

Motilal Oswal (MOTOSW)

Rs 181

Rating matrix

Rating	: Buy
Target	: Rs 203
Target Period	: 12-15 months
Potential Upside	: 12%

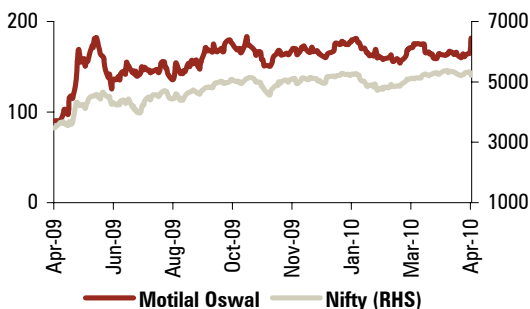
Trailing 4 quarters growth (%) (YoY)

	Q1FY10	Q2FY10	Q3FY10	Q4FY10
Total Income	149.2	171.1	158.3	166.6
EBITDA	60.4	76.0	64.3	76.1
Net Profit	36.3	47.1	37.1	51.9

Stock data

Market Capitalisation	Rs 2588 crore
Debt (Q4FY10)	Rs 110 crore
Cash (Q4FY10)	Rs 430 crore
EV (Q4FY10)	Rs 2268 crore
52 week H/L	Rs 196 /86
Equity capital	Rs 143.2 Crore
Face value	Rs. 10
DII Holding (%)	10.1
RI Holding (%)	1.6

Price movement (Stock vs. Nifty)



Analyst's name

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WHAT'S CHANGED...

PRICE TARGET	Changed from Rs 184 to Rs 203
EPS (FY11E)	Changed from Rs 13.6 to Rs 13.9
EPS (FY12E)	Introduced
RATING.....	Changed from Add to Buy

Results in line...

Motilal Oswal (MOFSL) reported its Q4FY10 results, which were in line with our estimates. The company declared revenues of Rs 166 crore (I-direct estimate: Rs 165 crore), implying a growth of 83% YoY but a marginal QoQ rise of 5%. MOFSL recorded a PAT of Rs 51 crore (includes ~Rs 7 crore of profit on sale of investments). The concern relating to market share persisted in Q4FY10 as the rise of options volume in general led to an 8 bps fall in market share, which stood at 2.83% (2.91% in Q3FY10). The performance of other business verticals was in line with our estimates during Q4FY10.

Market share fall continues

The broking vertical exhibited a 67% YoY and -6% QoQ growth in terms of revenues. The key highlight for the quarter was the continuance of the fall in broking market share, which declined by 8 bps to 2.83% in Q4FY10 vs. 2.91% in Q3FY10. The reason for the decline was the rise of option turnover in the total market turnover and lesser contribution of options trading in MOFSL's volumes. The average daily turnover stood at Rs 2740 crore in Q4FY10 vs. Rs 2900 crore in Q3FY10.

Non-broking verticals perform decently vis-à-vis broking vertical

The performance of the non-broking vertical was reasonable in Q4FY10 as compared to that of the broking segment. With the pick-up in capital market activity, the asset management vertical and investment banking verticals performed reasonably QoQ. The investment banking vertical and asset management vertical were the key performers in Q4FY10 and grew 35% and 95%, respectively.

Valuation

We believe that maintaining the market share will be the key challenge for MOFSL, going ahead. MOFSL looks attractive on relative valuations vis-à-vis broader market multiples (long-term average multiple of 15.3x). Also, we expect the company to maintain a CAGR of 12% and 14% in revenues and PAT, respectively over FY10-FY12E. We value MOFSL at a 15% discount to long-term average multiples of broader markets and arrive at a target multiple of 13x on FY12E earnings with a target price of Rs 203.

