

## Edelweiss Capital (EDECAP)

Rs 404

### WHAT'S CHANGED...

PRICE TARGET .....	Changed from Rs 494 to Rs 429
EPS (FY11E) .....	Changed from Rs 32 to Rs 31
EPS (FY12E) .....	Rs 33
RATING.....	Unchanged

### Financing book comes to the rescue....

Edelweiss Capital reported disappointing numbers from its core broking and treasury operations. This signifies the pressure on yields, which fell from 6.2 bps in Q3FY10 to 5.6 bps in Q4FY10. Treasury yields fell to a low of 11% in Q4FY10. Both these factors led to only 34% contribution of broking and treasury income to total income, which ranged at ~50% in the previous three quarters. The company closed 17 deals during the quarter in investment banking (IB), which led to a five-fold QoQ jump in IB fees in Q4FY10. The significant jump in the loan book led to higher interest income and resulted in 43% YoY and 14% QoQ rise in total income to Rs 262 crore.

#### ■ Broking volumes fall, market share sinking

The broking volume of the market fell ~3% QoQ to Rs 95,985 crore but Edelweiss reported ~17% QoQ fall in its ADT to Rs 3,913 crore leading to a 70 bps fall in the market share to 4.1% in Q4FY10 and 4.5% in FY10. We expect the market share to stay stable at current levels without factoring in volumes that will be added after the Anagram acquisition.

#### ■ Finance income recoups bottomline

The loan book of the company grew 191% YoY and 78% QoQ to Rs 1,837 crore. Of the total loan book, promoter funding is ~Rs 1,000 crore while margin funding and the corporate book constituted ~Rs 250 crore each. We do not expect a drastic change in the composition of the funding book over the next couple of years. The management expects a significant scaling up of the financing book by FY12E. We expect this segment to contribute over 40% to the total income of the company.

### Valuation

At the CMP of Rs 404, the stock is trading at 12.2x FY12E EPS, which is at a 6% discount to the multiple we have assigned to India Infoline and Motilal Oswal. We are now valuing all three companies under our coverage at par and not assigning any premium to any player. We, therefore, value Edelweiss at 13x FY12E EPS and downgrade the target price to Rs 429. Our target multiple does not capture any upsides for the company after taking over Anagram Capital, which will give it a diversified retail clientele that was lacking in its portfolio.

#### Exhibit 1: Financial performance

Rs Crore	Q4FY10	Q4FY10E	Q4FY09	Q3FY10	YoY Gr.(%)	QoQ Gr.(%)
Revenues	262.4	280.4	183.4	230.2	43.1	14.0
EBIDTA	135.6	168.3	95.4	124.5	42.1	8.9
EBIDTA margin (%)	51.7	60.0	52.0	54.1	-	-
PAT	52.3	66.1	40.9	53.6	27.8	-2.5
<b>PAT margin (%)</b>	<b>19.9</b>	<b>23.6</b>	<b>22.3</b>	<b>23.3</b>	-	-

Source: Company, ICICIdirect.com Research

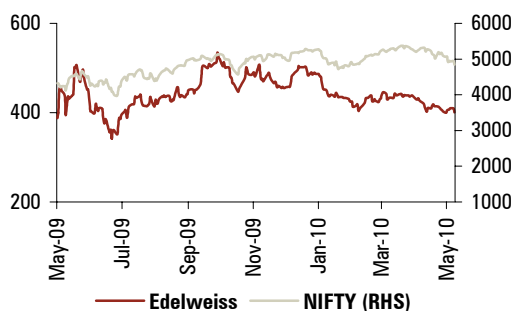
Rating matrix	
Rating	: Add
Target	: Rs 429
Target Period	: 12-15 months
Potential Upside	: 6%

Trailing 4 quarters growth (Rs Crore)				
	Q1FY10	Q2FY10	Q3FY10	Q4FY10
Total Revenue	224.6	260.6	230.2	262.4
EBITDA	117.5	159.0	124.5	135.6
Net Profit	55.5	65.1	53.6	52.3

