



VISIT NOTE

STATE BANK OF INDIA

Juggernaut geared for the next cycle

India Equity Research | Banking and Financial Services



We met State Bank of India's (SBI) top management team to assess the bank's business strategy and growth & asset quality outlook. Key takeaways: a) focus is on consistently delivering on earnings and improving visibility while building on business momentum (10% loan growth target); b) incremental stress is on expected lines with SBI maintaining slippages & credit cost guidance of 2%; c) performance of subsidiaries has been impressive and potent value unlocking is imminent; and d) while consolidation of PSU banks is a pragmatic move, management assuaged concerns of SBI being coerced into it. We believe, SBI is better positioned among peers—CET-1 at 9.8%, NNPLs at <5.3% and CASA at ~45%. Maintain 'BUY' with TP of INR338.

Recent events largely one-off with restricted impact on SBI

Management perceives recent events as an off shoot of global factors; however, underlying macros of Indian economy continues on a strong footing. SBI has 6% stake in IL&FS and debt exposure is at SPV level. It will evaluate IL&FS' resolution plan before taking any call on equity infusion.

Focus on building business momentum while maintaining quality

Armed with a strong franchise—45% CASA ratio leading to best-in-class funding cost—and slackened competition, SBI aims to build on business momentum with focus on better rated corporates. The bank's target is around 10% loan growth, which along with steady/improving NIMs is envisaged to drive revenue momentum.

Incremental stress on expected lines; guidance maintained

Management highlighted that incremental stress is waning on expected lines and maintained its credit cost guidance of 2%. The key here will be resolution—while there have been delays, it expects a few key resolutions in H2FY19. For power sector resolution, there is some ambiguity as of now but will get more clarity in near future.

Outlook and valuations: Better positioned; maintain 'BUY'

SBI is better positioned to capture emerging opportunities amidst slackened competition. Further, value in non-banking subsidiaries will be more stable and scalable (elucidated in stake sale in general insurance). Ascribing INR73/share to subsidiaries, the stock trades at 0.8x FY20E P/BV. Maintain 'BUY/SO'.

Financials

(INRmn)

Year to March	FY17	FY18	FY19E	FY20E
Net revenue	973,207	1,194,544	1,251,664	1,444,422
Net profit	104,841	(65,474)	127,111	245,464
Diluted EPS (INR)	12.9	(7.3)	13.7	26.4
Adj. BV (INR)	165.3	125.6	157.5	188.6
Price/ Book (x)	0.8	0.9	0.8	0.8
Diluted P/E (x)	14.8	NA	14.0	7.3
ROE (%)	6.6	(3.5)	6.3	11.1

EDELWEISS 4D RATINGS

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

MARKET DATA (R: SBI.BO, B: SBIN IN)

CMP	: INR 265
Target Price	: INR 338
52-week range (INR)	: 352 / 232
Share in issue (mn)	: 8,924.6
M cap (INR bn/USD mn)	: 2,365 / 32,620
Avg. Daily Vol.BSE/NSE('000)	: 24,517.5

SHARE HOLDING PATTERN (%)

	Current	Q4FY18	Q3FY18
Promoters *	57.7	58.0	56.6
MF's, FI's & BK's	22.0	21.6	21.7
FII's	11.0	11.4	12.2
Others	9.0	9.0	9.6
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	(7.4)	(1.2)	(5.3)
3 months	(0.4)	4.6	1.5
12 months	3.1	12.8	8.1

Kunal Shah

+91 22 4040 7579

kunal.shah@edelweissfin.com

Prakhar Agarwal

+91 22 6620 3076

prakhar.agarwal@edelweissfin.com

September 28, 2018

Interaction with management: Key highlights

What is your assessment of the macro-economic factors? Do you think the recent turn of events may have contagion effect?

- Large part of current uncertainties is driven by global factors (oil prices, currency depreciation etc). Having said that, domestic macros are much stable and stronger than is currently reflected.
- In terms of recent events of institution default and tight liquidity, SBI believes this to be more of a one-off event and will not have a contagion effect.
- With respect to the bank's exposure to IL&FS, it has 6% equity stake and bank's debt exposure is at the SPV level. Management highlighted that it will evaluate IL&FS' resolution plan before taking any call on further capital infusion.

What are the key focus areas at this point in time?

