

Company Focus

4 January 2008 | 36 pages

Religare Enterprises (RELG.BO)

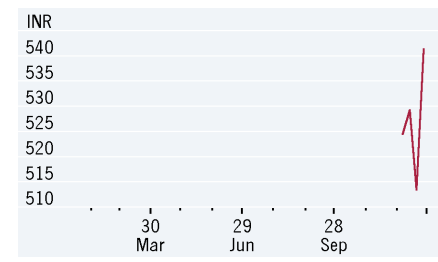
 Initiation of coverage

Initiating at Sell: Robust Retail Broker...but Fully Valued

- Initiating at Sell (3H), Rs515 target** — Religare is India's fastest growing, most aggressive and leveraged retail brokerage entity. The stock is up 280% from its IPO price; currently trading at 30x FY09E EPS on our aggressive 130% pa EPS growth over FY07-09E. We value REL at 22x FY09E earnings (a 10% premium to market multiples) implying 26% downside to our Rs515 target.
- Equity markets: strong but with risks** — India's equity markets have grown rapidly in both retail and institutional volumes. Trading volumes have expanded rapidly (+150% yoy) and have exceeded growth in market capitalization. While economic growth continues to be strong, and we expect structural growth in retail volumes, the recent rapid pace of growth suggests near-term volatility.
- Retail brokerage leads the way** — Religare is primarily a retail brokerage, driven by its large and growing margin finance book and a substantial distribution expansion; it is among larger brokerages with a 4%+ market share. Religare is diversifying into consumer financing, insurance and asset management, which should enhance its product offerings, offer synergies and scale.
- Strong earnings growth** — We forecast an aggressive FY07-10E EPS CAGR of 90%, weighted towards retail brokerage and margin finance, and supported by its newer business initiatives. While capital markets sensitivity will remain high, it should moderate with increasing revenue diversification.
- Risks** — Key upside risks are continued strong retail growth, capital infusion in margin finance, value crystallization from planned forays, regulatory changes.

Sell/High Risk	3H
Price (03 Jan 08)	Rs691.70
Target price	Rs515.00
Expected share price return	-25.5%
Expected dividend yield	0.3%
Expected total return	-25.3%
Market Cap	Rs52,404M US\$1,336M

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



Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2006A	112	2.25	na	nm	53.9	17.5	0.0
2007A	255	4.45	98.0	155.3	13.9	13.2	0.1
2008E	1,067	15.23	242.1	45.4	8.6	22.9	0.3
2009E	1,764	23.31	53.0	29.7	6.8	25.7	0.4
2010E	2,248	29.70	27.4	23.3	5.4	26.0	0.4

Source: Powered by dataCentral

Manish Chowdhary, CFA¹

 +91-22-6631-9853
 manish.chowdhary@citi.com

Aditya Narain, CFA¹

 +91-22-6631-9879
 aditya.narain@citi.com

Himani Shah, CFA¹

himani.shah@citi.com

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

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Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	nm	155.3	45.4	29.7	23.3
P/E reported (x)	nm	155.0	45.4	29.7	23.3
P/BV (x)	53.9	13.9	8.6	6.8	5.4
P/Adjusted BV diluted (x)	53.9	13.9	8.6	6.8	5.4
Dividend yield (%)	0.0	0.1	0.3	0.4	0.4
Per Share Data (Rs)					
EPS adjusted	2.25	4.45	15.23	23.31	29.70
EPS reported	2.13	4.46	15.23	23.31	29.70
BVPS	12.83	49.85	80.57	101.03	127.31
Tangible BVPS	12.83	49.85	80.57	101.03	127.31
Adjusted BVPS diluted	12.83	49.85	80.57	101.03	127.31
DPS	0.00	1.00	2.00	2.50	3.00
Profit & Loss (RsM)					
Net interest income	69	153	1,146	1,909	2,239
Fees and commissions	0	2,124	3,970	5,580	7,294
Other operating Income	50	215	438	610	798
Total operating income	119	2,492	5,554	8,099	10,332
Total operating expenses	-31	-2,010	-3,957	-5,459	-6,967
Oper. profit bef. provisions	88	482	1,597	2,640	3,365
Bad debt provisions	0	0	0	0	0
Non-operating/exceptionals	0	0	0	0	0
Pre-tax profit	88	482	1,597	2,640	3,365
Tax	-22	-201	-530	-876	-1,117
Extraord./Min. Int./Pref. Div.	41	-26	0	0	0
Attributable profit	107	255	1,067	1,764	2,248
Adjusted earnings	112	255	1,067	1,764	2,248
Growth Rates (%)					
EPS adjusted	na	98.0	242.1	53.0	27.4
Oper. profit bef. prov.	na	446.8	231.4	65.3	27.4
Balance Sheet (RsM)					
Total assets	4,572	12,632	35,761	50,767	67,448
Avg interest earning assets	9,066	6,840	19,412	35,975	49,339
Customer loans	4,025	5,862	23,622	34,121	46,040
Gross NPLs	0	0	0	0	0
Liab. & shar. funds	4,572	12,632	35,761	50,767	67,448
Total customer deposits	0	0	0	0	0
Reserve for loan losses	0	0	0	0	0
Shareholders' equity	641	3,210	6,098	7,646	9,635
Profitability/Solvency Ratios (%)					
ROE adjusted	17.5	13.2	22.9	25.7	26.0
Net interest margin	0.76	2.23	5.90	5.31	4.54
Cost/income ratio	25.9	80.7	71.2	67.4	67.4
Cash cost/average assets	0.7	23.4	16.4	12.6	11.8
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	0.0	0.0	0.0	0.0	0.0
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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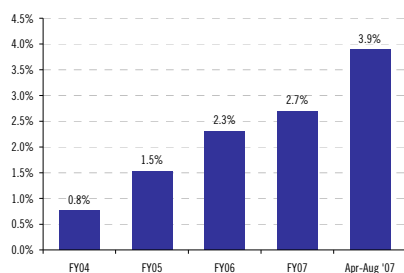
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Investment Thesis

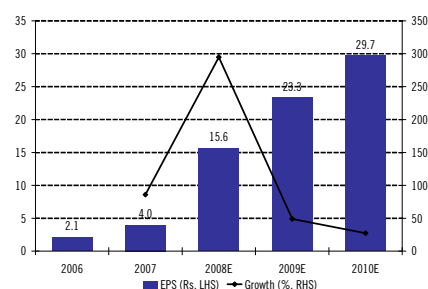
Initiating at Sell – Strong growth, but appears fully valued

Figure 1. REL - Market Share (Percent)



Source: Company Reports

Figure 2. REL: EPS and Growth (Rs, Percent, FY06-10E)



Source: Company Reports and CIR estimates

Figure 3. FY09E Earnings Sensitivity to Growth

Volumes	EPS	Change in EPS
-20%	13.4	-43%
-10%	18.3	-21%
Base Case	23.3	0%
+10%	27.8	19%
+20%	32.3	39%

Source: Citi Investment Research estimates

We initiate coverage on Religare Enterprises (REL) shares with a Sell / High Risk (3H) recommendation and Rs515 target price. While we expect aggressive earnings growth (130% pa EPS growth) over FY07-09E, the stock is now trading at 30x FY09E earnings following a 280% rally from the IPO price, and we believe these levels more than fully value in our strong growth expectations.

REL is among India's fastest-growing retail brokerages. It has seen aggressive growth over the last 2-3 years, backed by a rapid distribution expansion; and has emerged among the larger domestic brokerages with over 4% current market share. REL's primary business segment is retail broking and margin finance, with institutional businesses including broking and investment banking contributing less than 5% of revenues.

However, REL's earnings are dependent on equity trading volumes, which have grown rapidly (+150% yoy) over a relatively short period of time, suggesting some moderation in growth. It is also the most leveraged to growth – both operationally and financially due to its market leading and rapidly expanding margin finance portfolio.

Diversifying into insurance, asset and wealth management

Religare is seeking to leverage its retail brokerage platform and client franchise and aggressively target insurance and mutual fund distribution, advisory services, and unsecured personal loans. This should widen its product portfolio, broaden its earnings mix, and enable it to substantially leverage profitability. Religare's planned forays into wealth management (JV with Macquarie), asset management and life insurance (with Aegon) should add to its product spread for distribution, as well as direct product ownership.

Strong 100%+ pa profit growth outlook, but cyclical

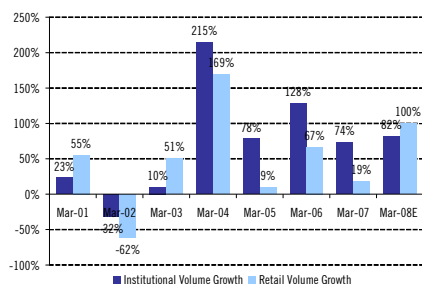
We forecast a 107% FY07-10E profit CAGR and EPS growth of 90% over the same period, driven by a mix of retail brokerage, margin and consumer finance, and distribution revenues. We would expect the earnings profile to become increasingly broad based, with a diminishing dependence on capital markets over time. While retail broking and margin finance should remain key earnings contributors, consumer lending and insurance distribution should provide earnings support.

However, REL's earnings are likely to be sensitive to growth in volumes – we estimate a 10% decline in volumes would decrease earnings by 19%, while its inherent higher operating leverage would mean a 21% increase in earnings for 10% higher volumes over our base case.