Valuation summary					
	FY08	FY09	FY10	FY11E	FY12E
EPS	38.4	24.9	30.7	31.0	33.0
Diluted EPS	37.8	24.1	29.7	30.0	31.9
PE (x)	10.5	16.2	13.2	13.0	12.2
RoCE (%)	29.5	14.7	13.4	12.8	13.1
RoNW (%)	25.5	10.6	11.1	10.2	10.0
EBIDTA margin (%)	60.2	53.3	55.0	60.9	60.8
BV	244.9	282.3	309.7	336.5	364.9
P/BV (x)	1.6	1.4	1.3	1.2	1.1

Stock data	
Market Capitalisation	Rs 3032 crore
ADT (FY10)	Rs 4350 crore
Yields (Q4FY10)	5.6 bps
52 week H/L	542 / 339
Equity capital	Rs Crore
Face value	Rs 10
FII Holding (%)	14.0
DII Holding (%)	3.5

#### Price movement



#### Analyst's name

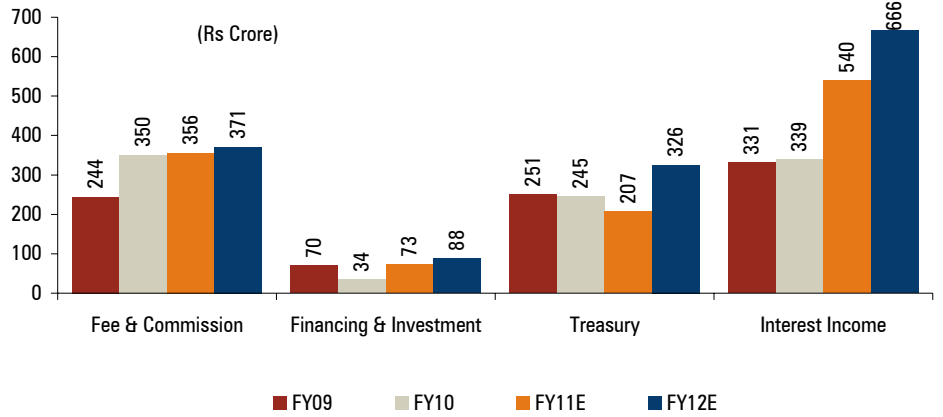
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Interest income will drive the topline performance in the coming two years

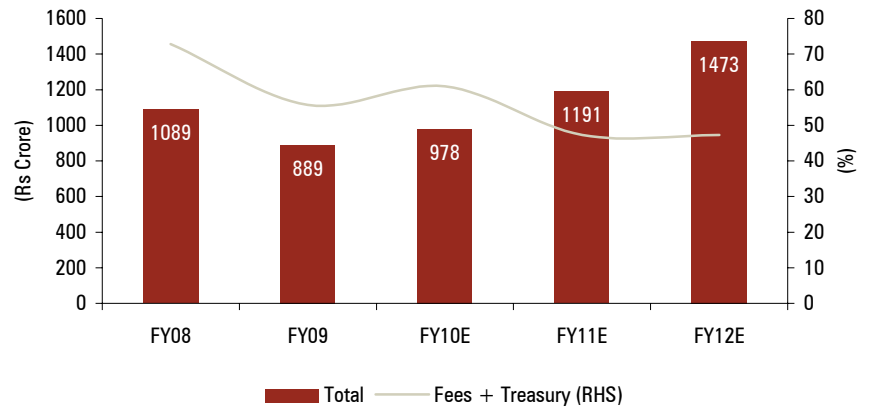
**Exhibit 2: Break-up of topline**



Source: Company, ICICIdirect.com Research

Fee income commands higher contribution from IB fees while brokerage fees are likely to stay subdued