- The key focus is to leverage the robust customer franchise to develop a business model ensuring consistent earnings delivery with improved visibility.
- Moreover, the bank has been relatively softer from growth perspective. Having said that, armed with a strong franchise—45% CASA ratio, culminating into best-in-class funding cost—and slackened competition (many PSU banks under PCA framework), SBI aims to build on business momentum along with focus on better rated large corporates. To elucidate, the bank has redefined corporate banking division's risk appetite. Also, it seeing better traction in the mid-corporate segment (commercial banking) with improved pricing and the decision is now being driven by risk parameters.
- SBI aims ~10% loan growth mark (versus single digit currently), which along with steady/improving NIMs will drive revenue momentum.

What are the key challenges at this juncture?

- There are industry-wide concerns pertaining to asset quality (incremental stress and provisions) and growth. Management believes that most of the stress has been identified, recognised and provided for. Also, it is well positioned to grow as it is now focusing on AAA rated PSU entities (NHAI, NTPC, PFC etc).
- SBI has also been focusing on human resource—has created a strong management bandwidth with sufficient back-up options and continuous hiring (including lateral hiring).

What is your sense on asset quality cycle and more importantly resolution framework?

- Management believes that large part of stress recognition has been done with and believes incremental stress will dip for the bank. It maintained its slippages and credit cost guidance of 2% each.
- With respect to the resolution framework, management sounded optimistic on the entire IBC framework as it will structurally improve credit culture, credit pricing and the bond market.

- While the pace of resolution has been slower than the stated deadline, the code by itself was fairly new and is taking time to evolve. Having said that, SBI expects a few large recoveries in H2FY19 and to set a precedent for cases going forward.
- For power sector resolution, there is some ambiguity on immediate resolution as the Supreme Court's timeline of November 10 is near. While large three-four accounts could see some positive developments, other accounts could be dragged to NCLT. Given the uncertainties surrounding the power sector, resolution needs to be closely monitored.

How has been the performance of subsidiaries? When do you think potent value unlocking will happen?

- Subsidiaries have been scaling up better than anticipated and this trend is likely to sustain. Management is evaluating the roadmap for potential value unlocking and the decision will be taken in due course.
- Management is also planning to leverage on its massive group customer base of > 420mn to build on distribution franchise and cross-sell income.

What do you make of consolidation in the PSU space? Do you think SBI could be potent candidate for further mergers?

- Management perceives consolidation as a pragmatic move for PSU banks. Having said that, management does not expect further mergers with SBI given its dominant leadership position (with >20% market share).

Do you think digital banking is the next big thing? What is SBI's growth plans pertaining to it?

- Management believes that digital banking will be the key focal point for SBI and aims to leverage it over the next couple of years. In this respect, the bank aims to further scale up its digital banking platform Yono over the next few years—currently >27K accounts are opened daily using Yono, which the bank aims to scale up further.

Table 1: SOTP valuation (FY20E)

Subsidiaries	Method	(INR mn)	PB/PE (x)	Value (INR mn)	Stake (%)	Value-SBI (INR mn)	Per share (INR)
Consolidated book (A)	P/ABV (x)	23,11,709	1.0	23,57,943		23,57,943	264
Subs							
Asset management	% of AUMs	26,81,436	5.0	1,34,072	63.0	84,465	9
Life insurance	Appraisal value (xNBAP)	2,69,324	2.3	6,05,979	62.1	3,76,313	42
SBI Capital Market	PE	5,119	20.0	1,02,375	100.0	1,02,375	11
SBI Cards	PE	7,632	20.0	1,52,640	74.0	1,12,954	13
SBI General Insurance	PE	5,702	20.0	1,14,048	74.0	84,396	9
Others	PB	36,000	0.8	28,800	35.0	10,080	1
Value of subs (B)				11,37,913		7,70,582	86
Value of subs (at 15% holding co discount)						6,54,995	73
Value per share (INR) (A+B)							338

