February 6, 2017

Rating matrix

Rating	:	Buy
Target	:	₹ 1650
Target Period	:	12-15 months
Potential Upside	:	16%

What's changed?

Target	Unchanged
EPS FY17E	Changed from ₹ 47.6 to ₹ 52.7
EPS FY18E	Changed from ₹ 63.2 to ₹ 65.1
Rating	Unchanged

Quarterly performance

	Q3FY17	Q3FY16	YoY (%)	Q2FY17	QoQ (%)
Revenue	65.9	62.9	4.8	81.0	-18.6
EBITDA	44.3	40.3	9.9	59.9	-26.0
EBITDA (%)	67.2	64.0	313 bps	73.9	-671 bps
PAT	45	26.8	68.5	43.2	4.4

Key financials

(%)	FY15	FY16E	FY17E	FY18E
Revenue	300.8	273.4	307.7	391.2
EBITDA	162.1	172.1	195.5	227.3
Net Profit	140.3	117.6	135.1	181.3
EPS	48.4	40.0	46.0	61.7

Valuation summary

	FY15	FY16E	FY17E	FY18E
P/E	29.4	35.6	27.0	21.9
Target P/E	34.1	41.2	31.3	25.3
Mcap to sales	16.3	15.8	14.4	12.3
Dividend yield	6.5	2.2	2.5	2.9
Price/BV	11.5	10.3	9.1	8.4
RoE	38.9	28.8	33.8	38.2

Stock data

Particulars	
Market Capitalization	₹ 4190 crore
Total Debt	NIL
Cash & Cash Equivalents (₹ Crore)	₹ 385 crore
EBITDA Margin Q3FY17 (%)	67.2
52 week H/L (₹)	1572 /885
Networth (₹ crore)	408.0
Face value	₹ 10
DII Holding (%)	40.1
FII Holding (%)	36.0

Price performance

Return %	1M	3M	6M	12M
CARE	6.8	1.1	32.9	24.8
Crisil	-10.8	-8.4	-2.6	8.6
ICRA	4.0	-3.9	12.5	4.4

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Credit Analysis & Research (CARE) ₹ 1426

Investment maturity led to increased margins…

- Reported rating revenues were at ₹ 65.9 crore (up 5.1% YoY). For 9MFY17, rating revenues were up 7.8% YoY. This was on account of an increase in both volume of fresh debt rated and surveillance exercises carried out during the period
- Other income in Q3FY17 surprised positively and was at ₹ 16.3 crore (I-direct estimate: ₹ 4.5 crore) vs. <₹ 3 crore seen in the last several quarters. This was due to profit booked on maturity of certain investments made for a longer tenure
- EBITDA came in at ₹ 44.3 crore while the EBIDTA margin was at 67.2%, which is an improvement from 64% margin seen in the same quarter last year. Expenses contracted 4.9% YoY. In that, staff cost declined 8% YoY, mainly due to charge for Esop included in Q3FY16
- PAT was at ₹ 45.2 crore (up 68% YoY) vs. ₹ 32 crore estimate. PAT margins improved from 42.6% in Q3FY16 to 68.5% in Q3FY17
- The company declared an interim dividend of ₹ 6/share with 9MFY17 dividend at ₹ 18/share. Full year FY16 dividend was at ₹ 28/share

Second largest rating company

CARE, the second largest rating company by market share, is a pure play on the rating business with ~99% (₹ 265 crore) of its FY16 core revenue generated from the rating segment. The highlight of CARE's business is its best-in-class EBITDA margin of 60%+ and PAT margin of ~50%. The business model is asset light with not much capex (₹ 10-15 crore) while it generates strong operating cash flow. Post its listing, the dividend payout ratio improved from 30% (FY12) to 68% (FY16). PAT traction has moderated with bank credit growth slowdown impacting rating revenues. An upturn in capex cycle and development of the bond market is required for healthy revenue traction.

Exhibiting capability to grow relatively faster since 2008

In 1993, CARE was the third credit rating agency (CRA) to be incorporated in India. However, it gained significant ground to become second largest CRA by revenue post FY09. It clocked 50% revenue CAGR in FY08-11 vs. 30% by peers. CARE is strong in the bank loan rating (BLR) and bond market while it has an insignificant presence in the SME space as of now. We expect it to maintain its rating revenue market share of ~29% ahead.

EBIDTA margin among best in rating industry

CARE earns best margins among rating agencies with 65% EBITDA margin and 44% PAT margin in FY16. These strong margins can be attributed to i) relatively lower employee cost ii) high proportion of large ticket bank loans & bonds (high margin) and iii) offices being largely owned saving on lease cost. While EBIDTA margin improved from 61.6% in Q3FY15 to 69% in Q4FY16, PAT margin was down from >50% to 44% due to lower income from investments. Margins may witness an improvement, going ahead.