Exhibit 1: Financial Performance

	Q4FY10	Q4FY10E	Q4FY09	Q3FY10	YoY Gr(%)	QoQ Gr(%)
Net Sales	166.6	165.2	91.0	158.3	83.1	5.2
EBITDA	76.1	60.2	36.9	64.3	106.2	18.4
EBITDA Margin(%)	45.7	36.4	40.5	40.6	-	-
Reported Net Profit	51.9	34.1	16.5	37.1	214.5	39.9

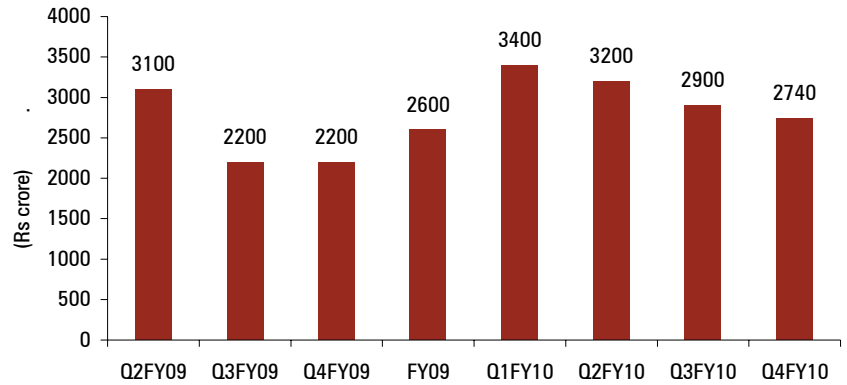
Source: Company, ICICIdirect.com Research

Business highlights

MOFSL's revenues grew 5% QoQ mainly led by the investment banking segment and asset management segment that grew 35% and 95% QoQ, respectively. The key highlight of the quarter was the continuance of the fall in market share for MOFSL as the market share on a sequential basis declined by 8 bps to 2.83% in Q4FY10. The performance of the non-broking vertical was relatively better on an overall basis.

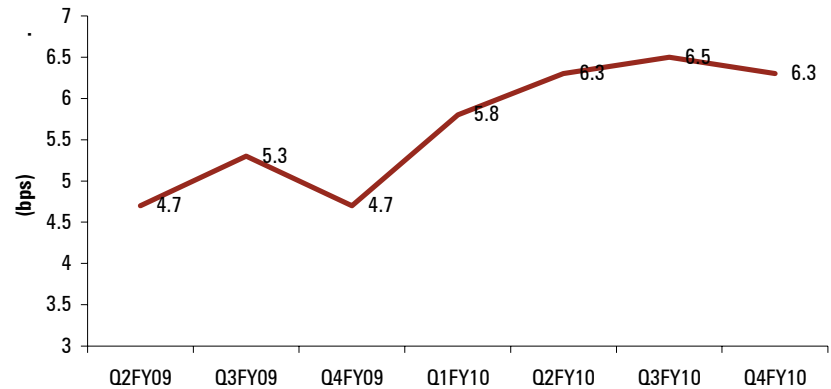
The average daily turnover for MOFSL stood at Rs 2740 crore implying de-growth of 5.5% QoQ and growth of 25% YoY. The main reason for the sequential fall in market share can be attributed to the fact that volumes of options in the overall market volume have gone up coupled with low options turnover in MOFSL's overall volume

Exhibit 2: Average daily turnover declines on a sequential basis



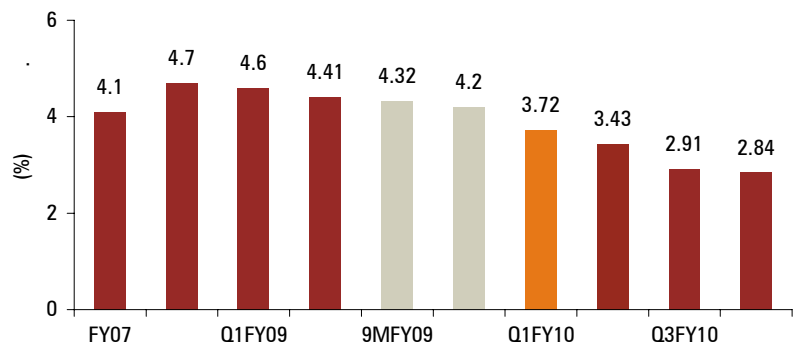
Source: Company, ICICIdirect.com Research

