Indiabulls (IBUL.BO)

Sell: 4Q07 Results - Asset Business Strong; Brokerage, Less So

- **Strong 95% yoy profit growth, well ahead of expectations**— Ibulls reported 4Q07 PAT at Rs1.57bn (+40% qoq), driven primarily by the consumer finance business. FY07 profits were up 75% — 7% ahead of expectations, while 4Q07 profits were ahead 20%. The stock has had a strong run leading to the results; +36% in the last two weeks and well ahead of our target price. Maintain Sell (3M).

- **Consumer finance working up strong momentum** — Revenues from financing activities are up 2.5x yoy and 78% qoq; loans are up 47% qoq to Rs18bn. Though yields have remained stable and high at 25% levels, revenue appears to have been bolstered by upfront securitization gains. Management guides to aggressive new loan disbursements in FY08E, double-digit pretax ROAA's and about 5% expected losses; suggests high growth and potential risks ahead.

- **Brokerage business; lagging growth and revenues** — Broking revenues were down 9% qoq (+32% yoy), and this marks the second declining quarter in a row. Competition in the industry has intensified, and we believe volume growth for Ibulls has stagnated a bit, even as we expect heightened competition in the market place with new entrants. We are factoring in a 35% FY08E revenue growth, but the most recent quarter suggests this could be at risk.

- **Consumer finance drives value, challenges:** Ibulls continues to show strong business momentum – there is, however, a quicker-than-expected shift to consumer finance, and we believe value will increasingly be driven by the successes and challenges of the funding businesses, rather than brokerage.

Sell/Medium Risk	3M
Price (16 Apr 07)	Rs514.35
Target price	Rs350.00
Expected share price return	-32.0%
Expected dividend yield	0.8%
Expected total return	**-31.2%**
Market Cap	Rs100,183M
	US$2,361M

Price Performance (RIC: IBUL.BO, BB: IBULL IN)

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2005A	499	4.64	103.1	110.8	15.3	19.8	0.0
2006A	2,368	15.32	230.0	33.6	6.2	26.7	0.4
2007E	3,769	19.86	29.7	25.9	4.9	23.5	0.8
2008E	6,161	28.53	43.6	18.0	3.9	25.3	0.8
2009E	8,669	37.96	33.0	13.6	3.1	25.6	0.8

Source: Powered by dataCentral

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

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Fiscal year end 31-Mar	2005	2006	2007E	2008E	2009E
Valuation Ratios					
P/E adjusted (x)	110.8	33.6	25.9	18.0	13.6
P/E reported (x)	110.8	33.6	25.9	18.0	13.6
P/BV (x)	15.3	6.2	4.9	3.9	3.1
P/Adjusted BV diluted (x)	16.0	6.8	5.6	3.9	3.1
Dividend yield (%)	0.0	0.4	0.8	0.8	0.8
Per Share Data (Rs)					
EPS adjusted	4.64	15.32	19.86	28.53	37.96
EPS reported	4.64	15.32	19.86	28.53	37.96
BVPS	33.65	82.89	105.05	133.48	167.54
Tangible BVPS	32.21	82.89	105.05	133.48	167.54
Adjusted BVPS diluted	32.21	75.50	92.10	131.37	164.90
DPS	0.00	1.81	4.00	4.00	4.00
Profit & Loss (RsM)					
Net interest income	418	2,422	5,587	8,892	13,052
Fees and commissions	798	2,101	3,502	4,515	5,355
Other operating Income	149	823	1,392	2,309	2,715
Total operating income	**1,366**	**5,347**	**10,481**	**15,716**	**21,122**
Total operating expenses	-450	-1,495	-3,687	-5,130	-6,598
Oper. profit bef. provisions	**916**	**3,853**	**6,793**	**10,586**	**14,524**
Bad debt provisions	-15	-119	-545	-1,035	-1,205
Non-operating/exceptionals	0	0	0	0	0
Pre-tax profit	**900**	**3,734**	**6,248**	**9,551**	**13,319**
Tax	-333	-1,200	-2,106	-3,219	-4,488
Extraord./Min. Int./Pref. Div.	-68	-166	-373	-171	-161
Attributable profit	**499**	**2,368**	**3,769**	**6,161**	**8,669**
Adjusted earnings	499	2,368	3,769	6,161	8,669
Growth Rates (%)					
EPS adjusted	103.1	230.0	29.7	43.6	33.0
Oper. profit bef. prov.	196.0	320.8	76.3	55.8	37.2
Balance Sheet (RsM)					
Total assets	**12,215**	**25,556**	**34,071**	**60,648**	**79,580**
Avg interest earning assets	6,526	17,876	28,026	44,380	65,645
Customer loans	8,452	12,383	21,262	41,865	57,976
Gross NPLs	0	0	0	0	0
Liab. & shar. funds	**12,215**	**25,556**	**34,071**	**60,648**	**79,580**
Total customer deposits	0	0	0	0	0
Reserve for loan losses	0	0	0	0	0
Shareholders' equity	**4,484**	**13,282**	**18,749**	**30,005**	**37,662**
Profitability/Solvency Ratios (%)					
ROE adjusted	19.8	26.7	23.5	25.3	25.6
Net interest margin	6.41	13.55	19.93	20.04	19.88
Cost/income ratio	33.0	28.0	35.2	32.6	31.2
Cash cost/average assets	6.0	7.9	12.4	10.8	9.4
NPLs/customer loans	0.0	0.0	0.0	0.0	0.0
Reserve for loan losses/NPLs	na	na	na	na	na
Bad debt prov./avg. cust. loans	0.3	1.1	3.2	3.3	2.4
Loans/deposit ratio	na	na	na	na	na
Tier 1 capital ratio	na	na	na	na	na
Total capital ratio	na	na	na	na	na