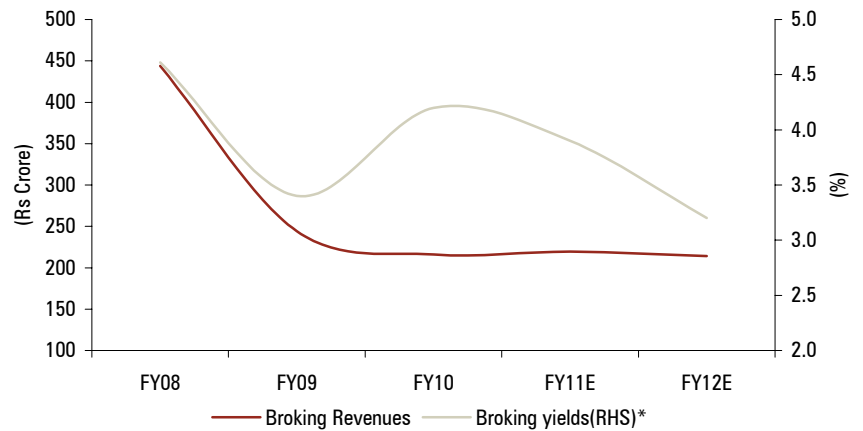
**Exhibit 3: Contribution of fee and treasury income to moderate**



Source: Company, ICICIdirect.com Research

The institutional space is getting overcrowded, which is putting pressure on broking yields

**Exhibit 4: Brokerage yields under pressure**

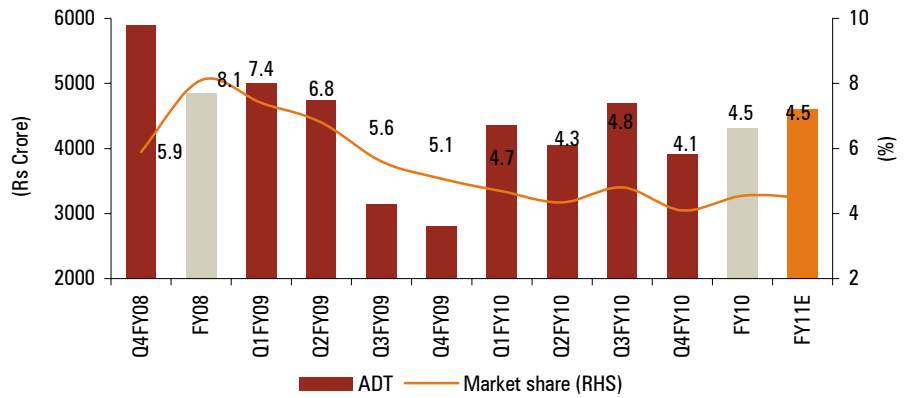


Source: Company, ICICIdirect.com Research \*calculated yields

The market share is supported by treasury volumes, which form ~55-60% of the total ADT. Client turnover is constant at Rs 1,650 crore

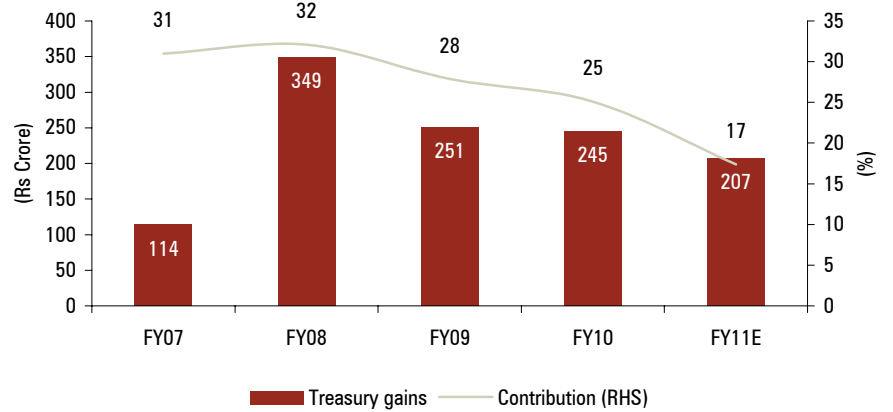
The market is shifting gears towards the options end where Edelweiss has a very small exposure

