

### IPO NOTE

#### IPO Details

Face Value	Rs. 5
Price Band (Rs)	Rs. 725-825
Issue Opens	15-Nov-07
Issue Closes	20-Nov-07
Bloomberg	EDEL IN
	Kotak Mahindra Capital
BRLM	Citigroup Global Markets
	Lehman Brothers Securities
Registrar to issue	Intime Spectrum Registry
Shares on offer for sale	8.3 mn

#### Pre issue shareholding pattern

Shareholders	% Stake
Promoters	42.9%
Other Public Category	57.1%

#### Post issue shareholding pattern

Shareholders	% Stake
Promoters	35.0%
Other Public Category	65.0%

#### Segmented Allocation

QIBs	4,908,965
Non-Institutional	818,160
Retail	2,454,482
Employee	204,540

IPO Details (In mn)	Lower End	Upper End
Price Band (Rs.)	725.0	825.0
Equity Shares prior to issue	66.5	66.5
Fresh Issue of shares	8.4	8.4
Total Equity Shares	74.9	74.9
Share Capital (Rs.)	374.6	374.6
Implied market cap (Rs.)	54,318.3	61,810.4
P / BV (x)	6.7 x	7.6 x
P / E (x)	32.8 x	37.3 x

### Edelweiss Capital Ltd

### Subscribe

Edelweiss Capital Ltd is a diversified financial services organisation, which provides a wide range of products and services such as investment banking, institutional equities, wealth management, and wholesale financing services to corporate, institutions, and high networth individuals. The Company, currently operating from 43 offices, is well poised to exploit the huge potential offered by the fast growing financial sector owing to its integrated business model and strong relationships with its clients. It is offering 8.3 mn shares to raise Rs. 6.08 bn to Rs. 6.91 bn to enhance margins with stock exchanges, prepay loans, establish new offices and upgrade its technology. We see this issue as an investment opportunity because the Company:

- has an **integrated business model**, which specialises in providing a wide range of financial products and services such as investment banking, institutional equities, wealth management, and wholesale finance.
- is **well positioned to leverage** the growing financial sector in India and become a significant market player, especially in areas like investment banking, institutional equities etc.
- has a **strong research platform** with research products, such as fundamental and alternative research, catering to institutions and HNIs.
- is an **established brand** with strong track record of **high growth and profitability**.
- is strongly focused on **nurturing & maintaining strong business relationships** with corporate & institutional clients.

#### Valuation and Recommendations

At the price band of Rs. 725-825, the stock is being offered at the P/E multiple of 32.8x-37.3x FY07 earnings. At the upper price band, the stock is at a premium to Indiabulls but is at a discount to India Infoline and Motilal. However, if we look at the forward FY08 P/E multiple, the stock is at a discount to all its peers. Therefore, we recommend investors to **subscribe** with a long term horizon on account of the superior margins and strong financial performance.

### Peer Group Comparison

Consolidated	Sales	Net Profit	EPS	BVS	P/E	P/B	RONW
Indiabulls	12,444.1	4,434.0	22.8	100.7	32.5x	7.4	24.0%
Infoline	4,257.3	756.2	16.3	64.8	67.4x	17.0	23.3%
Motilal Oswal	3,791.2	695.8	34.8	131.1	41.1x	10.9	20.9%
<b>Peer Group Avg.</b>	<b>6,830.9</b>	<b>1,962.0</b>	<b>24.6</b>	<b>98.9</b>	<b>47.0x</b>	<b>11.7</b>	<b>22.7%</b>
Edelweiss							
Lower Price Band	3,712.5	1,090.1	22.1	118.2	32.8x	6.1	18.7%
Upper Price Band	3,712.5	1,090.1	22.1	118.2	37.3x	7.0	18.7%
Prm/(Dis) to peer avg.							
Lower Price Band					(30.3)%	(47.8)%	
Upper Price Band					(20.7)%	(40.6)%	

### IPO

#### Issue details

Edelweiss is planning an initial public offering of 8.3 mn equity shares at a face value of Rs. 5. After the issue, the promoter will own 35% of the post-issue paid-up equity share capital. Of the total issue, 58.5% has been reserved for allotment to QIBs, 9.8% for non-institutional investor, 29.3% for retail investor, and 2.4% for employees.