Source: Edelweiss research

Table 2: Slippages expected to moderate from current elevated levels

(INR bn)	FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	FY18	Q1FY19
Opening GNPLs	1,220	1,779	1,881	1,861	1,991	1,779	2,234
Total reductions (recovery+upgradation+transfer to AUCA)	600	199	126	138	85	547	249
Increase in o/s	57	38	16	9	-8	55	44
Fresh slippages	1,102	262	90	258	337	948	100
Gross addition (increase in o/s + slippages)	1,159	301	106	268	328	1,003	143
Net increase	559	102	-20	130	243	456	-106
Closing GNPLs	1,779	1,881	1,861	1,991	2,234	2,234	2,128
GNPL (%)	9.1	10.0	9.8	10.4	10.9	10.9	10.7
Less: Cumulative provisions	809	803	882	968	1,126	1,126	1,136
NNPLs	970	1,078	979	1,024	1,109	1,109	992
NNPLs (%)	5.2	6.0	5.4	5.6	5.7	5.7	5.3
PCR (Excl. AUCA) (%)	45.5	42.7	47.4	48.6	50.4	50.4	53.4
PCR (Incl. AUCA) (%)	61.5	60.8	65.1	65.9	66.2	66.2	69.3
Slippage ratio (%)	5.8	5.4	1.9	5.3	6.9	4.9	2.0
Credit cost (%)	2.9	2.5	3.4	3.6	4.9	3.6	2.6

Table 3: Watchlist takes into account stressed power sector assets

(INR mn)	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Overall watchlist	2,44,440	2,12,880	1,03,410	2,58,020	2,22,880
Power	1,05,310	1,04,720	37,360	1,05,750	1,00,810
Iron & Steel	29,390	18,810	15,810	34,540	34,280
Textile	6,020	3,120	3,120	26,620	5,470
Construction, Roads and Engg.	24,680	20,490	13,700	43,900	40,940
Telecom	25,480	25,480	0	0	0
Others	53,560	40,260	33,420	47,210	41,380

Table 4: Loan growth to be supported by better rated corporates

(INR bn)	Q1FY19	Q1FY18	YoY	Q4FY18	QoQ
Advances	19,902	18,867	5.5	20,484	(2.8)
-Foreign	2,667	2,791	(4.4)	3,020	(11.7)
-Domestic	17,234	16,076	7.2	17,464	(1.3)
--LCG/MCG/SME	9,762	9,936	(1.8)	10,115	(3.5)
--Agri	1,881	1,891	(0.5)	1,883	(0.1)
--Retail	5,591	4,900	14.1	5,466	2.3

Table 5: Retail drives growth, supported by auto and personal loans

(INR bn)	Q1FY19	Q1FY18	YoY	Q4FY18	QoQ
Home Loans	3,202	2,833	13.0	3,131	2.3
Auto Loans	669	595	12.4	664	0.8
Other Retail Loans	1,721	1,472	16.9	1,671	3.0

Table 6: Liability franchise continues to strengthen

(INR bn)	Q1FY19	Q1FY18	YoY	Q4FY18	QoQ
Current Account	1,662	1,684	(1.3)	1,879	(11.6)
Savings Account	10,300	9,450	9.0	9,994	3.1
Term Deposit	14,578	13,956	4.5	14,121	3.2
Total domestic deposit	26,540	25,090	5.8	25,994	2.1
CASA ratio (%)	45.1	44.4		45.7	

Source: Company

Company Description

SBI is India's largest commercial bank with balance sheet size of ~INR34tn and a market cap of ~INR2.3tn. It has nearly 22,428 branches on standalone basis. Over the past two years, the bank has sharpened focus on retail credit to provide itself the necessary growth momentum and improve spreads. Further, to manage operations better, SBI has integrated its treasury operations and has a common technology platform across all its six subsidiary banks. The bank merged State Bank of Saurashtra and State Bank of Indore with itself. This has increased synergies amongst its banking subsidiaries.

Investment Theme

These are challenging times for SBI manifested in temporary lull in earnings due to systemic asset quality risks. However, earnings seem to have bottomed out. We believe, it is better positioned amongst peers to capture emerging opportunities amidst slackened competition. Value in its non-banking subsidiaries will also be a more stable and scalable vector. Ascribing INR73/share to subsidiary businesses, the stock trades at 0.8x adjusted FY20E book.

Key Risks

- Macro economic risk is the biggest risk for SBI, given its size and exposures.
- Deepening geographical penetration by new private sector banks can lead to faster-than-expected decline in market share.

