Industry Focus

10 February 2009 | 23 pages

Taking Stock

Insurance – Volume and Value Cover?

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- **Insurance investments: Key market support (volume, value?)** — India's insurance companies have been a key support for market turnover with volumes falling meaningfully less than the broader market (-45% vis -60%), with stable churn. They have also probably been a key market support with a) investment balance shift toward equities (+20%); b) higher ownership levels in India's top 500 companies (+100bps); and c) sustained net buyers through 20/last 21 months. Bottom line, India's insurance companies are key market volume and value cover.

- **But insurance premium growth is easing – volume, value risk?** — It's a tough market for insurers too – new premium growth is now negative (-2.4 YTD), equity investment losses could theoretically bias investors/managers away from equity, and rising redemption risks. This will likely sober insurance equity inflows; and while a rising share of renewal premiums provides basic momentum, insurance companies might be less of a market volume/value influencer ahead.

- **3Q09 result review: Revenues remain sluggish** — 3Q09 results for brokerages were slightly above estimates, profits were down 43% yoy (-60% estimates). The key variance was in non-core incomes; and key positive came from evidence of some cost flexibility in 3Q09. However, revenues continue to be depressed with no change in outlook and market shares for larger brokerages dipped further.

- **Jan 2009: Turnover declines 6% mom, FIIs pull out US$870m** — The new year started relatively weak with cash ADT declining 6% mom (-51% yoy) and derivatives turnover down 1%. Institutional turnover fared better, rising 12% (-64% yoy). FIIs were net sellers again to the tune of US$868m and MFs sold US$177m. Sensex was down 2% and CIR brokerage Index –18% for the month.

Figure 1. India Brokerage Universe: Valuation Summary

Domestic Peers	Px (Rs.)	TP (Rs.)	CIR Rating	PE 10E	PB 10E	ROA 10E	ROE 10E	Div. Yield (%)
Motilal Oswal	62	61	3H	9.6	1.0	4%	11%	1.3%
Religare	328	197	3H	42.0	4.1	1%	10%	0.3%
Edelweiss	292	240	3H	11.9	1.0	4%	9%	0.7%
Kotak Mahindra	286	282	3H	16.4	1.4	1%	9%	0.3%
Reliance Capital	409	500	3M	9.0	1.2	4%	14%	1.6%
India Infoline **	45	NA	Not Rated	7.8	0.7	3%	10%	5.0%
Mkt. Cap. Wtd. Avg				**15.0**	**1.5**	**3%**	**11%**	

Source: Citi Investment Research, ** Bloomberg Estimates

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

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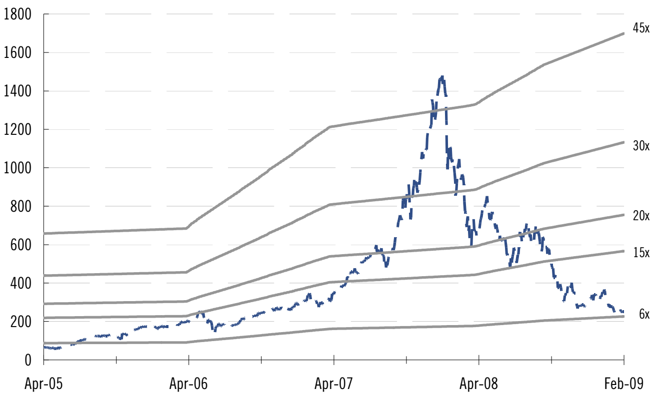
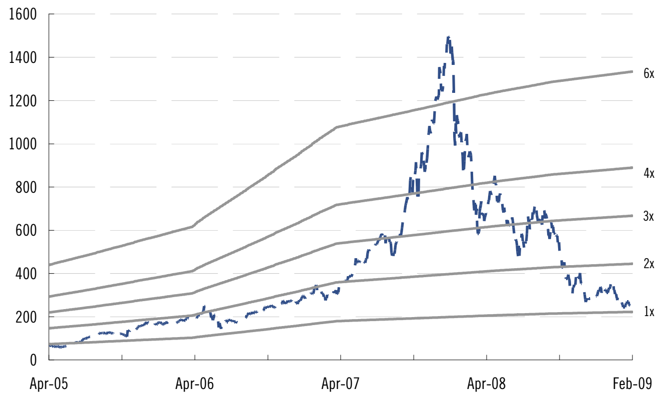
Valuations

