



Edelweiss Capital

IPO Fact Sheet

Issue details

Issue opens	: November 15, 2007
Issue closes	: November 20, 2007
Issue size	: 0.84 crore-equity shares
Offer size	: Rs609 crore-Rs693 crore
Price band	: Rs725-Rs825
Reservation for employees	: 0.02 crore shares
Net issue to public	: At least 0.82 crore shares
Of which	
QIB portion	: At least 0.49 crore shares (60%)
Non-institutional portion	: At least 0.08 crore shares (10%)
Retail portion	: At least 0.25 crore shares (30%)

Objects of the issue

Edelweiss Capital is planning to issue 0.84 crore equity shares to raise Rs609 crore to Rs693 crore (depending on the price band of Rs725-825 per share). The company proposes to utilise Rs300 crore for its subsidiary Edelweiss Securities (ES) to help it maintain adequate levels of margin with the stock exchanges. Such capital infusion will enable ES to undertake more business in equities and derivative markets. The company also plans to use another Rs26.9 crore to meet its requirement of further 23,400 square feet of additional built-up area either for ES (engaged in wealth management business) or for the company's asset management or for the investment advisory business.

Proposed timeline for utilisation of net proceeds from the issue

Particulars	Total estimated costs	Incurred up to 9-10-2007	By March 2008	By March 2009
Enhancement of margin maintenance with exchanges	300.0	-	300.0	-
Establishment of additional offices and	26.9	1.8	3.6	21.5
Acquisition of office infrastructure.	-	-	-	-
Enhancement of existing technological	3.1	-	1.6	1.5
Capacity	-	-	-	-
Prepayment of loans	105.0	-	105.0	-
General corporate purposes	-	-	-	-
Total	435.0	1.8	410.2	23.0

Shareholding pattern

Shareholder category	Pre-Issue		Post Issue	
	No of shares	%	No of shares	%
Promoter	20348640	30.58	20348680	27.16
Promoter group	8170240	12.28	8170240	10.91
Others	38016728	57.14	38016728	50.74
Public	0	0.00	8386147	11.19
Total	66535608	100.00	74921795	100.00

Company background

Edelweiss Capital commenced business in 1996 as a boutique investment bank and has grown into a diversified financial services company providing banking, institutional equities, private client broking, asset management, wealth management, insurance broking and wholesale financing services to corporate, institutional, and high net worth individual clients. The company has ten subsidiaries and operates from another 43 offices in 21 Indian cities.

Investment positives

Presence in institutional and private client broking space

The company at present provides services to 150 institutional investors and more than 5,000 active private client accounts. The company has 51 research professionals covering 190 companies that represent approximately 69% of market capitalisation of all the companies listed on the Bombay Stock Exchange (BSE).

Edelweiss group holding structure

Subsidiaries	Nature Of Business	% of holding
Edelweiss Securities Pvt Ltd (ESL)	Institutional equities, Pvt client broking, wealth management	100
Edelweiss Commodities& advisors Ltd (ECAL)	Pvt client broking, Internal treasury operations.	100
Edelweiss Capital USA, LLC (100%)		100
Cross border Investments Pvt Ltd	Wholesale Financing, Internal treasury operations	100
a) Edelcap Securities & Transactions		100
b) EC Global Ltd	Asset management, internal treasury operations	100
Edelweiss Trustee services Pvt Ltd		100
ECL Finance Ltd	Wholesale Financing, Internal treasury operations	74
Edelweiss Insurance Brokers Ltd	Insurance Broking	72
Edelweiss Asset management Pvt Ltd		100
Edelweiss Trusteeship company Pvt Ltd		100

Investment banking and advisory business has strong growth prospects

Under investment banking (IB), the company offers a broad range of advisory services in the fields of mergers and acquisitions, structured finance, private equity, real estate and infrastructure. The company is strongly focussing to build on its existing IB and advisory businesses, which have strong growth potential and would contribute significantly to the company's fee income growth going forward.

Recent transaction in equity markets (in last one year)

Particulars	Rs crore
Pre IPO Placement and IPO of C&C construction Ltd	157.3
IPO of Cinemax India Ltd	138.2
IPO of Meghmani Organics Ltd	102.0
IPO of Orbit Corporation Ltd	100.1
IPO of MIC Electronics Ltd	76.5

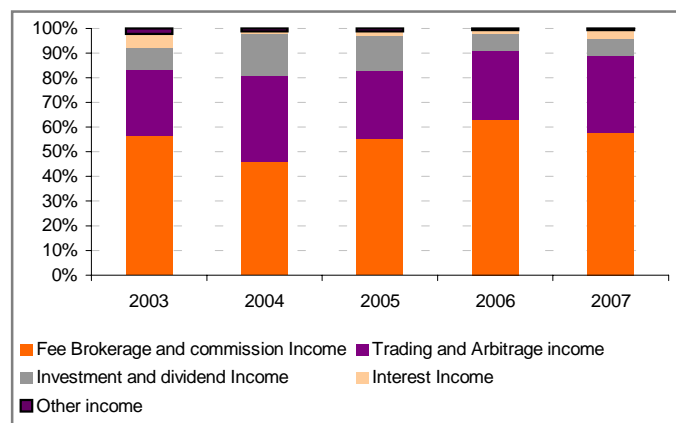
Continue to expand the lines of business into complementary businesses

In addition to consolidating the existing lines of business, the company intends to continue expanding into complementary businesses in equities, debt, commodities, real estate, insurance, and other financial markets. Through the asset management and investment advisory business, the company advises three funds with an aggregate value of Rs1,320 crore (\$330 million).

