



Kantilal Chhaganlal Research

Broking Companies

Monthly

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April 7, 2010

Broking Companies

Sensex today touched the 18000 mark a 52 week high. The Last time we saw Sensex closed at 18000 was on 19th February,2008. At that time BSE 500 and Midcap stocks were trading at 7239 and 7685 levels. They are now trading at 7074 and 6966 levels respectively. Lately we have seen a sharp recovery in the BSE 500 and Midcap stocks (giving returns based on 6M and 12M price movements) but still have not achieved the same levels as they were trading on 19th February, 2008 when the Sensex was at similar levels.

In our study we have taken nine broking companies like Edelweiss, Motilal Oswal, India Infoline and others and we found that the companies are available at a discount of 46% from the 19th February, 2008 when the Sensex was at 18000 level. Also these companies have underperformed in the markets in the last six months.

	Closing Prices as on				Returns		Difference from 19-Feb 08
	19-Feb-08	5-Apr-10	30-Sep-09	31-Mar-09	6 M	12 M	
Sensex	18076	17936	17127	9709	5%	85%	-
BSE 500	7239	7074	6553	3524	8%	101%	-2%
Midcap	7685	6966	6324	2956	10%	136%	-9%
Broking Companies Returns					-14%	92%	-46%

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Brokerage Companies Returns

	Closing Prices as on				Returns		Difference from 19-Feb 08
	19-Feb-08	5-Apr-10	30-Sep-09	31-Mar-09	6 M	12 M	
Edelweiss Capital Ltd	901	442	480	258	-8%	71%	-51%
JRG Securities Ltd.	67	40	45	26	-12%	53%	-41%
Geojit BNP Paribas Financial Services Ltd	68	38	47	19	-19%	99%	-44%
India Infoline Ltd.	244	121	149	59	-18%	106%	-50%
Motilal Oswal Financial Services Ltd.	209	163	177	76	-8%	113%	-22%
Networth Stock Broking Ltd.	127	43	49	22	-11%	102%	-66%
Prime Securities Ltd.	194	37	39	12	-4%	215%	-81%
Religare Enterprises Ltd	438	389	386	315	1%	23%	-11%
Indiabulls Securities Ltd	-	31	55	21	-43%	49%	-

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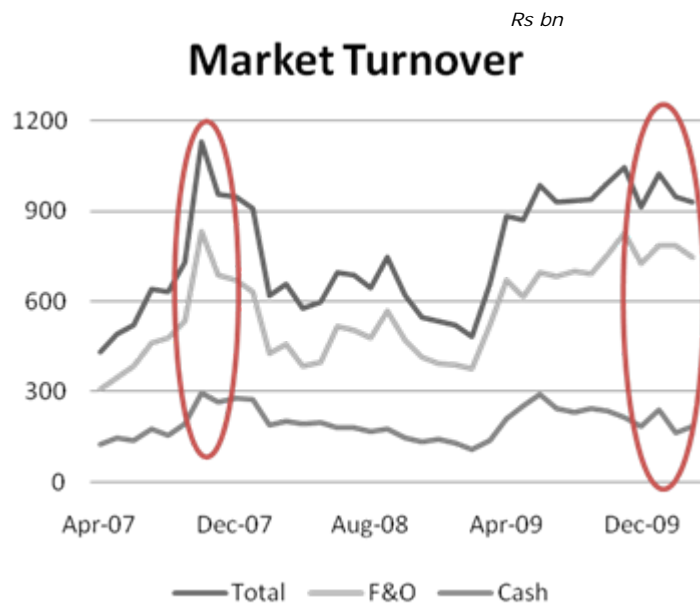
Average 6M and 12M return for these companies are -14% and 92% respectively. This sector has clearly underperformed because of lack of retail participation in the current rally, also there is continuous pressure on margins due to fall in commission rates and change in trading pattern from delivery to F&O where there are low margins. Also the returns on "proprietary book" were not healthy. Reduction in commission rates on distribution of TPP was another area of concern.

Brokerage Companies Financials

	<i>Rs mn</i>			
	PAT 08	PAT 09	TTM* PAT	P/E
Edelweiss Capital Ltd	2927	2091	2178	15.1
JRG Securities Ltd.	33	-38	43	21.8
Geojit BNP Paribas Financial Services Ltd	599	408	278	30.6
India Infoline Ltd.	1639	1573	1945	17.7
Motilal Oswal Financial Services Ltd.	1756	934	1373	17.0
Networth Stock Broking Ltd.	-8	-144	-43	-
Prime Securities Ltd.	339	-250	45	21.1
<u>Religare Enterprises Ltd</u>	<u>970</u>	<u>-652</u>	<u>15</u>	<u>-</u>

*KC Research *TTM trailing twelve months*

The profits for most of the companies have improved and their average P/E is at 20.5 which looks reasonable as compared to the P/E of 30 and above during Feb-08. Also companies showing losses in last financial year have improved their performance this year.



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Rs bn

Period	BSE	NSE	F&O	ADTO*
Q4FY10	50	145	772	968
Q3FY10	52	161	771	984
Q2FY10	60	181	693	934
Q1FY10	63	189	661	913
Q4FY09	33	92	428	553
Q3FY09	38	102	427	566
Q2FY09	52	124	518	693
Q1FY09	58	133	433	624
Q4FY08	67	156	506	728
Q3FY08	85	196	731	1012
Q2FY08	56	120	493	668
Q1FY08	44	92	346	481

KC Research * ADTO Average Daily Turnover

Seen from the graph, during the market boom time there was participation from both F&O and Delivery Segment, however now there is more participation from F&O segment where as delivery based segment has been more or less remained stagnant. But the positive side is that the market has recovered and is now trading at similar levels as they were trading during the boom period of 2007-08. This will definitely improve the broking business. Another positive for brokerage business is the scaling up of average daily turnover.

Other Observations

1. Our economy is strong right now with GDP growth of 8.5% and going forward it is assumed to be 9% or above. This is positive for the financial markets.
2. FIIs continue to invest in Indian market. Retail participation is also expected to rise which will increase cash turnover.
3. There are new opportunities such as currency futures, mutual fund distribution through exchange platform and listing of Hangseng on NSE which were not there in 2008 all of which would help in increasing turnover. Commodities broking business which is significantly high currently which would add to the revenue opportunities.
4. Other sectors are doing well and most of the companies are trading at their 52 week high so returns on proprietary books of these companies are expected to be positive.
5. IPOs/FPOs of PSUs worth Rs 300 bn are expected in next 6-9 months and new IPO/FPO by corporate are due to improving market sentiments offering huge revenue earning opportunities from distribution.
6. Flow of PE investment will help investment banking business.
7. Mutual Funds NAVs are also at 52 week high and surge in AUMs reflects flow of investment in mutual funds will further expand the market activities.

Based on above, we expect brokerage companies to do better in the next 12 months. Companies like Edelweiss and Motilal Oswal having strong institutional broking and investment banking businesses and India Infoline having strong distribution business are expected to perform much better in particular.

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