**Exhibit 5: Market share to stay stable**



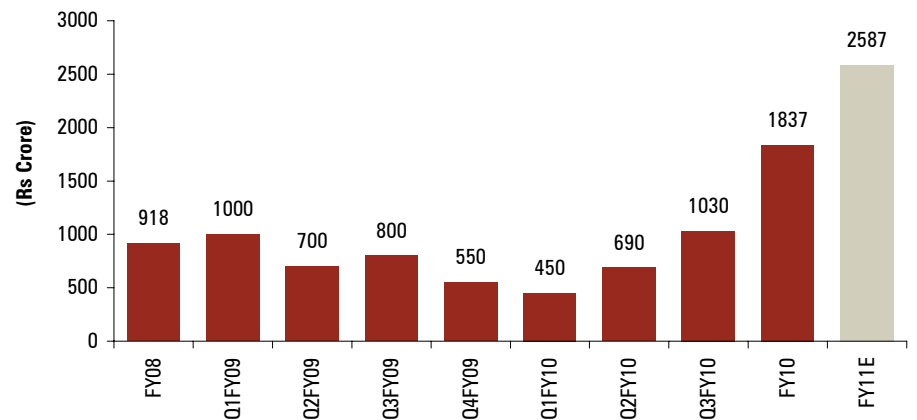
Source: Company, ICICIdirect.com Research

**Exhibit 6: Contribution from treasury to total income coming down quickly**



Source: Company, ICICIdirect.com Research

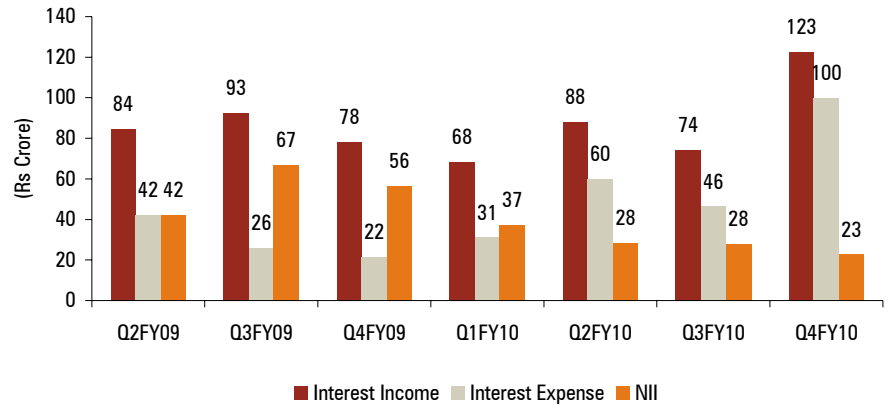
**Exhibit 7: Finance book: Is it the next growth engine?**



Source: Company, ICICIdirect.com Research

Rise in borrowing cost is pressuring NII growth. The cost of borrowing for Edelweiss is around 7.8% for FY10. This is likely to go up in a rising interest rate scenario

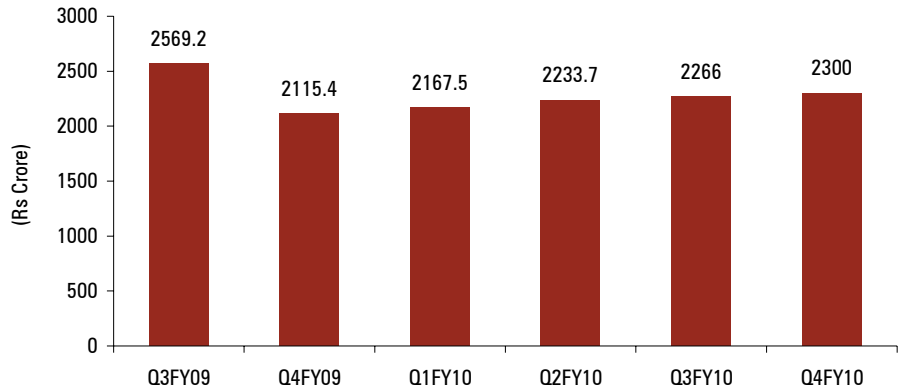
**Exhibit 8: Growth in interest expenditure weighing on NII**



