

Initiating Coverage
SECTOR: BANKING AND FINANCE



MOTILAL OSWAL

Indiabulls Financial



Charging forth

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Indiabulls Financial Services

STOCK INFO. BSE Sensex: 18,853	BLOOMBERG IBULL IN
S&P CNX: 5,609	REUTERS CODE IBUL.BO

23 November 2007

Buy*Initiating Coverage*

Rs749

Y/E MARCH	2007	2008E	2009E	2010E
Total Income (Rs b)	12.4	23.1	38.2	57.7
OP (Rs b)	7.3	13.2	20.4	28.6
NP (Rs b)	4.4	7.7	11.4	15.3
EPS (Rs)	24.2	28.5	42.2	57.2
EPS Growth (%)	53.0	17.6	48.5	35.5
BV/Share (Rs)	81.8	146.1	181.9	231.5
P/E (x)	31.0	26.3	17.7	13.1
P/BV (x)	9.2	5.1	4.1	3.2
ABV (Rs)	81.8	146.1	181.9	231.5
P/ABV (x)	9.2	5.1	4.1	3.2
RoE (%)	27.1	27.6	25.3	27.0
RoA (%)	13.7	13.6	10.4	9.1

KEY FINANCIALS

Shares Outstanding (m)	270.5
Market Cap. (Rs b)	202.6
Market Cap. (US\$b)	5.1
Past 3 yrs EBITDA Growth (%)	N.A.
Past 3 yrs NP Growth (%)	N.A.
Dividend Payout (%)	12.5
Dividend Yield (%)	0.4
P/E to Growth (x)	0.9

STOCK DATA

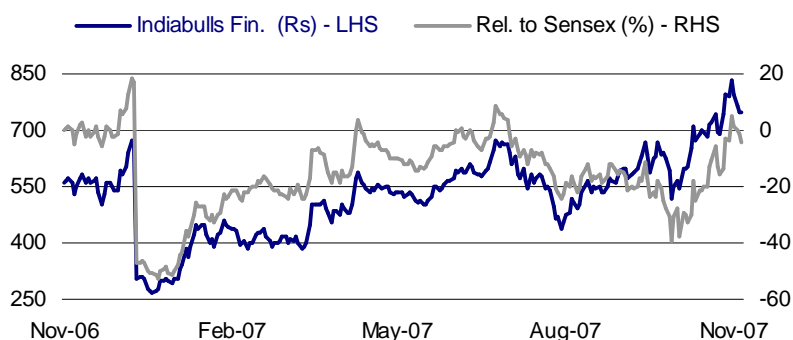
52-W High/Low Range (Rs)	842/257
Major Shareholders (as of September 2007)	(%)
Promoters	27.0
Domestic Institutions	0.5
Foreign	64.4
Public	8.1
Average Daily Turnover	
Volume ('000 shares)	4,180.9
Value (Rs million)	2,137.5
1/6/12 Month Rel. Performance (%)	35/9/-5
1/6/12 Month Abs. Performance (%)	37/40/32

Strong play on consumer finance: Indiabulls has created a large scaleable consumer finance business over the last two years. Its loan book has gone up from Rs31b (incl securitized) as of March 2007 to Rs56b as of September 2007. We expect higher momentum going forward and estimate a loan book of Rs190b in FY09 and Rs295b in FY10. Volume growth, leverage benefits and lower provisions would be key catalysts for earnings, even as yields and margins decline due to shift in company's focus towards big ticket secured loans.

Securities business - new ventures to drive growth: Indiabulls has a 5% market share in equity brokerage. It is among the largest brokerages in the retail space and plans to enter institutional broking as well. While the retail business is likely to prosper on the back of a strong macro economic environment, we believe entry into the institutional segment and other planned ventures like asset management would add share and drive growth ahead.

Foray into life insurance - potential value driver: Having applied for a license, the company expects to start the life insurance business in 1QFY09. Despite being a late entrant in this segment, we believe its large customer base and wide distribution network will ensure fast growth. Though we have not factored in any upside from insurance, we believe the option value from this venture can be significant.

Initiate coverage with a Buy: We expect a 50% CAGR in PAT from its core businesses, over FY07-10E. The stock trades at 18x FY09E EPS and 13x FY10E EPS. Our SOTP-based price target of Rs943 indicates an upside of 26%. Potential upside from new businesses can be substantial. We initiate coverage with a **Buy**.

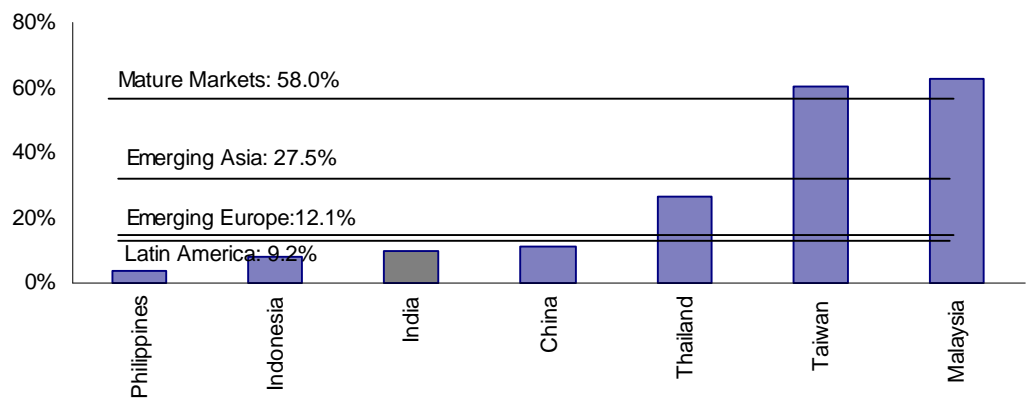
STOCK PERFORMANCE (1 YEAR)

Strong play on consumer finance

Consumer finance penetration low in India

India's consumer finance to GDP ratio at 10% is very low as compared to the global average of 28%. Other developing economies like Thailand, Taiwan, and Malaysia have consumer finance to GDP ratio of 22%, 55%, and 60% respectively. Hence, there is a tremendous scope for retail loans to grow in India.

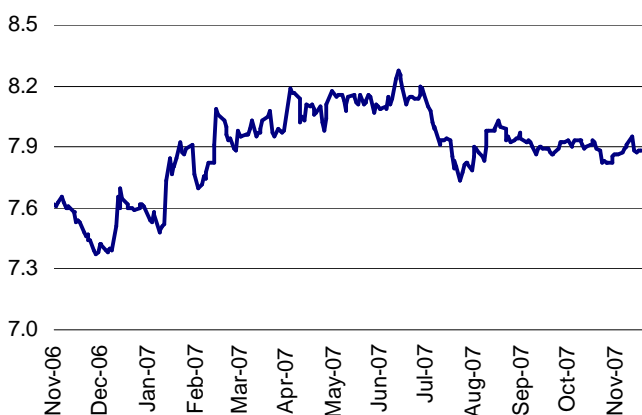
HOUSEHOLD CREDIT % TO GDP



Source: Company/Motilal Oswal Securities

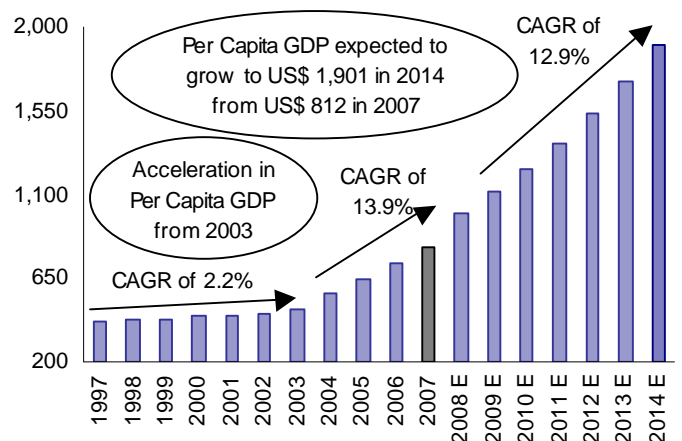
Rising income levels and stable interest rates are leading to higher affordability for Indian consumers. As the per capita GDP grows from US\$812 in FY07 to US\$1,901 in FY14, we expect significant upgrade in consumption pattern. We believe from a macro point of view, the demography makes a compelling case for consumer finance growth.

10-YEAR G-SEC YIELD STABILIZING (%)



Source: CMIE

RISING PER CAPITA INCOME (US\$)



Source: Motilal Oswal Securities

Banks are going slow on mortgage and other retail loans

Changing business dynamics give NBFCs edge over banks

NBFCs are tightening their grip on the Indian consumer finance market as banks go slow on mortgage and other retail loans. With RBI raising CRR on a continuous basis, the cost of funds for the banking system continues to remain high, despite the declining trend in overall interest rates. Thus, banks are not yet reducing lending rates despite incremental funding costs declining. Further, owing to lower spreads, mortgages have not been an attractive proposition for many banks in the current environment.

The retail loan growth has slowed down from a 35% CAGR over the last five years to ~20% growth, due to lower focus from banks in this segment. However, niche NBFCs like Shriram Transport, SREI, and Indiabulls have continued to grow at healthy rates. As banks are increasing their focus on corporate and infrastructure loans, players like Indiabulls can witness strong growth rates in consumer finance over the next few years.