Capital markets – Growing, institutionalizing, consolidating

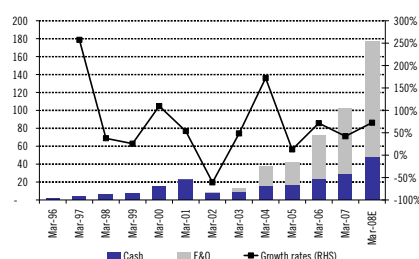
India's capital markets have expanded substantially in scale and depth, in products and participants, and with stronger operating platforms that can support substantially larger expansion. The capital markets are increasingly institutional and scale driven, leading to a rapid consolidation in market share among brokers. We expect these trends to continue, and they should drive revenues, customer acquisition and opportunity for well positioned brokers.

Figure 4. Broking Industry - Institutional and Retail Growth (%)



Source: NSE, BSE Note: Mar-08E is annualized

Figure 5. Total Equity Volumes and Growth, FY96 – FY08E, Rs Trillion, Percent



Source: NSE, BSE, Note: Mar-08E is annualized

While retail broking volumes have picked up in recent months, they have lagged overall increase in market volumes over the last four years. Equity penetration levels in India are low and form a relatively low proportion of household assets. While this represents a structural opportunity and there has been an increase in retail account openings (2m new accounts during Sep-Dec'07); historically growth in this segment has been in fits, in short bursts not sustained over a longer period; they could be relatively volatile.

While we remain structurally positive on retail growth – current high activity levels, sheer pace of volume growth in a relatively short period (3Q08 NSE cash volumes have increased 60% qoq and close to 150% yoy) – increasing competition likely leading to further margin compression and increasingly scale driven markets suggest some moderation in the pace of growth. We expect retail volume growth to normalize at around the 20-25% level.

Valuation benchmarks ... few pure capital markets plays

We believe REL is one of the most aggressive, fastest growing and most leveraged retail brokerage exposures in the Indian market. We would expect its primary valuation benchmark to be the broader market (Sensex) PE multiple (currently 20x FY09E). We value REL at 22x FY09E earnings, a 10% premium to market multiples. Our target multiple implies a target price of Rs515, or 26% downside from current price levels.

We are basing our target multiple on: (a) REL's singular dependence on retail for its broking revenues (institutional broking revenues are less 2% of total revenues); (b) higher leveraged business model (broking volumes are backed by its large margin finance book, where growth is susceptible to volatile market conditions); (c) relatively higher execution risks given rapid gains in a short period and aggressive expansion plans; and (d) rapid expansion in volumes over a relatively short period of time.

Figure 6. India Brokerages – Comparative Valuation Summary

Domestic Peers	CIR Rating	Ric code	Price	EPS FY08E	EPS FY09E	P/E 08	P/E 09
Indiabulls	3M	IBUL.BO	859	31.5	38.7	27.3	22.2
Kotak Mahindra	2M	KTKM.BO	1395	24.4	29.8	57.3	46.8
IL&FS Investsmart	3M	ILFI.BO	274	11.9	12.2	22.9	22.5
Motilal Oswal	1M	MOFS.BO	1925	46.6	68.5	41.3	28.1
India Infoline **	Not Rated	IIFL.BO	1893	28.0	51.7	67.6	36.6
Reliance Capital **	Not Rated	RLCP.BO	2596	35.0	44.0	74.2	59.0
Religare	3H	RELG.BO	694	15.6	23.3	44.5	29.8

Source: Citi Investment Research estimates ** Based on Consensus Estimates from Bloomberg

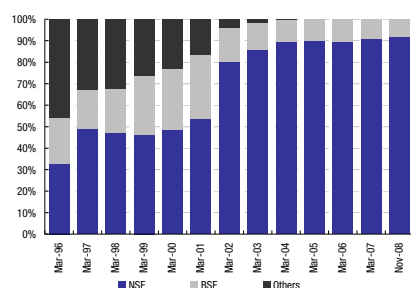
Risks

Key upside risks to our recommendation include: a) stronger-than-expected broking volumes in the retail segment; b) Infusion of fresh capital in the margin / asset finance business; c) faster-than-anticipated value crystallization in planned new forays in life insurance, asset management and wealth management; and d) regulatory changes.

Industry Outlook

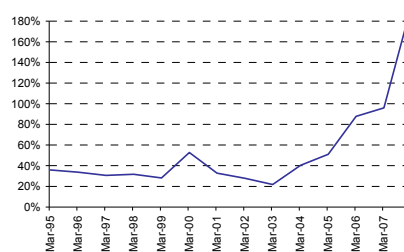
- Equity markets are expanding aggressively on strong economic growth, and household savings are likely get directed to equity, from a currently low level
- Growth momentum is across retail and institutional segments
- Brokerage business is consolidating; large players are gaining in market share, and this trend is likely to continue
- Commission compression should be limited, as brokerage rates in India are already among the lowest in the world, and there has already been an aggressive shift to low-yield derivative businesses
- Capital markets activity can however be volatile

Figure 7. Concentration of Market Volumes in Exchanges (FY96 – Nov'08, Percent)



Source: ISMR, NSE, BSE

Figure 8. Market Capitalization/GDP (FY95 – Dec 07, Percent)



Source: NSE, RBI.

Historically, a vast but disorganized market

India's stock exchanges were established in the 19th century, and, while the country has historically enjoyed an active stock market, in the past it suffered from a lack of institutionalization, with limited retail participation. Key characteristics of the market included:

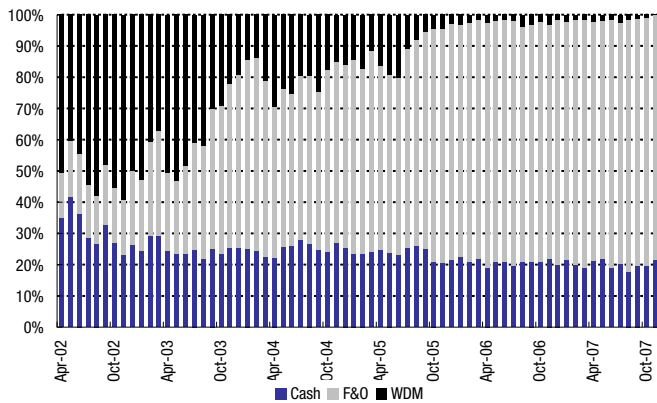
1. Fragmentation – more than 20 stock exchanges with limited trading volumes
2. Severe restrictions on primary markets limiting the number of issuers in the market
3. Shallow markets, high trading costs and low transparency
4. Long settlement cycles with difficult and expensive settlement procedures

Fundamental changes over the past 10-15 years; easier, more transparent and cheaper access

Over the past 10-15 years, fundamental changes have taken place in the Indian securities markets, including:

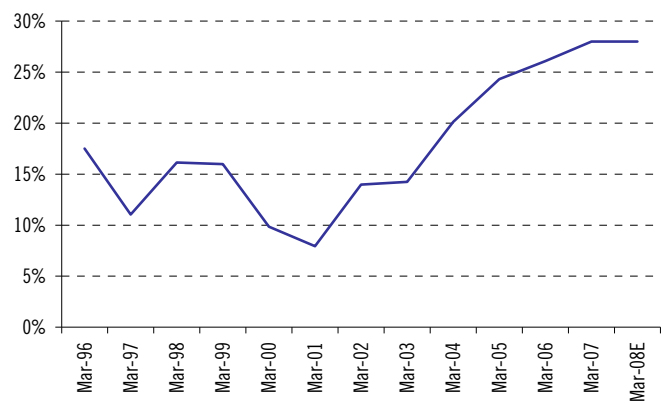
1. Freeing up of primary markets, with improved regulation and the establishment of a market regulator
2. Screen-based trading with automated electronic matching of trades – introduced by the National Stock Exchange (which was established in 1994)
3. Sharply reduced costs with high levels of transparency – an outcome of screen-based trading and automated matching
4. Sharply reduced settlement cycles and costs enabled by dematerialized securities, with better regulation and the establishment of a depository
5. Establishment of specialist and technology-based broking houses with reach and transparent operations

Figure 9. Changing Structure of the Secondary Markets (April'02- Nov'07, %)



Source: NSE, BSE

Figure 10. Delivery Trades/Value of Total CM Trades (FY96 – Nov-08, Percent)



Source: ISMR, NSE

The derivatives market has also grown rapidly. Within a few years of its introduction, derivatives volumes are larger than cash volumes – and we believe there is significant non-institutional participation in the derivatives segment.

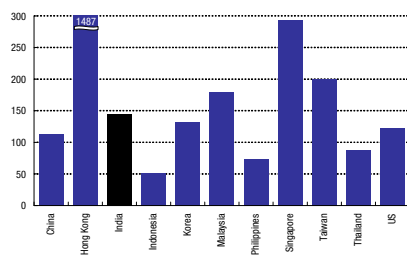
The Indian market, however, continues to have a large speculative element, with over 70% of trades on a non-delivery basis – this holds true for the non-institutional segment as well. We think the rising proportion of delivered trades would, however, suggest an increase in the non-speculative element of the market.

Structurally growing market – market cap/GDP has grown substantially

The freeing up of the economy and the primary markets in the early 1990s has resulted in structural growth in the market, both in terms of the breadth of companies and sectors available for investment, as well as the size of the companies. Measured as a percentage of nominal GDP, the market capitalization of listed companies has increased from 30% in FY95 to more than 150% – an indicator of the increasing breadth of the market.

We believe a significant part of India's economy is not yet represented on the markets, and that markets will continue to increase in size and breadth as the economy develops. Market capitalization (as a percentage of GDP) in developed markets tends to range between 120% and 230%.