#### Issue objective

The issue aims to enhance margin maintenance with stock exchanges, improve existing technological capacity, establish additional offices, and prepayment of loans etc.

The total proceeds will be used as under:

- Rs. 3,000 mn for enhancing the margins with the stock exchanges through bank guarantees or fixed deposits with the bank or cash.
- Rs. 251.45 mn for establishment of additional offices and acquisition of office infrastructure.
- Rs. 30.93 mn for the enhancement of the existing technological capacity.
- Rs. 1,050 mn for prepayment of loans.

### Promoters

The Company is promoted by Mr. Rashesh Shah and Mr. Venkatchalam Ramaswamy. Mr. Rashesh Shah, co-founder of Edelweiss, is a science graduate from Mumbai University and has done his MBA from IIM, Ahmedabad. He has been associated with the Company since 1995 as CEO and MD. Prior to this, he was the head of research, Prime Securities Private Ltd. He has also been part of a World Bank aided program for export-oriented projects at ICICI.

Mr. Venkatchalam Ramaswamy is an Engineering Graduate from Karnataka University and holds a masters degree in Business Administration from University of Pittsburgh. Prior to joining Edelweiss, he was a fund manager at Spartek Emerging Opportunities of India fund. He has also worked as Assistant Manager at ICICI, where his primary responsibilities involved project appraisal, financial modelling and disbursement of loans & grants. Mr. Ramaswamy is the co-founder of Edelweiss and is the head of the Investment Banking Division.

### Investment Rationale

#### *Strong business model with focus on diversity*

Edelweiss has a robust business model offering various financial services and products, including investment banking, institutional equities, private client brokerage, wealth management, asset management, investment advisory services, insurance brokerage and wholesale financing. Apart from generating larger revenues, it also enables to mitigate risks arising from product and client concentration. A large client base, owing primarily to diversity, aids in cross-selling products and services. Further, the Company can leverage existing expertise, to explore opportunities to build new businesses and widen its product portfolio.

#### *Excellent research platform*

The Company has a strong research platform with products such as fundamental & alternative research, catering to institutional investors & HNIs.

The fundamental research covers approximately 190 companies, which accounts for around 69% of the total market cap of all the companies listed on the BSE. The strength of the Company, however, lies in identifying emerging investment themes and utilising them for the maximisation of results for clients. A number of instances can vouch for the Company's futuristic vision and its ability to capitalise on the same. The alternative research practises use quantitative techniques for identifying short-term & medium term opportunities in the capital markets. These include evaluating the relative strength of companies, tracking corporate actions & their implications.

### *Strong corporate & institutional relationship*

The Company's focus on client service and its ability to provide ongoing and innovative solutions enables it to build long-term relationships with corporate, institutions and HNIs. Such associations will prove valuable in attracting deal flow and securing transactions.

### *Established brand with strong track record of growth & profitability*

Over the years, Edelweiss has been able to establish itself as a respected brand with knowledge leadership, high quality services, creative solutions to challenges, and sound execution of clients' transactions.

Since the last three years, Edelweiss's revenue has been growing at a CAGR of 119.5%. In addition, the Company has a healthy operating margin of 46.8% in FY07, which can be attributed to its high margin businesses such as investment banking, wealth management etc.

### *Well positioned to utilise the immense opportunities in the Indian financial sector*

The Indian financial sector carries immense growth opportunities, be it investment banking, wealth management, insurance broking or any other domain. With its robust business model, the Company is well poised to exploit this growing sector. The focus on diversity has already reduced the risk of client and product concentration. With a continuous rise in number of HNIs, and the expansion of capital markets, domains such as investment banking, PMS are likely to experience outstanding growth.

### Risks and concerns

#### *Strong Competition*

The Indian financial industry is highly competitive, and Edelweiss is a relatively smaller Company among its peers. Some of its competitors have a much larger client base and a wider range of products and services. Though some of its businesses such as institutional equities etc. are high margin, yet with more companies foraying into such domains, the margins are likely to be under pressure, forcing the Company to loose its competitive edge.

#### *Dependence of business on capital market*

Any downturn or disruption in the capital markets can have a material impact on the operations and profitability of the Company.

