

October 22, 2010

# Motilal Oswal (MOTOSW)

Rs 201

## WHAT'S CHANGED...

**PRICE TARGET** ..... Changed from Rs 224 to Rs 203  
**EPS (FY11E)** ..... Changed from Rs 12.5 to Rs 10.8  
**EPS (FY12E)** ..... Changed from Rs 13.6 to Rs 12.4  
**RATING**..... Changed from Buy to Add

## Dull performance in a good quarter...

Motilal Oswal reported below estimates PAT of Rs 33 crore (Rs 38 crore after adjusting for Rs 3crore towards expenses for launch of M-50, Rs 3.3 of unrealised gain ignored as per AS-1 on cash leg of arbitrage and Rs 1.3 crore of loss on sale of investment due to change in accounting policy) which is still below our expectation of Rs 49 crore. The top-line growth stalled because, a) broking revenues lagged traction despite rise in market share to 3% owing to falling yields which now stands at 4.8bps, b) poor growth from fund based and other income while some respite was provided by IB which grew 29% QoQ and 9% YoY to Rs 17 crore and asset management which grew 37% QoQ to Rs 10 crore. Going forward we see a moderate 3% CAGR in PAT over FY10-12E to Rs 181 crore.

### ▪ Market share gains, yields drop

MOSL managed to arrest the fall in market share and reported a 12bps rise QoQ to 3%. Cash segment ADT declined significantly from Rs 23000 crore in Q2FY10 to Rs 19000 crore ( forming only 16% of total market turnover). On other side rising options segment (53% of total market volumes) where yields are relatively low, are weighing on blended yields. MOSL face the brunt by reporting 80 bps QoQ, 150 bps YoY dip in blended yields to 4.8bps. We see marginal improvement in yields from here to 5.1 bps by FY12E and expect a stable market share.

### ▪ Strong visibility for IB, EBIDTA margins under pressure

Total revenues from Investment banking grew 35%QoQ, 18% YoY to Rs 18 crore, little ahead of our estimates. We see this segment supporting top-line performance for H2FY11E and FY12E due to robust pipeline. EBIDTA margin fell 960bps YoY, 560bps QoQ to 35%. The pressure came from higher operating expenses and we see margin improving gradually from here on, since we see some traction coming back for top-line.

## Valuation

We are cautiously optimistic for performance improvement in coming quarter for MOSL. We opine that retail participation is set to improve (MOSL forte) as markets stay at elevated levels. We had lowered our FY11E and FY12E PAT by 13% and 9% respectively. We still value the company at 16x FY12E EPS (in line with broader index) and arrive at fair value of Rs 203.

### Exhibit 1: Financial Performance

Rs Crore	Q2FY11	Q2FY11E	Q2FY10	Q1FY11	YoY Gr(%)	QoQ Gr(%)
Net Sales	157.6	174.2	171.2	151.4	-7.9	4.1
EBITDA	55.0	82.2	76.1	61.3	-27.7	-10.3
EBITDA Margin(%)	34.9	47.2	44.5	40.5	(960 bps)	(560 bps)
Reported Net Profit	33.1	49.0	47.2	37.5	-29.9	-11.7
Adjusted Net Profit	38.1	-	41.1	34.5	-7.3	10.4

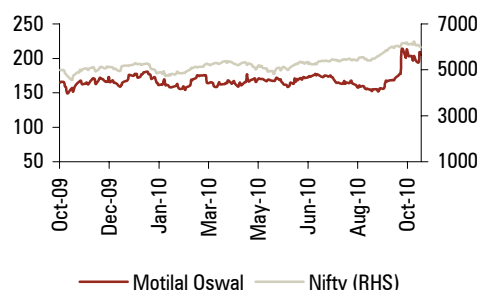
Source: Company, ICICIdirect.com Research

Rating matrix	
Rating	: <b>Add</b>
Target	: Rs 203
Target Period	: 12 months
Potential Upside	: 1 %

Key Financials				
(Rs Crore)	FY09	FY10	FY11E	FY12E
Total Revenues	466	645	658	716
EBIDTA	181	277	262	295
PAT	96	170	159	181

