

October 18, 2011

Motilal Oswal (MOTOSW)

₹ 89

Rating matrix

Rating	:	Dropping Coverage
Target	:	NA
Target Period	:	NA
Potential Upside	:	NA

Key Financials

₹ crore	FY10	FY11	FY12E	FY13E
Total Revenues	645.3	600.4	508.4	555.5
EBITDA	277.0	229.6	177.1	199.5
PAT	170.4	137.1	96.6	121.9

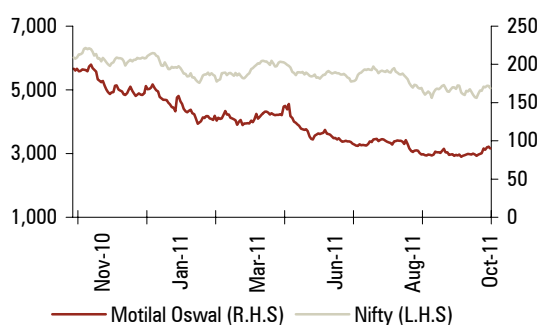
Valuation summary

₹ Crore	FY10	FY11E	FY12E	FY13E
EPS (₹)	11.9	9.6	6.7	8.5
Growth (%)	88.6	-19.6	-29.5	26.2
P/E (x)	7.5	9.3	13.2	10.5
Price / Book (x)	1.3	1.2	1.1	1.0
ROCE (%)	16.5	13.5	8.7	9.8
RoNA (%)	9.5	7.5	5.1	5.8
RoE (%)	18.4	13.2	8.3	9.6

Stock data

Market Capitalisation	₹ 1281 crore
ADT (Q2FY12)	₹ 2760 crore
Yields (Q2FY12)	4.6 bps
52 week H/L	₹ 224/77
Equity capital	₹ 14 Crore
Face value	Rs. 10
DII Holding (%)	10.8
FII Holding (%)	1.0

Price movement



Analyst's name

Kajal Gandhi
 kajal.gandhi@icicisecurities.com
 Mani Arora
 mani.a@icicisecurities.com

WHAT'S CHANGED...

PRICE TARGET	NA
EPS (FY12E)	Unchanged at ₹ 6.7
EPS (FY13E)	Unchanged at ₹ 8.5
RATING	NA

Slow quarter, one-time income boosts PAT...

Motilal Oswal (MOSL) reported a dip of 37% YoY and 2% sequentially in recurring profit at ₹ 26 crore. Exceptional income of ₹ 13 crore from sale of office premises added to overall profits to ₹ 35 crore. Average daily turnover (ADT) rose slightly to ₹ 2760 crore for Q2FY12 from ₹ 2430 crore sequentially. Total revenue remained stable QoQ at ₹ 114 crore, a dip of 28% YoY. We expect PAT of ₹ 121.9 crore in FY13E for MOSL.

Currently, brokerages are unable to maintain yields due to increased F&O volumes. IB and AUM based services are expected to remain subdued as the market environment is unfavourable. Hence, we believe the underperformance of the sector will continue. We are, therefore, dropping coverage on the stock and sector.

■ No respite in yields, market share increases marginally...

The market share increased to 1.9% from 1.8% after a considerably long period. The management maintains that market share in cash segment remains stable. However, blended yields again dipped to 4.6 bps from 5 bps in Q1FY12. Broking revenues remained stable at ₹ 80 crore, down 29% YoY. EBIDTA margins, however, improved to 35% from 31% sequentially. We believe higher pressure on yields and even market volumes may persist for the next few quarters.

■ Investment banking lacklustre, fund based income stagnant...

Fund based income at ₹ 19.8 crore remained the second largest contributor to the topline. The margin funding book declined marginally to ₹ 300 crore from ₹ 330 crore in Q1FY12. The investment banking income remained negligible. The asset management stream earned ₹ 10 crore, on total AUM of ₹ 2260 crore. With unfavourable market conditions, a pick-up in income from these segments seems difficult.

Valuation

MOFSL has been able to maintain EBIDTA margins on account of franchisee based model (1538). However, topline and bottomline have suffered substantially in line with markets. We believe despite cheap valuations, one should avoid entering stock due to no near term triggers.

