the conditions around a loan like auction etc, are far more reasonable for Muthoot and hence size of loan book is much larger compared to others despite similar number of branches
 - Some of the lower yielding products have been discouraged and hence margins should remain stable
- On competition – Positive sentiment with respect to outlook for gold loans. However, this is not an easy business as there are significant operational challenges with very low average ticket size (ATS). Besides, competition has always been there with several players entering and exiting this segment. Muthoot should retain premier position. Also with more players entering, awareness for gold loan products will go up further
- For fresh loans, demand is from both new customers as well as existing ones

With respect to subsidiary

For all subsidiaries, fresh capital injection should not be needed in FY21 as the company will not push for aggressive growth opportunities

- Growth policy will be calibrated after taking into account the on ground situation from time to time
- The Sri Lankan subsidiary currently has 35% of its book in the form of gold loans – The Company plans to take this much higher and reach similar levels as Muthoot finance in due course
- **Moratorium**
 - While the parent/holding company is not affected much by moratoriums, the subsidiaries are
 - Home loan – Moratorium facility was given since Apr 1, 2020. Out of 22K customers, close to 6-7K have opted for moratoriums. A provision of INR150mn is required accordingly
 - Microfinance – The entire loan book was granted moratoriums automatically. However the Company managed to collect 17% of dues in April. This number improved to 35% in May and is expected to further improve to 65% by the end of June. The residual amount (%) in each month will be treated as book under moratorium and provisions will be made accordingly
 - For vehicle finance too, moratorium was given since April 1, 2020

Company Description

Muthoot is the largest gold-financing NBFC with an operating history of more than 70 years when M George Muthoot (father of promoters) founded a gold loan business in 1939. At present, it is a closely held family-owned business with promoters (sons of M. George Muthoot and their family) continuing to hold a substantial stake. Headquartered in Kerala, the gold loan NBFC has a network of 5,190 branches, with majority located in southern India. Muthoot has created a leadership position in lending against gold jewellery with AUMs of ~INR357bn.

The Muthoot group has interests in diversified businesses in areas of hospitality, media, education, healthcare, information technology, etc. However, gold loans continue to be the mainstay; hence Muthoot Finance continues to be the flagship company.

Investment Theme

Muthoot's outlook supported by a gold price tailwind promises accelerated earnings momentum. We see a unique medium term combination of strong growth and an impressive RoE of 28%, not to mention the low asset quality risk. Retain 'BUY/SO'.

Key Risks

Gold loan dynamics in regions beyond South India are different.

Growth might come under pressure in case of slower ramp-up of branches or decline in gold price.

Financial Statements

Key Assumptions				
Year to March	FY19	FY20	FY21E	FY22E
Macro				
GDP(Y-o-Y %)	6.8	5.0	5.8	6.5
Inflation (Avg)	3.4	4.3	4.8	5.0
Repo rate (exit rate)	6.3	5.2	4.5	5.0
USD/INR (Avg)	70.0	71.5	71.0	70.0
Sector				
Credit growth (%)	14.0	11.0	13.0	15.0
Borrowings growth (%)	13.0	12.0	14.0	15.0
Bank's base rate (%)	9.0	8.7	8.5	8.5
Wholesale borrowing cost (%)	8.5	8.5	8.3	8.1
G-sec yield (%)	7.0	7.1	7.1	7.1
Company				
Operating metric assumptions (%)				
Yield on advances	21.7	23.0	22.4	22.0
Cost of funds	9.5	9.9	9.6	9.6
Net interest margins	14.3	15.0	14.9	14.8
Opex growth				
- employee cost	9.4	12.4	12.0	12.0
- advertisement	5.0	30.0	10.0	7.0
- rent	1.2	6.0	5.0	4.0
Tax rate	35.9	25.6	25.5	25.5
Dividend payout	24.3	19.9	15.6	13.6
Balance sheet assumption (%)				
Number of branches	4480	4567	4667	4767
Disbursement growth (%)	1.3	1.4	3.0	2.0
Gold loan tenure	2.6	2.6	2.6	2.6
Securitised portfolio	0.0	0.0	0.0	0.0
AUMs (in tonnes)/branch	37.8	38.5	42.4	46.6
Average INR per gm	1983	2317	2548	2752
Average LTV	70.8	71.0	71.0	71.0
Gross NPLs	2.7	2.2	2.0	1.8
Prov Cov	20.0	20.2	22.0	23.0