Figure 11. Comparative Market Capitalization to GDP (Percent)



Source: Citi Investment Research

Retail Businesses

Equities – A very small part of household savings

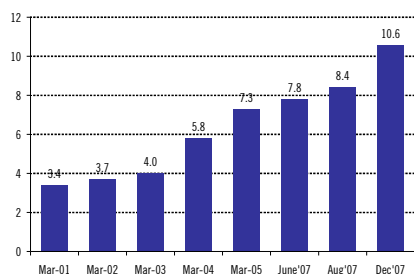
Households over the last few years have directed a large share of their high level of savings towards bank deposits, primarily due to historically high interest rates, combined with volatility and lack of transparency in capital markets.

Figure 12. India — Breakdown of Annual Household Savings, FY00-06 (Percent)

YE Mar 31	Currency	Bank deposits	Life insurance fund	Provident & Pension Fund	Claims on Government	Shares & Debentures	Others	Total
FY00	10.5	42.7	9.9	19.1	10.1	5.7	1.9	100.0
FY01	10.0	42.5	10.4	19.1	10.9	5.6	1.6	100.0
FY02	9.9	42.4	10.9	18.7	11.8	5.3	1.0	100.0
FY03	9.8	42.2	11.6	18.3	12.5	4.9	0.8	100.0
FY04	9.9	42.1	11.8	17.7	13.5	4.5	0.4	100.0
FY05	9.8	41.8	12.0	17.1	14.8	4.2	0.3	100.0
FY06	9.6	42.0	12.6	16.0	15.1	4.3	0.2	100.0
FY07	9.5	44.2	13.0	14.9	13.5	4.7	0.2	100.0

Source: RBI—Currency & Finance—FY2000-07.

Figure 13. Retail Accounts (FY01 – Dec 07, Million): Rising Participation in Direct Equities



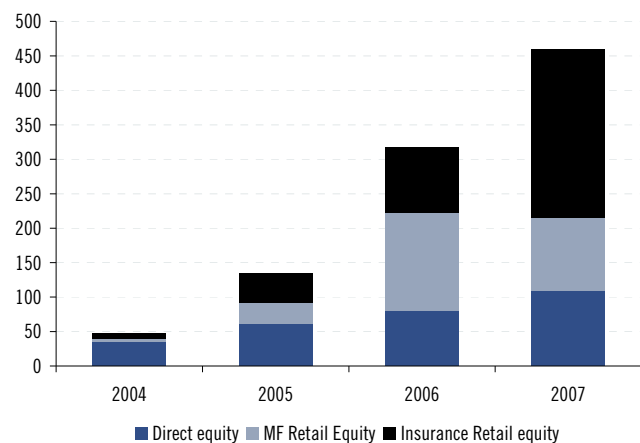
Source: NSDL, CDSL

We believe many of these conditions have evolved recently, which should eventually result in marked changes in the household savings profile. We expect deposit growth rates to experience downward pressure due to:

1. A slight shift away from deposits into other savings instruments – the share has risen over the last five years
2. Disintermediation by mutual funds
3. Attractive returns on equities over the last few years
4. Increasing consumerism (which should pressure the savings rate)

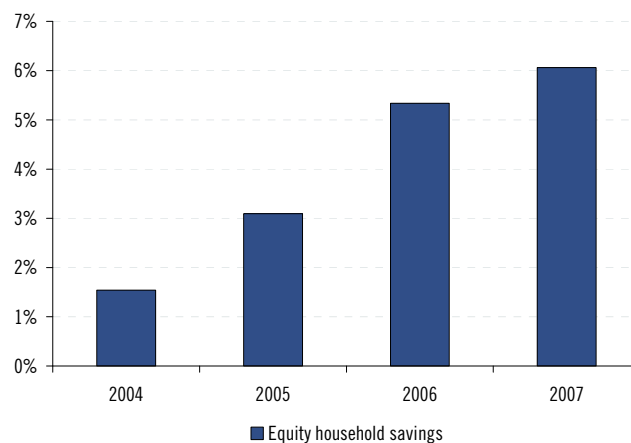
The changing savings profile is spurring growth in non-bank savings and investments products, including mutual funds, insurance, and other linked products. We believe this is resulting in significant opportunities opening up in savings and financial services.

Figure 14. Incremental Household Savings in Equity (Including Retail Share in Mutual Fund and Insurance Equity)



Source: RBI and Citi Investment Research estimates

Figure 15. Household Equity Savings as % of Total Savings



Source: RBI and Citi Investment Research estimates

The brokerage industry is consolidating – opportunity for technology-backed professional services

The broking industry remained fragmented until the mid-1990s, with business spread over 5,000 brokers operating across the locations where the 22 exchanges were based. With low retail participation and a client base limited largely to high-net-worth individuals, the services offered then were also more personalized and relationship driven.

Industry has been consolidating steadily over the past 10 years

However, the industry has been consolidating steadily over the past 10 years, with the share of the top 25 brokers having risen to almost 40% currently from less than 20%. The key enablers of this consolidation have been:

1. **Technology** – Screen-based trading, electronic matching, and paperless securities
2. **Telecom connectivity and costs** – Ability to have large interconnected operations across multiple locations for centralized operations and effective risk management and control
3. **Capital requirements** – With the rapid growth in the number of small retail investors over the past few years, the business has tended to become more process-oriented and professional
4. **Distribution** – A multi-channel nationwide distribution network enables benefits of scale and improved operating efficiency, and is a source of competitive advantage

Figure 16. Market Share of Top 'N' Brokers (FY01-Nov-07, Percent)

Top 'N' Brokers	Top 5	Top 10	Top 25	Top 50	Top 100
Nov-07	15	26	45	61	75
2006-07	15	24	43	57	71
2005-06	15	23	38	53	68
2004-05	14	20	35	49	65
2003-04	12	17	30	44	61
2002-03	10	16	29	42	59
2001-02	7	12	24	36	53
2000-01	8	13	23	34	49

Source: NSE

We believe the retail broking industry is likely to consolidate further; large opportunity for technology-based professional services

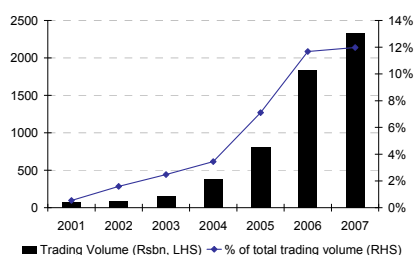
We believe the retail broking industry is likely to consolidate further, with the smaller brokers increasingly marginalized and many becoming sub-brokers/franchisees for the larger brokers or closing operations. We see a large opportunity for technology-based professional services companies to grab significant market share in the retail broking industry.

Competitive market – brokerage commission rates among the lowest globally

Brokerage commission are among the lowest globally

Brokerage commission rates in India (across the entire product range) are among the lowest globally, due to the market's fragmentation and stiff competition. Rates have also declined substantially over the years as use of technology has lowered costs of trading and settlement, especially for the

Figure 17. Internet Trading Volume (FY01 – FY07, Rupees Billion, Percent)



Source: NSE

larger firms. Brokerage rates in India range from 2-100bps, with the bulk of the volumes concentrated in the 2-10bps range for non-delivery-based and derivatives trades.

E-broking growing steadily – better services at lower cost

The share of Internet-based trading, or e-broking, has grown to over 9% since its introduction in 2000. However, its share of the addressable market (excluding institutional business and the brokers' proprietary turnover) would be close to 15-18%.

The e-broking business is much more consolidated than the overall retail broking business. We believe the top five firms offering e-broking services comprise a significant portion of the industry. Most e-brokers in India offer an integrated broking, banking and 'demat' (electronic stock) account service. This integrated service offers the dual benefit of better service and convenience levels for retail investors and lower cost of operations and lower risk for brokers.

We believe the share of e-broking will rise steadily in India given:

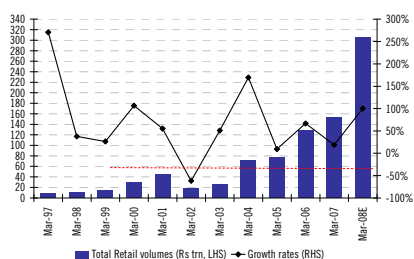
- Widening retail investor participation
- Growing Internet usage
- Faster telecom connectivity
- Increasing comfort levels with transacting on the Internet

The rapid rise in retail participation, and the acceptance of electronic trading platforms, is reflected in the sharp rise in Internet-based trading.

Revenues dependent on cyclical capital markets activity

Revenues and earnings in the retail broking business depend on capital market activity and can be quite volatile. Overall broking volumes can decline by more than 50% during bear phases, with the turnover of the retail segment even more volatile. The impact on profitability can be more severe, given the operating leverage in the business.

Figure 18. Volatility in Retail Market Volumes – Cash and F&O, FY97-Mar08E (Rs Trillion, Percent)



Source: NSE

Margin Finance

Margin finance risks appear relatively low, given good technology support

Margin finance can broadly be divided into two businesses – for settlement and for holding. We believe margin finance during the settlement period accounts for the bulk of the outstanding asset book. Currently, the equity markets operate on a T+2 settlement basis, while the derivative markets operate on a monthly contract basis, with daily mark-to-market settlement (on T+1).

Most large retail brokers operate centrally controlled risk management systems, with programmed margin call and stop-loss levels. In most cases, the stop-loss orders are program generated and executed, without human intervention and offering no flexibility.

