

July 14, 2009

Rating	Accumulate
Price	Rs142
Target Price	Rs160
Implied Upside	12.7%
Sensex	13,400

(Prices as on July 13, 2009)
Trading Data

Market Cap. (Rs bn)	20.2
Shares o/s (m)	142.0
Free Float	29.6%
3M Avg. Daily Vol ('000)	75.0
3M Avg. Daily Value (Rs m)	10.8

Major Shareholders

Promoters	70.4%
Foreign	3.2%
Domestic Inst.	7.1%
Public & Others	19.3%

Stock Performance

(%)	1M	6M	12M
Absolute	(0.1)	119.3	48.6
Relative	9.6	72.4	45.4

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



Source: Bloomberg

- Results much better than expectations:** Motilal Oswal (MOFS) reported Q1FY10 results ahead of expectations. Revenue grew by 7.3% YoY and 65.2% QoQ (vs. -3.1% YoY and 49.2% QoQ expected). PAT grew by 30.3% YoY and 87.1% QoQ (vs. 13.3% YoY and 62.8% QoQ) expected. EBITDA Margins expanded 30 bps QoQ to 39.8%. The growth in revenue was essentially led by strong growth only in equity broking with most other business segments showing no major improvement in numbers. EBITDA Margins did not expand significantly despite growth in revenue, due to higher employee cost provisioning and higher payouts to franchisees.
- Broking revenues grow ahead of market as yields improve:** Equity Broking revenues grew by 87.2% QoQ and 15.2% YoY. This was led by a 62% QoQ increase in Average Daily Volumes (ADV) to Rs34bn and 0.8bps QoQ increase in broking yield to 5.8bps. MOFS' market share declined slightly from 3.77% in Q4FY09 to 3.72% in Q1FY10. The increase in yields is a due to higher cash volumes, increased delivery volumes within in Cash and lower Index Option volumes in F&O. The loss a market share is due to the prevalence of high levels of proprietary activity due to high arbitrage yields during the quarter. MOFS does not have a large prop book. Its share of commission generating business remains intact in our opinion.
- Interest income moves up on higher margin funding and arbitrage:** Fund-based income (or Interest income) grew 40.8% QoQ. This is essentially due to slight increase in margin funding book (Rs1.6 bn in Q1FY10 compared to Rs1.3bn in Q4FY09) and higher yields in its proprietary arbitrage book.
- Asset management still muted; IB could pick up going forward:** Despite significant improvement in market volumes and sentiment overall investment banking has not really picked up in tandem. However the deal pipeline for MOFS remains good and we expect IB revenues to start improving from the next quarter on. The company's asset management business also remains muted with only the PMS business growing. The PMS AUM now stands at Rs6.8bn.
- Outlook and Rating:** After a disastrous FY09, we expect both FY10 and FY11 to be relatively stronger years for the capital market in general and MOFS in particular. There is significant growth potential in all its key businesses of broking, IB and asset management over the next 2-3 years. Maintain 'Accumulate'.

Key financials (Y/e March)	FY08	FY09	FY10E	FY11E
Revenues (Rs m)	6,898	4,580	6,064	7,711
Growth (%)	87.1	(33.6)	32.4	27.2
EBITDA (Rs m)	2,584	1,717	2,431	3,243
PAT (Rs m)	1,610	962	1,426	1,875
EPS (Rs)	11.0	6.5	9.7	12.8
Growth (%)	83.9	(40.8)	49.5	31.4
Net DPS (Rs)	1.9	0.8	1.1	1.3

Source: Company Data; PL Research

Profitability & valuation	FY08	FY09	FY10E	FY11E
EBITDA margin (%)	37.5	37.5	40.1	42.1
RoE (%)	28.4	11.5	15.3	17.4
RoCE (%)	26.3	11.7	14.9	15.9
EV / sales (x)	2.4	4.0	3.0	2.6
EV / EBITDA (x)	6.3	10.6	7.4	6.2
PE (x)	13.0	21.9	14.6	11.1
P / BV (x)	2.6	2.4	2.1	1.8
Net dividend yield (%)	1.3	0.6	0.8	0.9