Income statement					(INR mn)
Year to March	FY19	FY20	FY21E	FY22E	
Interest income	67,857	85,650	102,300	122,958	
Interest charges	22,368	28,008	32,653	38,723	
Net interest income	45,489	57,642	69,646	84,235	
Fee & other income	950	1,584	1,663	1,746	
Net revenues	46,439	59,226	71,309	85,982	
Operating expense	15,396	17,793	19,701	21,756	
- Employee exp	8,414	9,641	11,035	12,624	
- Depreciation /amortisation	421	433	543	495	
- Other opex	6,560	7,719	8,123	8,637	
Preprovision profit	31,043	41,433	51,608	64,226	
Provisions	275	956	1,811	1,895	
PBT	30,768	40,477	49,797	62,331	
Taxes	11,047	10,362	12,698	15,895	
PAT	19,721	30,115	37,099	46,437	
Diluted number of shares (mn)	400.0	400.0	400.0	400.0	
Diluted EPS (INR)	49.3	75.3	92.8	116.1	
DPS (INR)	12.0	15.0	14.5	15.8	
Payout ratio (%)	24.3	19.9	15.6	13.6	

Growth ratios (%)				
Year to March	FY19	FY20	FY21E	FY22E
Operating income growth	7.4	26.7	20.8	20.9
Net revenues growth	7.9	27.5	20.4	20.6
Opex growth	17.9	15.6	10.7	10.4
PPP growth	3.6	33.5	24.6	24.4
Provisions growth	(88.5)	247.7	89.5	4.6
PAT growth	14.6	52.7	23.2	25.2

Operating ratios (%)				
Year to March	FY19	FY20	FY21E	FY22E
Yield on advances	21.7	23.0	22.4	22.0
Cost of funds	9.5	9.9	9.6	9.6
Spread	11.9	12.4	12.3	12.1
Net interest margins	14.3	15.0	14.9	14.8
Cost-income	33.2	30.0	27.6	25.3
Tax rate	35.9	25.6	25.5	25.5

Balance Sheet		(INR mn)			
As on 31st March	FY19	FY20	FY21E	FY22E	
Share capital	4,000	4,000	4,000	4,000	
Reserves and surplus	87,709	110,804	141,118	180,184	
Shareholders' fund	91,709	114,804	145,117	184,184	
Minority interest					
Long term borrowings	77,610	91,742	111,469	131,754	
Short term borrowings	181,090	214,066	260,094	307,425	
Total borrowings	258,700	305,808	371,563	439,179	
Long term Liab. & provisions	15,114	16,851	17,934	20,569	
Deferred tax liability (net)	(340)	(340)	(340)	(340)	
Sources of funds	365,183	437,124	534,274	643,592	
Gross block	6,757	7,064	7,418	7,771	
Net block	2,082	1,957	1,767	1,625	
Capital work in progress	0	0	0	0	
Intangible assets	44	41	37	34	
Total Fixed Assets	2,126	1,998	1,805	1,660	
Non current investments	4,138	4,438	4,738	5,038	
Cash and cash equivalents	16,919	15,977	16,500	16,500	
Inventories					
Sundry debtors					
Loans & advances	335,853	407,724	504,148	611,761	
Current assets (ex cash)	11,184	12,604	13,061	15,489	
Trade payable	806	899	957	1,097	
Other current liab. & prov.	4,232	4,718	5,022	5,759	
Total current liab. & provisions	5,038	5,617	5,978	6,856	
Net current assets (ex cash)	6,146	6,987	7,083	8,633	
Uses of funds	365,183	437,124	534,274	643,593	