Margin finance interest yields are high, though volume of activity can be very volatile

We believe conservative risk-management practices with robust technology support limit the risks on margin finance to a great extent, although the possibility of significant losses during times of extreme market volatility cannot be ruled out. No brokers reported significant market losses following the 15% single-day decline (on 17 May 2004) in the BSE Sensex.

Competition in margin finance limited – banks exposure to margin financing is capped

Margin finance faces limited competition because commercial banks are capped in their exposure to capital markets (5% of their loans) and Rs2mn per customer (in case of loans against securities). As a result, market interest rates for margin finance (12-18%) are relatively high, especially considering the relatively low risk made possible by good technology support and conservative margin levels.

However, the volume of margin finance activity can be extremely volatile, as investors can be averse to leveraging 2-3x and paying 12-18% interest during bear market phases – a trend that compounds the effect of low market activity during bear markets.

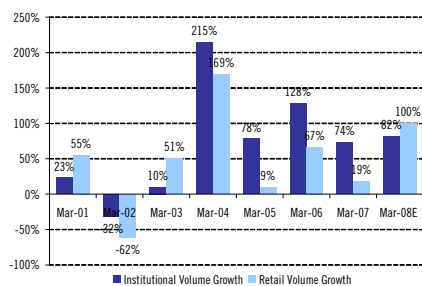
Institutional Businesses

FII inflows have been robust over the past 24 months, and equity funds under management have grown substantially

Institutional Equities – rapid growth and momentum

The structural growth and broadening of the equity markets have been supported by a sharp increase in the number of institutional investors, and the India assets under management of institutional funds, both domestic and foreign.

Figure 19. Broking Industry - Institutional and Retail Growth (%)



Source: NSE, BSE Note :- Mar-08 is annualised

FII inflows have been robust over the past 24-36 months, and equity funds under management by the domestic mutual funds industry have also grown substantially. The life insurance industry has also emerged as a large investor and is set to grow rapidly in the medium term given significant growth in unit-linked plans and a long-term investing horizon.

Growth in institutional trading volumes have been significantly higher than those in the retail equity segment over the last four years (except the last few months where retail growth has picked up strongly). This has also driven the share of traded volumes of FIIs and domestic mutual funds to increase from 20% to 30% over this period. In addition, life insurance companies have also built a significant equity asset base (rivaling that of the domestic mutual funds) and also contribute significantly to retail market volumes (as volume data for life insurance companies are not reported separately and have therefore been included in retail volumes).

The pipeline appears robust, and bodes well for the merchant banking and debt syndication businesses

Investment Banking – large pipeline, though cyclical

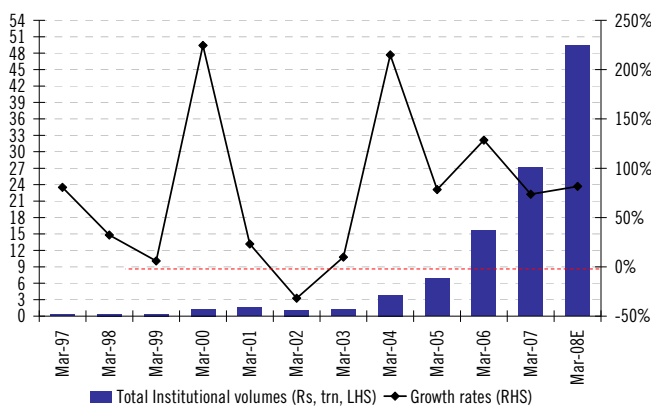
The broadening base of issuers, along with large capital raising by existing listed companies, has resulted in significant capital issuance, both on the domestic markets and overseas, over the past two years. With significant capital expenditure planned by the corporate sector, the pipeline also appears robust, and bodes well for the merchant banking and debt syndication businesses.

Competitive nature of business – margins low, but under pressure

However, businesses are intensely competitive and revenues and earnings tend to be cyclical

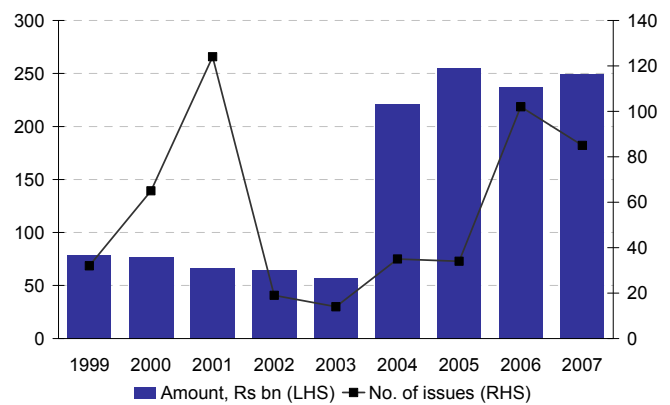
However, all these businesses are intensely competitive, with most of the global investment banks seeking to increase to their presence in India, either through JVs or independently. Commission rates on broking, investment banking and debt syndication are all low as a result of the competition – though we not seen significant price pressure so far, the increase in competition for global as well as domestic players suggest that there is could be pressures on margins over the medium term, albeit gradual. Revenues and earnings remain dependent on capital market volumes, which tend to be cyclical.

Figure 20. Trend in Institutional Volumes in NSE, FY97-FY08E (Both sides – Cash and F&O, Rupees Billion, Percent)



Source: NSE Note- *Mar-08 are annualised numbers

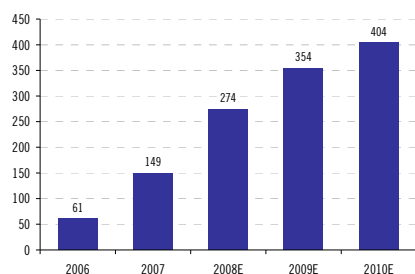
Figure 21. Primary Equity Issues (Domestic), FY99-07, (Rupees Billion)



Source: Prime Database

Competitive Positioning

Figure 22. Registered Retail Customers (No in Thousands, FY06-10E)



Source: Company Reports, Citi Investment Research

- Retail broking and distribution – among the larger brokers, rapid growth, strengthening reach and wide product offering
- Large margin finance book – relative advantage, looking to add more
- Recent foray into consumer finance – large opportunities but early days yet
- Institutional broking – expanding research, but industry is competitive
- Investment banking – focus on small ticket sizes, domestic transactions
- Increasing breadth of product offering to increase competitiveness

Retail broking – Large player, expanding market share

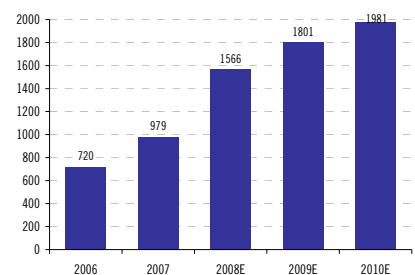
Aggressive growth in customer base

REL has grown its retail customer base rapidly over the past year and has added over 100,000 clients. REL had over 237,000 equity broking customers in September 2007, up from about 49,000 clients in March 2005. The pace of customer acquisition has picked up noticeably in the last year, aided by the strong equity markets and its distribution build-out. It is among the few large retail brokers in the country (with Kotak Securities and Indiabulls as market leaders).

Wide distribution – expanding rapidly

The company has aggressively built out a wide distribution network comprising over 1,200 business locations in close to 400 cities as at September 31, 2007. REL uses a mix of company-owned branches and business associates for distribution, which is in line with the conventional distribution model adopted by most large brokers, except Indiabulls. We believe REL's large distribution network is a source of competitive advantage, as the broking business consolidates and local brokers become marginalized due to the professional services that large nationwide brokers are able to provide and sustain at low broking commissions.

Figure 23. REL – Rapid Distribution Expansion (No. of Outlets)



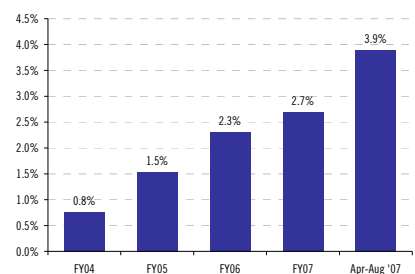
Source: Company Reports and CIR estimates

Among few large domestic brokers

We believe REL has built a relatively strong competitive position in the retail broking business over a short timeframe and in particular over the last two years. The company now has a large client base with a national footprint, which is expanding rapidly.

It generates a steadily growing revenue base, albeit with the inherent volatility of the capital markets. It is one of the larger retail brokerages in India, with a market share of 3.9% (April-Aug'07) in the equity markets, including cash and derivatives.

Figure 24. REL – Market Share (Percent)



Source: Company Reports

Figure 25. Comparative Market Shares – Retail + Institutional Volumes (Percent)

Market Share - Overall	Q207	Q108	Q208
Indiabulls	6.1	5.2	4.7
Kotak Securities	8.2	8.3	8.0
Motilal Oswal	4.0	5.2	5.0
Religare	1.6	3.6	4.2
India Infoline	2.1	2.9	3.2

Source: Company Reports and Citi Investment Research

Though REL has grown aggressively over the last two years, it does lag the market leader, Kotak Securities. It is however expanding its reach rapidly and offers a competitive margin finance product that could see it gain ground on the leaders.

Internet platform ... rapid market share gains

REL has recently started an Internet trading platform and has gained large market share

REL has recently started an Internet-based trading portal offering multiple trading and third-party distribution products for its customers. Internet trading gives customers the flexibility to choose their preferred mode of transacting, either online or offline, and in our view should help the company access a wider client base. We believe Internet trading offers potential for significant growth – REL has within a short time gained about 4.8% of market share in Internet trading. Going forward, we expect migrating customers from offline channels to the Internet for transacting should also help the company reduce costs and gain more significant economies of scale.

