

EQUITY RESEARCH

October 18, 2007

RESULTS REVIEW

Financial Technologies (India) Ltd.

Hold

Share Data

Market Cap	Rs. 109.1 bn
Price	Rs. 2,475.25
BSE Sensex	17,998.39
Reuters	FITE.BO
Bloomberg	WWTC IN
Avg. Volume (52 Week)	0.06 mn
52-Week High/Low	Rs. 3,048/1,509.1
Shares Outstanding	44.1 mn

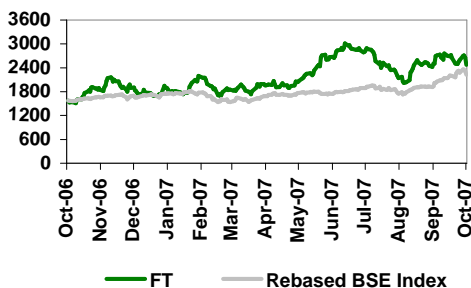
Valuation Ratios (Consolidated)

Year to 31 March	2008E	2009E
EPS (Rs.)	26.9	36.1
+/- (%)	69.5%	34.2%
PER (x)	92.1x	68.6x
EV/ Sales (x)	28.6x	20.6x
EV/ EBITDA (x)	76.2x	56.5x

Shareholding Pattern (%)

Promoters	47
FII's	34
Institutions	1
Public & Others	18

Relative Performance



Opportunities galore though quarterly performance disappoints

Financial Technologies (India) Limited (FT) reported Q108 revenues at Rs. 767 mn, registering a dip of 10.5% qoq owing to sharp revenue decline in the Company's exchange business. EBITDA and EBIT margins went down by 790 and 768 bps qoq, respectively due to higher legal & professional charges and higher other expenses. The saving grace for FT was PAT which surged by 61.4% qoq and stood at Rs. 268.6 mn. Net profit increased because of forex gains amounting to Rs. 136.7 mn.

The Company's performance in Q108 was disappointing. However, considering a unique and technology driven business model we remain positive on the long term prospects of FT. The various subsidiaries of the Company have been successively increasing their market share in the industry. With several new projects in the pipeline, including setting up of India's first power exchange with PTC India Ltd, FT has the potential to capitalize on the emerging opportunities.

We expect FT's revenues to grow at a CAGR of 40.8% over FY07-09E and EBITDA and net profit at a CAGR of 36.3% and 50.6%, respectively over the same period. The stock is currently trading at a P/E of 156.1x and at a forward FY08E P/E of 92.1x. Based on our analysis we believe that the stock is fairly valued and reiterate **Hold**.

Result Highlights

In Q108, revenues declined by 10.5% qoq to stand at Rs. 767 mn. The quarterly decline in revenues was mainly due to lower exchange business revenues (including other income) which fell from Rs. 727.2 mn in Q407 to Rs. 572 mn in Q108.

Key Figures (Consolidated)

Quarterly Data	Q107	Q407	Q108	YoY%	QoQ%
(Figures in Rs mn, except per share data)					
Net Sales	699	857	767	9.7%	(10.5%)
EBITDA	424	242	156	(63.3%)	(35.5%)
Net Profit	272	166	269	(1.3%)	61.4%

Margins(%)

EBITDA	60.7%	28.2%	20.3%
NPM	38.9%	19.4%	35.0%

Per Share Data (Rs.)

EPS	6.2	3.2	4.4	(29.3%)	34.8%
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Please see the end of the report for disclaimer and disclosures.

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Revenues went down qoq as growth in STP business was marred by a huge decline in Exchange business

However, the decline in exchange business was partially offset by an improved performance in the STP (Straight through Processing) business as the number of licenses issued to the brokers increased from 164,335 in Q407 to 184,000 in Q108.

Operating margins fell despite reduction in staff cost

EBIDTA, at Rs. 156 mn, went down by 35.5% qoq due to rise in other expenditure as a percentage of net sales from 30.8% in the prior quarter to 40.5% in Q108. However, the Company was able to reduce staff cost by 17.8% qoq. EBIT registered a decline as well, going down by 38% qoq, to stand at Rs. 132.8 mn. EBITDA and EBIT margins, at 20.3% and 17.3%, fell by 790 and 768 bps qoq, respectively.

Surge in other income fuelled PAT growth

On the other hand, profit after tax which stood at Rs. 268.6 mn for Q108, surged by 61.4% qoq backed by forex income of Rs. 136.7 mn and lower share of profit attributable to minority shareholders. PAT margin improved by 15.6% qoq. The Company earned an exceptional project divestment income of Rs. 529.4 mn in this quarter.

Growing market share of MCX along with rising membership base

The membership base of the Company's subsidiary MCX shot up from 1,381 at the end of last quarter to 1,786 in Q108. The number of trader workstations increased by 55 during the quarter aggregating to 7,269 at the end of Q108. The domestic market share of MCX stood at 70%.

Key Events

Key events include Riskraft winning a large deal from FSC and the launch of Tickerplant

- FT launched Tickerplant Infoventing Ltd. (Tickerplant); a group company of FT. Tickerplant is in the business of information retailing by providing data, news and analytics for financial markets. It will provide exchange feeds for Indian and international equities, commodities, forex, and precious market rates & news.
- Riskraft Consulting Limited, an FT group company, bagged a large contract from the Financial Services Commission (FSC) to implement a Risk Based Supervision System (RBS) based on international standards for all its regulated entities.

Key Risks

Slowdown in trading markets and slower than expected rise in the number of licenses issued are major risks

Key concerns to our rating include slower than expected increase in the number of licenses issued to traders by FT for its STP business and slow down in bullion, commodities and forex markets.

Outlook

Robust growth; new ventures in the offing

Led by a unique and technology driven business model, FT has registered revenue CAGR of 130.7% over FY04-07. Since the inception of MCX in 2003 its membership base has grown manifold as a result of the exchange's commanding share in the Indian commodities futures market. DGCX, the first international commodities derivatives market in the Middle East, is expected to grow as well. With several new projects in the pipeline, including setting up of India's first power exchange with PTC India Ltd, FT has the potential to capitalize on the emerging opportunities. Over the long run the Company will also focus on international expansion.

We expect FT's revenues to grow at a CAGR of 40.8% over FY07-09E and EBITDA and net profit CAGR of 36.3% and 50.6%, respectively over the same period. The stock is currently trading at a P/E of 156.1x and at a forward FY08E P/E of 92.1x. Based on our analysis we believe that the stock is fairly valued and reiterate **Hold**.

Key Figures (Consolidated)

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs. mn, except per share data)						(FY07-09E)
Net Sales	574	1,820	2,645	3,779	5,241	40.8%
EBITDA	295	1,046	1,030	1,417	1,913	36.3%
Net Profit	211	709	701	1,185	1,590	50.6%
Margins(%)						
EBITDA	51.5%	57.5%	38.9%	37.5%	36.5%	
NPM	36.8%	39.0%	26.5%	31.4%	30.3%	
Per Share Data (Rs.)						
EPS	5.1	16.1	15.9	26.9	36.1	50.8%
PER (x)	51.6x	106.1x	156.1x	92.1x	68.6x	

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