May 30, 2016

Credit Analysis & Research (CARE) ₹ 996

Weak macros continue to weigh on earnings...

- Reported rating revenues were at ₹ 75.2 crore in line with our estimates. On a YoY basis, revenues fell 3% YoY while QoQ it was up 20%. Full year revenue was up merely 3% YoY to ₹ 264.7 crore
- Other income in Q4FY16 was at ₹ 2.5 crore (I-direct estimate: ₹ 2.1 crore). Full year FY16 other income was ₹ 8.6 crore vs. ₹ 43.5 crore owing to lower incidence of profit booking on FMP investments as these will booked in the year of maturity. Another reason for lower other income was decline in the investible amount by ₹ 220 crore in FY15 on account of one-time payment of special dividend
- EBITDA came in at ₹ 51.9 crore vs. ₹ 47.9 crore expected while the EBIDTA margin was at 69%. Lower-than-expected expenses of ₹ 23.3 crore (I-direct estimate: ₹ 27.3 crore) enabled better EDITDA
- PAT was at ₹ 35.5 crore (flat YoY) vs. ₹ 33.5 crore estimate. FY16 PAT came in at ₹ 117.6 crore down 16% YoY on muted revenue growth and decline in other income
- The company declared a final dividend of ₹ 10/share with full year FY16 dividend 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%+ & 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 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 margin 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 stay largely at current levels.

Revenue, PAT traction to improve in FY18E; 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. We factor in FY18E estimates wherein we expect traction in rating revenue to improve & strong other income gains on maturity of investments. We expect PAT CAGR of 23% in FY16-18E. We remain structurally positive on the rating business in next three to five years. We maintain TP of ₹ 1400 valuing at 23x FY18E EPS. We maintain **BUY**.

Rating matrix

Rating	:	Buy
Target	:	₹ 1400
Target Period	:	12-15 months
Potential Upside	:	40%

What's changed?

Target	Unchanged
EPS FY17E	Changed from ₹ 46.7 to ₹ 44.8
EPS FY18E	Introduced at ₹ 60.3
Rating	Unchanged

Quarterly performance

	Q4FY16	Q4FY15	YoY (%)	Q3FY16	QoQ (%)
Revenue	75.2	77.9	-3.4	62.9	19.6
EBITDA	51.9	52.0	(0.2)	40.3	28.8
EBITDA (%)	69.0	66.8	218 bps	64.0	494 bps
PAT	36	35.1	1.2	26.8	32.6

Key financials

(%)	FY15	FY16E	FY17E	FY18E
Revenue	300.8	273.4	308.3	391.3
EBITDA	162.1	172.1	190.2	221.2
Net Profit	140.3	117.6	131.8	177.2
EPS	48.4	40.0	44.8	60.3

Valuation summary

	FY15	FY16E	FY17E	FY18E
P/E	20.6	24.9	22.2	16.5
Target P/E	28.9	35.0	31.2	23.2
Mcap to sales	11.4	11.1	9.9	8.6
Dividend yield	9.3	3.2	3.5	4.1
Price/BV	8.0	7.2	6.7	6.3
RoE	38.9	28.8	30.3	38.2

Stock data

Particulars	
Market Capitalization	₹ 2887 crore
Total Debt	NIL
Cash & Cash Equivalents (₹ Crore)	₹ 405 crore
EBITDA Margin Q4FY16 (%)	69.0
52 week H/L (₹)	1550 /883
Networth (₹ crore)	408.0
Face value	₹ 10
DII Holding (%)	44.1
FII Holding (%)	30.5

Price performance

Return %	1M	3M	6M	12M
CARE	-10.7	8.9	-23.8	-30.9
Crisil	2.8	15.1	8.3	-0.2
ICRA	-0.2	13.0	6.3	1.2