Source: Company, ICICIdirect.com Research

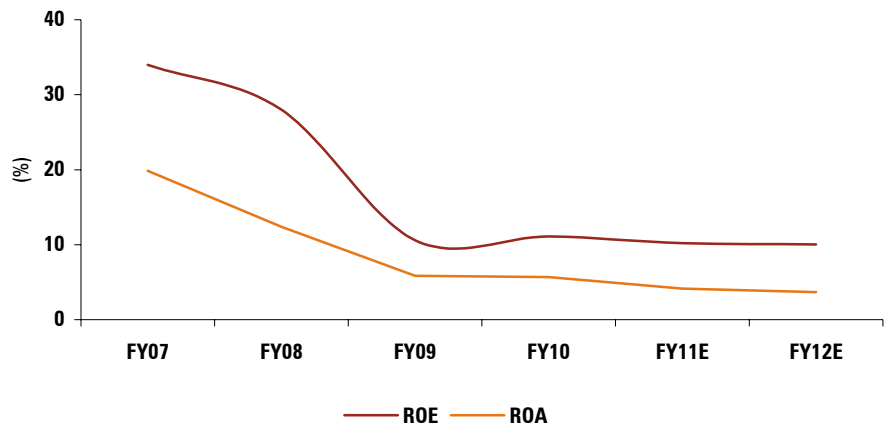
We expect the incremental loan book to be generated from borrowing leading to higher interest cost.