Exhibit 3: Blended yields have remained almost flat on a sequential basis



Source: Company, ICICIdirect.com Research

Exhibit 4: Market share on a gradual decline — A key concern, going ahead



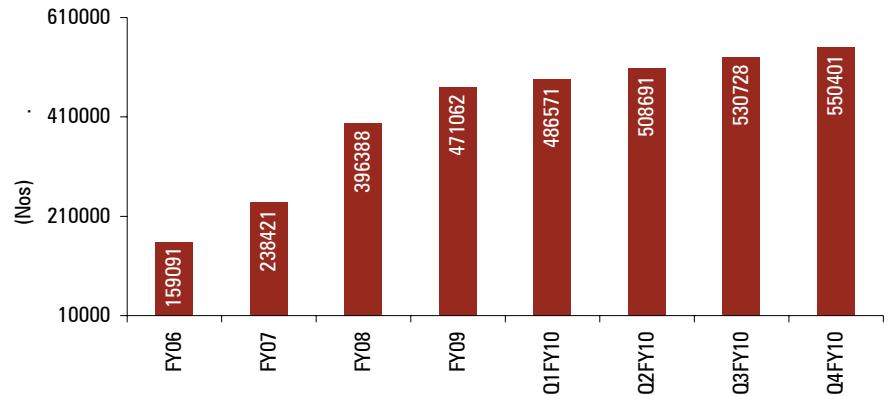
Source: Company, ICICIdirect.com Research

The blended yield has declined marginally from 6.5 bps in Q3FY10 to 6.3 bps in Q4FY10

The market share has fallen by 8 bps in the current quarter to 2.83%. The main reason for the fall is increasing participation from proprietary firms and low penetration of MOFSL's clients in the options segment

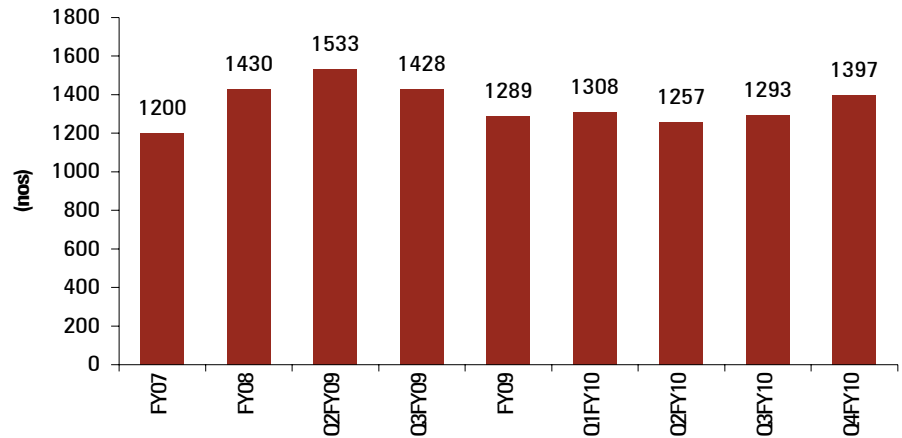
The total no of retail clients (including broking clients) stood at 6,00,000. The total no of retail broking clients stood at 5,50,401 as of Q4FY10

Exhibit 5: Trend in growth of retail broking clients



Source: Company, ICICIdirect.com Research

Exhibit 6: Distribution network increase mainly franchisee led



Source: Company, ICICIdirect.com Research

The no of owned branches as of Q4FY10 stood at 26 whereas there was an incremental addition of 103 new franchisees in Q4FY10. The total no of outlets has reached 1,397 on a sequential basis in Q4FY10

Exhibit 7: Contribution of various verticals to total topline

Business Segment (%)	Q1FY10	Q2FY10	Q3FY10	Q4FY10
Brokerage and Operating Income	77.5	73.2	69.9	62.1
Investment Banking Fees	6.4	8.9	10.8	13.8
Fund Based Income	11.7	9.5	11.7	7.5
Asset Management Fees	3.2	3.7	6.2	11.5
Other Income	1.1	4.6	1.4	5.1
Total Revenues	100.0	100.0	100.0	100.0

Source: Company, ICICIdirect.com Research

Financial scorecard
Exhibit 8: Key Financials

Year to March 31	FY08	FY09	FY10	FY11E	FY12E
Income from Operations (Rs. crore):	690.7	457.3	625.0	697.9	794.4
Brokerage Income	562.1	326.8	455.1	500.4	576.7
Investment Banking	63.7	45.2	64.9	74.0	83.6
Management Fees- PMS	28.4	21.4	40.1	36.0	39.6
Fund Based Income	36.5	63.9	64.9	87.6	94.4
Other Income	11.1	8.7	20.3	20.3	20.3
Total Income	701.9	466.0	645.3	718.2	814.7
Net Profit (Rs crore)	162.0	93.4	174.3	203.4	227.8
EPS (Rs)	11.4	6.3	11.9	13.9	15.6
Growth (%)	97.3	-44.7	88.7	17.0	12.2
P/E (x)	15.9	28.7	15.2	13.0	11.6
Price / Book (x)	3.6	3.2	2.8	2.3	1.9
ROCE (%)	19.7	13.3	17.9	18.0	17.0
RoNA (%)	9.7	6.6	10.5	10.6	10.1
RoE (%)	22.8	11.8	19.0	18.3	17.2