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Variance analysis

	Q4FY16	Q4FY16E	Q4FY15	Q3FY16	YoY (%)	QoQ (%)	Comments
Net Sales	75.2	75.1	77.9	62.9	-3.4	19.6	Revenues came in line with estimates
Expenditure							
Employee Expenses	17.1	19.0	19.3	17.2	-11.2	-0.4	
As % of revenue	22.8	25.3	24.8	27.3			
Other Expenses	6.2	8.3	6.6	5.4	-5.3	14.4	
As % of revenue	8.2	11.0	8.4	8.6			
Total Expenses	23.3	27.3	25.8	22.6	-9.7	3.1	
As % of revenue	31.0	36.3	33.2	36.0			
EBITDA	51.9	47.9	52.0	40.3	-0.2	28.8	Lower-than-expected expenses enabled better EBITDA despite muted revenues
EBITDA Margin	69.0	63.7	66.8	64.0	218 bps	494 bps	EBITDA margin came in higher-than-expected, due to lower-than-expected expenses
Other Income	2.5	2.1	3.2	1.0	-23.1	148.1	Other income declined mainly because of the rollover of sizeable investments in fixed maturity plans (FMPs). The income from these FMPs will be booked in the year of maturity
Depreciation + interest exp	0.9	1.2	1.1	0.9	-17.7	-3.4	
PBT	53.5	48.8	54.1	40.4	-1.2	32.5	
Taxes	17.9	15.6	19.0	13.5	-5.7	32.3	
PAT	35.5	33.2	35.1	26.8	1.2	32.6	
PAT Margin	47.2	44.2	45.1	42.6	214 bps	463 bps	

Source: Company, ICICIdirect.com Research

Change in estimates

	FY17E			FY18E	
(₹ Crore)	Old	New	% Change	Introduced	Comments
Net Sales	295	296	0.2	341	Subdued credit growth in system to keep rating reveue muted in FY17E before some improvement expected in FY18E
EBITDA	191	190	-0.5	221	
EBITDA Margin %	64.8	64.3	-51 bps	64.9	
PAT	134	132	-1.3	177	
EPS	46	45	-1.3	61	

Source: Company, ICICIdirect.com Research

Assumptions

			Current		Earlier
	FY15	FY16	FY17E	FY18E	FY17E
Revenue growth (%)	12.1	3.0	11.6	15.3	11.4
Staff expenses to revenue (%)	27.5	26.3	27.4	27.3	26.1
Total expenses to revenue (%)	37.0	35.0	35.7	35.1	35.2
EBITDA growth (%)	10.5	6.2	10.5	16.3	13.8
EBITDA margin (%)	63.0	65.0	64.3	64.9	64.8
Tax rate (%)	29.6	33.5	33.6	33.6	33.0
PAT growth (%)	9.1	-16.2	12.1	34.4	15.8
PAT margin (%)	54.6	44.4	44.6	52.0	45.3

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 SME's 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 in increasing 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% over 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

Quarterly revenue performance

Exhibit 3: Rating revenue traction muted in FY16E; expect 13% CAGR over FY16-18E

Source: Company, ICICIdirect.com Research

Overall volume of debt rated was down 21.9% YoY to ₹ 349000 crore in Q4FY16. However, the same traction was not reflected in rating revenue which stood at ₹ 75 crore, down merely 3.4% 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

Going ahead, a strong improvement in revenues would depend on the macro environment and largely on credit growth in the system, which, we believe, will remain tepid ahead

As stated 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 revenues 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 H1FY17E 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 stay below <50% in FY17E but continue to stay 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 at ~45% in FY17E. This is due to the lower other income expected in FY17E. However, by FY18E the margins should cross >50% on improvement in revenue growth and strong other income gains.

Exhibit 4: Margin still looks lucrative

Source: Company, ICICIdirect.com Research

EBITDA growth to moderate on moderating revenues

In the past four years, owing to 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 13% CAGR to ₹ 221 crore over FY16-17E largely reflecting topline growth.