Revenue, PAT traction to improve; maintain TP & BUY rating

CARE emerged as a strong player in rating business with strong margins and improving market share with best brand recall after Crisil. The company had strong RoE of 30%+, which is expected to improve by FY18E. Falling interest rate outlook, peaking of NPA cycle, rising bond issuances, etc, all augur well for rating agencies. We expect PAT CAGR of 28% in FY16-18E. We remain structurally positive on rating business over next 3 to 5 years. We maintain target price of ₹ 1650 valuing at 26x FY18E EPS. We maintain **BUY**.

Variance analysis

	Q3FY17	Q3FY17E	Q3FY16	Q2FY17	YoY (%)	QoQ (%)	Comments
Net Sales	65.9	70.3	62.9	81.0	4.8	-18.6	Increase in volumes of debt rated and survelliance activity carried out led revenue growth
Expenditure							
Employee Expenses	15.8	19.9	17.2	16.1	-8.0	-1.6	Lower staff cost was due to Esop charges and lower rent due to surrender of an office in Mumbai
As % of revenue	24.0	28.3	27.3	19.9			
Other Expenses	5.8	5.6	5.4	5.1	7.3	15.1	
As % of revenue	8.8	7.9	8.6	6.2			
Total Expenses	21.6	25.5	22.6	21.2	-4.3	2.4	
As % of revenue	32.8	36.3	36.0	26.1			
EBITDA	44.3	44.8	40.3	59.9	9.9	-26.0	Lower-than-expected expenses and higher revenue enabled better EBITDA
EBITDA Margin	67.2	63.7	64.0	73.9	313 bps	-671 bps	EBITDA margin came in higher-than-expected
Other Income	16.3	4.5	1.0	5.7	1,542.5	186.1	Other income increased due to profit booked on maturity of certain investments made for a longer tenure
Depreciation + interest exp	0.8	1.0	0.9	0.8	-19.3	-0.8	
PBT	59.8	48.2	40.4	64.8	48.3	-7.6	
Taxes	14.7	16.2	13.5	21.5	8.4	-31.8	
PAT	45.2	32.0	26.8	43.2	68.5	4.4	Higher other income led to higher than expected PAT
PAT Margin	68.5	45.6	42.6	53.4	2587 bps	1509 bps	

Source: Company, ICICIdirect.com Research

Change in estimates

	FY17E			FY18E			
(₹ Crore)	Old	New	% Change	Old	New	% Change	Comments
Net Sales	296	296	0.0	340.9	341	0.0	
EBITDA	195	195	0.0	227.3	227	0.0	
EBITDA Margin %	66.1	66.1	0 bps	66.7	66.7	0 bps	
PAT	135	135	0.0	181.3	181	0.0	
EPS	48	53	9.3	63.2	65	3.0	

Source: Company, ICICIdirect.com Research

Assumptions

			Current		Earlier	
	FY15	FY16	FY17E	FY18E	FY17E	FY18E
Revenue growth (%)	12.1	3.0	11.6	15.3	11.6	15.3
Staff expenses to revenue (%)	27.5	26.3	26.3	26.2	26.3	26.2
Total expenses to revenue (%)	37.0	35.0	33.9	33.3	33.9	33.3
EBITDA growth (%)	10.5	6.2	13.6	16.3	13.6	16.3
EBITDA margin (%)	63.0	65.0	66.1	66.7	66.1	66.7
Tax rate (%)	29.6	33.5	33.6	33.6	33.6	33.6
PAT growth (%)	9.1	-16.2	14.8	34.2	14.8	34.2
PAT margin (%)	54.6	44.4	45.7	53.2	45.7	53.2

Source: Company, ICICIdirect.com Research

Company Analysis

Gaining market share

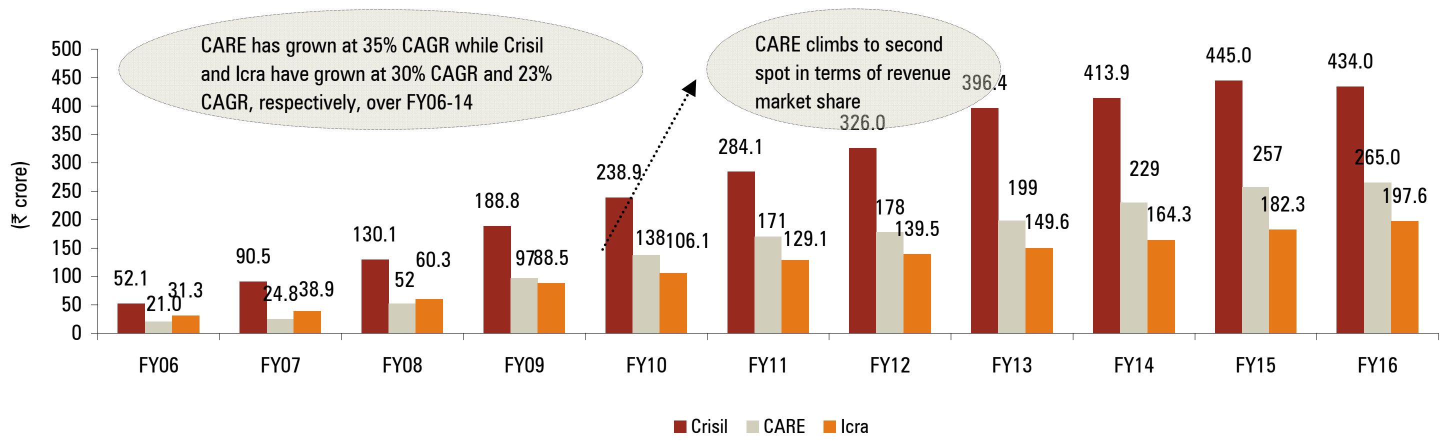
Almost the entire revenue of CARE is derived from the rating business unlike Crisil and Icra that derive 37% and 58%, respectively, from the rating business.