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Figure 1. 4Q07 Results: Key Highlights (Rupees Millions)

	4Q07	4Q06	YoY %	3Q07	QoQ%	Citigroup Investment Research Comments
Income from Operations	4,185	1,943	115.4	3,337	25.4	Strong growth largely driven by incomes from financing revenues - comprise 73% of total revenues, against 46% a year ago
Other Income	1	12	-88.0	9	-83.5	
Gross Total Income	4,186	1,955	114.1	3,345	25.1	
Interest expense	(243)	(88)	176.6	(185)	31.6	
Total Income	**3,943**	**1,867**	**111.2**	**3,160**	**24.7**	
Operating Expenses	(1,490)	(718)	107.5	(1,495)	-0.3	Costs contained in quarter with flat qoq performance - impressive given company is in the midst of distribution roll-out. Expect costs to add with further expansion of network and employees
Pre-Tax Profit	2,453	1,149	113.5	1,666	47.2	
Tax	(883)	(345)	155.9	(548)	61.0	
Net Profit	**1,570**	**804**	**95.3**	**1,118**	**40.5**	**4Q07 and FY07 profits 20% and 7% ahead of expectations respectively**

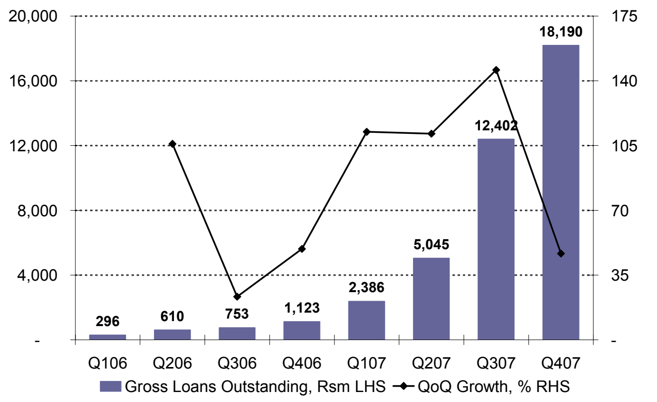
Source: Company Reports

Figure 2. 4Q07 Results: Segmental Revenues (Rupees Millions)

Revenues	4Q07	4Q06	YoY %	3Q07	QoQ%	Citigroup Investment Research Comments
Broking	932	707	31.8	1,026	-9.2	Significantly weaker than expected and is second successive quarterly decline
Financing	3,119	901	246.2	1,750	78.2	Strong show and a quick shift of value to financing businesses; though a significant portion of revenue appears to have come from upfront securitization income
Fee and Others	193	345	-44.1	507	-61.9	Possible reclassification of fee income - with part likely to have been classified as financing income
Total	**4,244**	**1,955**	**117.1**	**3,345**	**26.9**	**Overall a strong quarter**

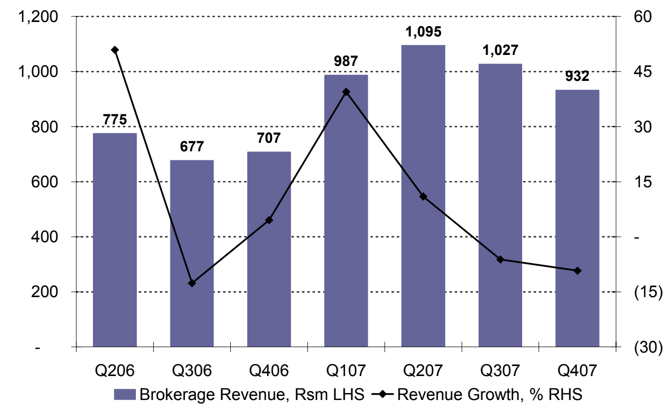
Source: Company Reports

Figure 3. Indiabulls: Loans Outstanding and QoQ Growth (Rupees Million, %)