Stock data	
Market Capitalisation	Rs 2945 crore
Net Worth (Q2FY11)	Rs 1019 crore
ADT (Q2FY11)	Rs 3600 crore
Cash balance (Q2FY11)	Rs 351crore
52 week H/L	Rs 232 /135
Equity capital	Rs 144 crore
Face value	Rs.10
DII Holding (%)	11.0
FII Holding (%)	1.0

### Price movement



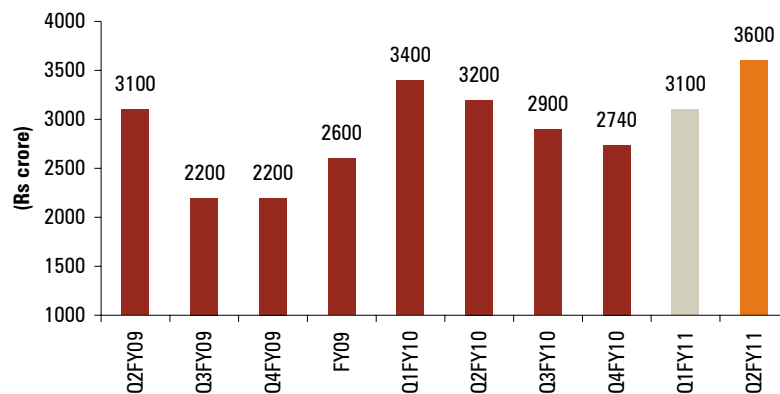
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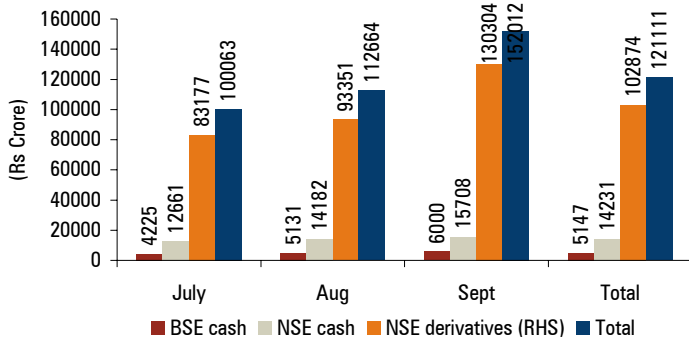
The average daily turnover for MOFSL stood at Rs 3600 crore implying QoQ growth of 16%

**Exhibit 2: Average daily turnover improves QoQ**



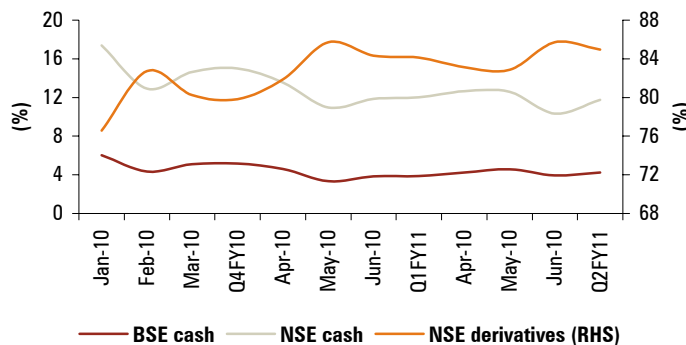
Source: Company quarterly presentation, ICICIdirect.com Research