Within the rating business, CARE is mainly active in the bank loan rating (BLR) segment (50% of fresh debt volume rated, 80% of the fresh assignments and ~50% of rating revenues in FY16) followed by corporate debt rating (CDR). It is still at a very nascent stage in SME rating. Going ahead, we expect the BLR and bond market segments to drive overall rating revenue growth. The SME segment is expected to witness some improvement in FY17E owing to increase in budgetary allocation towards subsidising rating fees of SMEs to ₹ 176 crore from ₹ 26 crore earlier.

CARE is mainly active in the BLR segment. It derives 50% of fresh debt volume rated, 80% of the fresh assignments and ~50% of rating revenues from the BLR segment

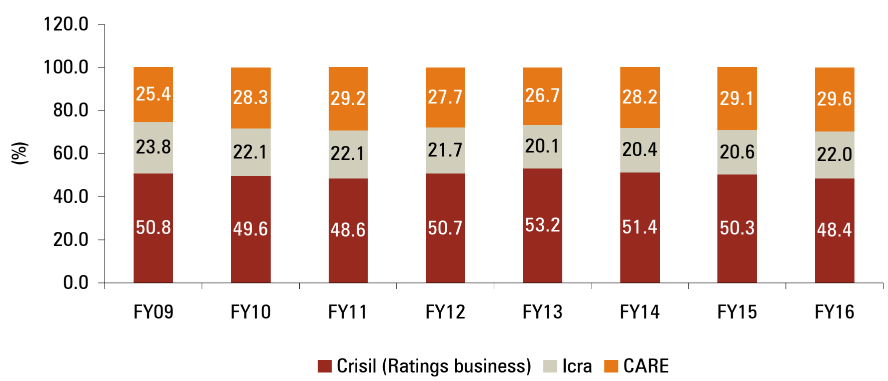
In terms of rating revenues, the company remained the third largest rating agency for most years since its incorporation. However, implementation of Basel II guidelines in FY08 helped increase rating volumes for rating agencies, in general, and proved to be a game changer for CARE, in particular. In the past six years, CARE has outpaced the industry in terms of rating revenue CAGR. It witnessed a CAGR of 28% in FY08-14 vs. 22% for all three rating companied combined.

Exhibit 1: CARE consistently second largest rating agency by revenue since FY09



Source: Company, ICICIdirect.com Research

Exhibit 2: CARE has been gaining market share; expect it to maintain its second slot

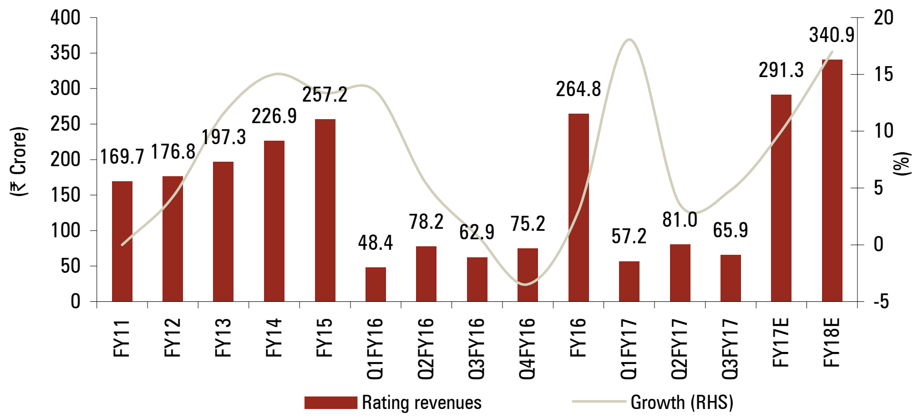


Source: Company, ICICIdirect.com Research

Going ahead, a strong improvement in revenues would depend on the macro environment

Quarterly revenue performance

Exhibit 3: Rating revenue traction muted in FY16 but expected to improve over FY17-8E



Source: Company, ICICIdirect.com Research

Overall volume of debt rated was up 19.1% YoY to ₹ 274000 crore in Q3FY17. However, the same traction was not reflected in rating revenue, which was at ₹ 65.9 crore, up 5.1% YoY. The non linearity in the traction of volume rated and rating revenues is due to “fee cap” on certain clients, which were charged at a particular fixed rate irrespective of increase in volumes.

