

## Q1FY16 Update-Financials Ranking Model

RETURN	3M	6M	12M
CNXPSU	-7%	-14%	-9%
BANKNIFTY	-6%	-8%	10%
BSEPSU	-12%	-15%	-17%
NIFTY	-6%	-10%	0%

	CMP	P/ABV	Total Points
Bank of India	139	1.00	68
Syndicate Bank	84	1.15	68
J&K Bank	98	1.02	60
KTK Bank	121	1.10	58
Federal Bank	61	1.61	50
Dewan Hsg	437	1.30	55
LIC Hsg	427	2.70	53
Indiabulls Hsg	761	4.20	50
PFC	211	1.50	75
REC	242	1.40	73
Manappuram	22	0.70	60

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### Summary of our Ranking Model for Financial Sector

Dimensional Securities uses its proprietary ranking model to evaluate stocks in the financial sector. Banks, HFCs, NBFCs are scored on profitability, valuation multiples on adjusted networth, capitalization, size and loan growth. Ranking model is based on Q1 FY16 figures. Based on our ranking model, we recommend following stocks -

- PSU Banks**- We recommend Bank of India and Syndicate Bank. On our PPOP return relative to valuation multiple, they score amongst highest with 38% and 35%
- Old Private Banks**- We recommend J&K Bank, Karnataka Bank and Federal Bank. Federal bank scored highest with 18% on loan growth parameter while other 2 banks scored highest with 31% and 22% respectively on PPOP return relative to valuation multiple.
- HFCs (Housing Finance Cos)**- We recommend Dewan housing, LIC housing and Indiabulls housing. The stocks are quoting at PAdj Bv of 1.3, 2.7 and 4.2 respectively compared to median of 2.7 within the HFCs universe.
- NBFCs (Non-Banking Finance Cos)**- We recommend PFC, REC and Manappuram Finance. With sheer size, PFC and REC topped the ladder while on PPOP return relative to valuation multiple Manappuram scored highest.

### Methodology for ranking with its objectives

Using our point system and weightages, we compute composite score for financial companies on 4 key parameters:

- PPOP return / (Price / Adj. BV)**: This parameter evaluate the Financials profitability viz its valuations multiple adjusted for stress assets.
- Capitalisation**: We score banks on their Tier I ratio (Basel III). This ratio captures the headroom available for growth as well ability to deal with stress in the loan book.
- Advances Growth**: Financials are scored on their latest growth numbers. This ratio captures the business growth in the past and is recognition of management quality.
- Loan book size**: This parameter scores financials on its sheer size. The bigger, the better as it benefits from economy of scale, diversification etc

### Key recommendation from our financial model

PSU Banks	Old Private Banks	HFCs	NBFCs
Bank of India	J&K Bank	Dewan Housing	Power Finance Corp.
Syndicate Bank	KTK Bank	LIC Housing	Rural Electrification Corp.
	Federal Bank	Indiabulls Housing	Manappuram Finance

**Disclaimer:** Please note this report purely recommends stocks based on our proprietary financial model based on Q1FY16 numbers. No specific company research has been done.