Financial Statements

Key Assumptions

Year to March	FY17	FY18	FY19E	FY20E
Macro				
GDP(Y-o-Y %)	7.1	6.5	7.1	7.6
Inflation (Avg)	4.5	3.6	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.3	6.5
USD/INR (Avg)	67.1	64.5	68.0	69.0
Sector				
Credit growth	9.0	12.0	14.0	17.0
Deposit growth	14.0	12.0	13.0	14.0
CRR	4.0	4.0	4.0	4.0
SLR	20.0	20.0	19.5	19.0
G-sec yield	6.5	6.5	7.0	7.1
Company				
Op. metric assumpt. (%)				
Yield on advances	7.2	7.4	7.7	7.9
Yield on investments	7.2	7.3	7.4	7.4
Yield on asset	6.8	7.0	7.1	7.2
Cost of funds	4.4	4.6	4.6	4.5
Net interest margins	2.4	2.4	2.5	2.6
Cost of deposits	4.9	5.2	5.1	5.0
Cost of borrowings	2.9	2.4	2.7	2.9
Spread	2.4	2.4	2.6	2.7
Balance sheet assumption (%)				
Credit growth	28.2	4.5	11.2	13.1
Deposit growth	49.4	4.7	10.4	12.3
SLR ratio	25.8	28.0	26.0	25.0
Low-cost deposits	43.7	43.9	44.5	45.1
Gross NPA ratio	9.3	11.1	8.9	7.7
Capital adequacy	13.1	12.6	12.7	12.2
Incremental slippage	7.8	5.2	2.2	1.9
Provision coverage	45.5	50.4	54.2	59.0

Income statement

(INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Interest income	1,755,182	2,204,994	2,383,303	2,675,488
Interest expended	1,136,585	1,456,456	1,544,973	1,702,412
Net interest income	618,597	748,538	838,330	973,076
Non interest income	354,609	446,007	413,334	471,346
- Fee & forex income	186,650	205,018	234,450	266,879
- Misc. income	60,833	117,959	103,884	119,467
- Investment profits	107,126	123,030	75,000	85,000
Net revenue	973,207	1,194,544	1,251,664	1,444,422
Operating expense	464,728	599,435	672,195	723,427
- Employee exp	264,893	331,787	376,079	393,126
- Other opex	199,835	267,648	296,116	330,300
Preprovision profit	508,479	595,110	579,469	720,995
Provisions	359,927	750,392	400,439	375,271
Loan loss provisions	329,056	670,760	354,439	359,271
Investment depreciation	2,984	80,880	45,000	15,000
Other provisions	27,887	(1,248)	1,000	1,000
Profit Before Tax	148,552	(155,282)	179,030	345,724
Less: Provision for Tax	43,711	(89,808)	51,919	100,260
Profit After Tax	104,841	(65,474)	127,111	245,464
Reported Profit	104,841	(65,474)	127,111	245,464
Adj. Diluted EPS (INR)	12.9	(7.3)	13.7	26.4
Dividend per share (DPS)	3.8	-	4.0	4.0
Dividend Payout Ratio(%)	32.5	-	33.8	17.5

Growth ratios (%)

Year to March	FY17	FY18	FY19E	FY20E
NII growth	8.8	21.0	12.0	16.1
Fees growth	12.9	9.8	14.4	13.8
Opex growth	11.2	29.0	12.1	7.6
PPOP growth	5.3	17.6	6.9	26.1
PPP growth	17.5	17.0	(2.6)	24.4
Provisions growth	22.1	108.5	(46.6)	(6.3)
Adjusted Profit	5.4	(162.5)	(294.1)	93.1

Operating ratios

Year to March	FY17	FY18	FY19E	FY20E
Yield on advances	7.2	7.4	7.7	7.9
Yield on investments	7.2	7.3	7.4	7.4
Yield on assets	6.8	7.0	7.1	7.2
Cost of funds	4.4	4.6	4.6	4.5
Net interest margins	2.4	2.4	2.5	2.6
Cost of deposits	4.9	5.2	5.1	5.0
Cost of borrowings	2.9	2.4	2.7	2.9
Spread	2.4	2.4	2.6	2.7
Cost-income	47.8	50.2	53.7	50.1
Tax rate	29.4	57.8	29.0	29.0