Exhibit 1: Financial Performance

₹ Crore	Q2FY12	Q2FY12E	Q2FY11	Q1FY12	YoY Gr(%)	QoQ Gr(%)
Net Sales	114.2	114.4	157.7	112.1	-27.6	1.9
EBITDA	39.7	38.2	55.4	34.9	-28.4	13.6
EBITDA Margin(%)	34.7	33.4	35.1	31.2	(940 bps)	(350 bps)
Net Profit	26.1	22.9	33.2	21.3	-21.3	22.4
PAT Margin(%)	22.9	20.0	21.0	19.0	(590 bps)	(40 bps)

Source: Company Quarterly Presentation, ICICIdirect.com Research

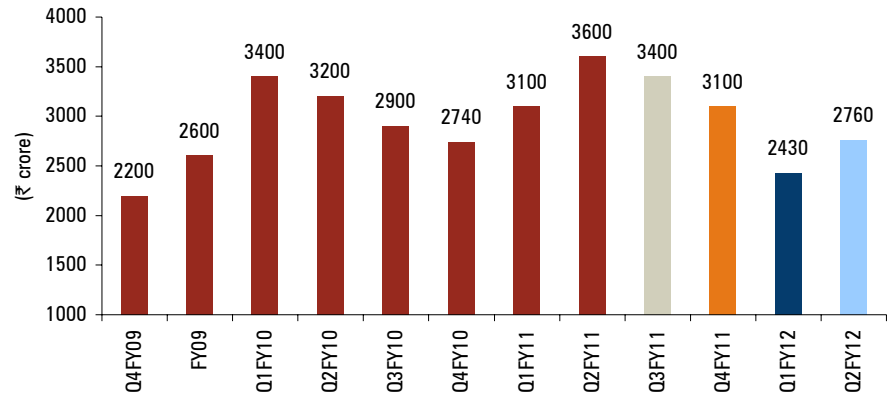
Exhibit 2: Contribution of various verticals to total topline

Business Segment (%)	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12
Brokerage and Operating Income	73.4	71.7	73.4	69.6	68.7	70.6
Investment Banking Fees	8.5	10.5	3.0	4.3	2.0	1.2
Fund Based Income	9.4	9.1	16.7	13.9	18.6	17.4
Asset Management Fees	5.1	6.7	6.5	10.9	9.2	8.8
Other Income	3.5	2.0	0.3	1.3	1.5	2.0
Total Revenues	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company press release, ICICIdirect.com Research

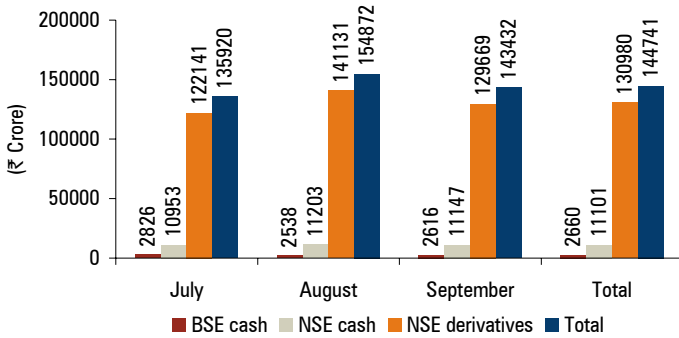
Being traditionally a strong cash segment player, MOSL is finding it difficult to sustain market share due to rising derivatives volumes

Exhibit 3: ADT growth improves QoQ after several quarters



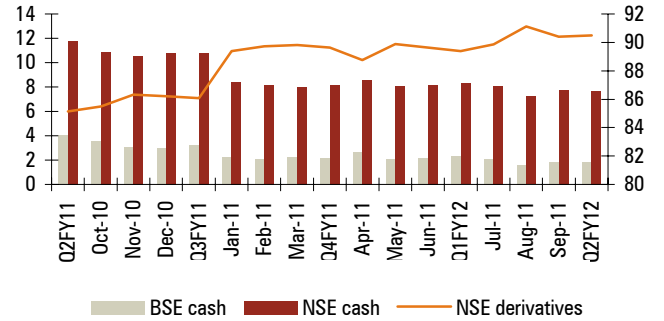
Source: Company quarterly presentation, ICICIdirect.com Research