For details following are the annexures

### Annexure 1:

PSU Banks (CMP as 26/Aug/2015)-Q1 FY16

Sr. No.	Company Name	CMP Rs. (a)	(BV + Provisions) per share	(70% Provisioning for GNPA) per share	(50% Restructured) per share	Adj. BV (b)	PPOP* return (c)	Adj Price/BV (d) = a/b	PPOP return/P/BV (e)=c/d	Points	Tier I	Points	Advances Growth (CAGR FY14-15)	Points	Loan book size	Points	Total Points
1	BANKINDIA	139	567	283	146	138	37.7%	1.00	38%	45	8.23	5.0	8.4%	10.0	383,983	7.5	68
2	SYNDIBANK	84	231	80	78	72	40.4%	1.15	35%	45	7.50	2.5	16.6%	15.0	202,927	5.0	68
3	CANBK	279	739	178	224	338	24.7%	0.83	30%	40	8.28	5.0	9.6%	10.0	324,063	7.5	63
4	UNIONBANK	170	421	156	107	158	35.2%	1.08	33%	45	7.20	2.5	11.6%	10.0	248,080	5.0	63
5	IDBI	56	200	62	57	81	26.8%	0.69	39%	45	8.13	5.0	5.4%	5.0	204,339	5.0	60
6	UCOBANK	44	154	71	47	36	54.6%	1.20	45%	45	8.71	5.0	-1.5%	0.0	149,226	5.0	55
7	CORPBANK	47	161	65	63	33	39.1%	1.42	28%	40	8.18	5.0	5.8%	5.0	140,325	5.0	55
8	INDIANB	134	321	85	105	131	27.2%	1.03	27%	40	10.00	7.5	3.0%	0.0	124,998	5.0	53
9	SBIN	246	216	52	37	127	31.7%	1.59	20%	20	9.62	7.5	7.5%	5.0	1,280,127	20.0	53
10	PNB	142	269	96	108	65	37.4%	2.19	17%	20	9.18	7.5	9.0%	10.0	380,880	7.5	45
11	BANKBARODA	177	211	55	58	99	27.8%	1.79	16%	20	9.41	7.5	7.8%	10.0	408,388	7.5	45
12	ANDHRABANK	63	218	84	121	13	43.3%	4.92	9%	5	7.81	2.5	17.0%	15.0	125,846	5.0	28
13	ALBK	83	254	98	146	10	50.3%	8.52	6%	5	7.51	2.5	8.6%	10.0	151,027	5.0	23
14	CENTRALBK	64	129	55	85	(11)	28.3%	-5.65	-5%	5	8.03	5.0	6.3%	5.0	193,132	5.0	20
15	ORIENTBANK	130	555	200	333	22	38.8%	5.93	7%	5	8.59	5.0	4.4%	0.0	146,549	5.0	15
16	IOB	36	164	93	67	3	36.7%	12.07	3%	5	7.06	2.5	-2.3%	0.0	174,963	5.0	13
	<b>Median</b>						37%	1.31	23%	30	8.21	5.0	8%	7.5			53
	<b>Mean</b>						36%	2.48	22%	27	8.34	4.8	7%	6.9			45

\*PPOP-Pre-Provisioning operating Profits; PPOP return = PPOP/Networth adj. for 70% provisioning for GNPA



### Annexure 2: Old Private Banks (CMP as 26/Aug/2015)-Q1 FY16

Sr. No.	Company Name	CMP Rs. (a)	(BV + Provisions) per share	(70% Provisioning for GNPA) per share	(50% Restructured) per share	Adj. BV (b)	PPOP* return (c)	Adj Price/BV (d)=a/b	PPOP return/P/BV (e)=c/d	Points	Tier I	Points	Advances Growth (CAGR FY14-15)	Points	Loan book size	Points	Total Points
1	J&KBANK	98	165	43	26	96	31.3%	1.02	31%	45	11.6	15.0	-3.9%	0.0	43,267	5.0	60
2	KTKBANK	121	207	38	58	110	24.4%	1.10	22%	30	10.28	12.5	11.8%	15.0	31,352	5.0	58
3	FEDERALBNK	61	51	5	8	38	21.1%	1.60	13%	10	14.4	15.0	18.1%	25.0	49,552	5.0	50
4	CUB	95	49	4	2	43	26.8%	2.23	12%	10	15.3	15.0	11.6%	15.0	17,901	5.0	40
5	KARURVYSYA	464	391	41	80	270	24.0%	1.72	14%	10	12.25	15.0	6.2%	10.0	37,220	5.0	35
6	SOUTHBANK	20	29	4	8	17	22.8%	1.18	19%	20	10	12.5	3.2%	0.0	38,243	5.0	33
	<b>Median</b>						24%	1.39	17%	15	11.93	15	9%	13			45
	<b>Mean</b>						25%	1.47	19%	21	12.31	14	8%	11			46