Relatively large margin finance book size....leveraged up

REL has a relatively large margin finance book that is a meaningful competitive advantage

We believe the ability to provide customers margin finance – in size and at relatively competitive rates – is a meaningful competitive advantage. REL has a large margin finance portfolio relative to their capital base and to competition. REL has assumed a high leverage to build-up this portfolio; current leverage on the margin finance portfolio is over 4.0x. We do see this as a relative advantage in attracting large clients, retaining them and generating higher brokerage revenues. However, a highly leveraged portfolio such as REL's is also exposed to significant downturns in market volumes and possible risk of losses.

REL has also built strong risk-management systems

Along with its margin finance portfolio, REL has also built strong risk-management systems, which enable the company to monitor positions and set limits across all offices and clients from a centralized location. The risk-management system also enables margin calls and stop-loss orders at pre-determined levels, as the margin cover (investor's equity) in a position is eroded. REL has not yet taken any significant losses on the margin finance business, and the system has been tested in volatile markets over the past two years.

Personal Loans – Large opportunity, potentially high risk

Opportunity in this space is large driven by market under-penetration, we believe that potential risks could also be high

REL has recently ventured into the unsecured personal lending segment. The opportunity in this space appears large, driven by market under-penetration, presence of relatively few large institutional players and high and attractive yields. However, we believe that potential risks could also be high in the event of a credit cycle downturn. We believe that competition in this segment is relatively lower and in the absence of large banks that are seriously looking at the segment, competition is likely limited to a few large players like Indiabulls and Reliance Capital.

REL is targeting a mix of salaried and self-employed segments including professionals. Although the initial rollout has been confined to the larger cities, it plans to increase the number of locations offering the product rapidly to include tier-2 and tier-3 cities as well. The company has been aggressive in rolling out this product and within three months to March 2007 has disbursed about Rs300mn of loans. We believe that such aggressive growth in lending is likely to continue, and management plans to use about Rs500m as capital for this business. This, we believe can support a much larger portfolio with leverage – though these are still early days.

Institutional businesses – Building out, domestic focus initially

Investment banking – Focus on small ticket sizes, domestic transactions

Recently established an investment banking business

REL recently established a merchant banking business, along with its existing transaction advisory and corporate finance business. This business has relatively strong synergies with the institutional distribution business and has gotten off to a reasonable start, in our view. The group is initially focusing on smaller ticket size domestic transactions which could utilize its large distribution and reach. We believe this has the potential to develop into a larger business.

Institutional broking – building out ... gradually

REL has a large team with research support for the institutional business

REL has an established institutional broking segment with support from a reasonably large research team; initial focus is on domestic clients. It has about 13 research analysts with over 60 stocks under coverage and established relationships with most leading domestic institutional clients in India.

... we see reasonable growth opportunities in this business

However, with the majority of the overall business coming from foreign institutions, the lack of global distribution and franchise limits the scale and REL's competitive position. With increasing institutional interest and participation in the secondary markets, on both the cash and F&O side, we do see reasonable growth opportunities in this business, though relatively gradual and over the medium term.

Retail distribution – building scale and franchise

In addition to its existing mutual fund distribution business, REL has also recently started an insurance broking outfit. The company is in the process of building out these businesses and leveraging on its existing distribution network. The insurance business is now looking to expand its retail franchise in both life and non-life products. With a late start last fiscal, we believe a scale distribution business has the potential of building a stronger franchise value, increasing leverage of existing network and improving scale overall.

Broader platform, distinct from most peers

REL has a broad platform – should lend diversity and resilience to earnings

REL offers a broad product platform. In addition to the retail businesses – broking, margin finance, wealth management and third-party mutual fund distribution and insurance broking – it has investment banking and institutional broking. It also has consumer finance and commodities broking, which should offer significant growth opportunities in India as these segments are still in the development stage. REL also has tie-ups with Aegon for insurance manufacturing and asset management businesses that are currently awaiting regulatory approvals. We see these businesses as synergistic, feeding on each other, and they should lend diversity and resilience to earnings.

Strategy

- Strong growth across all business segments; retail broking and consumer finance have rapid growth potential, in our view
- Increasing breadth of product offering to reduce dependence on broking
- Increase distribution network rapidly into Tier-2 and Tier-3 cities
- Add to margin finance portfolio – supports the broking business
- Broaden the institutional business; continue to increase research strength, build investment banking capabilities

Aggressive growth across businesses

REL is targeting aggressive growth across business segments

REL has various products and businesses; we believe the company is focusing on achieving distribution synergies through the various businesses and is targeting aggressive growth across segments.

1. On the retail broking side, strong growth is expected in equities broking and third-party product distributions. REL has also tied-up with IndusInd Bank to offer online broking products to the bank's customers, which would be a key customer acquisition driver
2. The company is also looking to grow its margin lending and personal finance portfolio rapidly over the next year. The growing client bases of its broking and distribution businesses would help in cross-selling these products;
3. While the institutional businesses are strongly linked to capital market activities, we see reasonable opportunities in both investment banking and broking. Though REL is focusing on smaller domestic opportunities, the competition remains tough, and we expect a relative sedate growth in these segments.

... And in the distribution network

Continued focus on expanding network aggressively

REL has grown its distribution network aggressively over the past two years. The growth has come from expanding its associates and franchisee network as well as well as own branches. The company's total network had expanded to over 1,200 by September 2007. The company continues to focus on expanding its network aggressively across the country.

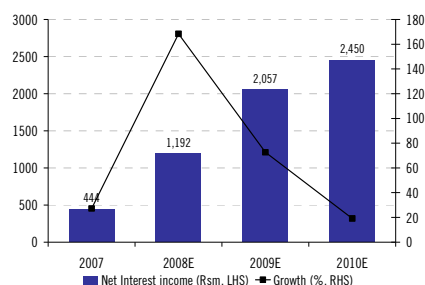
A significant proportion of REL's growth in distribution is coming from smaller brokers closing standalone operations and joining the REL network. REL is able to build up a customer base quickly, and at low cost, using the franchisee route because the brokers have existing clients. While we are surprised by the pace of consolidation given the buoyant markets, we believe consolidation will likely gather momentum when the market cycle turns.

Evolving into a full-service financial services company

REL has significantly broadened its product offerings from its initial days as margin finance provider and is evolving into a full-service financial services provider. On the retail side it offers broking, both equities and commodities, margin finance, personal loans and third-party distribution of mutual funds and

insurance products, both life and non-life. To the institutional segment it offers broking, merchant banking and transaction advisory services. It is also planning to add, through joint ventures, life insurance and asset management businesses. We believe the synergistic though rapid build-out of products has given REL a diversified product suite catering to most needs, increasing revenue diversity, dampening earnings volatility and improving the company's competitive position.

Figure 26. Margin Finance - Net Interest Income and Growth (Rupees Million, %, FY07-10E)



Source: Citi Investment Research

Build on margin finance strength

REL's margin finance business is relatively large in size as compared to its own capital base and to similar-sized peers, and we believe it represents a meaningful competitive advantage in attracting and retaining large clients, resulting in higher volumes and lower acquisition costs. REL's relatively large book size is a function of the competitive landscape in the industry as well as the aggressive management focus resulting in high capitalization levels. REL is looking to build on its existing strength and expand the margin finance business meaningfully with additional capital to support its rapidly growing broking business. The ability to provide margin finance is fundamentally a competitive advantage, which could be leveraged further with capital.

Expanding through the Internet platform

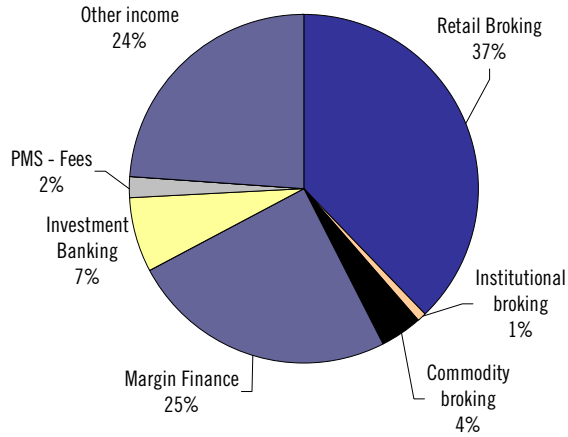
REL started offering Internet-based trading to its customers in August 2006. Internet trading gives customers the flexibility to choose their preferred mode of transacting, either online or offline, and in our view should help the company access a wider client base. REL's tie-up with IndusInd bank for offering broking and third-party products over the Internet to the bank's customers represents a large and potentially captive customer base.

We believe Internet trading offers potential for significant growth – REL has in a short span of time captured close to 5% market share of Internet trading. Going forward, we expect migrating customers from offline channels to the Internet for transacting should also help the company reduce costs and gain more significant economies of scale. We believe this channel has the potential to add significantly to REL's customer base because of: 1) the nature of the market and 2) industry volumes have shown strong growth.