Exhibit 4: Break-up of market volume for Q2FY12



Source: NSE, BSE, ICICIdirect.com, Research

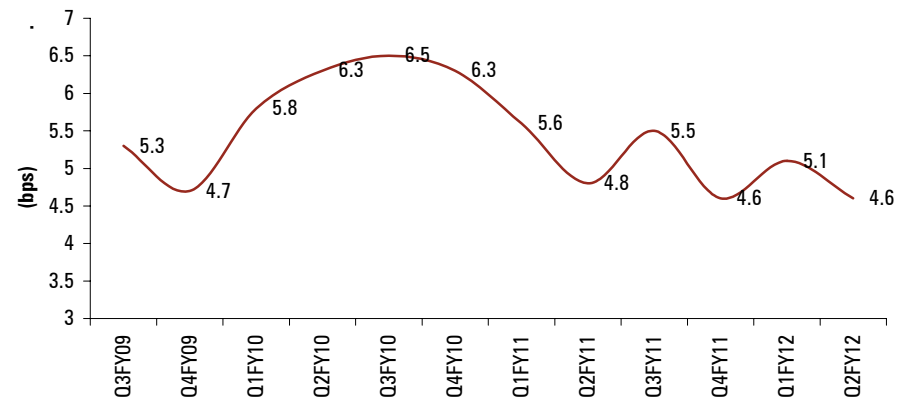
Exhibit 5: Higher contribution from F&O segment continues



Source: NSE, BSE, ICICIdirect.com, Research

Yields had bounced back to 5.1 bps in Q1FY12, but again fell to 4.6% in Q2FY12.

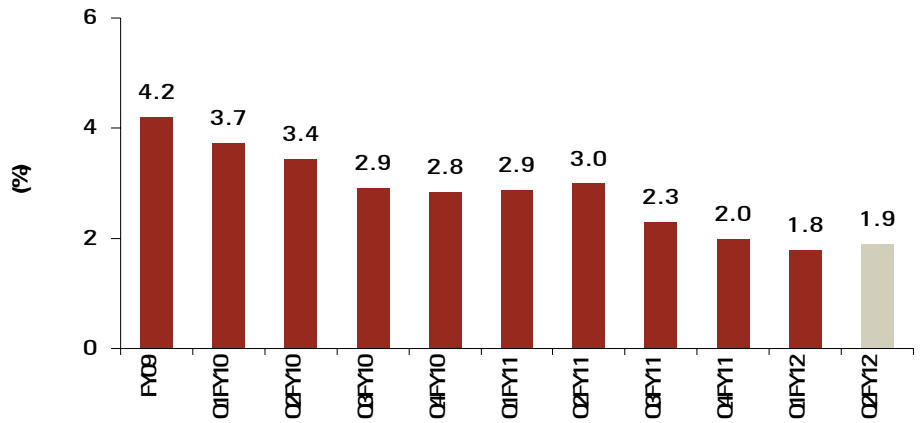
Exhibit 6: Blended yields continue to remain under pressure



Source: Company quarterly presentation, ICICIdirect.com Research

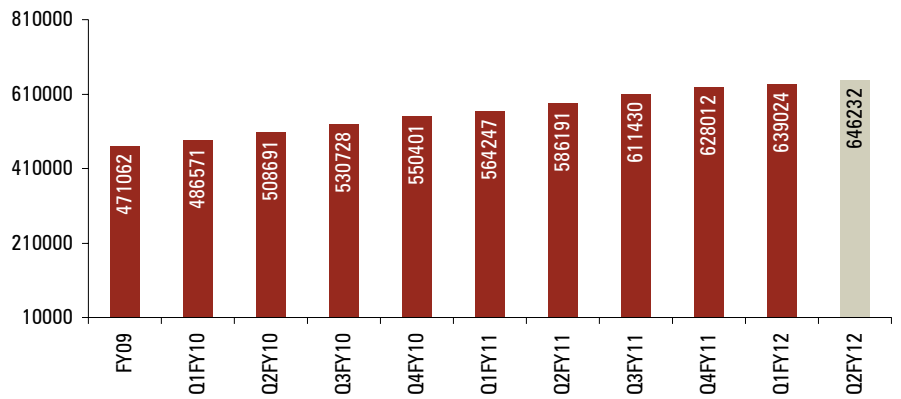
The market share rose to 1.9% in Q2FY12 after falling from 4.2% in FY09