Figure 2. Brokerage – P/E Bands (1 Year Rolling fwd., Times)



Source: Bloomberg, Citi Investment Research

Figure 3. Brokerage – P/B Bands (1 Year Rolling fwd., Times)

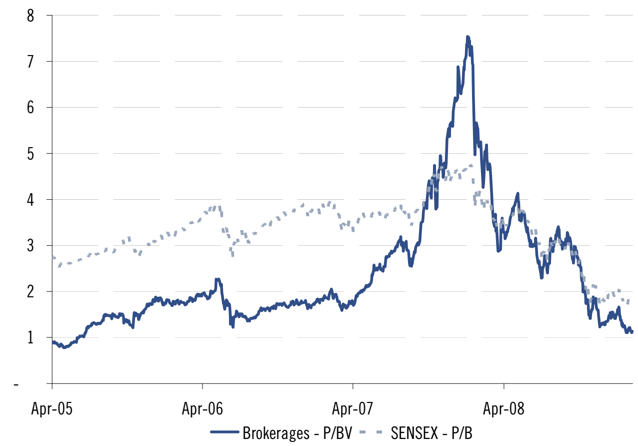


Source: Bloomberg, Citi Investment Research

Figure 4. Brokerage P/E vis-à-vis SENSEX P/E

Source: Bloomberg, Citi Investment Research

Figure 5. Brokerage P/E vis-à-vis SENSEX P/B



Source: Bloomberg, Citi Investment Research

Figure 6. Price Performance of Market and Financials stocks

	Absolute						Relative to SENSEX						Relative to Brokerage Index					
30-Jan-09	**1W**	**1M**	**3M**	**6M**	**12M**	**YTD**	**1W**	**1M**	**3M**	**6M**	**12M**	**YTD**	**1W**	**1M**	**3M**	**6M**	**12M**	**YTD**
Sensex	9%	-2%	-4%	-36%	-50%	-5%	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
CIR Brokerage Index	10%	-18%	-23%	-59%	-74%	-21%	2%	-16%	-19%	-23%	-25%	-16%	NA	NA	NA	NA	NA	NA
Edelweiss Capital	19%	1%	8%	-52%	-72%	-1%	10%	3%	11%	-17%	-22%	4%	8%	19%	30%	7%	3%	20%
Religare	3%	-3%	-1%	-16%	-38%	-3%	-6%	-1%	3%	20%	11%	2%	-8%	15%	21%	43%	36%	18%
Motilal Oswal	1%	-18%	-12%	-38%	-75%	-19%	-7%	-16%	-8%	-2%	-26%	-15%	-9%	0%	11%	21%	-1%	1%
Reliance Capital	11%	-22%	-35%	-69%	-79%	-25%	2%	-20%	-32%	-33%	-30%	-20%	1%	-4%	-13%	-10%	-5%	-4%
Indiabulls	21%	-17%	2%	-62%	-84%	-20%	13%	-14%	5%	-27%	-34%	-16%	11%	1%	24%	-4%	-10%	0%

Source: Citi Investment Research

Insurance – A "Cover" for the Market

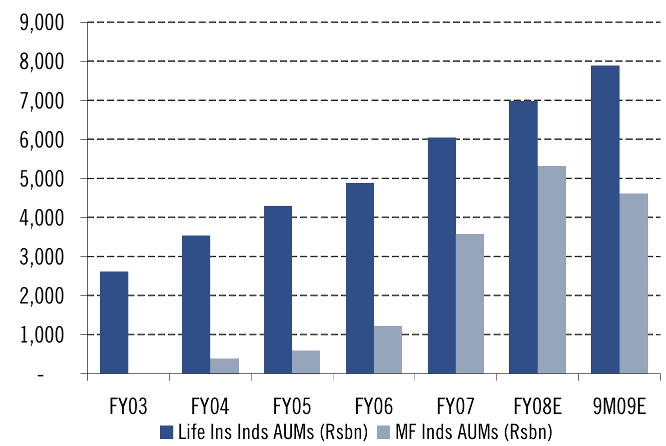
Industry ADT has declined significantly from the peak (-60% from October 2007). While FII volumes were the first to decline followed by retail activity, insurance volumes were relatively strong going into 3QFY09. This was driven by continued growth in First Year Premiums (FYP) and growing AUMs of the life insurance industry. However, over the last few months the decline in FYP growth has been significant, and trends for growth in 4Q are not looking bright. Typically 4Q is the strongest quarter for insurance premiums (with about 40% of annual FYP), and any weakness in the quarter could substantially reduce overall growth expectations for the industry.