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (BFSI)

					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Bank of India										
Idirect Code	BANIND	CMP	385	FY10	1894.1	36.0	10.7	1.8	0.8	13.4
		Target	383	FY11E	2566.8	48.8	7.9	1.6	0.9	16.6
Mcap (Rs Cr)	20248	Upside (%)	-0.5	FY12E	3216.3	61.2	6.3	1.5	0.9	19.1
Bank of Baroda										
Idirect Code	BANBAR	CMP	686	FY10	2939.3	80.4	8.5	1.8	1.2	20.7
		Target	744	FY11E	3566.3	97.6	7.0	1.5	1.3	20.7
Mcap (Rs Cr)	25086	Upside (%)	8.4	FY12E	4536.3	124.1	5.5	1.2	1.3	21.5
Dena Bank										
Idirect Code	DENBAN	CMP	83	FY10	511.3	17.8	4.7	1.1	1.3	1.0
		Target	91	FY11E	566.3	14.6	5.7	1.0	1.2	0.9
Mcap (Rs Cr)	2381	Upside (%)	9.6	FY12E	682.4	14.0	5.9	1.0	1.1	0.9
Indian Overseas Bank										
Idirect Code	INDOVE	CMP	98	FY10	1292.7	14.2	7.0	1.1	0.6	10.9
		Target	99	FY11E	920.2	16.9	5.8	0.9	0.6	12.3
Mcap (Rs Cr)	5364	Upside (%)	0.6	FY12E	1182.0	21.7	4.5	1.0	0.7	14.9
IDBI Bank										
Idirect Code	IDBI	CMP	119	FY10	1029.2	14.2	8.4	1.2	0.5	13.1
		Target	141	FY11E	1261.6	15.8	7.5	1.1	0.5	14.0
Mcap (Rs Cr)	8658	Upside (%)	18.0	FY12E	1543.9	17.6	6.8	1.0	0.5	14.5
OBC										
Idirect Code	ORIBAN	CMP	337	FY10	1128.0	45.0	7.5	3.4	0.9	14.4
		Target	377	FY11E	1354.4	54.1	6.2	3.0	0.9	15.2
Mcap (Rs Cr)	8444	Upside (%)	11.9	FY12E	1655.6	66.1	5.1	2.7	1.0	16.1
Punjab National Bank										
Idirect Code	PUNBAN	CMP	1023	FY10	3719.0	118.0	8.7	4.2	1.4	23.0
		Target	950	FY11E	4514.8	143.2	7.1	3.8	1.4	24.2
Mcap (Rs Cr)	32255	Upside (%)	-7.1	FY12E	5418.1	171.8	6.0	3.4	1.4	25.9
SBI										
Idirect Code	STABAN	CMP	2237	FY 09	91.2	143.7	15.6	2.9	1.1	17.1
		Target	2251	FY10	101.5	159.8	14.0	2.7	1.0	16.5
Mcap (Rs Cr)	142023	Upside (%)	0.6	FY11E	112.2	176.7	12.7	2.3	0.9	16.0
Union Bank of India										
Idirect Code	UNIBAN	CMP	312	FY10	2053.7	40.7	7.7	1.6	1.2	21.4
		Target	310	FY11E	2349.0	46.5	6.7	1.3	1.1	20.6
Mcap (Rs Cr)	15762	Upside (%)	-0.7	FY12E	2871.4	56.8	5.5	1.0	1.2	20.8
Axis Bank										
Idirect Code	UTIBAN	CMP	1253	FY10	2514.5	62.1	20.2	3.3	1.7	19.2
		Target	1302	FY11E	3129.7	76.5	16.4	2.7	1.6	17.5
Mcap (Rs Cr)	50780	Upside (%)	3.9	FY12E	4133.3	101.1	12.4	2.3	1.7	19.2
Dhanlaxmi Bank										
Idirect Code	DHABAN	CMP	149	FY10	24.0	3.7	39.8	2.4	0.4	5.5
		Target	170	FY11E	65.3	9.4	15.8	2.0	0.7	12.8
Mcap (Rs Cr)	954	Upside (%)	14.3	FY12E	107.9	15.6	9.5	1.7	0.8	17.1
HDFC Bank										
Idirect Code	HDFBAN	CMP	1967	FY10	2948.7	64.4	30.5	4.3	0.3	1.8
		Target	2151	FY11E	3972.3	87.6	22.4	3.8	0.3	1.7
Mcap (Rs Cr)	90029	Upside (%)	9.4	FY12E	5051.4	111.4	17.7	3.4	0.3	1.9
Kotak Bank										
Idirect Code	KOTMAH	CMP	736	FY 09	293.9	8.5	86.2	7.1	1.2	11.4
		Target	734	FY10	275.8	8.0	92.2	6.4	1.0	7.5
Mcap (Rs Cr)	25573	Upside (%)	-0.2	FY11E	464.2	13.4	54.8	6.3	1.5	11.5
South Indian bank										
Idirect Code	SOUINO	CMP	174	FY10	265.6	23.5	7.4	1.5	1.1	19.2
		Target	201	FY11E	359.8	31.8	5.5	1.2	1.3	22.0
Mcap (Rs Cr)	1966	Upside (%)	15.5	FY12E	458.0	40.5	4.3	1.0	1.3	23.2
Yes Bank										
Idirect Code	YESBAN	CMP	278	FY10	461.9	14.0	19.9	3.1	1.7	19.8
		Target	293	FY11E	630.5	19.0	14.6	2.6	1.8	18.8
Mcap (Rs Cr)	8337	Upside (%)	5.5	FY12E	819.0	24.7	11.2	2.1	1.7	20.1