Balance sheet		(INR mn)			
As on 31st March	FY17	FY18	FY19E	FY20E	
Share capital	8,110	8,925	9,295	9,295	
Reserves & Surplus	1,749,385	1,924,958	2,108,774	2,311,314	
Net worth	1,757,495	1,933,882	2,118,069	2,320,609	
Sub bonds/pref cap	529,259	557,259	585,259	613,259	
Deposits	25,853,203	27,063,433	29,886,413	33,557,959	
Total Borrowings	2,791,798	3,064,161	3,239,161	3,414,161	
Other liabilities	1,756,232	1,671,381	1,796,887	1,846,774	
Total liabilities	32,687,987	34,290,117	37,625,789	41,752,762	
Loans	18,689,626	19,348,802	21,477,170	24,269,202	
Cash and Equivalents	2,708,617	1,918,986	2,507,580	2,808,817	
Gilts	7,377,048	8,435,726	8,612,649	9,243,030	
Others	1,952,219	2,174,141	2,424,011	2,704,169	
Fixed assets	138,434	142,519	123,667	103,315	
Other Assets	1,822,043	2,269,942	2,480,712	2,624,229	
Total assets	32,687,987	34,290,117	37,625,789	41,752,762	
Credit growth	28.2	4.5	11.2	13.1	
Deposit growth	49.4	4.7	10.4	12.3	
EA growth	45.7	3.7	9.9	11.4	
SLR ratio	25.8	28.0	26.0	25.0	
C-D ratio	74.6	74.5	75.0	75.5	
Low-cost deposits	43.7	43.9	44.5	45.1	
Provision coverage	45.5	50.4	54.2	59.0	
Gross NPA ratio	9.3	11.1	8.9	7.7	
Net NPA ratio	5.2	5.7	4.3	3.3	
Incremental slippage	7.8	5.2	2.2	1.9	
Net NPA / Equity	55.2	57.3	43.5	34.4	
Capital adequacy	13.1	12.6	12.7	12.2	
- Tier 1	9.8	10.4	10.5	10.0	

RoE decomposition (%)

Year to March	FY17	FY18	FY19E	FY20E
Net int. income/assets	2.4	2.4	2.5	2.6
Fees/Assets	1.0	1.0	1.0	1.0
Invst. profits/Assets	0.4	0.4	0.2	0.2
Net revenues/assets	3.8	3.8	3.7	3.9
Operating expense/assets	(1.8)	(1.9)	(2.0)	(2.0)
Provisions/assets	(1.4)	(2.4)	(1.2)	(1.0)
Taxes/assets	(0.2)	0.3	(0.2)	(0.3)
Total costs/assets	(3.4)	(4.0)	(3.4)	(3.2)
ROA	0.4	(0.2)	0.4	0.7
Equity/assets	6.2	5.9	6.1	6.0
ROAE (%)	6.6	(3.5)	6.3	11.1

Valuation parameters

Year to March	FY17	FY18	FY19E	FY20E
Adj. Diluted EPS (INR)	12.9	(7.3)	13.7	26.4
Y-o-Y growth (%)	0.9	(156.7)	(286.4)	93.1
BV per share (INR)	249.0	212.6	226.9	248.7
Adj. BV per share (INR)	165.3	125.6	157.5	188.6
Diluted P/E (x)	14.8	NA	14.0	7.3
Price/BV (x)	0.8	0.9	0.8	0.8
Dividend Yield (%)	1.0	-	1.1	1.1

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		Price/ Adj. BV (X)		ROAE (%)	
		FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
State Bank of India	32,620	14.0	7.3	0.8	0.8	6.3	11.1
Axis Bank	21,238	20.8	14.8	2.6	2.2	11.3	14.2
Bank of Baroda	3,803	9.3	5.5	0.9	0.7	7.2	10.7
DCB Bank	639	14.6	11.5	1.7	1.5	11.7	13.1
Federal Bank	1,921	9.8	7.8	1.1	1.0	11.1	12.7
HDFC Bank	73,964	24.4	19.5	3.7	3.2	17.3	17.4
ICICI Bank	27,179	10.9	5.9	1.3	1.1	9.5	16.2
IDFC Bank	1,719	13.3	7.2	0.8	0.7	6.0	10.5
IndusInd Bank	13,931	22.6	17.7	3.7	3.2	17.4	18.9
Karnataka Bank	519	5.1	4.1	0.7	0.6	11.3	12.8
Kotak Mahindra Bank	30,007	30.6	24.7	4.2	3.6	14.5	15.7
Punjab National Bank	2,377	(11.9)	4.0	1.7	1.0	(4.4)	12.2
South Indian Bank	338	5.5	3.6	0.5	0.5	9.1	12.0
Union Bank Of India	1,088	6.1	3.4	0.8	0.6	6.4	10.1
Yes Bank	6,466	8.8	6.5	1.6	1.4	19.2	21.8
Median	-	13.3	7.8	1.7	1.4	11.1	12.8
AVERAGE	-	13.2	10.1	1.9	1.6	10.2	14.0