Multiple product lines offer synergies; to maintain diversified business profile

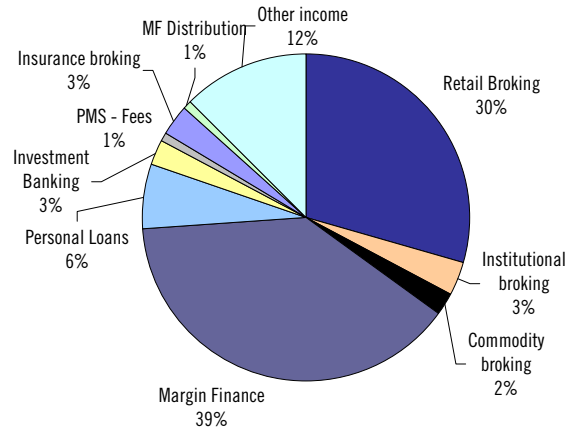
REL's various businesses offer some synergies to each other, potentially leading to a better competitive position and higher profitability. Its investment banking business is largely a domestic business, which is well supported by wealth management and distribution business for retail and high net worth clients. The investment banking business also supports the institutional broking business, and offers opportunities for cross-selling the debt syndication business to corporates. The personal loans business builds on the strong client base and wide distribution network of the company. We believe the company is looking to maintain a mix of businesses which provide synergies with each other, diversify the revenue and earnings base, and improve the company's competitive position.

Figure 27. Revenue Mix (Net of brokerage sharing) – FY07



Source: Company Reports and Citi Investment Research estimates

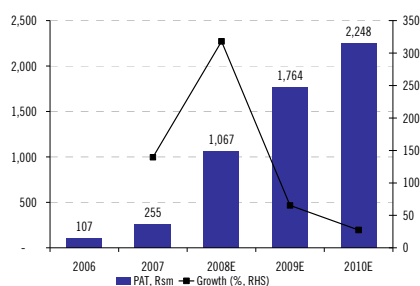
Figure 28. Revenue Mix (Net of brokerage sharing) – FY10E (Percent)



Source: Citi Investment Research estimates

Financials

Figure 29. Net Profit Growth (Rupees Million, Percent, FY06-10E)



Source: Company Reports, Citi Investment Research estimates

- We estimate strong growth in revenues (67% pa) and earnings (90%) during FY07-10E, but see risk of earnings cyclicality from capital markets exposure
- Strong growth expected in retail distribution, personal loans and investment banking businesses
- We expect stable growth in broking revenues, volumes
- Broking and margin finance should remain dominant, even as revenues diversify
- Business remains linked to the equity markets, and could be volatile

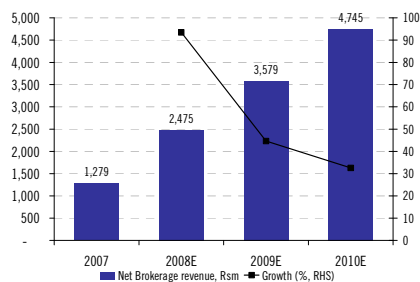
Revenues – robust 67% growth over FY07-10E

We estimate 67% revenue CAGR over FY07-10E, and earnings growth of 90% over the same period. We think earnings will be driven by strong growth across all businesses, particularly by retail broking and distribution, margin finance due to recent infusion of capital and its inherent high leverage, personal loans and investment banking with stable growth from institutional broking segment. Profit growth should also be driven by operating leverage, scale and synergies across businesses. However, the risk of earnings cyclicality is high due to the company's dependence on the capital markets.

Relatively diverse revenues and earnings; retail heavy

REL has reasonable diversity in revenues and earnings, though most of its revenues are dependent on capital market activity. The retail business is well diversified with revenues from broking, margin finance, and distribution of mutual funds and insurance. The wholesale business is also well diversified, with significant contributions from transaction advisory, and equity primary (merchant banking) and secondary (institutional broking) markets. It also has strong expected revenues from the personal loans segment which lends additional diversity and reduced dependence on continued capital markets momentum. Key risks to earnings include a decline in primary and secondary market activity and a turn in market sentiment.

Figure 30. Total Net Brokerage Revenues (Rupees Million, FY07-10E)



Source: Company Reports, Citi Investment Research estimates

Strong growth in broking revenues, market share gains

We estimate a 55% CAGR in overall net broking revenues (net of brokerage sharing expenses) over FY07-10E, driven by healthy customer acquisitions and building up distribution network. We estimate the customer base to reach over 400,000 by end-FY10E (about 237,000 currently). We think customer acquisition is likely to be driven by own and franchisee network as well as through its tie-ups with banks (e.g. IndusInd bank).

The retail broking segment should reap the dividends of the strong distribution rollout last year — we estimate segmental volumes to increase over 100% in FY08E helped by a pickup in retail activity and its growing market share. Retail broking is REL's primary source of revenue; while retail trading volumes have picked up in recent months, they have lagged overall industry volume growth for the past four years. While we expect structural growth to continue in the retail segment, the recent sharp growth in volumes suggests some moderation in growth.

Broking commissions – relatively low

Broking commissions are slightly lower than industry levels, but are dependent on segmental mix of volumes and from own / franchisee outlets; we estimate blended margins are about 4.5bps. This is a mix of a 10-11bps average commission on the cash market, which contributed about 25% of volumes, and a 2-3bps commission on the derivatives market and commodities, which is almost 75% of volumes. We believe there is only a limited downside to gross broking margins from current levels, despite increasing competitive intensity in the retail broking industry.

Margin finance – increasing the book

We expect REL to strengthen its margin finance book, driven largely by additional capital infusion, high leverage and the rapid growth in the client base and buoyant market volumes. We expect aggressive growth in revenues from margin finance in FY08E and a 95% CAGR over FY07-10E. The increase in margin finance ability should improve REL's competitive position and help drive increasing customer revenues from its retail client segment.

However, the margin finance portfolio is also highly leveraged and exposed to capital market volatility. While revenues from this segment are likely to increase with strong markets, any sustained decline in activity or market levels might reduce growth and opportunity for further leverage in addition to possible reductions in the existing margin finance book.

Strong growth in third-party product distribution and PMS – diversifies revenue and earnings

We expect strong growth in revenues from third-party products including distribution of mutual funds and insurance products, driven by robust customer growth and strong equity markets. Fee income from product distribution, especially insurance distribution, diversifies the revenue and earnings base, and reduces volatility, as it is less linked to market activity than the other businesses of REL and provides an annuity-based income stream.

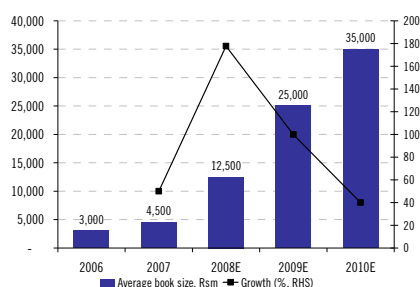
Also we expect a strong growth in its portfolio management product for high net worth customers. REL earns about 2-2.5% pa from equity AUMs on the managed portfolios as annual fees in addition to a share in profits above agreed hurdle rates, in line with industry norms.

REL has also entered into a JV with Macquarie Bank recently for entering in the high net worth personal wealth management segment. We believe this provides REL with an opportunity to target the high net worth segment, potentially acquire new customers and cross-sell its existing products including broking and margin finance.

Personal loans – added upside to revenues

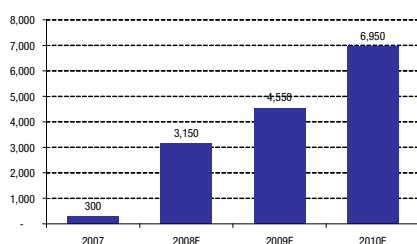
REL aggressively launched its personal loans business in FY07. We believe this business will scale rapidly, and we have factored in a gross book size of about Rs7b at the end of FY10E. REL has currently disbursed about Rs300m of loans in the fiscal year FY07 and is targeting the high-yield segments with average expected yields of 18-20%. We estimate personal loan business to become a

Figure 31. Margin Finance Average Book Size and Growth (Rupees Million, %)



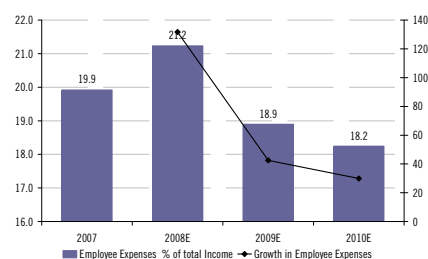
Source: Citi Investment Research estimates

Figure 32. Personal Loans – Gross Loan Book Size, FY07 – 10E, Rsm



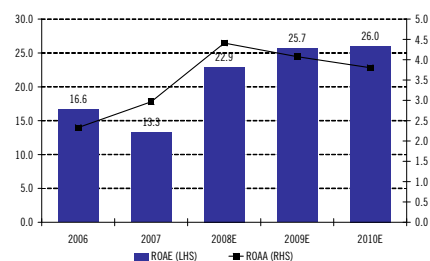
Source: Citi Investment Research estimates

Figure 33. Employee Expenses —Growth, Percent of Total Income (Percent, FY07-10E)



Source: Company Reports, Citi Investment Research estimates

Figure 34. ROAA and ROAE, FY06-10E (Percent)



Source: Citi Investment Research estimates

significant contributor to revenues by FY10E, becoming the third-largest revenue contributor to earnings after retail broking and margin finance.

Investment banking and advisory – linked to capital markets

REL has an established transaction advisory business and it along with the recently started merchant banking businesses are expected to grow significantly over FY07-10E. The investment banking business is expected to benefit from strong capital market activity levels; we expect revenues to grow 20% CAGR over FY07–10E, though coming off a low base in FY07.

Costs increases driven by employee and branch additions

We expect operating expenses to increase about 90% in FY08E, primarily driven by a 130% increase in employee costs, strong growth in employee intensive new businesses (personal loans and product distribution) and continued branch rollouts. We forecast the increase in operating expenses should slow to about 35% in FY09E as bulk of REL’s expansion in people and branches are expected to be rolled out in the current fiscal.