\*PPOP-Pre-Provisioning operating Profits; PPOP return = PPOP/Networth adj. for 70% provisioning for GNPA



### Annexure 3: New Private Banks (CMP as 26/Aug/2015)-Q1 FY16

Sr. No.	Company Name	CMP Rs. (a)	(BV + Provisions) per share	(70% Provisioning for GNPA) per share	(50% Restructured) per share	Adj. BV (b)	PPOP* return (c)	Adj Price/BV (d)=a/b	PPOP return/P/BV (e)=c/d	Points	Tier I	Points	Advances Growth (CAGR FY14-15)	Points	Loan book size	Points	Total Points
1	AXISBANK	496	209	13	18	178	31.3%	2.78	11%	10	11.6	15.0	22.2%	25.0	284,649	7.5	50
2	YESBANK	682	299	6	7	286	28.8%	2.39	12%	10	10.9	12.5	35.8%	25.0	79,666	5.0	48
3	DCBBANK	119	61	5	1	55	18.2%	2.17	8%	5	13.56	15.0	28.6%	25.0	10,426	5.0	45
4	KOTAKBANK	628	127	9	1	117	13.6%	5.38	3%	5	15.1	15.0	24.8%	25.0	103,614	5.0	45
5	ICICIBANK	278	159	18	11	130	24.8%	2.15	12%	10	12.26	15.0	14.4%	20.0	399,738	7.5	45
6	HDFCBANK	1016	269	10	1	258	28.3%	3.94	7%	5	12.8	15.0	20.6%	25.0	382,010	7.5	45
7	INDUSINDBK	856	195	7	3	185	29.4%	4.63	6%	5	11.55	15.0	24.8%	25.0	72,243	5.0	45
	Median						28%	2.78	8%	5	12.26	15	25%	25			45
	Mean						25%	3.35	8%	7	12.54	15	24%	24			46

\*PPOP-Pre-Provisioning operating Profits; PPOP return = PPOP/Networth adj. for 70% provisioning for GNPA



### Annexure 4: HFCs (CMP as 26/Aug/2015)-Q1 FY16

Sr. No.	Company Name	CMP (a)	Adj. BV (b)	P/BV (c)=a/b	PPOP* return (d)	PPOP return/ P/BV (e)=d/c	Points	CAR	Points	Home loan growth CAGR (FY14 -15)	Points	Loan book size	Points	Total Points
1	DHFL	437	325	1.3	21%	16%	20	15.8	10.0	27%	15.0	56,884	10.0	55
2	LIC Housing Finance	427	155	2.7	28%	10%	10	15.3	10.0	19%	12.5	108,361	20.0	53
3	Indiabulls Housing Finance	761	183	4.2	42%	10%	10	18.4	15.0	27%	15.0	52,235	10.0	50
4	GIC Housing	180	128	1.4	23%	17%	20	17.3	10.0	25%	12.5	6,598	5.0	48
5	HDFC	1,102	205	5.4	27%	5%	5	15.8	10.0	16%	12.5	228,200	20.0	48
6	Gruh Finance	239	21	11.6	42%	4%	5	15.4	10.0	27%	15.0	8,915	5.0	35
7	Can Fin Homes Ltd.	729	297	2.4	21%	8%	5	18.1	10.0	41%	15.0	8,237	5.0	35
8	Repc Home Finance	685	122	5.6	26%	5%	5	20.0	10.0	29%	15.0	6,013	5.0	35
	<b>Median</b>			2.7	27%	10%	10	15.8	10	27%	15			48
	<b>Mean</b>			4.2	29%	10%	11	16.6	11	26%	14			46

\*PPOP-Pre-Provisioning operating Profits; PPOP return = PPOP/Network adj. for NNPA