Continued...

NBFC

					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
IDFC										
Idirect Code	IDFC	CMP	166	FY 09	848.0	6.5	25.4	3.5	2.8	14.3
		Target	180	FY10	1058.7	8.2	20.3	3.1	3.2	15.9
Mcap (Rs Cr)	21505	Upside (%)	8.4	FY11E	1191.5	9.2	18.1	2.7	3.1	15.9
LICHF										
Idirect Code	LICHF	CMP	902	FY 09	532.4	62.6	14.4	3.3	2.0	25.3
		Target	805	FY10	572.7	59.7	15.1	2.8	1.7	20.7
Mcap (Rs Cr)	8565	Upside (%)	-10.8	FY11E	741.5	77.2	11.7	2.3	1.8	21.3
Rel Cap										
Idirect Code	RELCAP	CMP	731	FY 09	1014.1	41.2	17.7	2.4	5.9	14.4
		Target	800	FY10	555.6	22.6	32.4	2.3	2.9	7.2
Mcap (Rs Cr)	17945	Upside (%)	9.5	FY11E	907.7	36.9	19.8	2.1	4.3	11.0

Brokerage firms

					NP (Rs Cr)	EPS (Rs)	PE (x)	P/BV (x)	RoNA (%)	RoE(%)
Edelweiss Capital										
Idirect Code	EDECAP	CMP	406	FY10	255.3	32.0	12.7	1.3	6.7	11.5
		Target	494	FY11E	323.7	40.6	10.0	1.2	6.4	13.2
Mcap (Rs Cr)	3046	Upside (%)	21.7	FY12E	351.5	44.1	9.2	1.1	5.6	12.9
India Infoline										
Idirect Code	INDINF	CMP	108	FY10	234.3	8.3	13.0	1.8	9.0	14.6
		Target	111	FY11E	239.6	8.5	12.7	1.6	7.4	14.2
Mcap (Rs Cr)	3071	Upside (%)	3.0	FY12E	242.8	8.6	12.6	1.5	7.1	13.1
MOFSL										
Idirect Code	MOTOSW	CMP	181	FY 09	93.4	6.6	26.9	3.2	6.6	11.8
		Target	203	FY10	160.7	11.3	15.7	2.8	9.7	17.8
Mcap (Rs Cr)	2532	Upside (%)	12.2	FY11E	173.0	12.2	14.5	2.4	9.2	16.2

RATING RATIONALE

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Strong Buy: 20% or more;
 Buy: Between 10% and 20%;
 Add: Up to 10%;
 Reduce: Up to -10%
 Sell: -10% or more;

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