RoEs lower than industry, likely to increase

REL’s RoE was lower than industry peers at 13% in FY07 due to high interest and operating expenses relating to its new business launches. We expect RoEs to increase to about 23% in FY08E on increasing leverage from the new businesses.

Figure 35. Religare – Consolidated Profit and Loss Account – FY06-10E (Rupees Million)

	2006	2007	2008E	2009E	2010E
Income					
Brokerage Income	-	1,600	3,239	4,674	6,199
Retail Equity	-	1,410	2,865	4,107	5,453
Institutional	-	20	164	311	441
Commodity	-	118	210	256	305
Interest Income - Margin Finance	261	711	1,875	3,750	5,250
Interest Income - Personal Loans			319	629	859
Financial Advisory	-	199	203	264	343
PMS - Management Fees		52	86	108	122
Insurance Broking			169	274	395
MF Distribution			76	108	147
Depository Income	-	33	40	48	58
Other Operating Income	-	241	326	377	425
Income from Operations	261	2,836	6,333	10,233	13,798
Interest Income	0	150	356	575	790
Other Income	50	215	269	336	403
Total Income	311	3,201	6,958	11,143	14,991
Expenditure					
Employee Costs	14	638	1,477	2,106	2,735
Brokerage Sharing Expenses		321	764	1,095	1,454
Depreciation	2	128	192	230	254
Other Operating Costs	15	923	1,477	1,920	2,305
Interest Expenses	192	709	1,405	3,044	4,660
Provisions			46	107	219
Total Expenses	223	2,719	5,361	8,503	11,627
Profit Before Tax	88	482	1,597	2,640	3,365
Tax	22	201	530	876	1,117
Profit After Tax	66	281	1,067	1,764	2,248
Extraordinary Items	6	(0)	-	-	-
Minority Interest	13	26	-	-	-
Share of profit from Associates	60	-	-	-	-
Attributable Profits	107	255	1,067	1,764	2,248

Source: Company Reports and Citi Investment Research estimates

Figure 36. Religare – Consolidated Balance Sheet FY06-10E (Rupees Million)

	2006	2007	2008E	2009E	2010E
Fixed Assets	35	760	836	919	1,011
Investments	268	856	1,356	1,356	1,356
Cash	240	2,428	4,699	6,796	9,009
Debtors	2	2,690	5,205	7,528	9,979
Loans	4,025	5,862	23,622	34,121	46,040
Stock in Trade			-	-	-
Others	2	36	43	47	52
Total Assets	4,572	12,632	35,761	50,767	67,448
Secured Loans	925	2,890	3,468	4,162	5,202
Unsecured Loan	2,906	3,935	21,925	33,129	45,128
Minority Interest	22	-	-	-	-
Creditors	4	1,692	3,275	4,736	6,278
Provisions	1	50	55	60	66
Others	74	855	941	1,035	1,138
Liabilities	3,931	9,422	29,663	43,121	57,813
Paid up Capital	500	644	757	757	757
Reserves and Surplus	141	2,566	5,341	6,889	8,879
Networth	641	3,210	6,098	7,646	9,635
Total Liabilities	4,572	12,632	35,761	50,767	67,448

Source: Company Reports and Citi Investment Research estimates

Figure 37. Religare – Key Ratios – FY06- FY10E (Percent)

	2006	2007	2008E	2009E	2010E
RoAA	2.3	3.0	4.4	4.1	3.8
RoAE	16.6	13.3	22.9	25.7	26.0
Net Profit Margin	34.2	8.0	15.3	15.8	15.0
BVPS	12.8	49.8	89.4	101.0	127.3
EPS	2.1	4.0	15.6	23.3	29.7
DPS	-	1.2	2.5	2.9	3.4
Payout Ratio	-	30.1	16.2	12.2	11.5
Income from Operations Growth		985.3	123.3	61.6	34.8
Total Income Growth		928.4	117.4	60.1	34.5
Employee Expenses Growth		4,605.3	131.7	42.5	29.9
Profit Before Tax Growth		446.8	231.4	65.3	27.4
Employee Expenses % Total Expenses	6.1	23.4	27.6	24.8	23.5
Revenue Mix					
Net Retail Brokerage	-	37.8	33.9	30.0	29.5
Institutional brokerage	-	0.7	2.7	3.1	3.3
Commodity brokerage	-	4.1	3.4	2.5	2.3
Margin Finance	83.9	24.7	30.3	37.3	38.8
Personal Loans	-	-	5.2	6.3	6.3
Investment Banking	-	6.9	3.3	2.6	2.5
PMS - Management Fees	-	1.8	1.4	1.1	0.9
Insurance broking	-	-	2.7	2.7	2.9
MF Distribution	-	-	1.2	1.1	1.1
Other income	16.1	24.0	16.0	13.3	12.4
Total	100.0	100.0	100.0	100.0	100.0

Source: Company Reports and Citi Investment Research estimates

Valuation

- Brokerages are usually benchmarked off P/E multiples in aggressively growing markets
- US brokerages are often valued on DCF, possibly reflecting more predictable and stable earnings, and stronger customer traction. Also trade at discounts to the market
- We expect Indian brokerages to be valued on P/E's – strong markets should probably support valuations at discounts or par with market multiples, while weak markets could support premiums
- Relatively few primarily retail brokerage exposures in Indian space; larger players' valuations meaningfully influenced by other dominant businesses

Similar businesses – all capital-markets related

REL generates substantially all its earnings from capital-markets-related businesses, though the pie is diversified among primary and secondary markets, and between equity and debt businesses. Most of the businesses are fee-based transaction businesses, and do not require much capital. While margin finance does require capital, the business is linked intrinsically to the underlying broking and distribution businesses.

P/E multiple most appropriate benchmark

The nature of all these businesses is similar, and we believe a P/E multiple is the most appropriate benchmark to value the company, rather than a P/B multiple which would be appropriate for book-based businesses. While differing business models would suggest a range of multiples, we believe a brokerage/capital markets business should trade near or slightly below the market benchmark's multiple.

Most comparable US brokerages trade at discounts to the market. There are exceptions, although we believe they have a much broader earnings mix, and not wholly dependent on secondary market broking and the margin finance that supports it.

Multiples could compress in strong markets

The cyclical nature of the brokerage/capital markets business would also suggest that valuations should compress in strong markets – given that earnings are usually at highs during strong markets, and market multiples also tend to be on the higher side. This is the case with most domestic peers in the Indian market. We believe current-year multiples are most appropriate – this makes earnings more predictable, and factors in earnings growth, in the event the market is strong.

Aggressive expansion ahead, valuations benchmarked to market

REL's relatively diversified business model, with various businesses drawing synergies off each other and offering some revenue diversification, in our view could be an influence in valuations relative to pure retail brokerages. We think the rapid growth in its personal loans and third-party distribution businesses will likely reduce operating leverage and cyclicity of earnings – a likely positive for valuations.

REL generates all its earnings from capital-markets-related businesses

P/E multiple is likely the most appropriate benchmark to value the company

Cyclical nature of the brokerage business suggests that valuations should compress in strong markets and vice-versa

Limited direct peer comparison...likely benchmark will be market multiples

We would value REL at 22x FY09E EPS yielding a target price of Rs515 per share

We believe P/E multiples are the fair benchmark valuations for brokerages. Further, valuations are also benchmarked off domestic market multiples.

Current domestic market multiples are at a high; brokerages are currently trading at historically high multiples given recent consolidation, relatively high private equity investments in the industry, and strategic initiatives in both the retail and institutional broking space. Longer term however, we believe brokerages should trade near market multiples.

We value REL at 22x FY09E earnings, a 10% premium to the market multiples. Our target multiple implies a target price of Rs515 and a 26% downside from current price levels.

We are basing our target multiple on a) REL's singular dependence on retail for its broking revenues (institutional broking revenues are less 2% of total revenues); b) higher leveraged business model (broking volumes are backed by its large margin finance book, which growth is susceptible to volatile market conditions); c) relatively higher execution risks given rapid gains in a short period and aggressive expansion plans; and d) rapid expansion in volumes over a relatively short period of time.