RoE decomposition (%)		FY19	FY20	FY21E	FY22E
Year to March					
Net interest income/Assets	14.3	15.0	14.9	14.8	
Non-interest income/Assets	0.3	0.4	0.4	0.3	
Net revenues/Assets	14.6	15.5	15.3	15.1	
Operating expense/Assets	(4.8)	(4.6)	(4.2)	(3.8)	
Provisions/Assets	(0.1)	(0.2)	(0.4)	(0.3)	
Taxes/Assets	(3.5)	(2.7)	(2.7)	(2.8)	
Total costs/Assets	(8.4)	(7.6)	(7.3)	(7.0)	
ROA	6.2	7.9	8.0	8.2	
Equity/Assets	26.6	27.0	27.9	29.0	
ROAE	23.3	29.2	28.5	28.2	

Valuation metrics		FY19	FY20	FY21E	FY22E
Year to March					
Diluted EPS (INR)	49.3	75.3	92.8	116.1	
EPS growth (%)	14.6	52.7	23.2	25.2	
Book value per share (INR)	229.6	287.4	363.2	461.0	
Adj. book value per share (INR)	216.8	275.1	349.5	446.2	
Diluted P/E (x)	15.1	9.9	8.1	6.4	
Price/ BV (x)	3.3	2.6	2.1	1.6	

Name	Diluted P/E (X)		P/B (X)		ROAE (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Muthoot Finance	8.1	6.4	2.1	1.6	28.5	28.2
Aavas Financiers	59.5	49.0	7.4	6.4	13.3	14.1
HDFC	17.9	15.3	2.6	2.4	15.4	16.6
Indiabulls Housing Finance	2.4	1.8	0.3	0.3	12.9	15.5
LIC Housing Finance	3.7	3.1	0.6	0.5	16.7	17.5
Mahindra & Mahindra Financial Services	7.8	6.3	0.7	0.6	8.7	10.4
Manappuram Finance	6.6	5.6	1.6	1.4	26.8	26.9
Repco Home Finance	1.8	1.5	0.3	0.2	17.2	17.1
Shriram City Union Finance	3.1	2.7	0.5	0.4	17.4	16.9
Shriram Transport Finance	5.8	5.4	0.8	0.7	14.0	13.3
Median	10.0	8.7	1.9	1.7	17.0	16.9
AVERAGE	16.6	14.2	2.5	2.2	17.8	17.8

Source: Edelweiss research

Additional Data

Directors Data

M. G. George Muthoot	Chairman	George Alexander Muthoot	Managing Director
George Thomas Muthoot	Joint Managing Director	George Jacob Muthoot	Joint Managing Director
George Joseph	Independent Director	John K. Paul	Independent Director
K John Mathew	Independent Director	Pamela Anna Mathew	Independent Director
Alexander Muthoot George	Deputy Managing Director	K George John	Independent Director

Auditors - M/s. Varma & Varma

**as per last annual report*

Holding - Top 10

	Perc. Holding		Perc. Holding
UTI Asset Management	1.07	Nippon Life India Asset Management	1.01
Dimensional Fund Advisors	0.98	Vanguard Group	0.84
AllianceBernstein	0.80	ICICI Prudential Asset Management	0.79
Mirae Asset Global Investments	0.68	L&T Mutual Fund	0.64
Government Pension Fund - Global	0.61	Tata Asset Management	0.55