Source: Edelweiss research

Additional Data

Directors Data

B. Sriram	Managing Director	Dinesh Kumar Khara	Managing Director
Rajnish Kumar	Chairman	P. K. Gupta	Managing Director
Sanjiv Malhotra	Director	Rajiv Kumar	Director
Pushpendra Rai	Director	Girish K. Ahuja	Director
Chandan Sinha	Director	Bhaskar Pramanik	Director
Pravin Hari Kutumbe	Director	Basant Seth	Director

Auditors - Varma & Varma

**as per last annual report*

Holding – Top10

	Perc. Holding		Perc. Holding
Life Insurance Corporation	10.05	ICICI Prudential Asset Management	2.23
HDFC Asset Management	3.13	SBI Funds Management	1.54
Reliance Capital Trustee Co	2.03	Blackrock	0.84
Capital Group	1.38	Aditya Birla Sun Life AMC	0.64
Franklin Templeton Asset Management	0.77	Norges Bank	0.52

**in last one year*

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
25 Jun 2018	The President Of India	Sell	33107830.00

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Aditya Birla Capital	BUY	SO	H	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
Power Finance Corp	BUY	SO	M	Punjab National Bank	REDUCE	SU	M
Reliance Capital	BUY	SP	M	Repco Home Finance	HOLD	SU	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				

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 Securities Limited, Edelweiss House, off C.S.T. Road, Kalina, Mumbai – 400 098.

Board: (91-22) 4009 4400, Email: research@edelweissfin.com

Aditya Narain

Head of Research

aditya.narain@edelweissfin.com

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

Aditya Birla Capital, 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, 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
25-Sep-18	NBFC	Liquidity woes: Tempered growth, multiples; shift to quality; <i>Sector Update</i>		
19-Sep-18	BFSI	TER cap: A paradigm shift for mutual funds; <i>Sector Update</i>		
19-Sep-18	Yes Bank	Testing times; <i>EdelFlash</i>	324	Buy

Distribution of Ratings / Market Cap

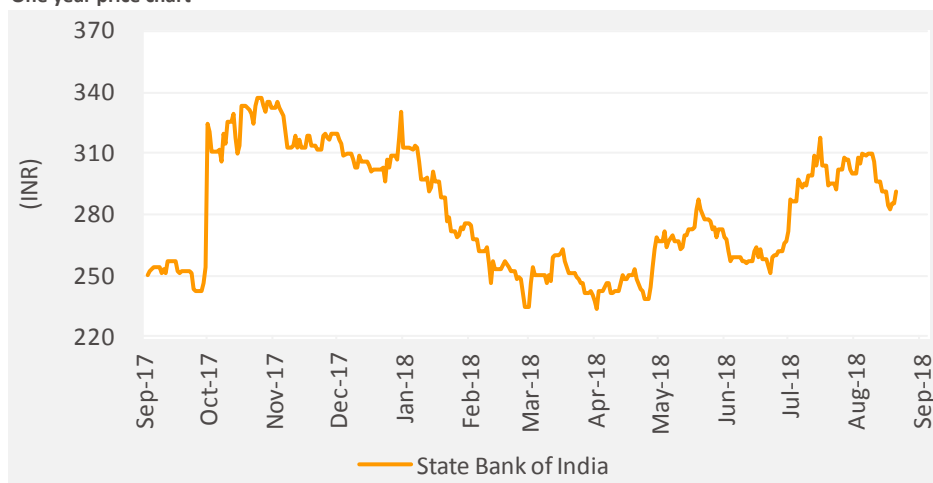
Edelweiss Research Coverage Universe

	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



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) 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

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