**Exhibit 9: Net worth well maintained**



Source: Company, ICICIdirect.com Research

**Exhibit 10: Return matrix under pressure**



Source: Company, ICICIdirect.com Research

**ICICIdirect.com coverage universe (BFSI)**

					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
<b>Bank of India</b>										
<b>Idirect Code</b>	BANIND	<b>CMP</b>	319	FY10	1741.1	33.1	9.6	1.6	0.7	12.4
		<b>Target</b>	330	FY11E	2156.0	41.0	7.8	1.4	0.7	14.2
<b>Mcap (Rs Cr)</b>	16777	<b>Upside (%)</b>	3.4	FY12E	2961.3	49.0	6.5	1.2	0.8	16.5
<b>Bank of Baroda</b>										
<b>Idirect Code</b>	BANBAR	<b>CMP</b>	677	FY10	3058.3	83.7	8.1	1.8	1.0	21.5
		<b>Target</b>	722	FY11E	3710.5	101.5	6.7	1.5	1.1	21.4
<b>Mcap (Rs Cr)</b>	24746	<b>Upside (%)</b>	6.6	FY12E	4580.7	125.3	5.4	1.2	1.2	21.5
<b>Dena Bank</b>										
<b>Idirect Code</b>	DENBAN	<b>CMP</b>	83	FY10	511.3	17.8	4.7	1.1	1.3	21.4
		<b>Target</b>	91	FY11E	619.2	16.0	5.2	1.0	1.1	20.0
<b>Mcap (Rs Cr)</b>	2392	<b>Upside (%)</b>	9.1	FY12E	768.2	15.8	5.3	0.9	1.0	18.2
<b>Indian Overseas Bank</b>										
<b>Idirect Code</b>	INDOVE	<b>CMP</b>	92	FY10	1292.7	13.0	7.1	1.0	0.6	9.9
		<b>Target</b>	90	FY11E	891.5	16.4	5.6	1.0	0.6	12.0
<b>Mcap (Rs Cr)</b>	5026	<b>Upside (%)</b>	-2.4	FY12E	1248.1	22.9	4.0	0.9	0.8	14.9
<b>IDBI Bank</b>										
<b>Idirect Code</b>	IDBI	<b>CMP</b>	107	FY10	1031.1	14.2	7.5	1.1	0.5	13.2
		<b>Target</b>	141	FY11E	1210.1	15.2	7.1	0.9	0.5	13.1
<b>Mcap (Rs Cr)</b>	7756	<b>Upside (%)</b>	31.8	FY12E	1513.0	19.0	5.6	0.9	0.5	13.9
<b>OBC</b>										
<b>Idirect Code</b>	ORIBAN	<b>CMP</b>	318	FY10	1134.7	45.3	7.0	1.1	0.9	14.6
		<b>Target</b>	423	FY11E	1465.0	58.5	5.4	0.9	0.9	16.6
<b>Mcap (Rs Cr)</b>	7967	<b>Upside (%)</b>	33.0	FY12E	1767.9	70.6	4.5	0.8	1.0	17.2
<b>Punjab National Bank</b>										
<b>Idirect Code</b>	PUNBAN	<b>CMP</b>	958	FY10	3905.4	123.9	7.7	1.8	1.4	24.0
		<b>Target</b>	1014	FY11E	4607.8	146.1	6.6	1.7	1.4	24.7
<b>Mcap (Rs Cr)</b>	30206	<b>Upside (%)</b>	5.8	FY12E	5336.4	169.2	5.7	1.5	1.4	26.2
<b>SBI</b>										
<b>Idirect Code</b>	STABAN	<b>CMP</b>	2159	FY10	91.4	144.0	15.0	2.6	0.9	15.1
		<b>Target</b>	2556	FY11E	106.8	151.6	14.2	2.0	0.9	14.2
<b>Mcap (Rs Cr)</b>	137065	<b>Upside (%)</b>	18.4	FY12E	140.6	199.4	10.8	1.7	1.0	15.1
<b>Union Bank of India</b>										
<b>Idirect Code</b>	UNIBAN	<b>CMP</b>	283	FY10	2074.9	41.1	6.9	1.4	1.2	21.6
		<b>Target</b>	343	FY11E	2547.3	50.4	5.6	1.2	1.2	22.0
<b>Mcap (Rs Cr)</b>	14277	<b>Upside (%)</b>	21.4	FY12E	3027.7	59.9	4.7	1.0	1.2	21.4
<b>Axis Bank</b>										
<b>Idirect Code</b>	UTIBAN	<b>CMP</b>	1172	FY10	2514.5	62.1	18.9	3.1	1.7	19.2
		<b>Target</b>	1302	FY11E	3129.7	76.5	15.3	2.5	1.6	17.5
<b>Mcap (Rs Cr)</b>	47486	<b>Upside (%)</b>	11.1	FY12E	4133.3	101.1	11.6	2.1	1.7	19.2
<b>Dhanlaxmi Bank</b>										
<b>Idirect Code</b>	DHABAN	<b>CMP</b>	148	FY10	23.4	3.6	40.5	2.4	0.3	5.4
		<b>Target</b>	170	FY11E	66.7	7.8	18.8	1.6	0.7	10.3
<b>Mcap (Rs Cr)</b>	946	<b>Upside (%)</b>	15.2	FY12E	104.3	12.3	12.0	1.4	0.7	11.5
<b>HDFC Bank</b>										
<b>Idirect Code</b>	HDFBAN	<b>CMP</b>	1805	FY10	2948.7	64.4	28.0	3.9	0.3	20.3
		<b>Target</b>	2151	FY11E	3972.3	87.6	20.6	3.5	0.3	17.6
<b>Mcap (Rs Cr)</b>	82633	<b>Upside (%)</b>	19.2	FY12E	5051.4	111.4	16.2	3.1	0.3	20.0
<b>Kotak Bank</b>										
<b>Idirect Code</b>	KOTMAH	<b>CMP</b>	725	FY10	464.2	13.4	54.1	6.3	1.5	11.5
		<b>Target</b>	831	FY11E	548.4	15.9	45.8	6.2	1.4	12.9
<b>Mcap (Rs Cr)</b>	25208	<b>Upside (%)</b>	14.6	FY12E	743.4	21.5	33.8	5.5	1.7	16.2
<b>South Indian bank</b>										
<b>Idirect Code</b>	SOUINO	<b>CMP</b>	155	FY10	233.7	20.7	7.5	1.3	1.1	18.0
		<b>Target</b>	150	FY11E	277.9	24.6	6.3	1.2	1.0	17.8
<b>Mcap (Rs Cr)</b>	1752	<b>Upside (%)</b>	-3.2	FY12E	346.6	30.7	5.1	1.0	1.0	19.1
<b>Yes Bank</b>										
<b>Idirect Code</b>	YESBAN	<b>CMP</b>	258	FY10	477.7	14.1	18.4	2.9	1.6	20.3
		<b>Target</b>	316	FY11E	666.4	19.6	13.2	2.6	1.5	20.2
<b>Mcap (Rs Cr)</b>	7759	<b>Upside (%)</b>	22.3	FY12E	890.6	26.2	9.9	2.1	1.4	22.7

