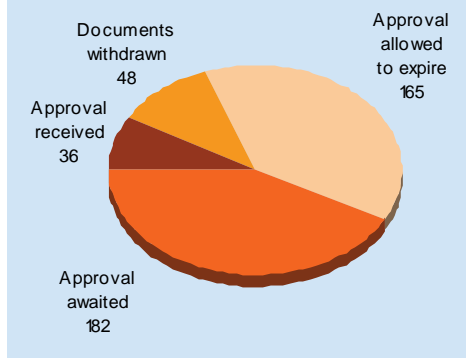


August 25, 2008

IPO Pipeline (Rs bn)



Source: Prime Database

- **Crash:** Since the equity market crash in January this year, the IPO market has been moribund. Total monies raised from the primary market this February onwards has been a modest Rs.43 bn from 25 issues. During the same period last year, this number was an impressive Rs.330 bn from 65 issues. This represents a huge decline of 86.8%. The meager amount raised since February was mostly by small/mid-sized companies whose issues were managed by Tier-2 bankers. Thus the impact on large bankers such as Kotak, Citicorp, JM, UBS etc. has been quite debilitating.
- **Robust pipeline:** Many IPOs that were to hit the markets are currently in the pipeline. The pipeline (including issue withdrawn, approval sought, approval expired and approval received status) is now a staggering Rs.431 bn. Also, several hundred companies that were planning to file with SEBI have decided to postpone the same. All inclusive, the pipeline could be worth a massive Rs.500-600 bn. However, this does not include any disinvestment plans that the government may have, which could add another Rs.150-200 bn to the pipeline.
- **Substantial sentiment revival needed:** While the pipeline indicates the magnitude of the opportunity for India's top investment bankers, it is quite clear that such sums cannot be raised in the absence of an improvement in both local as well as international market sentiment. If and when sentiment does improve, companies under our coverage such as Edelweiss (OP), Motilal Oswal (MP) and Kotak (NR) would be major beneficiaries while companies like India Infoline (MP) and IDFC (OP) would be beneficiaries to a small extent. We maintain our Neutral stance on the financial services sector.

**Financials**

	Revenue / Net Op. Income (Rs bn)			EPS (Rs)			Adj. Book Value (Rs)			Return on Equity (%)		
	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E
HDFC	30.5	35.4	43.0	68.5	81.7	99.9	421	473	543	22.2	18.4	19.7
IDFC	13.1	15.7	19.3	7.5	8.7	10.6	33	46	51	17.4	14.7	16.0
Edelweiss	10.9	11.6	15.4	39.6	36.1	44.5	247	279	318	23.4	13.8	15.8
India Infoline	10.2	12.5	17.0	6.1	6.7	7.9	37	54	60	15.3	10.0	11.6
Motilal Oswal	6.9	6.7	8.5	11.0	9.3	12.1	54	62	73	28.4	16.1	18.0
Reliance Capital	49.2	61.7	76.2	41.0	58.2	72.5	250	301	364	17.6	21.1	21.8

**Valuation**

	CMP (Rs)	Rating	TP (Rs)	Price / Earnings (x)			Price / Adj. Book (x)			Net Dividend Yield (%)		
				FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E
HDFC	2,281	MP	2,406	33.3	27.9	22.8	5.4	4.8	4.2	1.1	1.1	1.2
IDFC	92	OP	125	12.3	10.6	8.7	2.8	2.0	1.8	1.3	1.6	2.2
Edelweiss	582	OP	630	14.7	16.1	13.1	2.4	2.1	1.8	0.3	0.4	0.7
India Infoline	140	MP	130	22.9	20.9	17.7	3.8	2.6	2.3	0.5	0.6	0.6
Motilal Oswal	113	MP	120	10.2	12.1	9.3	2.1	1.8	1.6	1.7	0.9	1.2
Reliance Capital	1,244	MP	1,400	30.3	21.4	17.2	5.0	4.1	3.4	0.3	0.5	0.6



Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India.

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

#### PL's Recommendation Nomenclature

<b>BUY</b>	: > 15% Outperformance to BSE Sensex	<b>Outperformer (OP)</b>	: 5 to 15% Outperformance to Sensex
<b>Market Performer (MP)</b>	: -5 to 5% of Sensex Movement	<b>Underperformer (UP)</b>	: -5 to -15% of Underperformance to Sensex
<b>Sell</b>	: <-15% Relative to Sensex		
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

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