### Annexure 5: NBFCs (CMP as 26/Aug/2015)-Q1 FY16

Sr. No.	Company Name	CMP (a)	Adj. BV (b)	P/BV (c)=a/b	PPOP* return (d)	PPOP return / P/BV (e)=d/c	Points	CAR	Points	Loan growth (Fy14 -15)	Points	Loan book size	Points	Total Points
1	Power Finance Corp.	211	143	1.5	30%	20%	30	20.7	15.0	15%	10.0	217,516	20.0	75.0
2	Rural Electrification Corp.	241	176	1.4	30%	22%	30	20.4	10.0	21%	12.5	179,647	20.0	72.5
3	Manappuram Finance	22	31	0.7	19%	26%	40	25.0	10.0	9%	5.0	8,979	5.0	60.0
4	JM Financial	45	32	1.4	24%	17%	20	34.0	10.0	81%	15.0	5,388	5.0	50.0
5	Aditya Birla Nuvo	1,996	1,016	2.0	32%	16%	20	16.3	10.0	52%	15.0	17,550	5.0	50.0
6	Muthoot Finance	166	125	1.3	22%	17%	20	24.2	20.0	8%	5.0	23,350	5.0	50.0
7	L&T Finance	62	35	1.8	19%	11%	10	17.4	15.0	18%	12.5	47,232	7.5	45.0
8	IFCI	20	16	1.2	14%	12%	10	20.4	10.0	28%	15.0	24,706	5.0	40.0
9	Reliance Capital	294	539	0.5	7%	13%	10	23.9	15.0	15%	10.0	19,920	5.0	40.0
10	PTC India Financial Services	40	21	1.9	19%	10%	10	23.7	10.0	28%	15.0	6,379	5.0	40.0
11	India Infoline	186	74	2.5	37%	15%	10	17.7	10.0	27%	15.0	14,668	5.0	40.0
12	Edelweiss Financial	55	41	1.3	18%	14%	10	18.9	10.0	68%	15.0	14,495	5.0	40.0
13	Shriram City Union	1,634	642	2.5	22%	8%	5	28.2	20.0	14%	10.0	16,717	5.0	40.0
14	Bajaj Finance	4,979	1,016	4.9	30%	6%	5	20.7	12.5	35%	15.0	32,410	7.5	40.0
15	Srei Infra	41	64	0.6	10%	16%	20	16.4	10.0	8%	5.0	20,870	5.0	40.0
16	Shriram Transport Finance	810	429	1.9	20%	10%	10	20.1	10.0	11%	10.0	59,108	10.0	40.0
17	Mahindra Finance	255	100	2.5	24%	9%	5	18.1	15.0	11%	10.0	32,930	7.5	37.5
18	SKS Microfinance	472	88	5.3	20%	4%	5	27.2	10.0	47%	15.0	4,171	5.0	35.0
19	IDFC	129	97	1.3	12%	9%	5	23.8	20.0	-8%	0.0	54,745	10.0	35.0
20	Capital First	348	191	1.8	12%	7%	5	22.1	10.0	24%	12.5	11,975	5.0	32.5
21	Magma Fincorp	82	73	1.1	16%	14%	10	18.7	10.0	9%	5.0	19,567	5.0	30.0
22	Cholamandalam Finance	621	211	2.9	24%	8%	5	20.6	10.0	9%	5.0	25,453	7.5	27.5
23	Sundaram Finance	1,462	334	4.4	19%	4%	5	18.2	10.0	3%	0.0	18,733	5.0	20.0
	<b>Median</b>			1.8	20%	12%	10	20.6	10.0	15%	10.0			40.0
	<b>Mean</b>			2.0	21%	13%	13	21.6	12.3	23%	10.1			42.6

\*PPOP-Pre-Provisioning operating Profits; PPOP return = PPOP/Networth adj. for 70% provisioning for GNPA



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