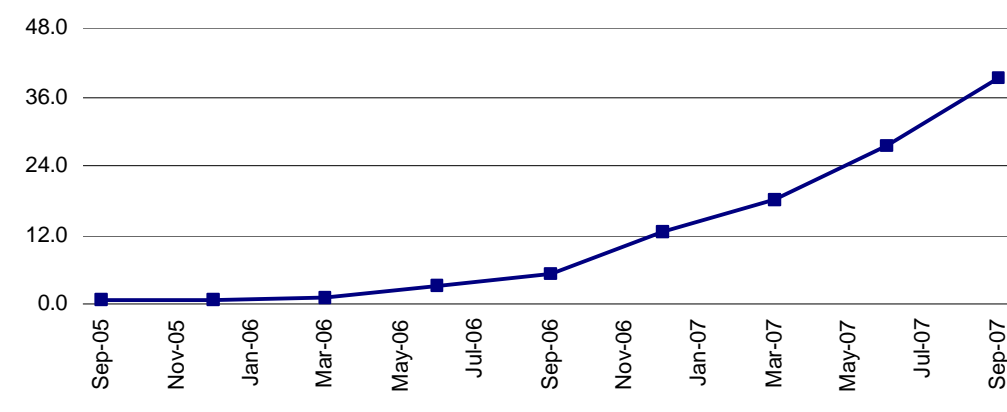
Further, most banks and HFCs like HDFC focus on the salaried class for loans. For instance, salaried class accounts for 92% of HDFC's disbursement and almost 90% of its book. The focus for Indiabulls is mainly towards the self employed class which offers a large scaleable opportunity.

Huge opportunity in mortgage loans and used CV financing

Indiabulls: Emerging as a strong player in consumer finance

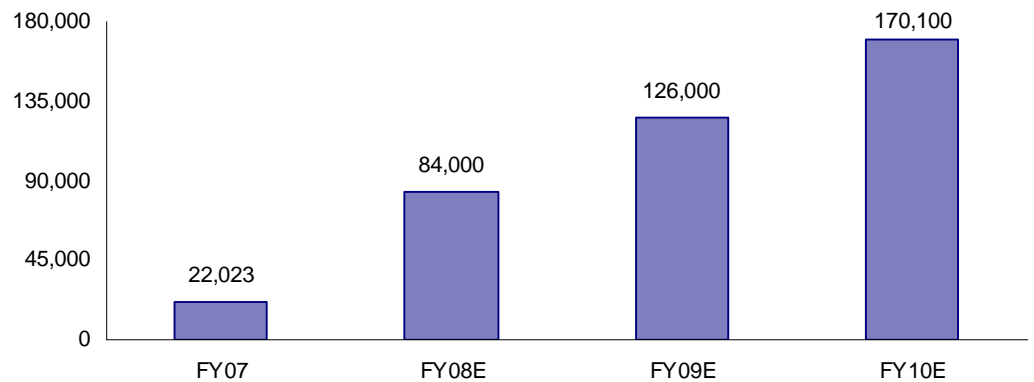
Consumer finance is one of the fastest growing businesses for Indiabulls. The company has created a large scaleable consumer finance business over the last two years. Indiabulls, through its subsidiaries, offers various retail products such as mortgage finance, used truck financing, SME (against property/shop) and business banking loans, loans against properties, etc. Of these, mortgage loans and used commercial vehicle financing present a huge untapped market, as banks have very little presence in these segments. Loans against mortgages and used commercial vehicles loans accounted for 48% of the Indiabulls' total loan portfolio as of September 2007 as against negligible contribution in September 2006.

STRONG GROWTH IN CONSUMER LOANS (RS B)

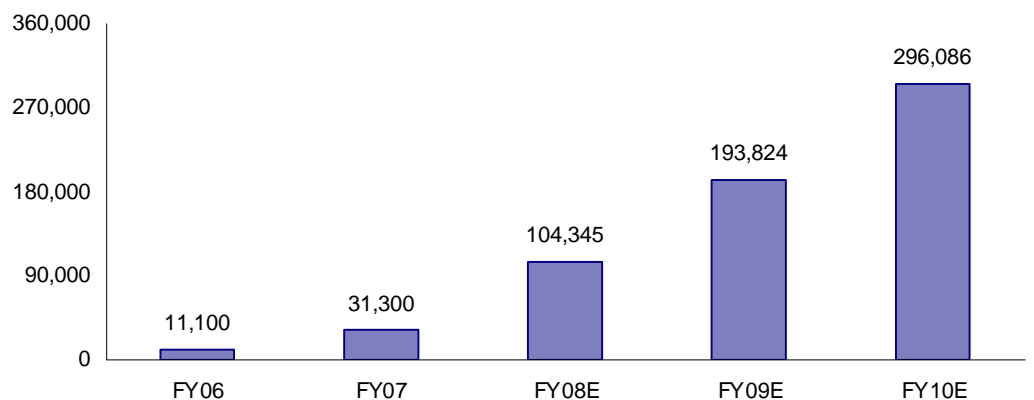


Source: Company/Motilal Oswal Securities

EXPONENTIAL GROWTH IN DISBURSEMENTS (RS M)



TOTAL LOANS (INCLUDING SECURITIZED) - BUILDING SCALE (RS M)



Source: Company/Motilal Oswal Securities

Moving towards a secured portfolio

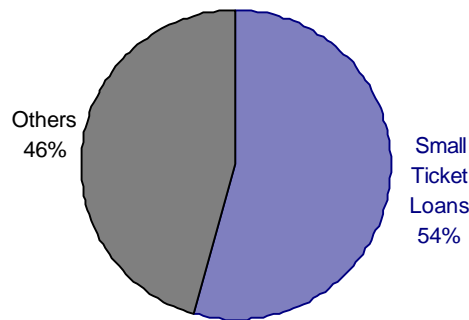
Focus on big ticket secured loans

Indiabulls started its consumer credit business with small ticket unsecured loans, which have very high yields and margins. However, over the last few quarters, Indiabulls has been moving away from small ticket unsecured business to large ticket secured business to ensure lower NPAs, lesser recovery hassles and scalability in balance sheet. Though margins are lower in large ticket secured loans, the risk also reduces significantly.

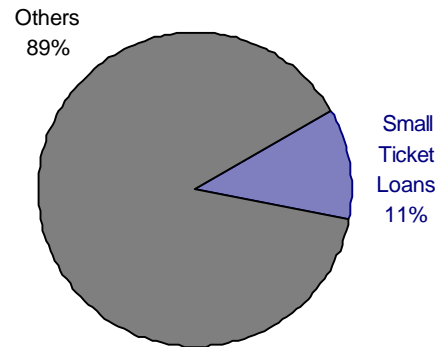
The margins and RoAs in the small ticket loans are significantly high, as the yields are in the range of 30-60% p.a. However, such loans are generally for very short to medium term and delinquency risk is very high. Further, recovery in case of a bad loan is very difficult and use of force to recover dues carries large reputation risk, which has become an issue for any large entity. Even ICICI Bank is moving away from small ticket unsecured loans precisely for the same reason. In addition, scalability in balance sheet is always an issue with small ticket loans.

Share of small ticket loans in total consumer loans declining

CONSUMER LOANS (JUNE 2006)

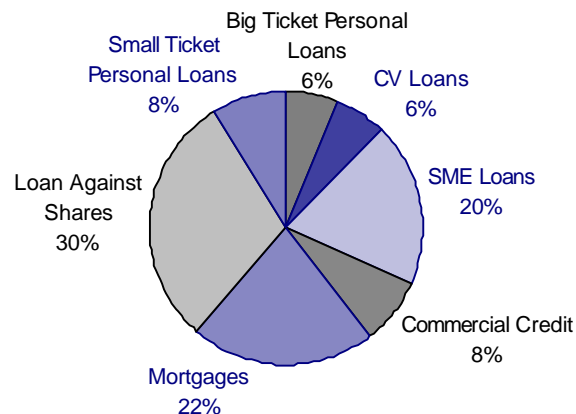


CONSUMER LOANS (SEPTEMBER 2007)



Source: Company/Motilal Oswal Securities

BREAK-UP OF TOTAL LOANS (AS OF SEPTEMBER 2007)



Source: Company/Motilal Oswal Securities

Around 67% of the total consumer loans were secured as of September 2007 (45% were secured as of March 2007). Of the incremental disbursements, ~80% of the loans are secured in nature. Loans against mortgages and used commercial vehicles loans accounted for 70% of the secured loan portfolio in September 2007. This is a huge untapped market for Indiabulls, as banks have very little presence in these segments.

LOAN PRODUCTS

TYPE OF LOANS	DURATION (MTHS)	SECURITY	LIKELY YIELD (%)
Short Term Personal Loans	32	Unsecured	30-40
Personal Loans	36	Unsecured	20-23
Business Loans	36	Pari Passu Charge	19-20
Loan Against Property	120	Secured	17-18
Home Loans	180	Secured	12
CV Loans (Used)	42	Secured	22-23

Source: Company/Motilal Oswal Securities

Strong earnings growth due to higher volumes despite lower spreads

Impact of new consumer credit focus: Strong volumes, lower yields...