Exhibit 7: Fall in market share took a halt in Q2FY12



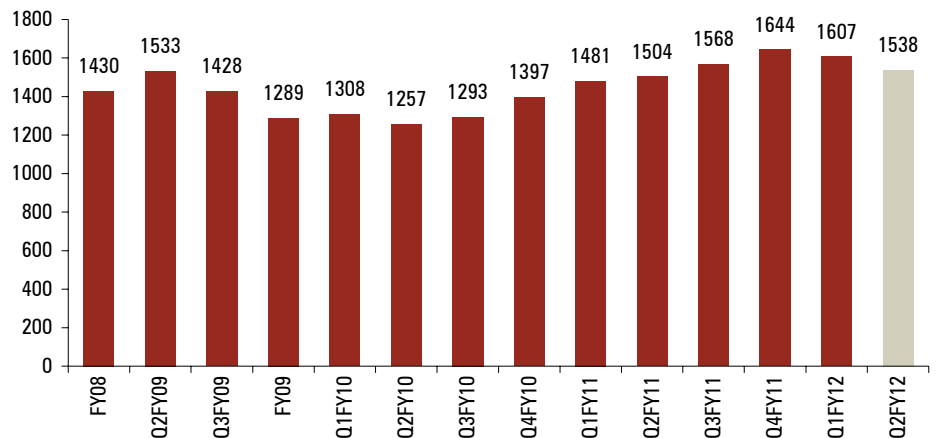
Source: Company quarterly presentation, ICICIdirect.com Research

Exhibit 8: Trend in growth of retail broking clients slows down



Source: Company quarterly presentation, ICICIdirect.com Research

Exhibit 9: Outlets reduced as market conditions remain unfavourable



Source: Company quarterly presentation, ICICIdirect.com Research

Exhibit 10: Financial Summary

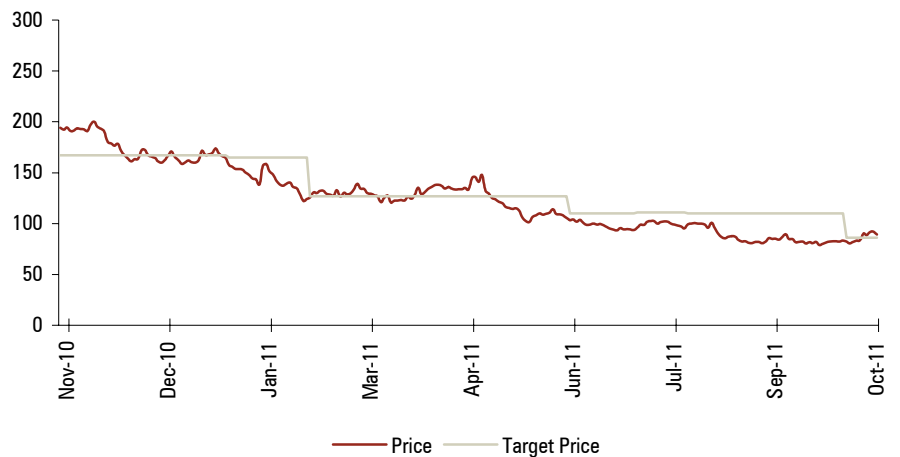
₹ Crore	FY09	FY10	FY11	FY12E	FY13E
Income from Operations	459.2	625.0	589.7	496.7	542.6
Brokerage Income	326.8	455.1	433.4	332.1	357.5
Other Income	6.8	20.3	10.7	11.7	12.9
Total Income	466.1	645.3	600.4	508.4	555.5
Net Profit (₹ crore)	89.6	170.4	137.1	96.6	121.9
EPS (Rs)	6.3	11.9	9.6	6.7	8.5
Growth (%)	-44.7	88.6	-19.6	-29.5	26.2
P/E (x)	14.1	7.5	9.3	13.2	10.5
Price / Book (x)	1.6	1.3	1.2	1.1	1.0
ROCE (%)	13.3	16.5	13.5	8.7	9.8
RoNA (%)	6.6	9.5	7.5	5.1	5.8
RoE (%)	11.8	18.4	13.2	8.3	9.6