Going ahead, we expect EBITDA to grow at 13% CAGR to ₹ 221 crore in FY16-18E

Exhibit 5: EBITDA growth to 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 to 150 locations in the next two or three years with revenue from SME rating segment 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

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 FY15, CARE garnered revenues of ₹ 265 crore and PAT of ₹ 118 crore.

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

Potential for return ratios to scale up higher

With limited capital requirement, the 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 30% in FY16E and 34% in FY17E.

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 be impacted in FY16E and FY17E owing to earnings moderation

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, CARE 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 the 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 factor in FY18E estimates wherein we expect traction in rating revenue to improve & strong other income gains on maturity of investments. We expect PAT CAGR of 23% over FY16-18E. We remain structurally positive on the rating business in next three to five years. We maintain TP of ₹ 1400 valuing at 23x 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	44.6	52.0
Sales/Asset	47.0	70.8	64.4	67.7	73.2
Asset/Equity	100.8	100.8	100.6	100.4	100.3
ROE	26.6	38.9	28.8	30.3	38.2

Source: Company, ICICIdirect.com Research

Prospects for the rating business remain benign in the long term and 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.

Company snapshot

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	Franklin Templeton Asset Management (India) Pvt. Ltd.	31-Mar-2016	10.9%	3.19M	+0.18M
2	Life Insurance Corporation of India	31-Mar-2016	9.80%	2.88M	0
3	Canara Bank Ltd	31-Mar-2016	9.28%	2.73M	0
4	Franklin Advisers, Inc.	31-Oct-2015	5.95%	1.75M	0
5	IDBI Bank Ltd	31-Mar-2016	5.07%	1.49M	-0.11M
6	State Bank of India	31-Mar-2016	3.82%	1.12M	-0.32M
7	Bajaj Group of Industries	31-Mar-2016	3.41%	1.00M	0
8	Reliance Capital Asset Management Ltd.	31-Mar-2016	3.31%	0.97M	-0.11M
9	Norges Bank Investment Management (NBIM)	31-Mar-2016	3.17%	0.93M	0
10	BNP Paribas Asset Management, Inc.	31-Mar-2016	1.92%	0.56M	+0.55M

Source: Reuters, ICICIdirect.com Research

Shareholding Pattern

(in %)	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Promoter	0.0	0.0	0.0	0.0	0.0
FII	31.2	31.3	30.2	31.0	30.5
DII	45.5	44.7	46.4	45.7	44.1
Others	23.3	24.0	23.5	23.3	25.4

Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
BNP Paribas Asset Management, Inc.	+7.71M	+0.55M	Tata Asset Management Limited	-6.44M	-0.46M
Kuwait Investment Authority	+4.74M	+0.34M	GMO LLC	-6.79M	-0.35M
SBI Custodial Services Pvt. Ltd.	+4.28M	+0.30M	State Bank of India	-4.56M	-0.32M
Franklin Templeton Asset Management (India) Pvt. Ltd.	+2.61M	+0.18M	Reliance Capital Asset Management Ltd.	-1.61M	-0.11M
L&T Investment Management Limited	+0.91M	+0.06M	IDBI Bank Ltd	-1.58M	-0.11M

Source: Reuters, ICICIdirect.com Research

Financial summary

Profit and loss statement				₹ Crore
(₹ Crore)	FY15	FY16	FY17E	FY18E
Net Sales	257.2	264.8	295.7	340.9
Growth (%)	12.1	3.0	11.6	15.3
Other Income	43.6	8.6	12.6	50.4
Total Revenue	300.8	273.4	308.3	391.3
Raw Material Expenses	0.0	0.0	0.0	0.0
Employee Expenses	70.7	69.7	81.0	93.0
Marketing Expenses	0.0	0.0	0.0	0.0
Other operating expenses	24.5	23.1	24.4	26.6
Total Operating Expenditure	95.1	92.7	105.5	119.6
EBITDA	162.1	172.1	190.2	221.2
Growth (%)	10.5	6.2	10.5	16.3
Interest	1.3	0.0	0.0	0.0
PBDT	204.3	180.7	202.8	271.6
Depreciation	5.0	3.9	4.3	5.0
PBT	199.4	176.8	198.5	266.7
Total Tax	59.0	59.1	66.7	89.5
PAT	140.3	117.6	131.8	177.2
Growth (%)	9.1	-16.2	12.1	34.4
EPS	48.4	40.0	44.8	60.3