We expect Indiabulls to continue with its strong growth in the consumer finance business. Disbursements are likely to register a CAGR of 96% over 2007-10. This would entail loan book growth from Rs31b in FY07 to Rs296b in FY10. Unsecured loans have already reduced to 33% of total consumer loans as of September 2007, and would reduce further over the next few quarters as new products grow faster.

We estimate yields on loans to decline as new loans are coming in at lower yields of 18-20% as compared to 24-28% earlier. However, higher volumes will lead to strong earnings growth despite lower spreads.

...delinquencies and collections costs to also reduce

As Indiabulls moves away from the small ticket loans, the collection costs and delinquencies would also decline. Collection costs including other operating expenses used to be 4-6% on the small ticket portfolio, as it involved a higher number of loanees. Also, the small ticket loans involved a lot of repayments in cash, which resulted in higher operating expenses. Delinquencies, which were expected to be 4-6%, would also decline.

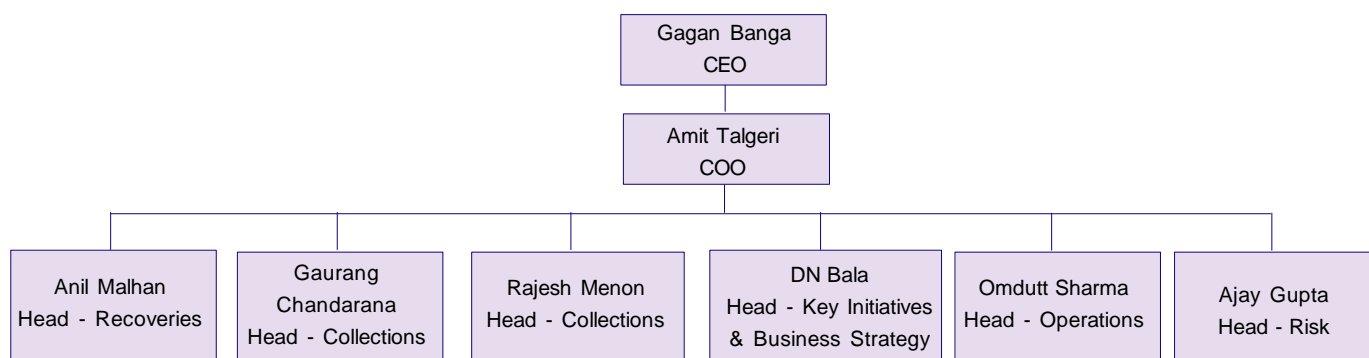
Robust processes...

Separate department for risk management in place

Indiabulls has robust processes across all its consumer finance segments. The larger focus is on risk management and quicker loan sanctioning. Currently, around 6,500 employees across 300+ branches in 140 cities are generating the sales leads for Indiabulls. About 15% of the business generated comes from the referral model, wherein commissions are paid out as referral fees.

The organization is divided into five business heads, which are responsible for different products. Apart from these business heads, there is a separate department for risk that takes care of policies – both internal and external, QA process audit, fraud control, etc.

REPORTING STRUCTURE FOR SUPPORT AND OTHER FUNCTIONS



Source: Company/Motilal Oswal Securities

REPORTING STRUCTURE UNDER BUSINESS HEADS/FUNCTION HEADS



Source: Company/Motilal Oswal Securities

...and a strong team in place

Over the last few quarters, the management has built a strong team to run the various businesses. It has drawn talent from HDFC Bank, GE Money, ICICI Bank, Shriram Transport and rewarded them with stock options (refer annexure for details).

High focus on risk control

As Indiabulls operates in a riskier asset class compared to conventional banking assets, it has put in a robust risk control mechanism in place to avoid any bad loan or fraud. The risk management is a completely different set up which decides all the credit appraisal policies. The main target for this team is to check that any fraudulent loan request does not pass through the appraisal process.

Typically, the sales department generates the lead and checks for all the documents and passes it to the risk/credit appraisal department. Indiabulls has access to negative database of various collection and verification agencies and actively sources such databases. It has built a centre of dedupe excellence, where all loans which are logged in are systematically checked against CIBIL and other databases to protect the company from defaulting and fraudulent customers and also to guard itself against overleverage. A proper timeline of these processes are assured since this is done centrally in the dedupe centre, which results in a faster turnaround time for any loan proposal.

Focus on asset value; loan to value at ~50%

One of the key differences between Indiabulls and conventional banks has been its focus on the value of security provided, as it lends largely to self employed individuals/traders/

businessmen, wherein assessing the repayment capacity might be difficult. Its loan to value at 50% for loans against mortgages, 70% for used commercial vehicles, and 33% for loans against shares appear conservative and provide a cushion against possible default.

SARFASEI gives Indiabulls a distinct advantage for recovery of dues...

Indiabulls has been notified as a financial institution under the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFASEI) Act. This notification has come in only recently, which we believe would help the company in controlling its bad loans in future years. Indiabulls has an in-house collection team of 1,500 full-time employees, which it plans to scale up to 2,500 in FY08.

...but company intends to carry sufficient provisions

Coverage ratio of 340% over gross NPAs (180 days due)

At all points, Indiabulls intends to keep sufficient provisions on its books. Currently, it has provision coverage ratio of 180% over its gross NPAs (90 days due) and 340% over its gross NPAs (180 days due). Despite moving towards a secured portfolio, the management intends to keep its provisioning coverage at 250-300% of its 180 days gross NPAs. Net NPAs are nil currently.

GROSS NPAS (RS B)

	JUNE 2007	SEPT 2007
Gross NPAs (90 days)	0.5	0.8
Gross NPAs (%)	1.8	2.1
Gross NPAs (180 days)	0.3	0.4
Gross NPAs (%)	1.0	1.1
Total Provisions	1.1	1.4
% of Consumer Loans	3.9	3.7
Coverage		
180 days	4.0	3.4
90 days	2.2	1.8

Source: Company/Motilal Oswal Securities

Securitization: Moving from assignment to PTC

Indiabulls started its consumer finance business as an originator of retail finance assets for banks or securitize them through the assignment way. This was primarily done as raising debt was challenging as a new entity and these assets were perceived to be risky. Thus, Indiabulls was largely acting as an extended DSA for various private banks and its share of earnings from these assets was low. Indiabulls also used to provide cash collateral of 20% for unsecured assets as a security towards the securitized pool. Since the sale was on assignment basis, the company used to book the income upfront as gains from securitization. Though on an accounting basis, the company was earning higher income in that particular year (as assignment gains were booked as one-off securitization business), the margins were lower as it was compelled to securitize and provide high cash collateral.

BREAK-UP OF CONSOLIDATED TOTAL AUM (RS M)

	FY06	FY07	FY08E	FY09E	FY10E
Total AUMs	11,100	31,300	100,345	185,224	282,396
Assignment	0	7,428	25,000	5,000	0
<i>% of Total</i>	<i>0</i>	<i>24</i>	<i>25</i>	<i>3</i>	<i>0</i>
Securitized	0	0	33,000	66,000	132,000
<i>% of Total</i>	<i>0</i>	<i>0</i>	<i>33</i>	<i>36</i>	<i>47</i>
Retained on Book	11,093	21,300	42,345	114,224	150,396
<i>% of Total</i>	<i>100</i>	<i>76</i>	<i>42</i>	<i>62</i>	<i>53</i>

Source: Company/Motilal Oswal Securities

As the consumer loan portfolio has got seasoned over the last 12-18 months and with higher proportion of secured assets in new disbursements, incrementally most of the securitization is happening the Pass through Certificates (PTC) way, wherein the pool of assets to be securitized are rated by a rating agency. Indiabulls provides the cash collateral towards the pool (much lower than assignment) depending on the rating.

Indiabulls' net worth as of September 2007 stood at Rs37b, which gives it significant leveraging capabilities. Over the last few quarters, it has been focusing on improving its credit rating and has already received the best credit rating from Crisil for short term debt. It is in the process of getting its ratings done for longer term debt. Thus, the requirement for securitization has reduced significantly for Indiabulls, which helps it to get higher returns on the securitized portfolio.

We believe, with the ability to raise debt on its own books, Indiabulls will be able to retain a larger part of assets originated on its own books. This would entail a higher spread on the securitized portfolio and requirement of cash enhancements will also reduce.

Credit ratings in place; ability to raise debt enhanced

CRISIL had assigned the highest rating of 'P1 +' for unsecured short term borrowing programme of Rs7.5b of Indiabulls, which has now been enhanced to Rs20b. It has also assigned its highest rating 'AAA (SO)' for PTC, in relation to loan receivables of Indiabulls Credit Services Ltd (ICSL), and credit opinions equivalent to a rating of 'AAA (SO)' in relation to assignment of loan receivables programmes of ICSL, the consumer finance company and a subsidiary of Indiabulls.

CRISIL has assigned the highest broker grading 'CRISIL BQ 1' to Indiabulls Securities Ltd, a 100% subsidiary of Indiabulls.

Securitization earnings likely to be secular

Incrementally, as the securitization happens through PTC, income recognition would be for the duration of the asset. Earlier, income from assignment was booked upfront and was a one-time recognition. Of the total AUMs, assignment-based AUMs are expected to become nil in FY10 from 25% in FY08. Securitization on PTC basis shall increase from nil in FY07 to 47% in FY10.