**Exhibit 3: Break-up of market wide volume for Q1FY11**



Source: NSE, BSE, ICICIdirect.com, Research

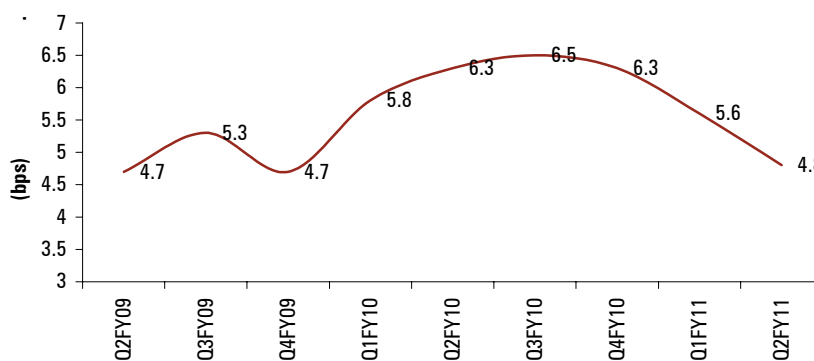
**Exhibit 4: Higher contribution from F&O segment hurting yields**



Source: NSE, BSE, ICICIdirect.com, Research

The blended yield has declined from 6.3 bps in Q4FY10 to 5.6 bps in Q1FY11 and further to 4.8 bps in Q2FY11

**Exhibit 5: Blended yields on a falling streak**



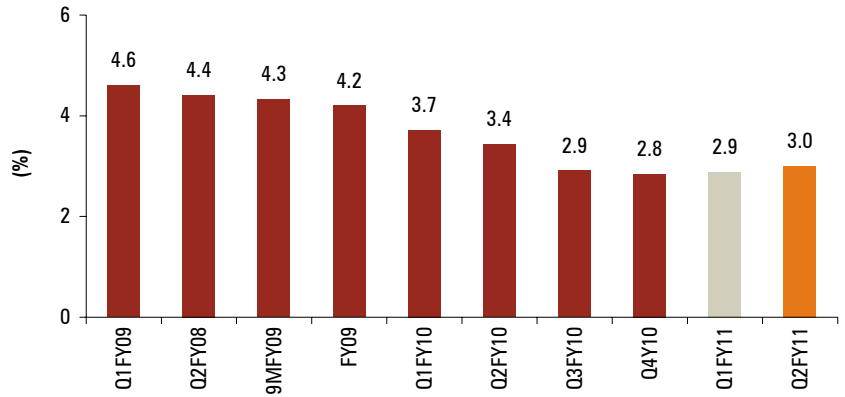
Source: Company quarterly presentation, ICICIdirect.com Research

**Exhibit 6: Contribution of various verticals to total topline**

Business Segment (%)	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11
Brokerage and Operating Income	77.5	73.2	69.9	62.1	73.4	71.7
Investment Banking Fees	6.4	8.9	10.8	13.8	8.5	10.5
Fund Based Income	11.7	9.5	11.7	7.5	9.4	9.1
Asset Management Fees	3.2	3.7	6.2	11.5	5.1	6.7
Other Income	1.1	4.6	1.4	5.1	3.5	2.0
Total Revenues	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company press release, ICICIdirect.com

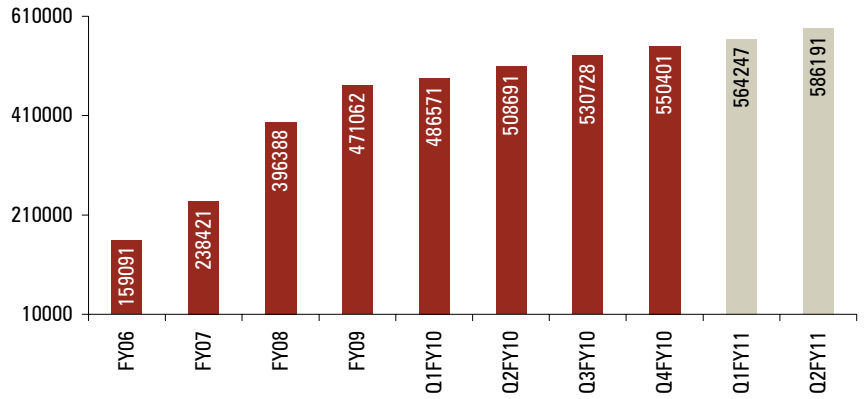
**Exhibit 7: Fall in market share arrested from couple of quarters**