#### *High proportion of trading & arbitrage income*

The Company derives a large proportion of its revenue from trading and arbitrage. In FY'07, it constituted 30.8% of the total income. Therefore, the Company may incur significant losses from trading activities due to market fluctuations and volatility.

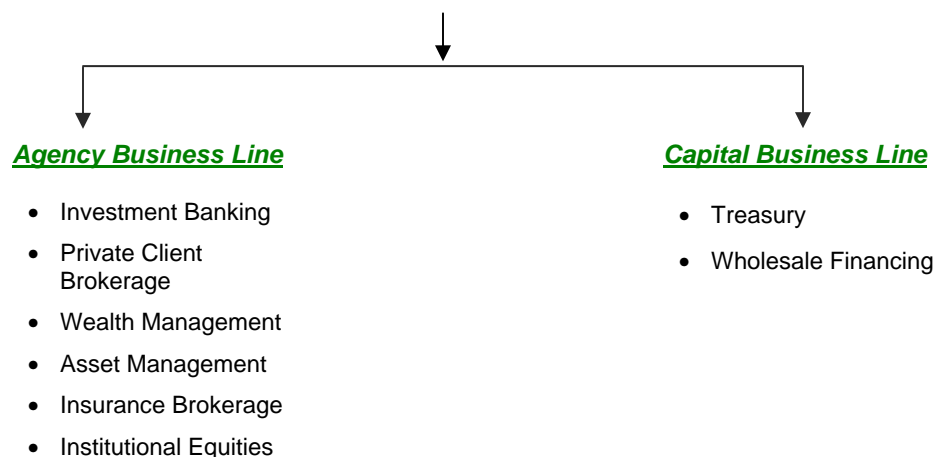
### Outlook

Strong economic growth, increased geographic penetration, growth of SMEs and the increasing need for capital among Indian corporations are expected to continue to drive India's financial services industry. The Company is already well established in domains such as investment banking. Moreover, it plans to invest a large part of its IPO in prepaying of loans, enhance margins with stock exchanges and establish new offices. Based on our valuation and analysis of the business along with the industry's growth prospects, we believe that the valuation looks attractive. Therefore, we recommend investors to **subscribe** with a long tem horizon on account of the Company's higher margins and strong financial performance.

### Company Background

Edelweiss is a financial services company providing a wide range of financial services under two major business lines: Agency Business and Capital Business. Services provided under the Agency business include investment banking, private client broking, asset management investment advisory services etc. The Capital business line includes wholesale financing services, wealth management etc. The Company is headquartered in Mumbai & operates from 43 other offices in 19 cities.

#### Business structure of Edelweiss



#### Agency Business Lines

*Investment Banking:* This includes services such as M&A advisory, transaction execution relating to structured finance, equity markets, real estate, and infrastructure.

*Institutional Equities:* Edelweiss' Institutional equities business comprises institutional equity sales, sales-trading, and research.

*Private Client Brokerage:* These services are targeted at high net worth and other individuals who actively invest and trade in the equity market.

*Wealth Management:* Wealth management involves providing investment advisory, planning & asset deployment services to high net-worth individuals.

*Asset Management:* This involves both asset management as well as investment advisory services. Under this, the company advises three funds with an aggregate corpus of over USD 330 mn.

*Insurance Brokerage:* Edelweiss has also entered the non-life insurance brokerage business as an IRDA registered broker in 2005 and it distributes insurance products through its subsidiary, Edelweiss Insurance Brokers Limited.

### **Capital business lines**

*Treasury:* The internal treasury operations manage the excess capital funds by investing the same in low risk strategies to achieve risk-adjusted returns.

*Wholesale financing:* Wholesale business provides the high net worth individual and corporate clients with facilities such as loans against shares, loans to finance IPO subscriptions, and loans against mutual fund units. This is done through a subsidiary, ECL Finance Limited.