SECURITIZATION INCOME - MOVING FROM ASSIGNMENT TO PTC (RS M)

	FY07	FY08E	FY09E	FY10E
Pass Through Certificate (secular income)				
Avg Sec Book		16,500	49,500	99,000
Avg Yield (%)		7	7	7
Securitization Income		1,155	3,465	6,930
Assignment Basis (one-off income)	7,428	25,000	5,000	0
Yield (%)	33	15	15	-
Securitization Income	2,459	3,750	750	-
Total Securitization Income	2,459	4,905	4,215	6,930
% of Operating Income	19.8	21.6	11.7	13.6
% of PBT	37.1	43.3	24.4	27.0
Secular Securitization Income (%)	-	23.5	82.2	100

Source: Company/Motilal Oswal Securities

Consumer finance: 55% earnings CAGR over FY07-FY10E

We estimate disbursements to grow at 96% and earnings at 55% over FY07-FY10 on the back of aggressive ramp up in the consumer finance segment. We estimate yields to decline from 26% in FY07 to 21% in FY10. With overall leverage likely to be 3x in FY08, we do not expect any capital requirement for the consumer finance business.

Securities business – new ventures to drive growth

Strong technology platform and new client additions to help maintain market share

Steady business with ~5% market share

Indiabulls started its broking venture (Indiabulls Securities) in 2001. It has been able to garner ~5% overall market share due to its aggression in margin funding and a robust technology platform. Though Indiabulls has lost some market share over the last few quarters due to increased competition and strict compliance in the derivatives segment, we believe it can sustain its share of ~5% on the back of its strong technology platform and new client additions.

SECURITIES BUSINESS: REVENUE TREND

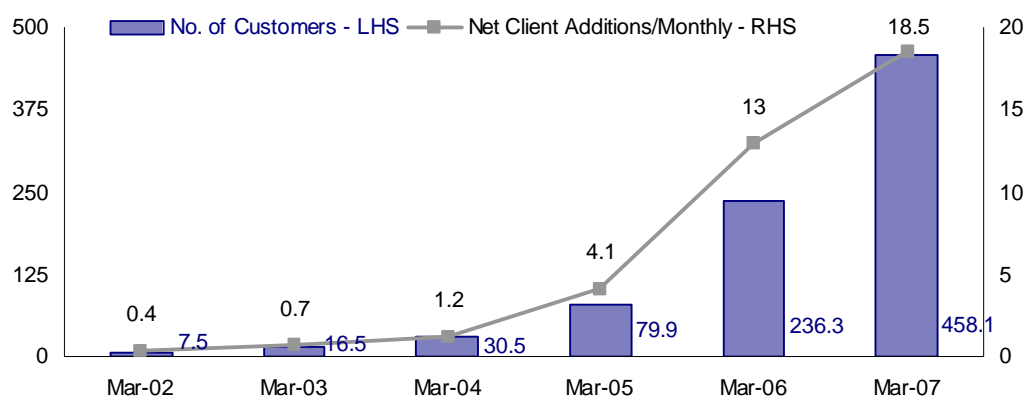
	FY05	FY06	FY07	FY08E	FY09E	FY10E
Revenue (Rs b)	1.0	2.6	3.0	5.1	6.4	7.6
YoY Growth (%)		162.0	14.6	70.9	25.0	19.0
Yields % (assumed)	0.10	0.07	0.06	0.06	0.06	0.06
Turnover Calculated (Rs b)	996	3,726	4,983	8,965	11,206	13,331
Total Mkt Turnover (Rs b)	41,964	72,090	102,576	194,894	243,618	292,342
Market Share	2.4	5.2	4.9	4.6	4.6	4.6

Source: Company/Motilal Oswal Securities

Rapid client additions

Indiabulls operates through more than 300 branches in 200 cities and has over 0.6m clients as of September 2007. The client base was 0.24m as of March 2006. It had an average monthly net client addition of 13,000 in FY06 and 18,500 in FY07. We expect the strong growth in client additions to continue on the back of a strong macro economic environment.

GROWTH OF CUSTOMER BASE ('000)



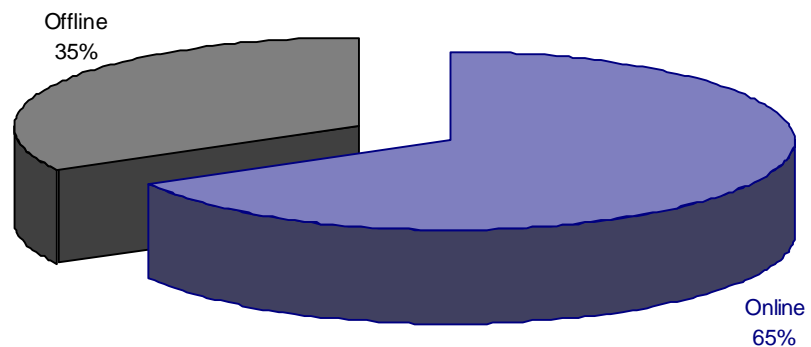
Source: Company/Motilal Oswal Securities

65% of total business comes from online trading

32% market share in internet broking

Almost 65% of Indiabulls' total business comes from online trading and the balance is from offline. A larger contribution from internet broking has helped Indiabulls keep costs low, which has resulted in a higher net margin for the broking venture.

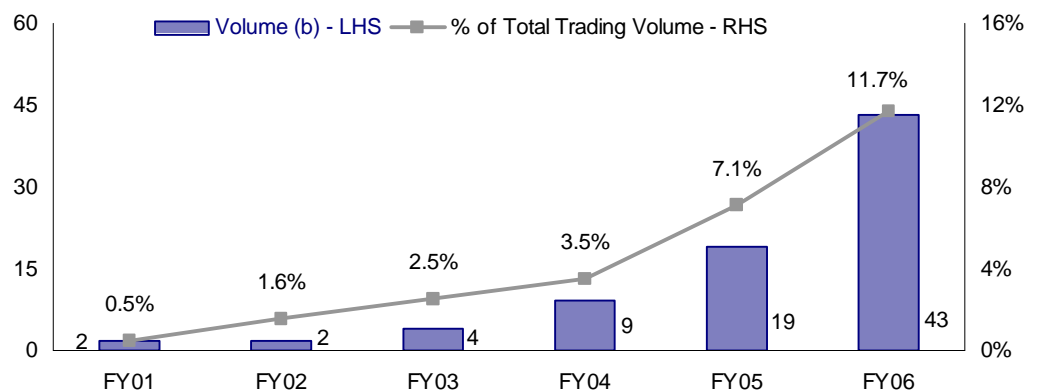
MAJOR VOLUMES COME FROM ONLINE TRADING



Source: Company/Motilal Oswal Securities

Indiabulls has been able to ramp up its market share in internet broking on the back of its strong technology backbone. It currently has a 32% market share in online trading.

INTERNET TRADING GAINING ACCEPTANCE IN INDIA



Source: Company/Motilal Oswal Securities

New ventures to drive growth

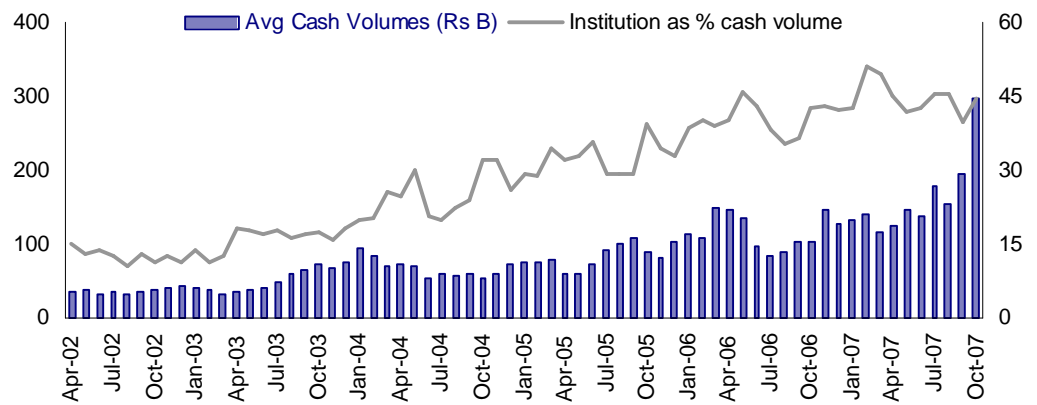
Institutional broking

Though Indiabulls has been successful in retail broking, it had till date stayed away from institutional broking. However, with the rising share of institutional volumes in total volumes, the management now seems to be aggressively looking at the institutional space as one of the key growth segments for its securities business.