**as per last available data*

Bulk Deals

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

**in last one year*

Insider Trades

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

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Aavas Financiers	REDUCE	SU	M	Aditya Birla Capital	BUY	SO	H
Axis Bank	BUY	SO	M	Bajaj Finserv	REDUCE	SU	L
Bank of Baroda	BUY	SU	M	DCB Bank	BUY	SP	M
HDFC	BUY	SO	L	Federal Bank	BUY	SO	L
ICICI Bank	BUY	SO	L	HDFC Bank	BUY	SO	L
Indiabulls Housing Finance	HOLD	SU	M	IDFC FIRST BANK	BUY	SP	L
Kotak Mahindra Bank	BUY	SP	M	IndusInd Bank	BUY	SO	L
LIC Housing Finance	BUY	SO	M	L&T Finance Holdings	HOLD	SP	M
Mahindra & Mahindra Financial Services	BUY	SP	M	Magma Fincorp	BUY	SP	M
Max Financial Services	BUY	SO	L	Manappuram Finance	HOLD	SU	H
Muthoot Finance	BUY	SO	M	Multi Commodity Exchange of India	HOLD	SP	M
Punjab National Bank	REDUCE	SU	M	REC	BUY	SP	M
Reeco Home Finance	BUY	SP	M	Shriram City Union Finance	BUY	SP	M
Shriram Transport Finance	BUY	SO	M	South Indian Bank	BUY	SP	M
State Bank of India	BUY	SO	L	Union Bank Of India	HOLD	SU	M
Yes Bank	BUY	SP	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

Aavas Financiers, Aditya Birla Capital, AU Small Finance Bank Ltd, Axis Bank, Bajaj Finserv, Bank of Baroda, DCB Bank, Equitas Holdings, Federal Bank, HDFC, HDFC Bank, HDFC Life Insurance Company Ltd, ICICI Bank, ICICI Lombard General Insurance Company Ltd, IDFC FIRST BANK, Indiabulls Housing Finance, IndusInd Bank, ICICI Prudential Life Insurance Company Ltd, Kotak Mahindra Bank, LIC Housing Finance, L&T Finance Holdings, Max Financial Services, Multi Commodity Exchange of India, Manappuram Finance, Magma Fincorp, Mahindra & Mahindra Financial Services, Muthoot Finance, Punjab National Bank, Power Finance Corp, REC, Repco Home Finance, SBI Life Insurance Company Ltd, 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
11-Jun-20	Shriram Transport Finance	Growth soft; asset quality uncertainty persists; <i>Result Update</i>	638	Buy
7-Jun-20	State Bank Of India	Asset quality steady; uncertainty lingers; <i>Result Update</i>	188	Buy
01-Jun-20	MCX	FY20 steady; FY21 starts on a soft note; <i>Result Update</i>	1,302	Buy

Distribution of Ratings / Market Cap

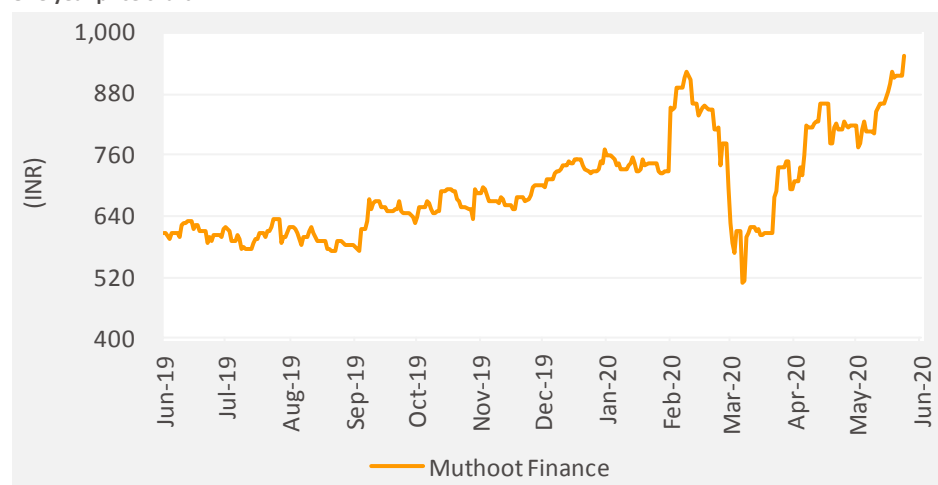
Edelweiss Research Coverage Universe

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

One year price chart



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