

Company Flash

12 March 2008 | 6 pages

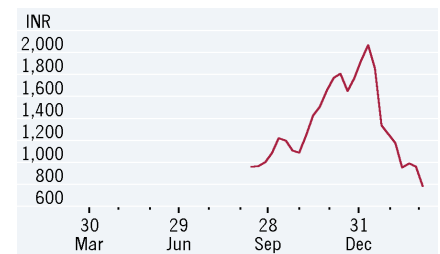
Motilal Oswal Financial Services (MOFS.BO)

Citi India Conference 2008: Day 2 Takeaways

- Conference takeaways** — Motilal Oswal spoke with investors at the Citi India Investor Conference 2008. Here are some of the highlights of that presentation.
- Business as usual** — MOFS said all business segments continued to grow, with brokerage volumes still increasing over the past year. Around 60% of its costs are variable and therefore operating efficiencies would be in play if revenues were to decline. New business forays have scaled up and are generating significant traction.
- Revenue mix** — MOFS' revenue mix is more broad-based than that of most peers. Management targets a revenue mix with transactions (equity and commodity brokerage) contributing 70%, fees (PMS, IB and PE) and fund-based (margin finance) contributing the rest.
- Impact of market volatility, much less than market estimates** — Management suggested the total dues from customers, which relate to the market turmoil in late Jan 08, are around Rs50m. Management estimates losses in the region of Rs30m-40m post recoveries over the medium term.
- Private equity fund raising** — The first PE fund has been closed with a total corpus of \$126m, of which about \$27m has already been invested. MOFS plans to open 3 more PE funds – one each for real estate, infrastructure and diversified growth fund.

Buy/Medium Risk	1M
Price (12 Mar 08)	Rs690.55
Target price	Rs2,400.00
Expected share price return	247.5%
Expected dividend yield	0.1%
Expected total return	247.6%
Market Cap	Rs19,614M US\$486M

Price Performance (RIC: MOFS.BO, BB: MOFS IN)



Statistical Abstract

Year to	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
31 Mar							
2006A	602	21.43	na	32.2	17.6	54.7	0.0
2007A	780	30.70	43.2	22.5	5.3	35.2	0.0
2008E	1,679	59.11	92.5	11.7	2.6	30.7	0.1
2009E	2,737	96.36	63.0	7.2	1.9	30.5	0.1
2010E	3,599	126.71	31.5	5.4	1.4	29.7	0.1

Source: Powered by dataCentral

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See Appendix A-1 for Analyst Certification and important disclosures.

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Motilal Oswal Financial Services

Company description

Motilal Oswal Securities Ltd, incorporated in 1994, was started by entrepreneurs Raamdeo Agrawal and Motilal Oswal. It began business as a retail broker and has broadened to include institutional equity broking and commodity broking, investment banking, discretionary portfolio management, venture capital management, and third party product distribution. The company's predominant business lines are institutional and retail broking; it has expanded into the areas of investment banking and venture capital management recently. In addition, it is seeking to build on its equity and retail market businesses, and establishing a wealth management platform.

Investment strategy

We rate Motilal Oswal Financial Services (MOFS) shares Buy/Medium Risk (1M) with an Rs2,400 target price. MOFS is one of larger domestic brokers in India; it has been gaining market share and enjoys about 5% market share. MOFS is one of few direct and diversified plays on the Indian capital markets opportunity, with a strong management and a relatively low-risk approach. MOFS offers a healthy mix of retail and institutional business, backed by a strong research focus. MOFS, among the top five domestic retail and institutional brokers, has consistently and significantly gained market share over the past five years. MOFS' broking business is also backed by its strong research focus, especially for the institutional segments. It has large coverage and has been ranked consistently amongst leading domestic brokerages. MOFS also distinguishes itself through its broader platform - in addition to the broking business (equities and commodities), it offers a broad product suite in both retail and institutional business segments. In the institutional segment, the focus is on investment banking. In the retail segment, it offers margin finance third-party product distribution and is moving up the value chain to wealth management and asset management.

Valuation

MOFS is one of few concentrated capital market exposures in the Indian market - its larger brokerage peers also offer substantially large other businesses. We would expect its primary valuation benchmark to be the broader market (Sensex) P/E multiple (now 20x FY09E). We value MOFS at 25% premium to the market multiple, in part supported by lack of scale, diversified, standalone domestic brokers. We base our target multiple on MOFS' diversified, low-risk business model, strong management, a growing market share and underlying structural growth in the industry. Our target multiple (25x FY09E P/E) implies a target price of Rs2,400. It could be argued, however, that in a strong capital market environment (as is the case now); valuations should be at a discount to market multiples to factor in the business cyclicity. Our target multiple, though slightly aggressive, appears justified on the higher current growth and outlook for industry volumes, in our view.

Risks

We rate MOFS Medium Risk, though our quantitative risk rating system which tracks 260-day historical share price volatility suggests a High Risk rating. MOFS has a broad and diversified business revenue mix, is well balanced between the retail and institutional segments and has a strong and relatively risk averse management, which we believe reduces operating risk. Key risks that could prevent the shares from reaching our target price are: a) Earnings strongly correlated to volatile capital markets; b) Execution of aggressive expansion; c) Margin finance risks; and) Regulatory changes.

Appendix A-1

Analyst Certification

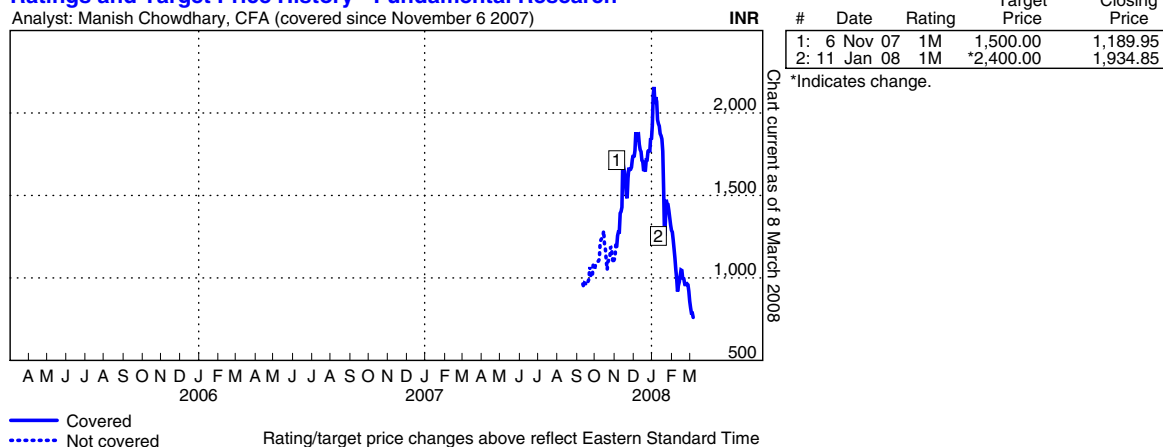
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Motilal Oswal Financial Services (MOFS.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Manish Chowdhary, CFA (covered since November 6 2007)



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Data current as of 31 December 2007

	Buy	Hold	Sell
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