Source: Company Data; PL Research

 Apurva Shah
 ApurvaShah@PLIndia.com
 +91-22-6632 2214

 Bharat Gorasiya
 BharatGorasiya@PLIndia.com
 +91-22-6632 2242



Q1FY10 Result Overview

(Rs m)

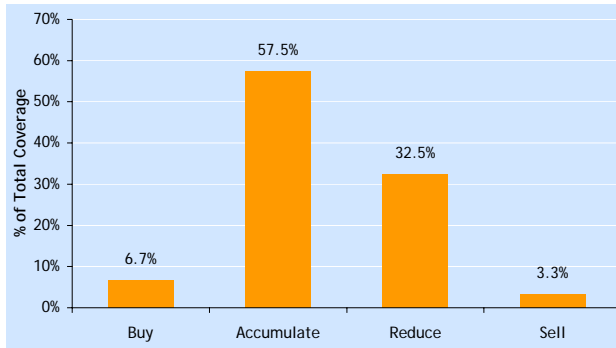
Y/e March	Q1FY10	Q1FY09	YoY gr. (%)	Q4FY09	FY10E	FY09	YoY gr. (%)
Investment Banking	96	182	(47.3)	95	653	452	(30.7)
Interest income	175	130	34.6	125	755	640	(15.2)
Asset Mgmt Fees	47	57	(17.5)	55	262	213	(18.7)
Broking	1,157	1,004	15.2	618	4,394	3,275	(25.5)
Total Operating income	1,475	1,374	7.3	893	6,064	4,580	(24.5)
Less							
Employee Expenses	319	414	(23.1)	183	1,450	1,206	(16.8)
<i>% of sales</i>	<i>21.6</i>	<i>30.2</i>		<i>20.5</i>	<i>23.9</i>	<i>26.3</i>	
Operating cost	417	301	38.5	191	1,425	971	(31.9)
<i>% of broking revenue</i>	<i>36.1</i>	<i>30.0</i>		<i>30.9</i>	<i>32.4</i>	<i>29.6</i>	
Other expenditure	152	176	(13.7)	167	758	686	(9.5)
<i>% of sales</i>	<i>10.3</i>	<i>12.8</i>		<i>18.7</i>	<i>12.5</i>	<i>15.0</i>	
Total Expenses	888	892	(0.4)	540	3,633	2,863	(21.2)
<i>% of sales</i>	<i>60.2</i>	<i>64.9</i>		<i>60.5</i>	<i>59.9</i>	<i>62.5</i>	
EBIDTA	587	482	21.7	353	2,431	1,717	(29.4)
<i>EBIDTA margin (%)</i>	<i>39.8</i>	<i>35.1</i>		<i>39.5</i>	<i>40.1</i>	<i>37.5</i>	
Interest	25	68	(63.5)	13	182	178	(2.4)
Depreciation	34	48	(30.1)	62	220	202	(8.1)
Other Income	17	39	(56.0)	16	100	86	(13.9)
PBT	546	404	34.9	293	2,129	1,423	(33.1)
Taxes	182	125	45.3	99	703	461	(34.3)
<i>Effec tax (%)</i>	<i>33.4</i>	<i>31.0</i>		<i>33.7</i>	<i>33.0</i>	<i>32.4</i>	
PAT	363	279	30.3	194	1,426	962	(32.6)
Share of minority Interest	5	17	(73.2)	7	46	38	(16.2)
Extra ordinary income	(19)	-		(30)	-	(30)	
Adjusted PAT	340	262	29.6	157	1,381	894	(35.3)

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

Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

This document has been prepared by the Research Division of Prabhudas Lilladher Pvt. Ltd. Mumbai, India (PL) and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accept any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

We may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

For Clients / Recipients in United States of America:

All materials are furnished courtesy of Direct Access Partners LLC ("DAP") and produced by Prabhudas Lilladher Pvt. Ltd. ("PLI"). This is material is for informational purposes only and provided to Qualified and Accredited Investors. You are under no obligation to DAP or PLI for the information provided herein unless agreed to by all of the parties, Additionally you are prohibited from using the information for any reason or purpose outside its intended use. Any questions should be directed to Gerard Visci at DAP at 212.850.8888.