CARE’s SME segment is low compared to peers (comprising ~5.5% of revenue). The company was focused on improving the SME rating revenue proportion by increasing the locations and hiring employees. However, due to a reduction in budgetary allocation towards subsidising rating fees of SMEs in FY16 to ₹ 26 crore from ₹ 85 crore earlier by the MSME ministry the SME rating revenue was muted. Still, with the increase in allocation to ₹ 176 crore in recent Budget, proportion of SME rating revenue should see improvement in FY17E. The company indicated that it would hire ~ 250 employees in FY17E for the SME segment.

Going ahead, expect revenue traction of 13% CAGR in FY16-18E

As we said above, the company has grown its rating revenues at 26% CAGR to ₹ 257 crore in FY08-15. However, growth has moderated considerably in the past three years at 13% CAGR in FY12-15 in line with the slowdown in the economy and credit growth. Further, in FY16 it was merely 3% to ₹ 265 crore.

A strong improvement in revenue would depend on the macro environment and largely on credit growth in the system, which, we believe, will remain tepid at ~10-12% YoY in H2FY17E before witnessing healthy traction in FY18E. The focus of the company would be on expanding the CDR segment whose proportion in terms of volumes of debt rated and rating revenue would increase. However, the BLR segment would continue to remain the key segment for at least the next few years. Further, a pick-up in SME ratings would aid revenue traction ahead.

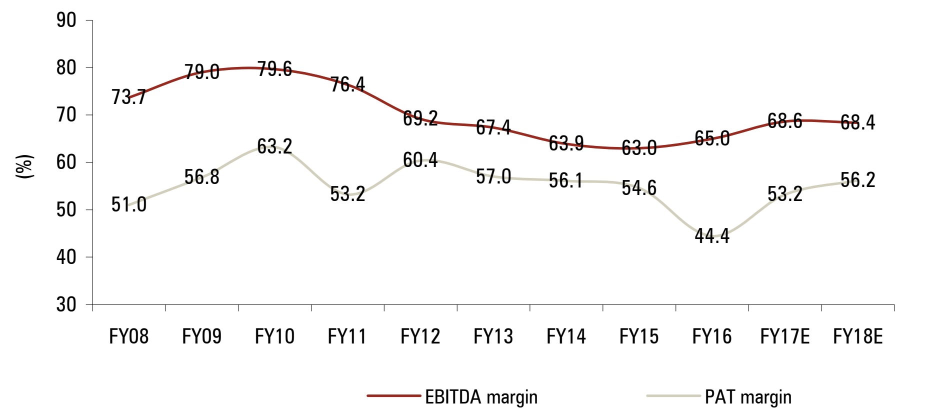
PAT margins to remain best in class…

Limited competition in the rating industry and pricing power enable rating agencies to earn healthy margins. Even among rating agencies, CARE has managed to earn superior EBITDA margins of ~63% and PAT margin of 50%+.

Among rating agencies, CARE has managed to earn superior EBITDA margins of 60%+ and PAT margin of ~50%

Going ahead, we expect PAT margin to improve at ~53% in FY17E owing to higher other income from maturity of investments. With improvement in revenue growth and strong other income gains, margins are expected to remain above 50% in FY18E.

Exhibit 4: Margin still looks lucrative



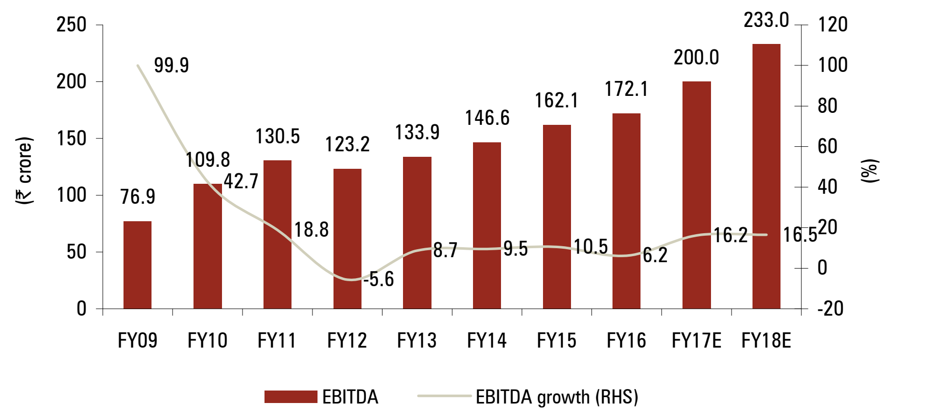
Source: Company, ICICIdirect.com Research

EBITDA growth to moderate on moderating revenues

In the past four years, there was a substantial decline in EBITDA margin from 76% in FY11 to 63% by FY15. The EBITDA traction fell to 6% in FY11-15. Going ahead, we expect it to grow at 16% CAGR to ₹ 233 crore over FY16-18E largely reflecting topline growth.