Source: Company, ICICIdirect.com Research

Cash Flow statement				
(₹ Crore)	FY15	FY16	FY17E	FY18E
Profit after Tax	140.3	117.6	131.8	177.2
Add: Depreciation	5.0	3.9	4.3	5.0
Cash Flow before WC changes	146.6	121.6	136.1	182.1
Net Increase in Current Assets	1.7	-8.9	-2.2	-6.4
Net Increase in Current Liabilities	-8.4	6.6	-7.1	0.7
Net Cash Flow from Operating Activities	139.9	119.3	126.7	176.4
(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	3.7	8.3
Opening Cash / Cash Equivalent	28.4	12.9	12.8	16.5
Closing Cash / Cash Equivalent	12.9	12.8	16.5	24.8

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	405.7	434.4
Total Shareholders funds	360.4	408.4	435.1	463.8
Deferred Tax Liability	2.9	2.6	1.6	1.6
Source of Funds	363.4	411.0	436.6	465.4
Assets				
Total Gross Block	75.1	77.9	82.7	87.5
Less: Accumulated Depreciation	19.0	22.9	27.2	32.2
Net Block	56.1	54.9	55.4	55.3
Total Fixed Assets	56.2	54.9	55.4	55.3
Liquid Investments	345.6	392.0	404.0	419.0
Debtors	14.6	22.2	24.8	28.6
Loans and Advances	12.7	12.4	11.5	13.3
Other Current Assets	3.2	4.8	5.3	6.2
Cash	12.6	12.8	16.5	24.8
Total Current Assets	43.1	52.2	58.2	72.8
Creditors	1.5	2.2	2.4	2.8
Provisions	44.3	53.1	40.2	32.4
Application of funds	363.4	411.0	436.6	465.4

Source: Company, ICICIdirect.com Research

Key Ratios				
	FY15	FY16	FY17E	FY18E
Per share data (₹)				
EPS	48.4	40.0	44.8	60.3
Cash EPS	50.1	41.3	46.3	61.9
BV	124.3	138.9	148.0	157.8
Operating profit per share	55.9	58.5	64.7	75.2
Cash Per Share	123.5	137.7	143.0	150.9
Operating Ratios (%)				
EBITDA Margin	63.0	65.0	64.3	64.9
PAT Margin	54.6	44.4	44.6	52.0
Return Ratios (%)				
RoE	38.9	28.8	30.3	38.2
RoCE	43.2	40.9	42.6	46.5
Valuation Ratios (x)				
P/E	20.6	24.9	22.2	16.5
EV / EBITDA	15.8	14.7	13.2	11.2
EV / Net Sales	10.0	9.5	8.5	7.3
Sales / Equity	0.7	0.6	0.7	0.7
Market Cap / Sales	11.4	11.1	9.9	8.6
Price to Book Value	8.0	7.2	6.7	6.3
Solvency Ratios (x)				
Current Ratio	0.5	0.6	0.7	0.9
Quick Ratio	0.5	0.6	0.7	0.9

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Banking & Financial Services)