Source: Company quarterly presentation, ICICIdirect.com Research

Incremental client addition is slowing down from past 4-5 quarter

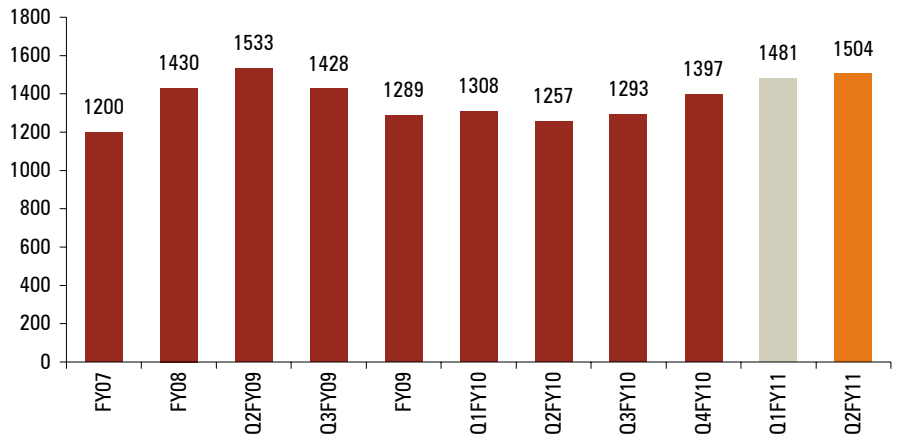
**Exhibit 8: Trend in growth of retail broking clients**



Source: Company quarterly presentation, ICICIdirect.com Research

The no of owned branches as of Q2FY11 stood at 26 against 28 in Q1FY11, whereas there was incremental addition of 25 new franchises in Q2FY11

**Exhibit 9: Distribution network increase mainly franchisee led**



Source: Company quarterly presentation, ICICIdirect.com Research

**Financial scorecard**
**Exhibit 10: Valuation Summary**

Rs Crore	FY08	FY09	FY10	FY11E	FY12E
Income from Operations	690.7	457.3	625.0	636.5	691.2
Brokerage Income	562.1	326.8	455.1	432.3	467.4
Investment Banking	63.7	45.2	64.9	74.6	84.3
Management Fees- PMS	28.4	21.4	40.1	43.7	48.2
Fund Based Income	36.5	63.9	64.9	85.9	91.1
Other Income	11.1	8.7	20.3	22.3	24.6
Total Income	701.9	466.0	645.3	658.8	715.7
Net Profit (Rs crore)	162.0	93.4	170.4	159.3	180.9
EPS (Rs)	11.4	6.3	11.9	10.8	12.4
Growth (%)	97.3	-44.7	88.8	-8.8	13.9
P/E (x)	18.9	34.3	18.2	19.9	17.5
Price / Book (x)	4.3	3.9	3.4	2.9	2.5
ROCE (%)	19.7	13.3	18.0	14.6	14.4
RoNA (%)	9.7	6.6	10.3	8.4	8.5
RoE (%)	22.8	11.8	18.6	15.0	14.7