Going ahead, we expect EBITDA to grow at 16% CAGR to ₹ 233 crore in FY16-18E

Exhibit 5: EBITDA growth to largely reflect topline growth



Source: Company, ICICIdirect.com Research

SME segment may be additional leg up in long run

SME remains the growth area but is a low ticket size and low margin business. However, it is mainly the volume business for CRAs. At present, merely ~1,00,000 SMEs among 3 crore SMEs has been rated in India. Hence, the current penetration is very low at ~0.3%.

In the SME rating space, Crisil is the leader. It rated ~12,857 SME instruments in FY14 compared to 1407 by CARE and 1563 by Icra.
An SME rating does not contribute much to the overall revenues of CARE at present. It has begun investing in manpower but is yet to enter the SME market at full throttle.

Earlier in Q3FY15, the management reiterated on its focus on strengthening the SME rating segment. The company is present in 80 locations across the country and had plans to reach 150 locations in the next two or three years with revenue from SME rating segment set to rise to ~20% of total revenue over next few years from 7-8% currently.

However, Q4FY15 proved to be a dampener from the SME segment side owing to a reduction in MSME ministry's allocation towards subsidising rating fees by SME as explained earlier. However, the increase in subsidy in the recent budget to ₹ 176 crore should help revive SME rating revenues.

Enjoys healthy operating cash flows

CARE generates strong operating cash flow of > ₹ 100 crore+ while on an average its capex is merely ₹ 4-5 crore each year

Owing to the nature of its business, the capex requirement in the rating business is very low. In the past three years, CARE has incurred a capex of ~₹ 16 crore. To enhance revenue, the major expenses incurred, if required, are for increasing the employee strength (the cost of which is managed well by CARE compared to its peers) rather than for any major capex. Hence, CARE enjoys healthy operating cash flows. As on FY16, CARE garnered revenues of ₹ 265 crore and PAT of ₹ 118 crore.

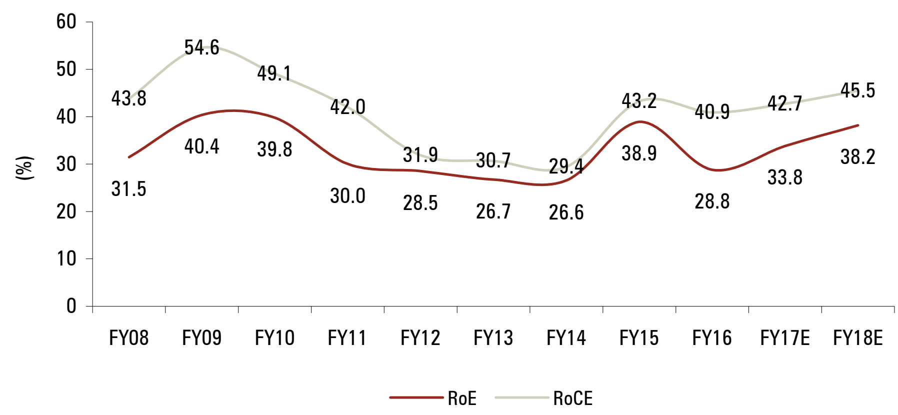
Potential for return ratios to scale up higher

With limited capital requirement, incremental profit growth is expected to further enhance return ratios. As discussed earlier, the dividend payout ratio is also expected to improve to ~72% by FY17E, aiding the improvement in return ratios. We expect CARE to report a RoE of 33% in FY17E and 38% in FY18E.

The company has a cash and investment pile of >₹ 300 crore, which may be utilised for acquisition, buyback or returned to shareholder in the form of dividend. The optimum utilisation of this investment pile is key to generate return ratios and shareholder returns from a long term perspective.

Return ratios to improve in FY18E

Exhibit 6: Return ratios to see improvement in FY18E



Source: Company, ICICIdirect.com Research

CARE earns decent return ratios with RoCE of 41% and RoE of 29% as on FY16. From a long-term perspective, the company has huge potential to improve its return ratios significantly as and when growth improves. Currently, the credit growth in the economy is sluggish and in line with modest GDP growth. As the economy revives, the credit and debt market volume levels would pick up, the impact of which would be reflected in improving sales and profit traction of CARE. As the business is asset light in nature, the major chunk of higher profits is expected to flow to shareholders in the form of dividend, thereby improving return ratios significantly.

Valuation

CARE emerged as a strong player in rating business with strong margins and improving market share with best brand recall after Crisil. The company had strong RoE of 30%+, which is expected to improve by FY18E. We have tweaked our estimates. Falling interest rate outlook, peaking of NPA cycle, rising bond issuances, etc, all augur well for rating agencies. We expect PAT CAGR of 28% in FY16-18E. We remain structurally positive on the rating business over the next three to five years. We maintain target price of ₹ 1650 valuing at 26x FY18E EPS. We maintain **BUY**.

CARE's major shareholders are Indian banks and financial institutions with no foreign partner compared to its other listed peers. Any interest on part of a strategic investor in the company would be an upside risk to our call.