Sector / Company	CMP (₹)	TP(₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
					FY15	FY16E	FY17E	FY15	FY16E	FY17E	FY15	FY16E	FY17E	FY15	FY16E	FY17E	FY15	FY16E	FY17E
Bank of Baroda (BANBAR)	136	140	Hold	31,447	15	-23	6	8.9	-5.8	24.3	1.0	1.6	1.6	0.5	-0.8	0.2	9	-13	3
Punjab National Bank (PUNBAN)	74	74	Hold	14,550	17	-20	14	4.5	-3.7	5.5	0.6	4.0	1.4	0.5	-0.6	0.4	8	-10	7
State Bank of India (STABAN)	181	160	Hold	134,756	18	14	18	10.3	13.0	10.1	1.3	1.4	1.3	0.7	0.5	0.6	11	8	9
Indian Bank (INDIBA)	89	91	Hold	3,834	21	15	14	4.3	6.0	6.5	0.4	0.5	0.5	0.5	0.4	0.3	7	5	4
Axis Bank (UTIBAN)	509	480	Hold	120,946	31	35	37	16.4	14.8	13.8	2.8	2.4	2.1	1.7	1.7	1.5	18	17	15
City Union Bank (CITUNI)	105	118	Buy	6,269	6	7	8	16.3	14.1	12.6	2.5	2.3	2.0	1.4	1.5	1.5	16	16	15
Development Credit Bank (DCB)	92	85	Hold	2,380	7	7	7	13.5	13.4	13.1	1.8	1.6	1.4	1.3	1.1	1.0	15	12	11
Federal Bank (FEDBAN)	53	45	Hold	9,123	6	3	4	9.0	19.2	13.8	1.2	1.3	1.2	1.3	0.5	0.7	14	6	8
HDFC Bank (HDFBAN)	1,176	1,225	Buy	293,963	41	49	59	28.9	24.2	20.0	4.8	4.2	3.6	1.9	1.9	1.9	19	18	19
Indusind Bank (INDBA)	1,101	1,060	Hold	65,492	34	38	49	32.5	28.7	22.2	5.6	3.7	3.3	1.8	1.9	2.0	18	16	15
Jammu & Kashmir Bank (JAMKAS)	59	58	Hold	2,843	10	9	14	5.6	6.8	4.2	0.6	0.7	0.6	0.7	0.5	0.8	9	7	10
Kotak Mahindra Bank (KOTMAH)	721	750	Hold	131,976	14	11	14	52.9	63.3	51.5	6.3	5.8	5.3	1.5	1.1	1.2	12	9	10
Yes Bank (YESBAN)	1,010	890	Hold	42,383	48	60	73	21.0	16.7	13.7	3.6	3.1	2.6	1.6	1.7	1.7	21	20	20
NBFCs																			
LIC Housing Finance (LICHF)	458	500	Hold	23,157	27	33	40	16.7	13.9	11.6	3.0	2.6	2.1	1.3	1.4	1.4	18	20	20
Reliance Capital (RELCAP)	405	481	Buy	9,859	40	43	42	10.1	9.2	9.6	0.9	0.8	0.7	2.0	1.8	1.5	8	8	7
HDFC (HDFC)	1,214	1,370	Buy	191,477	38	45	47	31.9	27.0	26.0	6.3	5.7	5.2	2.5	2.6	2.4	20	22	21
PTC India Financial Services (PTCIND)	35	43	Hold	1,992	3	7	5	12.2	5.0	7.3	1.4	1.3	1.0	2.6	5.0	3.1	12	25	15
CARE (CARE)	996	1,400	Buy	2,887	48	40	45	20.6	24.9	22.2	8.0	7.2	6.7	43.2	40.9	42.6	39	29	30
Bajaj Finserv (BAFINS)	1,804	2,450	Buy	28,720	106	114	139	17.0	15.9	13.0	2.6	2.3	1.9	2.0	1.8	1.9	17	15	16
Bajaj Finance (BAJAF)	7,431	8,230	Buy	39,852	180	246	307	41.3	30.2	24.2	7.7	5.2	4.5	3.1	3.2	3.2	20	21	20

Source: Company, ICICIdirect.com Research

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