Moreover, with over 90% of private sector insurance premiums being equity linked (ULIPs), persistently weak equity markets could potentially bias investors/managers away from equity and/or raise redemption risks. Even though there is an increasing pool of renewal premiums that provides a natural hedge, any weakness in insurance premium collections can affect market turnover and even market values. We take a more detailed look at these characteristics of the insurance industry.

Large AUM base – Private Sector has grown rapidly

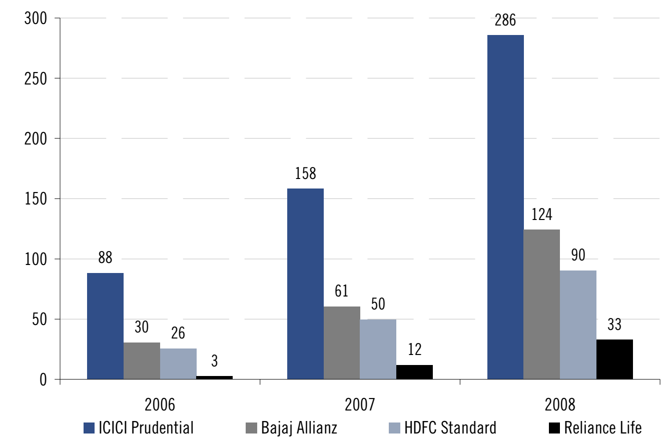
The life insurance industry has grown significantly over the past few years with a FYP CAGR of 93% for the private sector players over FY04-08 (49% overall including LIC). The life insurance industry has over an estimated Rs7,500bn of AUMs (about Rs1,200bn for the private sector) and is growing quite rapidly. This is now significantly higher than the AUMs of the domestic MF industry with a total AUM of Rs4,211bn as at December 2009.

Figure 7. AUMs for Insurance and Domestic Mutual Funds (Rsbn)



Source: AMFI, IRDA and Citi Investment Research

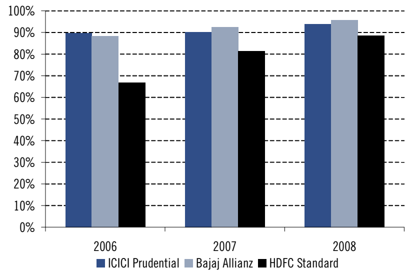
Figure 8. AUMs for Select Life Insurance Players (Rsbn)



Source: Company Reports and Citi Investment Research

Equity Inflows and investments are also high

Figure 9. Proportion of ULIP Sales (%)

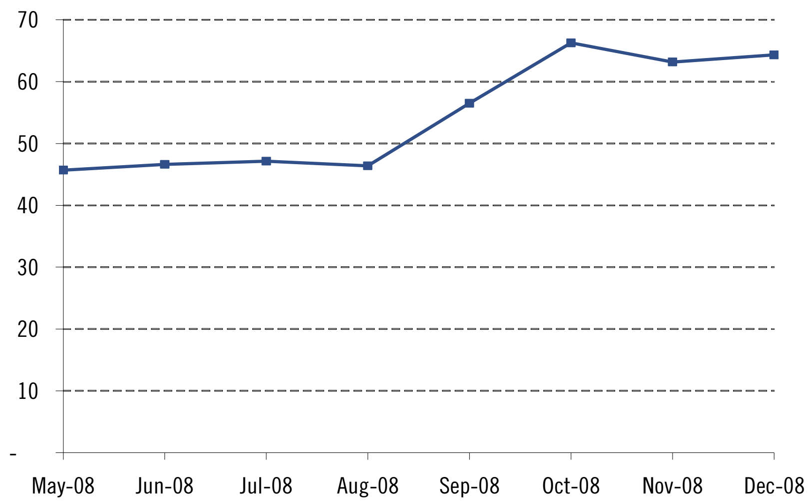


Source: Company Reports and CIR estimates

A significant proportion of premiums (over 90% for most private sector players) come from unit linked policies (ULIPs), which have a large equity component. With the current market weakness, incremental ULIP sales have declined leading to some pressures on industry premium growth. Moreover, the proportion of equities in the life insurance AUMs is also relatively high at 50-70% for most private sector players.