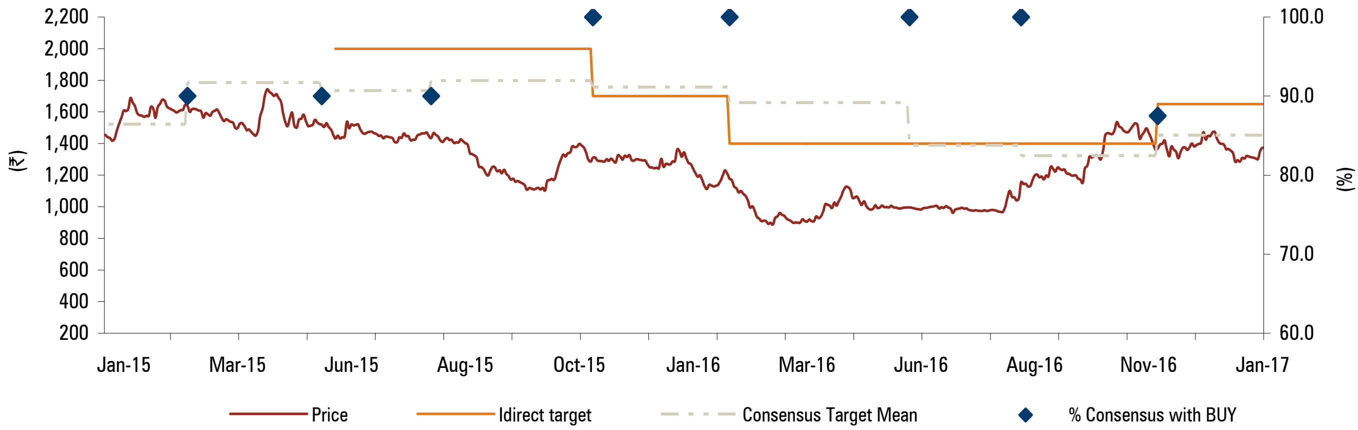
Exhibit 7: DuPont analysis; RoE expected to improve

(%)	FY14	FY15	FY16	FY17E	FY18E
PAT/Sales	56.1	54.6	44.4	53.2	56.2
Sales/Asset	47.0	70.8	64.4	63.4	67.8
Asset/Equity	100.8	100.8	100.6	100.3	100.3
ROE	26.6	38.9	28.8	33.8	38.2

Source: Company, ICICIdirect.com Research

Prospects for the rating business remain benign in the long term. CARE has proved its ability to gain market share in the rating segment along with maintaining best-in-class margins. Hence, we remain bullish on the stock from a long term perspective.

Recommendation history vs. consensus estimate



Source: Bloomberg, Company, ICICIdirect.com Research

Key Events

Date	Event
FY05	Signs MoU with NSIC as approach rating agency for SSIs
FY06	Launches new products such as rating of SMEs, SSIs, mutual funds, issuer rating and IPO grading
FY07	Develops grading methodolgy for infra projects, ultra mega power projects
FY08	Executes MoUs with 19 banks to provide rating facilities under Basel II framework
FY10	Establishes CARE Knowledge Centre at Ahmedabad. Commences providing technical assistance to rating agency in Ecuador
FY11	Acquires license to operate in Maldives. Launches new products including equigrade, ESCO grading, etc.
FY12	Acquires 75.1% stake in Kalypto Technologies
FY12	Acquires indirect recognition as an external credit assessment institution from Hong Kong Monetary Authority
FY13	Comes out with IPO at ₹ 750 with objective to provide exit to existing investors
FY15	Pays dividend of ₹ 71 in H1FY15 (₹ 65 per share special dividend in Q2FY15)

Source: Bloomberg, Company, ICICIdirect.com Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Life Insurance Corporation of India	30-Sep-2016	9.8%	2.88M	0
2	Canara Bank Ltd	15-Nov-2016	8.91%	2.62M	-0.00M
3	Franklin Advisers, Inc.	30-Jun-2016	5.96%	1.75M	0
4	Franklin Templeton Asset Management (India) Pvt. Ltd.	30-Nov-2016	4.88%	1.44M	0
5	Reliance Nippon Life Asset Management Limited	30-Sep-2016	3.55%	1.04M	+0.07M
6	Norges Bank Investment Management (NBIM)	30-Sep-2016	3.17%	0.93M	0
7	UTI Asset Management Co. Ltd.	30-Sep-2016	2.48%	0.73M	+0.36M
8	Bajaj Group of Industries	30-Sep-2016	2.36%	0.69M	-0.14M
9	The Vanguard Group, Inc.	30-Nov-2016	2.05%	0.60M	+0.02M
10	Mirae Asset Global Investments (India) Pvt. Ltd.	30-Sep-2016	1.98%	0.58M	+0.09M

Source: Reuters, ICICIdirect.com Research

Shareholding Pattern

(in %)	Sep-15	Dec-15	Mar-16	Sep-16	Dec-16
Promoter	0.0	0.0	0.0	0.0	0.0
FII	30.2	31.0	30.5	31.1	36.0
DII	46.4	45.7	44.1	44.3	40.1
Others	23.5	23.3	25.4	24.6	23.9

Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
UTI Asset Management Co. Ltd.	+7.30M	+0.36M	IDBI Bank Ltd	-24.84M	-1.21M
GIC Private Limited	+7.04M	+0.34M	State Bank of India	-10.23M	-0.50M
Columbia Wanger Asset Management, LLC	+3.48M	+0.17M	Grandeur Peak Global Advisors, LLC	-4.58M	-0.29M
Mirae Asset Global Investments (India) Pvt. Ltd.	+1.81M	+0.09M	Bajaj Group of Industries	-2.91M	-0.14M
Reliance Nippon Life Asset Management Limited	+1.47M	+0.07M	ICICI Prudential Asset Management Co. Ltd.	-0.96M	-0.06M

Source: Reuters, ICICIdirect.com Research

Financial summary

Profit and loss statement				₹ Crore
(₹ Crore)	FY15	FY16	FY17E	FY18E
Net Sales	257.2	264.8	291.3	340.9
Growth (%)	12.1	3.0	10.0	17.0
Other Income	43.6	8.6	28.5	50.6
Total Revenue	300.8	273.4	319.9	391.4
Raw Material Expenses	0.0	0.0	0.0	0.0
Employee Expenses	70.7	69.7	69.1	84.0
Marketing Expenses	0.0	0.0	0.0	0.0
Other operating expenses	24.5	23.1	22.3	23.8
Total Operating Expenditure	95.1	92.7	91.4	107.8
EBITDA	162.1	172.1	200.0	233.0
Growth (%)	10.5	6.2	16.2	16.5
Interest	1.3	0.0	0.0	0.0
PBDT	204.3	180.7	228.5	283.6
Depreciation	5.0	3.9	3.4	4.2
PBT	199.4	176.8	225.1	279.4
Total Tax	59.0	59.1	70.1	87.9
PAT	140.3	117.6	155.1	191.5
Growth (%)	9.1	-16.2	31.8	23.5
EPS	48.4	40.0	52.7	65.1

Source: Company, ICICIdirect.com Research

Cash Flow statement				
(₹ Crore)	FY15	FY16	FY17E	FY18E
Profit after Tax	140.3	117.6	155.1	191.5
Add: Depreciation	5.0	3.9	3.4	4.2
Cash Flow before WC changes	146.6	121.6	158.4	195.7
Net Increase in Current Assets	1.7	-8.9	-1.6	-7.0
Net Increase in Current Liabilities	-8.4	6.6	-8.3	1.9
Net Cash Flow from Operating Activities	139.9	119.3	148.5	190.6
(Purchase)/Sale of liquid investments	122.1	-46.4	-12.0	-15.0
(Purchase)/Sale of Fixed Assets	-9.6	-2.7	-4.8	-4.8
Net Cash flow from Investing Activities	111.5	-49.5	-17.8	-19.8
Proceeds from issues of Equity Shares	-1.4	0.4	0.0	0.0
One time adj. in P&L Appropriation				
Adj. in General Reserves	0.0	0.0	0.0	0.0
Dividend and Dividend Tax Paid	-268.8	-93.6	-103.2	-120.4
Interest Paid				
Net Cash flow from Financing Activities	-266.9	-69.9	-105.2	-148.4
Net Cash flow	-15.5	-0.1	25.5	22.5
Opening Cash / Cash Equivalent	28.4	12.9	12.8	38.3
Closing Cash / Cash Equivalent	12.9	12.8	38.3	60.7

Source: Company, ICICIdirect.com Research

Balance sheet				₹ Crore
(₹ Crore)	FY15	FY16	FY17E	FY18E
Liabilities				
Equity Capital	29.0	29.4	29.4	29.4
Reserve and Surplus	331.4	379.0	428.9	472.0
Total Shareholders funds	360.4	408.4	458.3	501.4
Deferred Tax Liability	2.9	2.6	1.6	1.6
Source of Funds	363.4	411.0	459.9	503.0
Assets				
Total Gross Block	75.1	77.9	82.7	87.5
Less: Accumulated Depreciation	19.0	22.9	26.3	30.6
Net Block	56.1	54.9	56.3	56.9
Total Fixed Assets	56.2	54.9	56.3	56.9
Liquid Investments	345.6	392.0	404.0	419.0
Debtors	14.6	22.2	24.4	28.6
Loans and Advances	12.7	12.4	11.4	13.3
Other Current Assets	3.2	4.8	5.3	6.2
Cash	12.6	12.8	38.3	60.7
Total Current Assets	43.1	52.2	79.3	108.7
Creditors	1.5	2.2	2.4	2.8
Provisions	44.3	53.1	39.6	32.4
Application of funds	363.4	411.0	459.9	503.0