Source: Company Reports

Figure 4. Indiabulls: Broking Revenues and QoQ Growth (Rupees Million, %)



Source: Company Reports

Indiabulls

Company description

Sameer Gehlaut (CEO), Rajiv Rattan (CFO) and Saurabh Mittal (Director), founded Indiabulls (IBFSL) in 2000. The company and its subsidiaries provide a variety of financial services, including equity, debt and derivatives brokerages, depositary services, equity-research services, third-party mutual funds and insurance product sales, commodities trading through on-line and off-line distribution channels, and loans. The company recently started offering unsecured personal loans through a JV company (with Farallon Capital), and has formed a JV for IPO financing (with Amaranth Capital). IBFSL listed on the Indian stock exchanges in Sep 2004, and issued GDRs in Feb and July 2005. IBFSL has entered into JVs with financial investors. IBFSL largely maintains management control and a controlling shareholding. IBFSL and its subsidiaries have built up their customer base rapidly with more than 450,000 clients as of December 2006. The group operates through its head office in New Delhi and 640 offices in 180 cities in India.

Investment thesis

We rate Indiabulls shares as Sell/Medium Risk (3M). Recent strong stock performance has run ahead of our fair value estimate and implies downside to our target price. Indiabulls continues its strong momentum in the broking business, and is well positioned at the top end of the market. The company is also restructuring its businesses into separate broking and lending businesses; we believe these should provide greater management focus, improve capital allocation, and potentially support higher valuations. We believe that Indiabulls could continue to post healthy growth in volumes and gain market share from the fringe players. Indiabulls' margin finance portfolio is a source of competitive advantage for the company as it helps to attract and retain potential clients. It is also backed by a strong technology-based risk management system that reduces risks of default significantly. Indiabulls has aggressively entered new business areas: mid-market consumer financing, IPO financing and loans against property. Growth in the consumer finance businesses has been strong. Potentially high-return, high-risk ventures, these businesses are in their infancy. Although these businesses could generate a substantial portion of incremental value, they do not come without risks.

Valuation

Our target price of Rs350 is based on a sum-of-the-parts calculation. We apply a 17.1x target multiple for the broking business using FY08E earnings based on the mid-point of the target Sensex FY08E multiple of 19x (18-20x range), and assign a discount of 10% to arrive at our target multiple. This values the broking business at Rs183. We do not take into account the value of the real estate business because this was spun-off into a separate company.

We apply a target FY08E P/B multiple of 2.0x for the asset finance businesses on high growth in the portfolio and better visibility of growth in the medium term with higher sustainable ROEs of more than 25%. This values the asset finance business at Rs167.

Risks

Although our quantitative risk-rating system, which tracks 260-day historical share price volatility, assigns a High Risk rating to Indiabulls shares, we use a Medium Risk rating because we believe revenue is well diversified as the company builds out into new business areas. We think this lowers its high-earnings, value-risk profile. Specific risks to our target price include a slowdown in capital markets and aggressive entry into the mid-market consumer finance segment. Upside risks, which could cause the shares to continue to trade above our target price include strong markets and continued market share gains, and better-than-expected scale and profitability in the consumer-finance business.

Appendix A-1

Analyst Certification

We, Manish Chowdhary, CFA and Aditya Narain, CFA, research analysts and the authors of this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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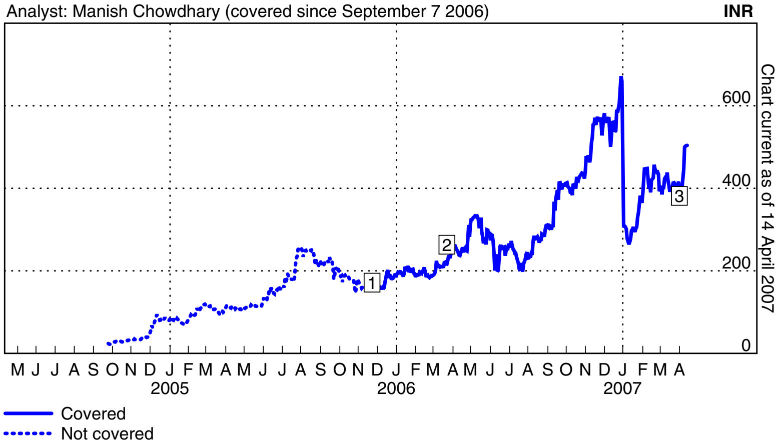
Indiabulls (IBUL.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Manish Chowdhary (covered since September 7 2006)



#	Date	Rating	Target Price	Closing Price
1:	23 Nov 05	3H	167.00	171.35
2:	23 Mar 06	*3M	*212.00	216.45
3:	2 Apr 07	3M	*350.00	400.45

*Indicates change.

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