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Broking)

					NP (₹ Cr)	EPS (₹)	PE (x)	P/BV (x)	RoNA (%)	RoE(%)
Edelweiss Capital										
Idirect Code	EDECAP	CMP	25	FY11	233.0	3.1	8.1	0.8	3.1	10.8
		Target	32	FY12E	169.9	2.3	11.1	0.8	1.7	7.6
Mcap (₹ Cr)	1877	Upside (%)	28	FY13E	191.0	2.5	9.8	0.7	1.8	8.0
India Infoline										
Idirect Code	INDINF	CMP	70	FY11	213.0	7.4	9.5	1.2	2.9	13.3
		Target	80	FY12E	124.0	4.3	16.4	1.2	1.1	7.4
Mcap (₹ Cr)	2043	Upside (%)	14	FY13E	168.6	5.9	12.1	1.1	1.4	9.5
MOFSL										
Idirect Code	MOTOSW	CMP	89	FY11	137.1	9.6	9.3	1.2	7.5	13.2
		Target	-	FY12E	96.6	6.7	13.2	1.1	5.1	8.3
Mcap (₹ Cr)	1281	Upside (%)		FY13E	121.9	8.5	10.5	1.0	5.8	9.6

Exhibit 11: Recommendation History



Source: Bloomberg, ICICIdirect.com Research

Exhibit 12: Recent Releases

Date	Event	CMP	Target Price	Rating
10-Jan-11	Q3FY11 Result Preview	157	165	Add
14-Feb-11	Q3FY11 Result Update	126	127	Add
7-Jun-11	Q4FY11 Result Update	104	110	Hold
5-Jul-11	Q1FY12 Result Preview	96	111	Buy
26-Jul-11	Q1FY12 Result Update	101	110	Hold
5-Oct-11	Q2FY12 Result Preview	82	86	Hold

Source: Company, ICICIdirect.com Research

RATING RATIONALE

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: > 15%/20% for large caps / midcaps, respectively;
Buy: Between 10% and 15%/20% for large caps / midcaps, respectively;
Hold: Up to +/-10%;
Sell: -10% or more;

Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICIdirect.com Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No. 7, MIDC,
Andheri (East)
Mumbai – 400 093**

research@icicidirect.com

ANALYST CERTIFICATION

We */I, Kajal Gandhi CA Mani Arora MBA* research analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts aren't registered as research analysts by FINRA and might not be an associated person of the ICICI Securities Inc.

Disclosures:

ICICI Securities Limited (ICICI Securities) and its affiliates are a full-service, integrated investment banking, investment management and brokerage and financing group. We along with affiliates are leading underwriter of securities and participate in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their dependent family members from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on reasonable basis, ICICI Securities, its subsidiaries and associated companies, their directors and employees ("ICICI Securities and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities is acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return of investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities and affiliates accept no liabilities for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities and its affiliates might have managed or co-managed a public offering for the subject company in the preceding twelve months. ICICI Securities and affiliates might have received compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of public offerings, corporate finance, investment banking or other advisory services in a merger or specific transaction. It is confirmed that *Kajal Gandhi CA Mani Arora MBA* research analysts and the authors of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Our research professionals are paid in part based on the profitability of ICICI Securities, which include earnings from Investment Banking and other business.

ICICI Securities or its subsidiaries collectively do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

It is confirmed that *Kajal Gandhi CA Mani Arora MBA* research analysts and the authors of this report or any of their family members does not serve as an officer, director or advisory board member of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. ICICI Securities and affiliates may act upon or make use of information contained in the report prior to the publication thereof.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.