Figure 38. India Brokerages – Comparative Valuation Summary

Domestic Peers	CIR Rating	Ric code	Price	EPS FY08E	EPS FY09E	P/E 08	P/E 09
Indiabulls	3M	IBUL.BO	859	31.5	38.7	27.3	22.2
Kotak Mahindra	2M	KTKM.BO	1395	24.4	29.8	57.3	46.8
IL&FS Investsmart	3M	ILFI.BO	274	11.9	12.2	22.9	22.5
Motilal Oswal	1M	MOFS.BO	1925	46.6	68.5	41.3	28.1
India Infoline **	Not Rated	IIFL.BO	1893	28.0	51.7	67.6	36.6
Reliance Capital **	Not Rated	RLCP.BO	2596	35.0	44.0	74.2	59.0
Religare	3H	RELG.BO	694	15.6	23.3	44.5	29.8

Source: Citi Investment Research estimates ** Based on Consensus Estimates from Bloomberg

Figure 39. Global Valuation Comparisons

Company	RIC Code	Rating	Country	Price (LC)	PE- 07E	PE- 08E	PE- 09E
Charles Schwab Corp	SCHW.O	1M	USA	25.6	29.2	16.4	20.7
Lazard Ltd	LAZ.N	2H	USA	40.7	16.0	13.5	13.1
Morgan Stanley	MS.N	1M	USA	53.1	11.5	9.8	6.9
TD Ameritrade Holding Corp	AMTD.O	1M	USA	20.1	19.4	16.7	15.2
Federated Investors, Inc	FII.N	2M	USA	41.2	20.2	16.9	15.4
Legg Mason Inc	LM.N	1M	USA	73.2	15.6	13.3	12.1
T Rowe Price Group Inc	TROW.O	2M	USA	60.9	28.7	23.7	20.5
E Trade Financial Corp	ETFC.O	3S	USA	3.6	(7.4)	(3.7)	10.2
Lehman Brothers Holdings Inc	LEH.N	2H	USA	65.4	9.3	9.2	9.2
The Goldman Sachs Group Inc	GS.N	2H	USA	215.1	9.5	9.3	10.3
New Star Asset Management	NSAM.L	1H	UK	1.8	7.3	6.3	6.0
Schroders PLC	SDR.L	2M	UK	13.1	15.0	13.3	12.9
Cash Life AG	SGSG.DE	1S	Germany	7.7	16.8	17.1	7.9
HCI Capital AG	HXCIGn.DE	1M	Germany	14.9	9.6	9.9	9.1
Lloyd Fonds AG	L10G.DE	1M	Germany	15.1	9.4	8.6	8.1
MPC Muenchmeyer Petersen	MPCG.DE	1M	Germany	62.0	16.4	13.4	11.4
AWD Holding AG	AWDG.DE	2H	Germany	29.5	19.6	18.0	16.0
Allco Max Securities	AXQ.AX	1H	Australia	0.4	8.0	5.3	4.6
Perpetual Ltd	PPT.AX	2L	Australia	66.6	18.9	17.7	16.2
Samsung Securities	016360.KS	2L	Korea	88,100	23.7	14.9	13.3
Korea Investment Holdings	071050.KS	1L	Korea	72,500	15.3	11.2	10.3
Woori Investment & Securities	005940.KS	1L	Korea	26,450	15.4	11.0	10.4
Daishin Securities	003540.KS	2M	Korea	28,750	15.2	9.4	9.3
Hyundai Securities	003450.KS	3M	Korea	22,000	20.0	12.0	12.5
Tong Yang Investment Bank	003470.KS	2M	Korea	18,050	13.5	10.7	10.8
Creed	8888.T	1H	Japan	227,000	8.1	6.7	6.0
DaVinci Advisors	4314.OJ	1H	Japan	99,000	14.4	10.9	8.2
Kenedix	4321.T	1H	Japan	181,000	10.3	8.9	7.9
Citic Securities **	600030.SS	Not Rated	China	86.6	57.9	44.5	34.0

Source: Citi Investment Research estimates ** Based on IBES estimates

Risks

- Continued strong industry volume growth, especially in the retail segment
- Rapid expansion in margin finance portfolio
- Aggressive roll-out of distribution network
- Faster-than-anticipated crystallization of value in planned new forays in asset management and life insurance
- Regulatory changes

We rate REL share as High Risk, though our quantitative risk rating system which tracks 260-day historical share price volatility, suggests a Speculative rating based purely on the lack of a full year of trading history. Though REL is increasingly diversifying its revenue profile, its will continue to significantly depend on retail broking and margin finance businesses for growth and earnings. We believe its high operating leverage (to the capital markets) as well as financial leverage, exposes it to relatively higher risks in case of a slowdown in retail equity volumes.

Key upside risks that could cause the shares to continue to trade above our target price include:

Continued strong growth in capital market activity

Retail industry volumes have picked up in recent months, and while we expect relatively stronger growth going forward, any higher-than-anticipated growth in volumes will be an upside risk to the stock performance.

Rapid expansion of margin finance portfolio

REL has amongst the largest margin finance portfolios in the domestic context. While we expect REL to continue to expand its large portfolio, an aggressive expansion could significantly bolster revenues and stock performance.

Aggressive rollout of distribution network

REL has heavily invested in increasing its distribution network over the last few years. We expect a phase of consolidation or relatively moderate growth over the medium term. However, continued network expansion could likely increase growth levels and will be an upside risk to performance.

Planned new forays into asset management, life insurance

REL has also entered into JV for entering into asset management and life insurance businesses. These are yet to receive regulatory approvals and we have not imputed any value for these businesses. Faster-than-anticipated crystallization of value from these could provide further upsides to the stock.

Regulatory risk

Margin finance and capital markets activity is being looked at closely by the regulators, and there could be changes in the guidelines of either the Reserve Bank of India or the Securities and Exchange Board of India. This could necessitate a change in the business structure, or growth of the business, impacting earnings.

Started business with margin financing ...
has widened its product mix

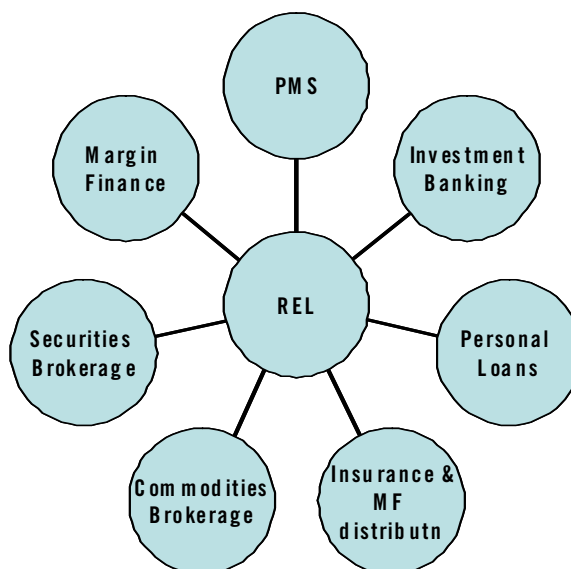
Company Background, Ownership and Management

Background

Religare Enterprises Limited (REL) is primarily the holding company for financial and broking services. REL is primarily engaged in margin finance and has increased the breadth of products offered to include retail and institutional broking, commodity broking, portfolio management, investment banking, personal credit and third-party product distribution including mutual funds and insurance broking. While retail broking and margin finance remain its key business areas, REL, through its subsidiaries, is increasing focus on expanding its operations across each of its business lines.

Until recently the company was doing business through various subsidiaries which are now being consolidated under the umbrella holding company of REL. Further the company also plans to restructure its personal loans, PMS and margin finance businesses into separate subsidiaries.

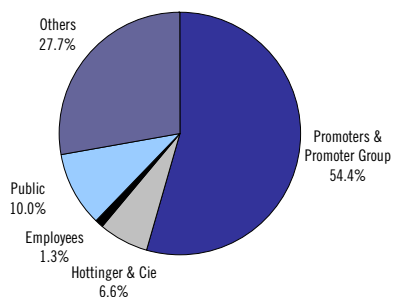
Figure 40. Religare Business Structure



Source: Company Reports

Religare has also entered into tie-ups with Aegon for entering into insurance manufacturing and asset management business. Both these ventures are awaiting regulatory approvals.

Figure 41. Religare – Post-Issue Ownership Pattern



Source: Company Reports

Ownership

REL is a substantially promoter-owned company and shares its promoters with the Ranbaxy group of companies including Fortis Hospitals and SRL Ranbaxy. REL is substantially owned by promoters with about 54% stake currently. Hottinger and Cie' hold 6.6% stake in the company post issue while the recent IPO investors have 10% cumulative stake.

Management

At the operating level REL is fully managed by professionals, with a large management team at the business level. The operations are divided on businesses and geographies with the senior management individually responsible for different businesses and reporting to the CEO and MD, Mr. Sunil Godhwani, who also holds 1.3% in REL. The company has also initiated an incentive-based compensation scheme to attract and retain employees at the operational level. The total number of employees at REL was over 3,600 as at March 31, 2007.

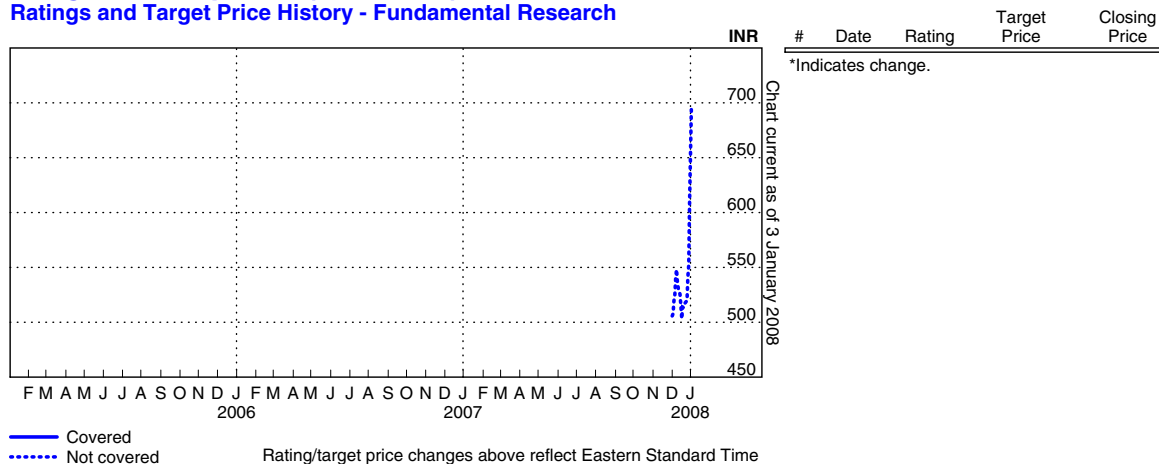
Appendix A-1

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Religare Enterprises (RELG.BO) Ratings and Target Price History - Fundamental Research



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