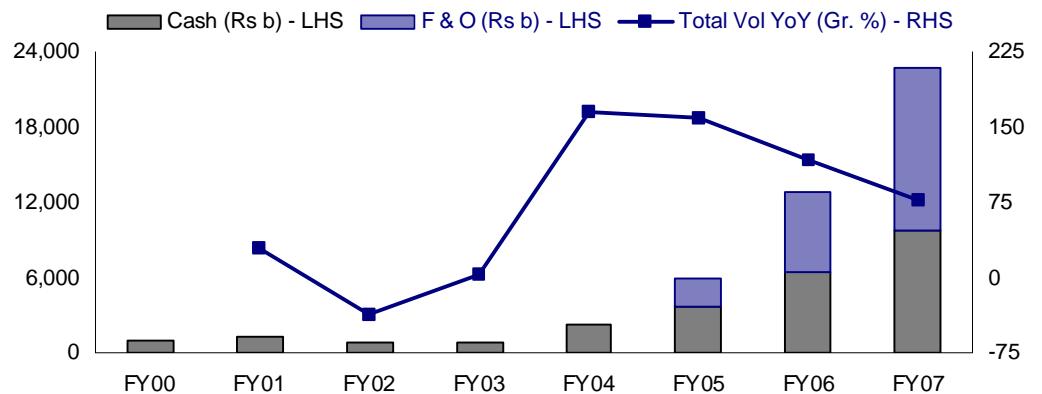
Foray into institutional segment can open up a new revenue stream

We believe the management is likely to go the inorganic way and could probably buy out a team which would initiate institutional broking at Indiabulls. IndiaInfoline has also adopted a similar model and has seen its valuations expand post its foray into institutional segment. Institutional broking could result in a new revenue stream for Indiabulls, which could be significant over the next few years. While we do not assign any value to this venture as of now, we believe further clarity on this could provide upsides to our estimates.

INSTITUTIONAL INVESTORS' SHARE INCREASING



STRONG FII VOLUMES



Source: Company/Motilal Oswal Securities

PMS

To manage ~US\$1b of funds by FY09

Indiabulls plans to enter Portfolio Management Services (PMS). The management is targeting to manage about US\$1b of funds by FY09. Thus, even a 1% AMC fee could add ~Rs400m to the topline of the brokerage venture. With the profit sharing and added broking revenues, the net return is likely to be significantly higher over the next couple of years. With its base of 0.6m customers and more than 300 offices in 200 cities, it has a big headstart in the PMS segment.

Private equity

Within private equity, Indiabulls plans to start off with a US\$500m non-real estate fund with a 2:20 structure. It would also be investing US\$50m in this fund. We believe that a successful launch of this fund would lead to multiple launches from the group over the next few years. We have not assumed any income from this venture in our estimates yet.

Securities business: 39% earnings CAGR over FY07-FY10E

We estimate Indiabulls market share to decline from 4.9% in FY07 to 4.6% in FY08 due to strict compliance norms followed by the company as well as increased competition. We expect revenue from the securities business to grow at a CAGR of 35% over FY07-FY10. Earnings are likely to register a CAGR of 39% over FY07-FY10.

New ventures - potential value drivers

1. Insurance

Life insurance business likely to be operational by April 2008

Indiabulls has sought permission from RBI and IRDA for starting a life insurance business. The management expects to get the final license before March 2008 and plans to go for a commercial launch in April 2008. A K Shukla, former chairman of LIC, will head the life insurance business (Indiabulls Insurance). The company is currently working on recruiting the back-end staff and other team members to ensure that the venture can begin without any delays.

Strong distribution network - key strength

680 branches in 210 cities

Though Indiabulls started the insurance distribution business just 12-15 months back, it is gaining traction on the back of rapid agent addition and a wide distribution network. It is already the largest corporate agent for Max New York Life (MYNL) and is likely to generate premiums of ~Rs1.9b in FY08. It has around 5,000 employees selling insurance for MYNL. Once its insurance venture is launched, the 5,000 employees and 680 branches in 210 cities (of securities and consumer finance businesses) could be utilized to sell its own insurance products.

Secular growth likely in insurance commissions

Assuming a productivity of Rs60,000 per month, we expect insurance premium generation of Rs4.95b in FY10. Assuming a 40% first year margin, we expect insurance commission of Rs1.6b to be generated in FY10. Since this business is in the ramp up phase, we are assuming 20% discount for any potential delays. We are not yet assuming any trail income, which can emerge as a regular income in future years.

EXPECTED INSURANCE COMMISSIONS (RS M)

	FY08E	FY09E	FY10E
Total Employees Selling Insurance	5,000	6,000	7,500
Avg Months of Indiabulls Employees	8	10	11
Per Month Productivity of an Insurance Agent (Rs)	60,000	60,000	60,000
Insurance Generated by Indiabulls (Rs m)	2,400	3,600	4,950
80% Productivity Assumed (for Any delays)	1,920	2,880	3,960
Commission Earned (%)	40	40	40
Insurance Commission (Rs m)	768	1,152	1,584

Source: Company/Motilal Oswal Securities

Inherent advantages to drive growth

Operating costs low

The key advantage for Indiabulls is its low operating costs, as it would be targeting customers in the securities and consumer finance businesses to start with. Even a 30-40% penetration of the current customer base of the securities business could mean a customer base of

Huge customer base and wide distribution network to drive growth

0.2-0.25m for life insurance. The management plans to have about 30,000 insurance agents in FY09 and 60,000 agents in FY10. Despite being a late entrant in this segment, we believe its large customer base and wide distribution network will ensure fast growth.

VALUATION FOR INDIABULLS INSURANCE

	FY07	FY08E	FY09E	FY10E
Total Agents Selling Insurance (Nos)			30,000	60,000
Productivity per Month (Rs)			60,000	60,000
Avg Months of Insurance Sales (Nos)			6	6
Total Insurance Commission Generated (Rs m)			10,800	21,600
80% Productivity Assumed for Any Delays (Rs m)			8,640	17,280
Insurance Business				
APE Private Players (Rs m)	159,490	287,082	430,623	538,279
YoY Growth (%)	104	80	50	25
Indiabulls Market Share (%)			2	3
APE Indiabulls (Rs m)			8,612	16,148
Our valuation for Indiabulls Insurance				
NBAP (Rs m)			8,612	16,148
NBAP Margins Assumed (%)			20	20
NBAP (Rs m)			1,722	3,230
NBAP Multiple (x)				20
Valuation for the Insurance Venture (Rs m)				64,593
Likely Holding in the Venture (%)				74
Value for Indiabulls (Rs m)				47,799

Source: Company/Motilal Oswal Securities

2. Commodity exchange

Planned JV with MMTC holds significant potential

74% stake to be held by Indiabulls

Indiabulls is setting up a special purpose vehicle (SPV) with Metals and Minerals Trading Corporation (MMTC) for a multi commodity exchange. It will hold 74% equity in the SPV, while MMTC will hold the remaining 26% stake. The initial equity capital of the SPV will be Rs1b.

MMTC, which is India's largest trading and warehousing company with annual trading turnover of \$4b, is likely to control the back-end of delivering goods to traders while Indiabulls will control risk management and transaction costs. Indiabulls, with its large customer base and countrywide distribution network, will complement MMTC's international trading experience across a diverse range of products and leverage on its existing warehousing capabilities, a crucial component of any commodity exchange.

The government had put a three year moratorium for licencing any new national level exchange, which has already expired in February 2007. Hence, the probability of this SPV getting the license is very high.

According to media reports, the ministry of commerce and industry has already approved the proposal submitted by MMTC. However, the proposed exchange will also require clearance from the commodity market regulator, Forward Markets Commission (FMC), which is yet to come.

There are currently three national exchanges in the commodities space. The biggest exchange, Multi Commodity Exchange of India (MCX), is primarily focused on metals and energy products, though it has introduced several new futures in recent times. MCX is owned 64% by Financial Technologies.

The other leading exchange, NCDEX, is a strong platform for agri-commodities, but has off late suffered a fall in volumes due to the government ban on several agri futures. The third bourse, NMCE, which is based in Ahmedabad, has very low volumes.

Aims to become the largest commodity exchange within 12-18 months of commencement

We believe the potential of this venture could be large in the years to come. Further, the management's ambition is to make the SPV the largest commodity exchange within 12-18 months of commencement.

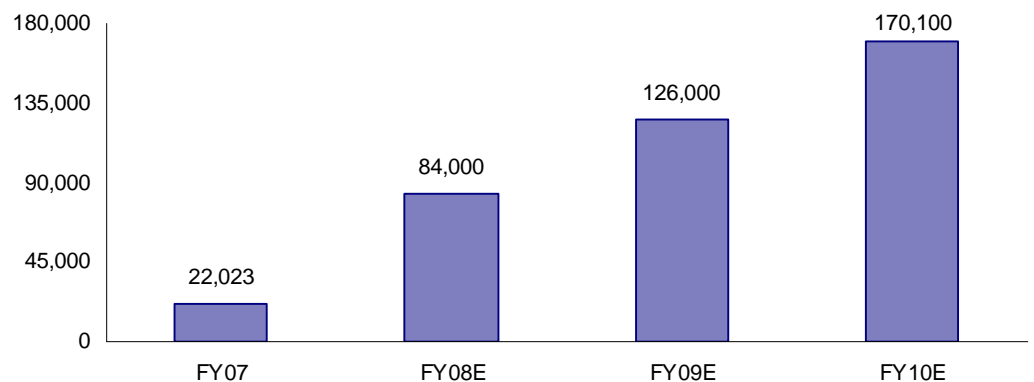
Financials and valuations

Strong growth in consumer finance revenue on rising disbursements

72% CAGR in consumer finance revenue over FY07-10E

We expect 72% CAGR in consumer finance revenue over FY07-10 on the back 96% CAGR in disbursements. Total loans are expected to register a CAGR of 110% over the same period. The yields are likely to decline from 26% in FY07 to 21% in FY09, as it moves away from small ticket loans and leveraging also increases. However, we expect lower operating expenses as the company moves away from riskier businesses.