Income Statement				Key Ratios			
(Rs mn, Yr. ending March 31)	FY06	FY07	FY08E		FY06	FY07	FY08E
Income from operations	1,097	2,419	3,745	<b>Per share data (Rs.)</b>			
YoY Growth (%)	104.6%	120.5%	54.8%	Shares outstanding (mn)	45.4	53.9	74.9
Interest Income	26	129	602	EPS	10.4	22.1	33.4
Trading & Other Income	457	1,165	2,490	Book value per share	39.3	108.0	199.3
<b>Total Income</b>	<b>1,580</b>	<b>3,713</b>	<b>6,837</b>	<b>Valuation ratios (x)</b>			
YoY Growth (%)	105.1%	135.0%	84.2%	P/E (Lower Price Band)	69.8x	32.8x	21.7x
Operating Expense	885	1,975	3,767	P/E (Upper Price Band)	79.5x	37.3x	24.7x
<b>Operating Income</b>	<b>695</b>	<b>1,738</b>	<b>3,069</b>	P/B (Lower Price Band)	18.4x	6.7x	3.6x
YoY Growth (%)	99.9%	150.2%	76.6%	P/B (Upper Price Band)	21.0x	7.6x	4.1x
Tax	230	646	1,050	<b>Performance ratio (%)</b>			
<b>Net Profit</b>	<b>405</b>	<b>1,090</b>	<b>1,942</b>	Return on assets	11.5%	8.6%	5.1%
YoY Growth (%)	80.4%	168.8%	78.2%	Return on net worth	22.7%	18.7%	13.0%
<b>Balance Sheet</b>				<b>Balance Sheet ratio (%)</b>			
(Rs mn, as on March 31)	FY06	FY07	FY08E	Investment to assets	9.2%	6.5%	25.3%
Cash and bank balances	637	2,651	2,498	Net worth to assets	50.8%	45.9%	39.3%
Investments	324	824	9,603	<b>Operating ratios (%)</b>			
C Assets, Loans & Advances	2,483	9,042	25,560	Broking income to total inc.	62.8%	58.0%	48.2%
Fixed Assets (Net)	67	137	213	Income from op. to total inc.	69.4%	65.2%	54.8%
Other Assets	-	33	80	Op.expense to total income	56.0%	53.2%	55.1%
<b>Total Assets</b>	<b>3,511</b>	<b>12,687</b>	<b>37,954</b>	Operating margin	44.0%	46.8%	44.9%
Loan Funds	505	3,870	8,725	Net profit margin	25.7%	29.4%	28.4%
C Liabilities and Provisions	1,222	2,994	14,296				
<b>Total Liabilities</b>	<b>1,727</b>	<b>6,864</b>	<b>23,021</b>				
Share Capital	38	50	377				
Reserves & Surplus	1,746	5,773	14,555				
<b>Total Equity &amp; Liabilities</b>	<b>3,511</b>	<b>12,687</b>	<b>37,954</b>				

Source: Company data, Indiabulls research

Note: Some ratios are as per Indiabulls definitions and may not match figures declared by the Company



### Disclaimer

This report is not for public distribution and is only for private circulation and use. The Report should not be reproduced or redistributed to any other person or person(s) in any form. No action is solicited on the basis of the contents of this report.

This material is for the general information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be considered as an offer to sell or the solicitation of an offer to buy any stock or derivative in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of Indiabulls Securities Limited. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. You are advised to independently evaluate the investments and strategies discussed herein and also seek the advice of your financial adviser.

Past performance is not a guide for future performance. The value of, and income from investments may vary because of changes in the macro and micro economic conditions. Past performance is not necessarily a guide to future performance.

This report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. Any opinions expressed here in reflect judgments at this date and are subject to change without notice. Indiabulls Securities Limited (ISL) and any/all of its group companies or directors or employees reserves its right to suspend the publication of this Report and are not under any obligation to tell you when opinions or information in this report change. In addition, ISL has no obligation to continue to publish reports on all the stocks currently under its coverage or to notify you in the event it terminates its coverage. Neither Indiabulls Securities Limited nor any of its affiliates, associates, directors or employees shall in any way be responsible for any loss or damage that may arise to any person from any error in the information contained in this report.

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 stock 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. No part of this material may be duplicated in any form and/or redistributed without Indiabulls Securities Limited prior written consent.

The information given herein should be treated as only factor, while making investment decision. The report does not provide individually tailor-made investment advice. Indiabulls Securities Limited recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. Indiabulls Securities Limited shall not be responsible for any transaction conducted based on the information given in this report, which is in violation of rules and regulations of National Stock Exchange or Bombay Stock Exchange.