Source: Company annual report, ICICIdirect.com Research

## ICICIdirect.com coverage universe (BFSI)

Bank of India					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	BANIND	CMP	552	FY10	1741.1	33.1	16.7	2.7	0.7	12.6
		Target	525	FY11E	2895.1	55.0	10.0	2.3	1.0	18.8
Mcap (Rs Cr)	29030	Upside (%)	-4.9	FY12E	3768.9	62.3	8.9	1.9	1.1	19.9
Bank of Baroda					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	BANBAR	CMP	992	FY10	3058.3	83.7	11.9	3.0	1.2	21.9
		Target	918	FY11E	3683.2	100.8	9.8	2.4	1.2	21.9
Mcap (Rs Cr)	36261	Upside (%)	-7.5	FY12E	4373.2	119.6	8.3	1.9	1.2	21.1
Dena Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	DENBAN	CMP	121	FY10	511.3	17.8	6.8	1.8	1.0	21.4
		Target	127	FY11E	621.0	18.2	6.7	1.5	1.0	20.3
Mcap (Rs Cr)	3471	Upside (%)	5.0	FY12E	746.0	21.8	5.5	1.2	1.0	19.5
Indian Overseas Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	INDOVE	CMP	158	FY10	707.0	13.0	12.2	2.0	0.6	11.5
		Target	145	FY11E	996.3	18.3	8.6	1.5	0.7	14.6
Mcap (Rs Cr)	8608	Upside (%)	-8.2	FY12E	1287.4	23.6	6.7	1.2	0.8	16.4
IDBI Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	IDBI	CMP	170	FY10	1031.1	8.8	19.4	2.5	0.5	13.2
		Target	150	FY11E	1267.2	12.9	13.2	1.9	0.5	12.3
Mcap (Rs Cr)	12323	Upside (%)	-11.8	FY12E	1683.8	17.1	9.9	1.6	0.6	12.8
OBC					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	ORIBAN	CMP	490	FY10	1134.7	45.3	10.8	1.6	0.9	14.5
		Target	545	FY11E	1533.9	61.2	8.0	1.4	1.0	17.2
Mcap (Rs Cr)	12276	Upside (%)	11.2	FY12E	1851.2	73.9	6.6	1.2	1.0	17.7
Punjab National Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	PUNBAN	CMP	1301	FY10	3905.4	123.9	10.5	2.7	1.4	23.9
		Target	1218	FY11E	4854.6	154.0	8.4	2.2	1.5	24.7
Mcap (Rs Cr)	41021	Upside (%)	-6.4	FY12E	5788.5	183.6	7.1	2.0	1.5	25.5
SBI					NP (Rs Bn)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	STABAN	CMP	3182	FY10	91.7	144.4	22.0	3.7	0.9	14.8
		Target	3210	FY11E	113.2	160.5	19.8	2.8	1.0	14.4
Mcap (Rs Cr)	8608	Upside (%)	0.9	FY12E	142.1	201.5	15.8	2.5	1.0	14.7
Syndicate Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	SYNBN	CMP	136	FY10	813.3	15.6	8.7	1.7	0.6	15.3
		Target	144	FY11E	1094.6	21.0	6.5	1.5	0.7	18.2
Mcap (Rs Cr)	7099	Upside (%)	5.9	FY12E	1380.6	26.4	5.1	1.3	0.8	20.5
Union Bank of India					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	UNIBAN	CMP	405	FY10	2074.9	41.1	9.9	2.6	1.2	26.2
		Target	398	FY11E	2444.0	48.4	8.4	2.2	1.1	24.8
Mcap (Rs Cr)	20457	Upside (%)	-1.7	FY12E	2948.7	53.1	7.6	1.7	1.2	22.8
Axis Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	UTIBAN	CMP	1501	FY10	2514.5	62.1	24.2	3.9	0.4	1.7
		Target	1520	FY11E	3008.4	74.3	20.2	3.4	0.4	1.3
Mcap (Rs Cr)	60817	Upside (%)	1.3	FY12E	3825.8	94.4	15.9	2.9	0.3	1.2
Dhanlaxmi Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	DHABAN	CMP	191	FY10	23.3	3.6	52.5	3.1	0.3	5.4
		Target	191	FY11E	61.2	7.2	26.6	2.1	0.6	9.5
Mcap (Rs Cr)	1225	Upside (%)	0.0	FY12E	101.1	11.9	16.1	1.9	0.7	11.2
HDFC Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	HDFBAN	CMP	2365	FY10	2948.7	64.4	36.7	5.1	1.5	16.3
		Target	2559	FY11E	3963.0	86.6	27.3	4.6	1.6	17.3
Mcap (Rs Cr)	108270	Upside (%)	8.2	FY12E	5194.9	113.5	20.8	4.0	1.7	20.0
Kotak Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	KOTMAH	CMP	500	FY10	561.1	8.1	64.3	8.5	1.7	13.5
		Target	454	FY11E	793.6	10.9	47.6	6.5	1.9	15.0
Mcap (Rs Cr)	17385	Upside (%)	-9.2	FY12E	1009.7	13.8	37.4	5.9	2.0	15.7
South Indian Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	SOUINO	CMP	27.7	FY10	233.7	2.1	13.4	2.2	1.1	17.9
		Target	32.0	FY11E	272.5	2.4	11.5	2.0	1.0	17.4
Mcap (Rs Cr)	3124	Upside (%)	15.5	FY12E	335.6	3.0	9.3	1.7	1.0	18.6
Yes Bank					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Idirect Code	YESBAN	CMP	352	FY10	477.7	14.1	25.0	3.9	1.6	20.3
		Target	395	FY11E	694.4	19.9	17.7	3.1	1.5	19.7
Mcap (Rs Cr)	10570	Upside (%)	12.2	FY12E	921.1	26.4	13.3	2.6	1.4	21.1