EXPONENTIAL GROWTH IN DISBURSEMENTS (RS M)



Source: Company/Motilal Oswal Securities

We expect revenue from securities business to register 35% CAGR over FY07-10. However, the market share is likely to decline marginally to 4.6% in FY10 from 4.9% in FY07. We have not factored in any revenue from its proposed new ventures.

REVENUE BREAK-UP

	FY05	FY06	FY07	FY08E	FY09E	FY10E
Total Revenue (Rs m)	1,684	6,132	12,444	22,874	37,941	57,753
Securities	1,145	3,182	4,268	6,660	8,701	10,661
% of Total Revenue	68.0	51.9	34.3	28.8	22.8	18.4
Growth in Revenue (%)		178	34	56	31	23
Consumer Finance	527	2,857	6,994	13,167	22,119	36,267
% of Total Revenue	31.3	46.6	56.2	57.0	57.9	62.7
Growth in Revenue (%)		442	145	88	68	64
Fee Based Income & Others	12	92	1,182	3,233	7,313	10,826
% of Total Revenue	0.7	1.5	9.5	14.0	19.1	18.7
Growth in Revenue (%)		680	1,185	173	126	48

Source: Company/Motilal Oswal Securities

50% CAGR in earnings over FY07-10E

We expect earnings to register a 50% CAGR over FY07-10 on the back of strong growth in balance sheet. Post its capital raising in June 2007, Indiabulls is currently leveraged by less than 3x and can maintain its strong growth rates without any dilution over the next few quarters.

PROFITS BY SEGMENT (RS M)

	FY06	FY07	FY08E	FY09E	FY10E
Consumer Finance PAT	1,738	3,083	5,433	8,470	11,750
<i>Growth (%)</i>		77.4	76.2	55.9	38.7
Securities PAT	796	1,366	2,264	2,958	3,731
<i>Growth (%)</i>		71.7	65.8	30.6	26.1
<i>Net Margin (%)</i>	25.0	32.0	34.0	34.0	35.0

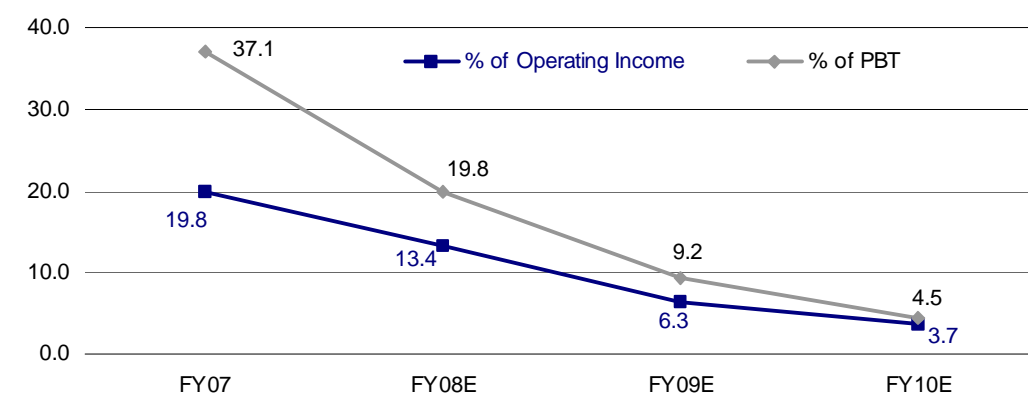
Source: Company/Motilal Oswal Securities

Securitization income to reduce

We believe securitization income would reduce going forward, as new assets would now be created on its own balance sheet. Indiabulls can now raise both short and long term capital and also has the required capital to keep these assets on the balance sheet. It was earlier securitizing long tenure assets to match its assets and liabilities. Now with its own ability to raise debt and leverage its balance sheet, we expect securitization to reduce going forward.

Indiabulls also used to resort to securitization on assignment basis and was booking one-off gains on the securitized portfolio. These gains are likely to reduce, which would stabilize its core earnings.

SECURITIZATION AS A % OF PBT

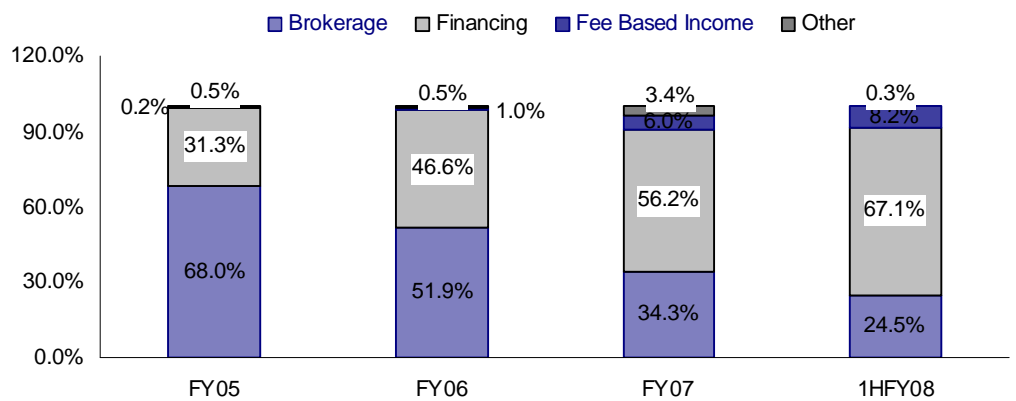


Source: Company/Motilal Oswal Securities

Demerger: Earnings streams to get diversified

The company is in the process of demerging its consumer finance and securities businesses. Post demerger, all fee-based activity would move to the securities venture and fund-based activity would remain with the finance company. In terms of net worth, about Rs4b would get transferred to the new company, as it does not require capital for its businesses.

REVENUE MIX

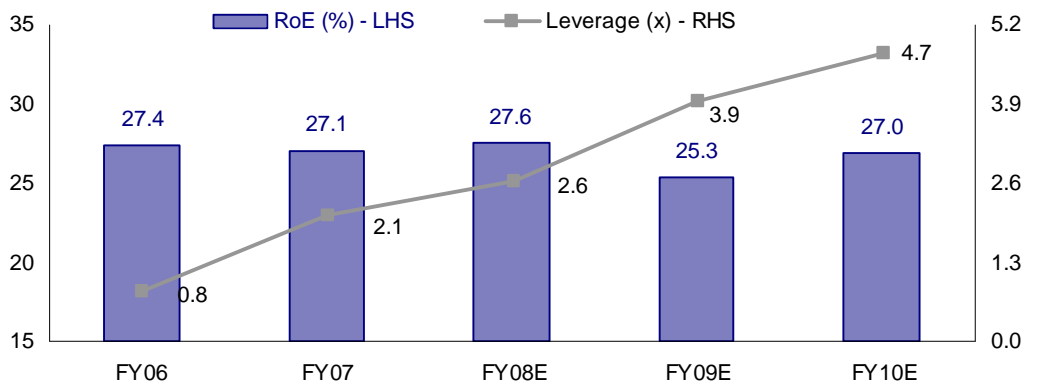


Source: Company/Motilal Oswal Securities

RoEs to remain healthy

On a combined basis, the RoEs are likely to remain strong at 26-28% over the next few years. RoEs could get further enhanced if leverage is higher than our estimates. We have factored in a leverage of <5x in FY10.

ROE TO REMAIN STABLE; LEVERAGE RISING



Source: Company/Motilal Oswal Securities

Valuations

Initiate coverage with a Buy; 26% upside

We expect a 50% CAGR in PAT from its core businesses, over FY07-10E. The stock trades at 18x FY09E EPS and 13x FY10E EPS. Our SOTP-based price target of Rs943 indicates an upside of 26%. We initiate coverage with a **Buy**.

SUM OF THE PARTS VALUATION FOR INDIABULLS (FY10E)

	VALUE (RS B)	VALUE (US\$B)	PER SH. (RS)	% TO TOTAL	RATIONALE
Consumer Finance Business	188.0	4.8	694.9	74	Valued at 16x FY10E PAT
Securities Business	67.2	1.7	248.3	26	Valued at 18x FY10E PAT
Target Value	255.2	6.5	943.2	100.0	
Current Valuations	202.8	5.2	749.5		
Upside (%)	25.8	25.8	25.8		

Source: Motilal Oswal Securities

Potential upsides from new businesses can be substantial

*Option value of
Rs217per share*

We expect significant upsides from new businesses like life insurance and commodity exchange over the next few years. As Indiabulls is awaiting regulatory approvals for most of these new businesses, we are not factoring in any upsides. However, we believe the option value from these businesses are likely to be significant. Based on our estimates and assumptions, the likely option values of these businesses could be Rs59b (Rs217 per share) in FY10.

OPTION VALUE NOT CAPTURED IN TARGET PRICE

	VALUE (RS B)	VALUE (US\$B)	PER SH. (RS)	RATIONALE
Insurance Venture	47.8	1.2	176.7	20x FY10E NBAP, 3% market share among private players. APE Rs16b
Private Equity Venture	3.0	0.1	11.1	AUM of US\$500m by FY10E, Valued at 15%
Domestic Mutual Fund (AMC)	3.0	0.1	11.1	6% of FY10E AUM of Rs50b
Institutional Broking Business	5.0	0.1	18.5	Assuming 2% market share of inst. broking revenue in FY10
Total Option Value	58.8	1.5	217.3	
Target Value Including Option Value	314.0	8.0	1,160.5	
Upside (%)	54.8	54.8	54.8	

Source: Motilal Oswal Securities

Investment concerns**Economic slowdown may lead to deterioration in asset quality**

Though Indiabulls is maintaining high provisions currently, we believe any slowdown in the economy could lead to rise in NPAs. An economic slowdown will impact Indiabulls harder, as it operates in a higher yield bracket on the assets side.