Source: Company, ICICIdirect.com Research

Key Ratios				
	FY15	FY16	FY17E	FY18E
Per share data (₹)				
EPS	48.4	40.0	52.7	65.1
Cash EPS	50.1	41.3	53.9	66.6
BV	124.3	138.9	155.9	170.5
Operating profit per share	55.9	58.5	68.0	79.3
Cash Per Share	123.5	137.7	150.4	163.2
Operating Ratios (%)				
EBITDA Margin	63.0	65.0	68.6	68.4
PAT Margin	54.6	44.4	53.2	56.2
Return Ratios (%)				
RoE	38.9	28.8	33.8	38.2
RoCE	43.2	40.9	42.7	45.5
Valuation Ratios (x)				
P/E	29.4	35.6	27.0	21.9
EV / EBITDA	23.6	22.0	18.7	15.9
EV / Net Sales	14.9	14.3	12.9	10.9
Sales / Equity	0.7	0.6	0.6	0.7
Market Cap / Sales	16.3	15.8	14.4	12.3
Price to Book Value	11.5	10.3	9.1	8.4
Payout ratio (%)	192	80	67	63
Solvency Ratios (x)				
Current Ratio	0.5	0.6	1.0	1.3
Quick Ratio	0.5	0.6	1.0	1.3

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Banking & Financial Services)

	CMP			M Cap	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
Sector / Company	(₹)	TP(₹)	Rating	(₹ Cr)	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E
Bank of Baroda (BANBAR)	190	180	Hold	43,915	-23	10	23	-8.1	18.9	8.4	2.2	2.0	1.4	-0.8	0.3	0.7	-13	6	12
Punjab National Bank (PUNBAN)	153	138	Hold	29,945	-20	15	21	-7.5	10.4	7.2	8.3	2.8	1.5	-0.6	0.4	0.6	-10	8	10
State Bank of India (STABAN)	282	310	Buy	210,422	13	13	26	22.0	21.4	10.8	2.4	1.7	1.5	0.5	0.4	0.8	7	6	11
Indian Bank (INDIBA)	296	305	Buy	14,197	15	28	34	20.0	10.7	8.8	1.4	1.4	1.3	0.4	0.6	0.7	5	8	9
Axis Bank (UTIBAN)	497	460	Hold	118,108	35	14	28	14.4	35.8	18.0	2.3	2.7	2.2	1.7	0.6	1.1	17	6	11
City Union Bank (CITUNI)	167	166	Buy	10,068	7	8	10	22.6	19.8	16.7	3.7	3.2	2.7	1.5	1.5	1.6	16	16	16
Development Credit Bank (DCB)	134	120	Hold	3,467	7	7	9	19.6	18.0	15.0	2.3	2.1	1.9	1.1	1.0	1.0	12	12	13
Federal Bank (FEDBAN)	85	87	Buy	14,583	3	5	6	30.6	18.5	13.2	2.0	1.9	1.7	0.5	0.8	0.9	6	9	12
HDFC Bank (HDFBAN)	1,318	1,500	Buy	329,463	49	58	71	27.1	22.8	18.7	4.7	4.0	3.6	1.9	1.9	1.9	18	19	20
Indusind Bank (INDBA)	1,322	1,350	Buy	78,633	38	48	58	34.4	27.4	22.8	4.4	3.9	3.5	1.9	1.9	1.8	16	15	16
Jammu & Kashmir Bank (JAMKAS)	70	75	Buy	3,389	9	-10	11	8.2	-6.7	6.4	0.8	1.4	1.3	0.5	-0.6	0.6	7	-8	8
Kotak Mahindra Bank (KOTMAH)	771	840	Hold	141,041	11	18	21	67.7	42.3	36.3	6.2	5.4	4.8	1.1	1.6	1.7	9	13	13
Yes Bank (YESBAN)	1,396	1,400	Hold	58,599	48	60	70	29.1	23.1	20.0	4.3	2.9	2.5	1.6	1.7	1.8	21	20	18
NBFCs																			
LIC Housing Finance (LICHF)	558	590	Hold	28,228	33	39	46	17.0	14.2	12.2	3.2	2.6	2.2	1.4	1.4	1.4	20	20	19
Reliance Capital (RELCAP)	493	540	Hold	12,109	57	45	50	8.7	10.9	10.0	0.9	0.9	0.8	2.4	1.6	1.5	10	7	7
HDFC (HDFC)	1,408	1,570	Buy	222,120	45	47	53	31.3	30.1	26.4	6.6	6.0	5.4	2.6	2.4	2.4	22	21	21
PTC India Financial Services (PTCIND)	43	39	Hold	2,430	3	7	5	14.9	6.1	9.4	1.6	1.3	1.2	2.6	5.0	2.9	12	25	14
CARE (CARE)	1,425	1,650	Buy	4,132	48	40	53	29.4	35.6	27.0	11.5	10.3	9.1	43.2	40.9	42.7	39	29	34
Bajaj Finserv (BAFINS)	3,486	3,620	Buy	55,512	117	146	197	29.7	23.8	17.7	4.3	3.7	3.0	1.9	2.0	2.3	16	17	19
Bajaj Finance (BAJAF)	1,063	1,300	Buy	56,760	24	34	44	43.4	31.6	24.2	7.5	6.3	5.0	3.2	3.4	3.3	21	22	23

Source: Company, ICICIdirect.com Research

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