



Motilal Oswal Financial Services

IPO Fact Sheet

Issue details

Issue opens:	August 20, 2007
Issue closes:	August 23, 2007
Issue size:	2,982,710 equity shares
Offer size:	Rs216 crore to Rs246 crore
Price band:	Rs725-825
Reservation for employees:	142,310 equity shares
Net issue to public:	At least 2,840,400 shares
<i>Of which</i>	
- QIB portion:	at least 1,704,240 shares (60%)
- Non-institutional portion:	at least 284,040 shares (10%)
- Retail portion:	at least 852,120 shares (30%)

Objects of the issue

Motilal Oswal Financial Services (MOFS) is planning to issue 0.30 crore fresh equity shares (face value Rs5) to raise Rs216 to Rs246 crore (depending on the price band of Rs725 to Rs825 per share) to support the company's growth plans by infusing long-term working capital, enhancing financing facility for broking customers, expanding office space and improving technology systems. Details of which are presented in the adjacent holding structure diagram.

Shareholding pattern

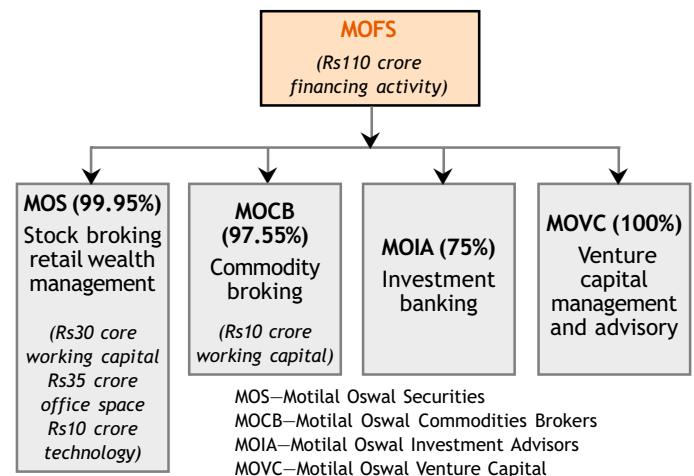
Category	Pre-issue		Post-issue	
	No of shares	%	No of share	%
Promoter	19,622,248	77.2	19,622,248	69.1
Promoter group	365,652	1.4	365,652	1.3
Director and Employees	3,012,750	11.9	3,155,060	11.1
Others	2,420,640	9.5	2,420,640	8.5
Public	0	0.0	2,840,400	10.0
Total	25,421,290	100.0	28,404,000	100.0

Company background

MOFS is a non-banking financial company registered under the Reserve Bank of India Act 1934. It is one of the leading Indian domestic brokerage houses with a network comprising 1,200 business locations and a diversified client base that includes retail customers (including high networth

individuals [HNI]), mutual funds, foreign institutions and corporate clients. The company offers a range of financial products and services such as retail wealth management (including securities and commodities broking), portfolio management services, institutional broking, venture capital management and investment services to its clients through its various subsidiaries.

Holding structure diagram



Note: Figures in % within brackets represent the % of holding by MOFS in its subsidiaries and those in italics represent the utilisation of IPO money.

Investment positives

Large distribution network and strategic tie-ups

The company has a large network spread across 1,200 business locations operated by owned branches (around 385) and business associates (around 815). The company has also entered into a strategic alliance with State Bank of India (SBI) to offer online brokerage services to SBI's retail banking clients. The tie-up with SBI is in a nascent stage and is currently not a significant contributor to revenues but going forward this business could be a big boost to the revenues.

Well-established brand backed by solid research

The company believes that its focus on research would be the key differentiator from its peers. It also has a strong brand recall in the equity broking space both in the retail and institutional segments. As in March 2007 the company had 25 equity research analysts covering 221 companies in 26 sectors and nine analysts covering 26 commodities.

Experienced top management

In the equity broking and investment banking arena apart from research corporate relationships matter a lot. We feel the qualified and experienced top management of MOFS with over two decades of experience has over the years displayed a successful track record of building the business and should sustain the growth momentum in the future.

Revenue mix likely to change going forward

Some of its businesses like the investment banking and venture capital are at a nascent stage and don't contribute significantly to total revenues. Hence, its revenue mix is skewed towards the broking business (80% of revenues came from broking in FY2007). The company plans to improve the revenue mix with fee-based income forming a larger part of revenues going forward. We feel in future the two businesses could contribute significantly in improving the company's overall fee income component.

Key concerns

High contribution from equity brokerage business

The equity brokerage business contributed 87% and 80% of the company's total consolidated revenues for the financial years 2006 and 2007 respectively. Hence, the volatility in the equity markets could influence the company's performance.

Valuation

The company would trade at 25.1x to 27.9x its FY2007 fully diluted adjusted earnings per share which we feel is not expensive compared with its peer group's valuations. Considering the issue size, peer group valuations and limited availability of the floating stock in the market (almost 60% of the post-issue equity has a one-year lock-in), the issue could see huge over subscription in all categories.

Financials

Profit and loss statement

Particulars	Rs (cr)		
	FY2007	FY2006	% yoy chg
Income from operation	358.8	257.6	39
- Brokerage income	307.89	238.24	29
- Other income	20.4	14.9	37
Total income	379.12	272.52	39
Expenditure	246.65	173.58	42
Depreciation	10.99	5.55	98
Interest	3.94	3.18	24
PBT	117.55	90.21	30
Taxation	41.04	29.82	38
Extraordinary items	4.20	0.00	-
Minority interest	2.72	0.05	-
PAT	69.59	60.34	15

Balance sheet

Particulars	Rs (cr)	
	FY2007	FY2006
Net worth	333.16	110.21
Liabilities and provisions		
Secured loans	0.05	2.21
Current liabilities and provisions	562.71	328.53
Deferred tax liability	1.48	1.26
Minority interest	3.03	0.05
Total	900.43	442.25
Assets		
Gross block	96.63	67.01
Less: accumulated depreciation	29.75	19.16
Net block	66.89	47.85
Capital work in progress	1.61	4.02
Investments	85.63	7.92
Current assets, loans and advances		
Stocks	0.00	1.84
Sundry debtors	280.77	134.44
Cash and bank balance	216.48	124.09
Other current assets	8.08	1.15
Loans and advances	240.99	120.93
Total	900.43	442.25

Peer comparison

Peer group	P/E (x)	FY2007 PAT Rs (cr)	FY2007 adjusted PAT* Rs (cr)	Adjusted EPS** (Rs)	Outlets
Motilal (LB = Rs725)	25.1	69.6	82	28.9	1200
Motilal (UB = Rs825)	27.9	69.6	84	29.6	1200
India Bulls	19.7	443.0	563	25.3	475
India Infoline	38.5	76.0	77	15.1	585
Kotak Mahindra Bank	40.4	538.0	538	16.5	958***
IL&FS	33.3	40.0	40	5.7	288

* We have added the interest income that the increased capital base can generate (assumed 10%) on the margin funding book to the FY2007 reported PAT to arrive at the adjusted PAT.

** The EPS is calculated on FY2007 adjusted PAT on a fully diluted basis for MOFS and latest capital as in June 2007 for its peer group and based on 16-08-07 BSE closing prices.

*** 123 full-fledged bank branches while Kotak Securities has a network of over 835 offices.

LB: lower band UB: upper band

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