Increasing competition in securities business may dent market share

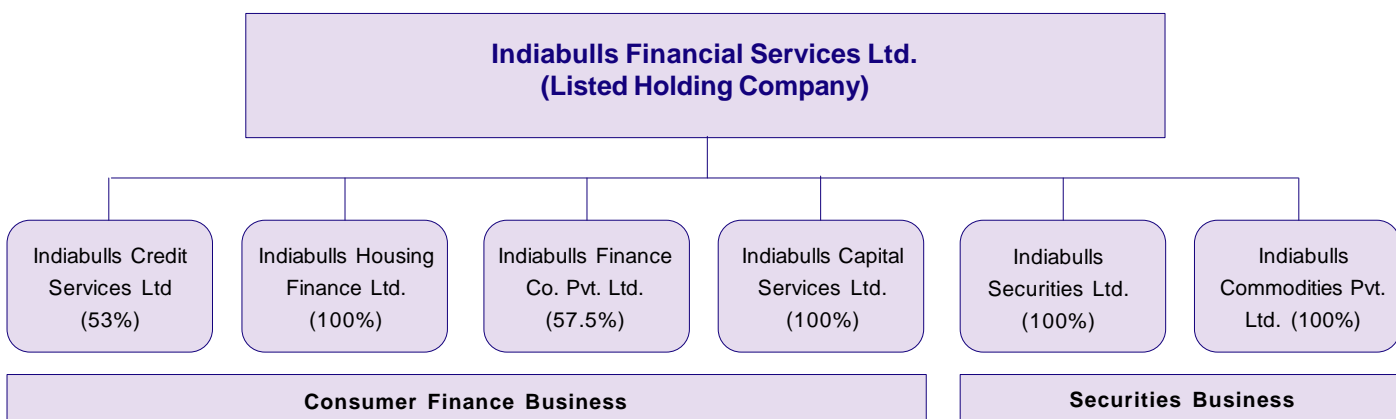
Indiabulls has recently lost some market share in the securities business. We believe competition in the retail space has become aggressive with the entry of few new players, who are keen to grab market share. Though we have factored in a decline in market share from 4.9% in FY07 to 4.6% in FY10, cutthroat competition may lead to further decline in market share. However, the management is confident of ramping up the company's workforce and distribution network to increase its market share.

Background

Sameer Gehlaut (Chairman), Rajiv Rattan (Chief Financial Officer) and Saurabh Mittal (Non Executive Director) founded Indiabulls Financial Services Ltd in 2000. The company and its subsidiaries provide a variety of financial services, including equity, debt and derivatives brokerage, depository services, equity-research services, third-party mutual funds and insurance product sales, commodities trading through on-line and off-line distribution channels, and loans to more than 0.6m clients. The group operates through its head office in New Delhi and 680 offices in 210 cities in India.

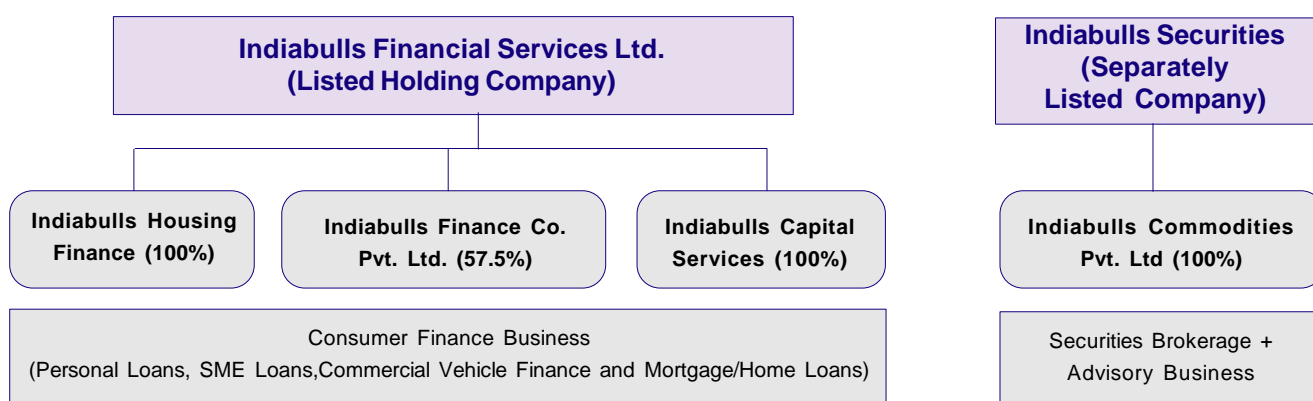
Indiabulls listed on the Indian stock exchanges in September 2004 and issued GDRs in February and July 2005. The company is in the process of demerging its securities business and the new company is likely to be listed by February 2008.

CURRENT ORGANIZATION STRUCTURE



Source: Company

ORGANIZATION STRUCTURE (POST DEMERGER OF SECURITIES BUSINESS)



Source: Company

Annexure: Strong human resources

Promoter profile

- ✍ **Sameer Gehlaut (Chairman):** He graduated with a degree in Mechanical Engineering from the Indian Institute of Technology, Delhi. Sameer was one of the three engineers selected by Halliburton to work for its international services business in the year 1995. He gained experience, learned international best practices and imbibed professional work culture at Halliburton, which he brought to Indiabulls as one of the founders of the company. Under his leadership, Indiabulls has grown from a small securities broking company to one of the leading financial services provider.
- ✍ **Rajiv Rattan (Chief Financial Officer):** He is a NTSE Scholar and has graduated with a degree in Electrical Engineering from the Indian Institute of Technology, Delhi. Rajiv was the only engineer selected by Schlumberger to work for its international services business in the year 1994. He gained extensive experience in international best practices, process management, and risk management, which he brought to Indiabulls as one of the founders of the company. Rajiv has gained extensive experience in the financial services sector, and has developed understanding of risk management, efficient processes and operational excellence.

Top management profile - Indiabulls Financial (incl. securities business)

- ✍ **Vikas Saxena (Chief Legal Officer):** He is a qualified company secretary, chartered accountant and a law graduate. He has over thirteen years of experience at senior levels in handling legal and secretarial functions of leading organizations like Pepsi, American Express, Metro Cash & Carry and Perot Systems.
- ✍ **Venkata Rambabu (Vice President - Operations):** He is MBA (Finance) from Vivekananda School of Post-Graduate Studies, Osmania University and ICWA (Inter) from Institute of Cost & Works Accounts of India. Prior to Indiabulls, he had a total work experience of seven years in companies like Standard Chartered Bank, Refco-Sify Securities India Pvt Ltd, Stock Holding Corporation of India Ltd.
- ✍ **Tejinderpal Singh Miglani (Chief Technology Officer):** He is a NTSE scholar and graduated with a Computer Sciences degree from Indian Institute of Technology, Delhi with high academic honours. He also has a management degree from the Indian Institute of Management, Calcutta. He worked at Dresdner Kleinwort Benson as senior engineer and project manager and was responsible for creating financial transaction systems for its international trading operations, with cutting edge technology and processes. He has also worked for ICICI Ltd.