Key concerns**High contribution of trading and arbitrage income remains a key risk**

For any financial services company, especially a broking and wealth management company, the core business revenue is from fee, brokerage, and commission income and not

the trading and arbitrage income. About 58% of Edelweiss Capital's revenues are from fee, brokerage, and commission income and 31% are from trading and arbitrage income. The high percentage of proprietary trading and arbitrage revenues remain a key risk to the sustainability of growth in earnings in the long run.

Revenue mix

Source: Prospectus

Valuation

The company would trade at 25.9x to 29.1x its FY2008E adjusted earnings per share based on the price band announced. The company has a significant contribution of trading and arbitrage income, which could be highly volatile, and the sustainability of the same in the long run is a serious question. Hence, if we discount 50% of such income the company would trade at 31.3x to 35.1x its FY2008E adjusted earnings per share. The valuation, we feel, is at the higher end if we discount the high contribution from trading and arbitrage income.

Peer comparison

Peer group	P/E	FY08E PAT**	FY08E EPS***	RoE (%)
Edelweiss (LB)	25.9	209.5	28.0	14.1
Edelweiss (UB)	29.1	212.3	28.3	13.5
Edelweiss (LB) - adj for 50% of arbitrage income*	31.3	173.3	23.1	11.6
Edelweiss (UB) - adj for 50% of arbitrage income*	35.1	176.1	23.5	11.2
India Bulls	22.3	695.3	31.2	19.4
India Infoline	34.6	160.9	30.2	16.6
Kotak Bank	39.5	774.8	23.7	22.6
Motilal	32.2	122.6	43.2	17.8

Note:

For Edelweiss Capital, we have added the interest income that the increased capital base can generate (assumed 10%) on the margin-funding book to the H1FY2008 annualised profit after tax (PAT) to arrive at the FY2008E PAT.

The earnings per share (EPS) estimate for Edelweiss Capital is based on post issue capital base and for its peer group the same is based on 12-11-07 BSE closing prices.

* We have further reduced 50% of trading and arbitrage income from the reported five months ended August 2007 profits for FY2008, as these incomes are highly volatile and unsustainable in the long run.

** Annualised H1FY2008 PAT before extraordinary items. For Edelweiss Capital we have annualised the reported five months PAT from April to August 2007.

*** Based on profit before extraordinary items

Financial

Profit & loss statement (consolidated) (Rs crore)

Particulars	2007	2006	2005
Income			
Income from operational activities			
- Brokerage income	215.4	99.3	42.4
- Other income	155.8	58.7	34.7
Total income	371.3	158.0	77.0
Expenditure	175.0	81.1	37.9
Depreciation	3.8	2.1	1.0
Interest	18.7	5.4	3.4
PBT	173.8	69.5	34.7
Taxation	64.6	23.0	11.3
Extraordinary items	0.0	2.1	0.0
Minority interest	0.2	3.8	0.9
PAT	109.0	40.6	22.5

Balance sheet

(Rs crore)

Particulars	2007	2006	2005
Net worth			
Share capital	5.0	3.8	2.9
Stock options outstanding	3.6	2.5	1.4
Reserves	573.7	172.1	49.7
Less: Miscellaneous expenses	0.0	0.0	0.0
Total	582.3	178.4	53.9
Liabilities and provisions			
Secured loans	6.8	7.1	5.9
Unsecured loans	380.2	43.4	6.2
Current liabilities	146.2	117.3	40.4
Provisions	13.4	4.5	3.6
Minority interest	139.9	0.3	6.2
Total liabilities and provisions	686.4	172.7	62.3
Total	1268.7	351.1	116.2
Assets			
Gross block	21.3	10.6	5.9
Less: Accumulated depreciation	7.6	3.8	1.8
Net block	13.7	6.7	4.1
Capital work in progress	3.3	0.0	0.0
Investments	82.4	32.4	10.2
Deferred tax asset	1.1	0.4	0.2
Current assets, loans and advances			
Stocks	575.6	140.5	27.1
Sundry debtors	58.3	36.4	12.2
Cash and bank balance	265.1	63.7	12.0
Other current assets	7.5	1.0	0.3
Loans and advances	261.6	70.0	50.0
Total	1268.7	351.1	116.2

The "views" expressed in this report are our views only and have been arrived at after analysis of the public offering details. This is not a recommendation under our "Stock Idea" category. It may/may not be included in the Stock Idea by our analysts at a later date.

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