

INITIATING COVERAGE

Financial Technologies India Limited

HOLD

Share Data

| | |
|-----------------------|----------------------|
| Market Cap | Rs. 126.58 bn |
| Price | Rs. 2876.1 |
| BSE Sensex | 14,964 |
| Reuters | FITE.BO |
| Bloomberg | WWTC IN |
| Avg. Volume (52 Week) | 0.04 mn |
| 52-Week High/Low | Rs. 3016.50 / 1073.9 |
| Shares Outstanding | 44.01 mn |

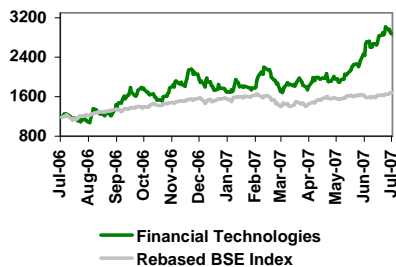
Valuation Ratios

| Year to 31 March | 2008E | 2009E |
|------------------|--------|--------|
| EPS (Rs.) | 16.1 | 22.9 |
| +/- (%) | 12.6% | 41.9% |
| PER (x) | 178.6x | 125.8x |
| EV/ Sales (x) | 33.6x | 25.1x |
| EV/ EBITDA (x) | 82.4x | 62.0x |

Shareholding Pattern (%)

| | |
|-----------------|----|
| Promoters | 48 |
| FII's | 32 |
| Institutions | 1 |
| Public & Others | 19 |

Relative Performance



Long term Potential

Financial Technologies (FT), the flagship Company of Financial Technologies group provides technology solutions and domain expertise for digital transactions and financial markets across all asset class including equity, commodities, currency and debt. The company is in a position to leverage its technology, infrastructure and innovation. The company has promoted MCX (Multi Commodity Exchange), India's No. 1 multi-commodity derivatives exchange and is planning to unlock its value by means of an IPO. The opportunities offered by FT are immense, however some of them would be realised only in the long term. Proper execution of the new ventures like NSEL, SNX and GBOT would be an important aspect to watch for.

Key Figures

| Year to March | FY05 | FY06 | FY07 | FY08E | FY09E | CAGR (%) |
|--|--------|--------|--------|--------|--------|----------|
| (Figures in Rs mn, except per share data) (FY07-09E) | | | | | | |
| Net Sales | 574 | 1,820 | 2,645 | 3,846 | 5,154 | 39.6% |
| EBITDA | 295 | 1,047 | 1,028 | 1,569 | 2,087 | 42.5% |
| Net Profit | 201 | 655 | 705 | 789 | 1,120 | 26.0% |
| Margins(%) | | | | | | |
| EBITDA | 51.5% | 57.5% | 38.9% | 40.8% | 40.5% | |
| NPM | 35.0% | 36.0% | 26.7% | 20.5% | 21.7% | |
| Per Share Data (Rs.) | | | | | | |
| EPS | 4.9 | 14.9 | 14.3 | 16.1 | 22.9 | 26.4% |
| PER (x) | 590.4x | 193.2x | 201.1x | 178.6x | 125.8x | |

- Driven by strong growth, we expect revenues to grow at a CAGR of 39.6% through FY07-09E.
- With infrastructure in place, increasing volumes with relatively lower cost of execution would positively impact EBITDA margins by over 19bps to 40.8% during FY08 (Vs FY07).
- At current price of Rs. 2,876, the stock trades at forward P/E of 178.6x for FY08E and 125.8x for FY09E.
- We believe that the stock is fairly valued and initiate coverage on Financial Technologies with a HOLD rating.

Rationale

Captured 90% market share in technology solutions

Growing core business

With low penetration of financial products in India, there exists tremendous growth potential in broking industry. Financial Technologies with its established infrastructure is uniquely positioned to encash the opportunity of providing technology solutions to stock broking industry. Financial Technologies has maintained its leadership by capturing 90% market share in this business. The Company sold around 164,000 licenses during FY07 posting y-o-y growth of 88% driven by expansion plans of brokerage houses and spread of online trading.

Value unlocking of commodities exchanges

FT group holds 49% in Dubai Gold & Commodities Exchange (DGCX) and FT hold 64% in MCX. Recently, DMCC has acquired 1% stake in DGCX for \$12.5 mn and Fidelity picked up a 9% equity stake in MCX for \$49 mn.

IPO of MCX to unlock value

Since then, MCX has also filed a draft propectus with Sebi for an IPO. MCX's post-listing valuations could be in the range of \$1 bn. We believe that MCX would be major driver for FT's future growth. MCX has emerged as third largest bullion exchange behind NYMEX and TOCOM. Moreover, volumes in commodities futures are expected to increase manifold, once Banks, FIIs and Mutual Funds are allowed to participate.

New Ventures

Financial Technologies has been able to capitalise on the existing opportunities by entering into pact with leading players both domestically and internationally. The Companies has started DGCX, which being first international commodities derivatives market in the Middle East region, has early mover advantage and has been aggressively growing in terms of volumes since its launch in Nov. 2005. Additionally, FT would start National Spot Exchange (NSEL) for agriculture produce and exchange for spot trading in milk and milk products named SNX (Safal National Exchange). Besides, FT plans to set up a trading platform for corporate bonds & SMEs and has shown interest to acquire stakes

in the Over the Counter Exchange of India (OTCEI) and the Inter-connected Stock Exchange (ISE).

Product innovation

FT has several initiatives under pipeline for retail investors, the major ones being trade execution / payments through mobile phones and a company for providing data, news and analytics for financial markets. In order to achieve volumes, the Company plans to adopt competitive pricing strategy.

New developments to be key growth driver

Key Risks

Regulatory risks

The Company operates in highly regulated commodities markets. The government recently banned futures trading in wheat in order to curb inflationary trends. Frequent government intervention may considerably slowdown the process of launching new products / services.

Shortage of IT professionals

FT is highly prone to large scale attrition due to high demand of professionals and lack of skilled manpower in the sector. The Company may face high wage inflation in order to retain talent which could negatively impact the Company's margins.

Stiff regulations may impact the company's growth

Overseas Expansion

The Company has strengthened its global presence with DGCX in Dubai. Also, it will be setting up commodity exchange named GBOT (Global Board of Trade) in Mauritius. Though the overseas presence enables the group's intent of becoming global player yet these plans involve considerable investments and gaining a foothold in international markets could prove to be a challenge.

Outlook

Financial Technologies core business of providing trading software has immense potential with the solid growth of retail investors which would lead brokers to expand and upgrade their networks with latest technology. The

*Fairly valued at Rs.
2,876*

Company's long term strategy includes strong focus on international expansion, promotion of new related ventures and constant innovation. FT is rightly positioned to leverage its core strength of providing technology infrastructure to global financial and commodity markets.

We expect the revenues to grow at a CAGR of 39.6% during FY07-09E. At current price of Rs. 2,876, the stock trades at forward P/E of 178.6x for FY08E and 125.8x for FY09E. We believe that the stock is fully valued and initiate coverage on Financial Technologies with a HOLD rating.

Company Background

*Leader in providing
technology to financial
markets*

Financial Technologies is a straight-through-processing (STP) service provider. The Company's transaction automation solutions portfolio delivers STP solutions for market participants, including exchanges, brokers, banks, financial institutions and asset management companies. The Company started as developing software for online exchanges which led it to setting up of its own trading platform.

The Company has promoted MCX, India's No. 1 multi-commodity derivatives exchange; DGCX, the first international commodity derivatives market in the Middle East and IBS Forex, inter-bank foreign exchange platform. Other key exchange ventures include NSEL, SNX and GBOT.

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