## Continued...

<b>NBFC</b>					<b>NP (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>P/ABV (x)</b>	<b>RoNA (%)</b>	<b>RoE(%)</b>
<b>IDFC</b>										
<b>Idirect Code</b>	IDFC	<b>CMP</b>	144	FY 09	848.0	6.5	21.9	3.0	2.8	14.3
		<b>Target</b>	200	FY10	1062.1	8.2	17.5	2.6	3.2	15.9
<b>Mcap (Rs Cr)</b>	18579	<b>Upside (%)</b>	39.4	FY11E	1326.8	9.1	15.8	1.9	3.4	14.6
<b>LICHF</b>										
<b>Idirect Code</b>	LICHF	<b>CMP</b>	885	FY 09	532.4	62.6	14.1	3.2	2.0	25.3
		<b>Target</b>	1013	FY10	662.5	69.0	12.8	2.7	2.0	23.8
<b>Mcap (Rs Cr)</b>	8403	<b>Upside (%)</b>	14.5	FY11E	849.1	88.5	10.0	2.2	2.1	24.0
<b>Rel Cap</b>										
<b>Idirect Code</b>	RELCAP	<b>CMP</b>	655	FY 09	1069.2	43.4	15.1	2.1	6.2	15.1
		<b>Target</b>	800	FY10	578.6	23.5	27.8	2.1	3.0	7.5
<b>Mcap (Rs Cr)</b>	16078	<b>Upside (%)</b>	22.2	FY11E	905.9	36.8	17.8	1.9	4.3	11.0
<b>Brokerage firms</b>										
<b>Edelweiss Capital</b>										
<b>Idirect Code</b>	EDECAP	<b>CMP</b>	404	FY10	245.7	30.7	13.2	1.3	5.7	11.1
		<b>Target</b>	429	FY11E	247.4	31.0	13.0	1.2	4.1	10.2
<b>Mcap (Rs Cr)</b>	3032	<b>Upside (%)</b>	6.2	FY12E	263.2	33.0	12.2	1.1	3.7	10.0
<b>India Infoline</b>										
<b>Idirect Code</b>	INDINF	<b>CMP</b>	97	FY10	234.3	8.3	11.7	1.6	9.0	14.6
		<b>Target</b>	111	FY11E	239.6	8.5	11.4	1.4	7.4	14.2
<b>Mcap (Rs Cr)</b>	2756	<b>Upside (%)</b>	14.8	FY12E	242.8	8.6	11.3	1.3	7.1	13.1
<b>MOFSL</b>										
<b>Idirect Code</b>	MOTOSW	<b>CMP</b>	168	FY 09	93.4	6.3	26.6	3.0	6.6	11.8
		<b>Target</b>	203	FY10	174.3	11.9	14.1	2.6	10.5	19.0
<b>Mcap (Rs Cr)</b>	2398	<b>Upside (%)</b>	21.0	FY11E	203.4	13.9	12.0	2.2	10.6	18.3

## RATING RATIONALE

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