## 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>	203	FY10	1117.0	8.2	24.9	3.8	3.2	16.2
		<b>Target</b>	215	FY11E	1327.5	8.5	23.7	2.8	3.2	14.2
<b>Mcap (Rs Cr)</b>	29658	<b>Upside (%)</b>	5.9	FY12E	1678.2	10.5	19.3	2.5	3.3	13.7
<b>LICHF</b>										
<b>Idirect Code</b>	LICHF	<b>CMP</b>	1340	FY10	662.1	69.7	19.2	3.6	1.9	22.7
		<b>Target</b>	1506	FY11E	856.7	90.2	14.8	3.0	1.9	21.8
<b>Mcap (Rs Cr)</b>	12723	<b>Upside (%)</b>	12.4	FY12E	1025.5	108.0	12.4	2.5	1.8	21.9
<b>Rel Cap</b>										
<b>Idirect Code</b>	RELCAP	<b>CMP</b>	835	FY10	434.6	17.7	47.3	2.7	2.0	5.7
		<b>Target</b>	852	FY11E	787.9	32.0	26.1	2.5	3.4	9.9
<b>Mcap (Rs Cr)</b>	20510	<b>Upside (%)</b>	2.0	FY12E	826.7	33.6	24.9	2.3	3.2	9.7
<b>Brokerage firms</b>										
<b>Edelweiss Capital</b>					<b>NP (Rs Cr)</b>	<b>EPS (Rs)*</b>	<b>PE (x)</b>	<b>P/BV (x)</b>	<b>RoNA (%)</b>	<b>RoE(%)</b>
<b>Idirect Code</b>	EDECAP	<b>CMP</b>	61.0	FY10	229.2	30.5	20.0	2.0	5.5	11.2
		<b>Target</b>	65.0	FY11E	270.2	3.6	16.9	1.8	4.1	12.1
<b>Mcap (Rs Cr)</b>	458	<b>Upside (%)</b>	6.6	FY12E	290.8	3.9	15.7	1.7	3.1	11.8
<b>India Infoline</b>					<b>NP (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>P/BV (x)</b>	<b>RoNA (%)</b>	<b>RoE(%)</b>
<b>Idirect Code</b>	INDINF	<b>CMP</b>	117	FY10	232.0	8.1	15.7	2.3	5.7	14.9
		<b>Target</b>	141	FY11E	237.1	8.3	15.4	2.0	3.9	14.3
<b>Mcap (Rs Cr)</b>	3335	<b>Upside (%)</b>	20.5	FY12E	286.2	10.0	12.8	1.8	4.8	15.5
<b>MOFSL</b>					<b>NP (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>P/BV (x)</b>	<b>RoNA (%)</b>	<b>RoE(%)</b>
<b>Idirect Code</b>	MOTOSW	<b>CMP</b>	201	FY10	170.4	11.9	18.2	3.4	10.3	18.6
		<b>Target</b>	203	FY11E	159.3	10.8	19.9	2.9	8.4	15.0
<b>Mcap (Rs Cr)</b>	2945	<b>Upside (%)</b>	1.0	FY12E	180.9	12.4	17.5	2.5	8.5	14.7

\*Adjusted for bonus and stock split

## RATING RATIONALE

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 Add: Up to 10%;  
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