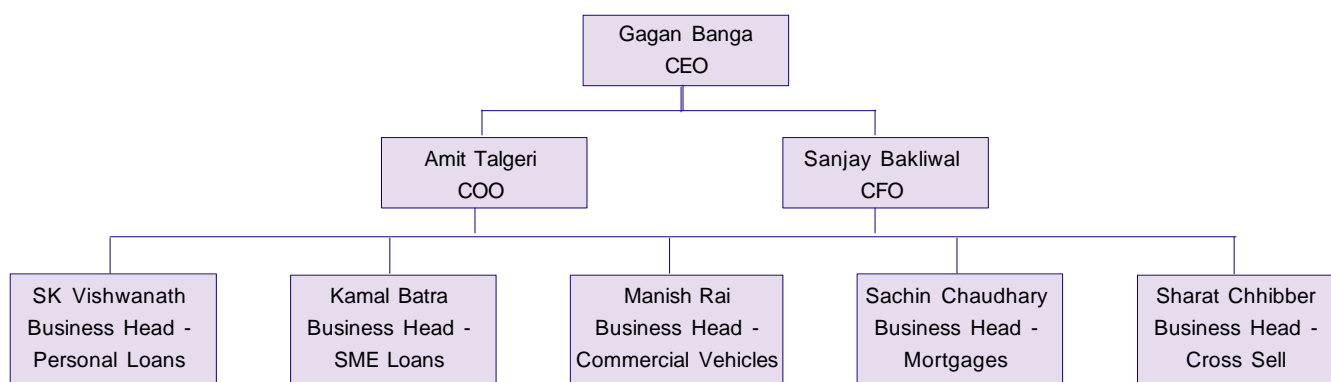
- ✂ **Sandeep Arora (Head - Funds):** He has done B.Com (Hons.) from Delhi University and also has a Post Graduate Diploma in Marketing from Symbiosis, Pune. Prior to joining Indiabulls, he had 17 years of service experience in the banking sector in various segments i.e. front office, back office, asset operation etc and worked for ANZ Grindlays Bank , Standard Chartered and ICICI Bank.
- ✂ **Ajay Arora (Head - Account opening):** He has completed his MBA from SIMS, Pune. Currently, Ajay is taking care of demat and trading accounts for securities business, handling daily average volume of 800 accounts of each type and managing a team size of 200 people.
- ✂ **Yogesh Kataria (Vice President - Regulatory Compliance):** Yogesh is a graduate engineer with Masters in Finance. Prior to Indiabulls, Yogesh had 10 years of experience in the financial services sector. He was associated with NSE from September 2000 to December 2006.
- ✂ **Ashok Sharma (Financial Controller):** He is a qualified chartered accountant with over 13 years of experience in the financial services industry. He is a key member of the senior management team and heads the accounts, risk management and back office operations.
- ✂ **Pamela Sharma (Head - Customer Service):** She has done her PGDBM from Netherlands International Institute of Management, Holland. She has over 13 years of experience in organizations like ABN Amro Bank, ICICI Bank and Standard Chartered Bank. Prior to joining Indiabulls, she was working as Head Portfolio Sales – Credit Card – ABN Amro Bank.
- ✂ **Vivek Agarwal (Vice President - Process Excellence and Service Quality):** He is a B.Tech from ITBHU and a MBA from FMS, Delhi. Vivek has an overall work experience of eight years and joined Indiabulls from Citibank NA. He is a Six Sigma Black belt from GECIS (now GENPACT) and has also worked in Infosys Technologies.

Consumer finance business: Management profile

- ✂ **Gagan Banga (Chief Executive Officer):** He has been a director of the Board since 30 March, 2005. He holds a masters degree in Business Administration. Gagan has been with the Indiabulls since 2000 and has been responsible for the stock trading business at Indiabulls Securities. Prior to joining Indiabulls, he worked at NIIT as Regional Sales Head.

- ✧ **Amit Talgeri (Chief Operating Officer):** He is a management graduate with over 12 years of experience in consumer finance. Prior to joining Indiabulls, Amit was Head – Retail Credit and Securitization in HDFC Bank. He has also worked for Bank of America and HDFC Ltd.
- ✧ **Sanjay Bakliwal (Chief Financial Officer):** He is a chartered accountant with over 10 years of experience. Sanjay joined Indiabulls in April 2007 as Senior Vice President, Finance. Prior to joining Indiabulls, he was an Associate Director at KPMG.

 REPORTING STRUCTURE FOR BUSINESS GROUPS



Source: Company

- ✧ **SK Vishwanath (Head - Personal Loans):** He is a management graduate with 14 years of experience in consumer finance. He heads the business strategy division, assisting the CEO. Vishwanath also heads the Prime Personal Loans business. Prior to joining Indiabulls, he was the National Head of Personal Loans & Loan against Gold in HDFC Bank.
- ✧ **Kamal Batra (Head - SME Loans):** He is an alumnus of the Indian Institute of Management, Bangalore with over 10 years of experience in SME business, trade finance and transaction banking. Prior to joining Indiabulls, Kamal worked in ABN Amro Bank, where he launched the Business Credit Group, a division catering to the banking needs of small companies. He has also worked in the SME business division of Standard Chartered Bank as the Regional Head - North.
- ✧ **Sharat Chhibber (Head - Cross Sell):** He joined the company from the Centurion Bank of Punjab Ltd where his last assignment was as head of collections for personal loans. Sharat has worked in HDFC Bank, Citi Financials and CEAT Ltd and has an experience of 12 years.

- ✧ **Sachin Chaudhary (Head - Mortgages):** He is a management graduate with 10 years of experience in the finance Industry. He was with GE Money heading underwriting for the North and East Zone before joining Indiabulls. Sachin has also worked in ICICI Bank and was instrumental in setting up the mortgages business across Punjab, Haryana, Himachal Pradesh and Chandigarh.

- ✧ **Manish Rai (Head - Commercial Vehicles):** Manish has 14 years of experience in commercial vehicle financing. Prior to joining Indiabulls, he was working with Shriram Transport Finance Company Ltd.

- ✧ **Other functions**
 - Gurmeet Singh : Head – HR
 - Ramkumar : Head – Compliance
 - Wilson D’Silva : Head – Recruitments
 - Vikas Saxena : Head – Legal

INCOME STATEMENT (CONSOLIDATED)		(RS MILLION)				
Y/E MARCH	2006	2007	2008E	2009E	2010E	
Operating Income	6,102	12,409	23,060	38,133	57,754	
Other Income	29	35	50	80	100	
Total Income	6,132	12,444	23,110	38,213	57,654	
<i>Change (%)</i>	264.1	102.9	85.7	65.4	50.9	
Operating Expenses	1,892	4,238	7,833	12,401	18,821	
EBITDA	4,240	8,207	15,277	25,813	38,833	
<i>Change (%)</i>	296.3	93.6	86.2	69.0	50.4	
Depreciation	73	177	248	297	357	
EBIT	4,167	8,030	15,030	25,515	38,477	
<i>Change (%)</i>	297.6	92.7	87.2	69.8	41.4	
Interest	315	680	1,809	5,129	9,847	
Operating Profit	3,852	7,350	13,221	20,387	28,630	
Provisions	118	719	1,710	3,550	6,100	
PBT	3,734	6,631	11,511	16,837	22,530	
Tax	1,200	2,181	3,814	5,408	7,248	
<i>Tax Rate (%)</i>	31.2	32.9	33.1	32.1	32.2	
PAT	2,534	4,449	7,697	11,429	15,282	
<i>Change (%)</i>	346.8	75.6	73.0	48.5	33.7	
Proposed Dividend	291	554	1,431	1,742	2,054	

E: MOST Estimates

BALANCE SHEET (CONSOLIDATED)		(RS MILLION)				
Y/E MARCH	2006	2007	2008E	2009E	2010E	
Share Capital	320	3,844	2,156	2,156	2,156	
Equity Capital	320	367	541	541	541	
Preference Capital	0	3,478	1,615	1,615	1,615	
Share Warrants	167	135	0	0	0	
Reserves & Surplus	12,794	14,630	38,983	48,669	62,097	
Net Worth	13,282	18,609	41,138	50,825	64,253	
Secured Loans	30	3,358	5,876	23,505	32,908	
Change (%)	NM	NM	75.0	300.0	40.0	
Minority Interest	3,697	3,460	960	1,080	1,200	
Unsecured Loans	3,000	7,301	12,774	51,095	71,528	
Other Liabilities & Prov.	4,259	7,883	11,515	20,230	25,132	
Total Liabilities	24,267	40,611	72,264	146,734	195,020	
Cash and Bank Balance	8,911	8,054	14,029	6,748	6,919	
Investments	2,674	5,846	8,769	13,153	19,729	
Change (%)	NM	118.6	50.0	50.0	50.0	
Advances	11,093	23,872	46,345	122,824	164,086	
Change (%)	53.9	115.2	94.1	165.0	33.6	
Net Fixed Assets	725	1,541	1,561	1,674	2,183	
Other Assets	864	1,298	1,560	2,335	2,103	
Total Assets	24,267	40,611	72,264	146,734	195,020	
ASSUMPTIONS		(%)				
Borrowing Growth	-39	252	75	300	40	
Advances Growth	54	115	94	165	34	
Investments Growth	NM	119	50	50	50	
Dividend	18	30	40	50	60	

E: MOST Estimates

RATIOS

Y/E MARCH	2006	2007	2008E	2009E	2010E
Ratio Analysis (%)					
EBITDA Margins	69.1	65.9	66.1	67.5	67.4
PAT Margin	41.3	35.8	33.3	29.9	26.5
Avg Yield on Advances	24.4	26.4	24.0	21.2	20.5
Profitability Ratios (%)					
RoE	27.4	27.1	27.6	25.3	27.0
Closing D/E (x)	0.2	0.7	0.5	1.5	1.7
Leverage (inclgd Securitization)	0.8	2.1	2.6	3.9	4.7
RoA	13.9	13.7	13.6	10.4	9.1
Efficiency Ratios (%)					
Op. Exps./Assets	8.1	10.9	11.2	8.7	9.8
Opex / Assets (Incl Sec)	0.0	9.3	6.2	5.8	5.9
Prov / Assets	0.6	2.2	3.0	3.2	3.5
Prov / Assets (Incl Sec)	0.5	1.5	1.3	1.6	1.9
VALUATION					
Book Value (Rs)	81.8	81.8	146.1	181.9	231.5
Price-BV (x)	9.2	9.2	5.1	4.1	3.2
Adjusted BV (Rs)	81.8	81.8	146.1	181.9	231.5
Price-ABV (x)	9.2	9.2	5.1	4.1	3.2
EPS (Rs)	15.8	24.2	28.5	42.2	57.2
EPS Growth (%)	271.5	53.0	17.6	48.5	35.5
Price-Earnings (x)	47.4	31.0	26.3	17.7	13.1

E: MOST Estimates

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Disclosure of Interest Statement	Indiabulls Financial Services
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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