Over the past year – insurance companies have invested about 40-70% of their premium collections in equities. This proportion has increased in the past few months from about 45% to about 65% possibly due to a) lower equity valuations, b) longer-term investment horizons and c) anticipation of higher premium growth for the remaining part of the fiscal year. Over 9MFY09 insurance companies have so far invested about 80% of the incremental premiums collected into equities – high relative to historical standards.

Figure 10. Insurance – 12-month Rolling Investments as % of 12-month Rolling FYP

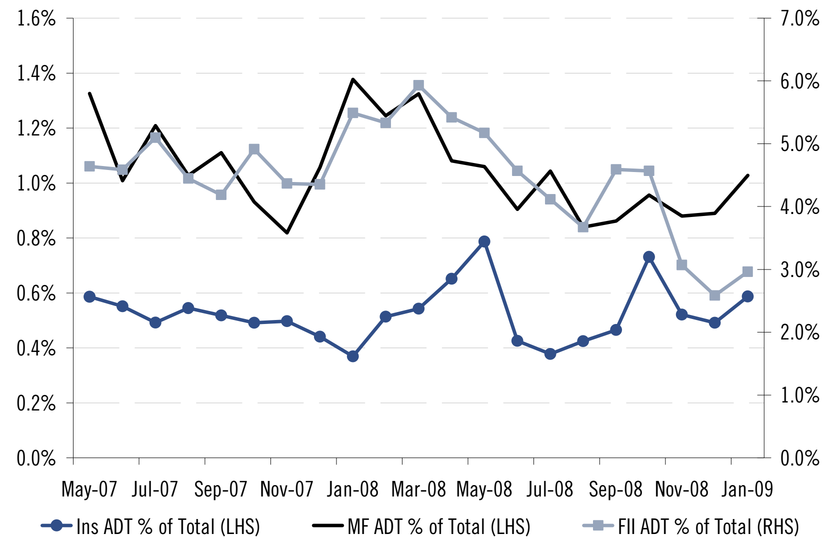


Source: BSE, NSE and Citi Investment Research

Insurance – Relative importance has increased

During the recent market weakness, insurance companies have been the least affected. As a proportion of total industry volumes, the proportion of insurance volumes has been relatively constant. While insurance volumes are relatively lower than FII and MF volumes, the relative importance of the segment has increased substantially due to lower trading volumes of the other segments.

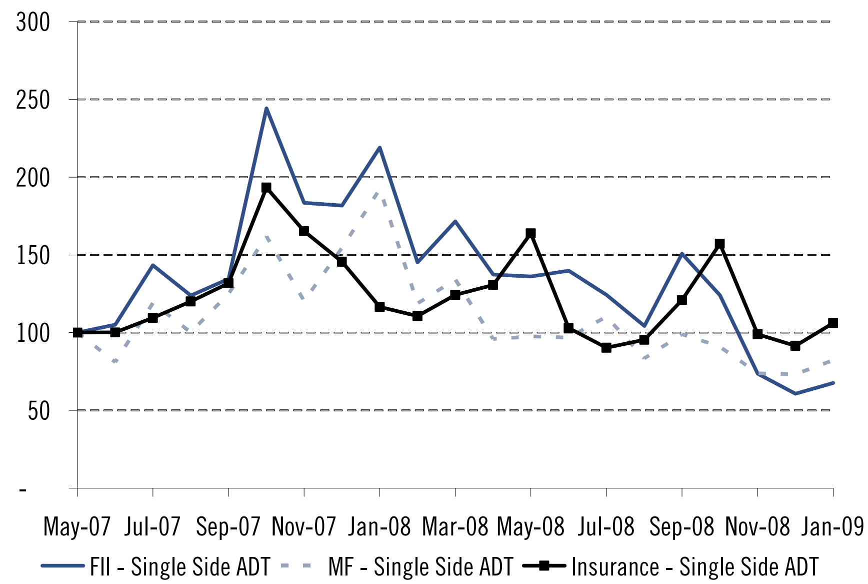
Figure 11. Proportion of Total Volumes – Insurance, MFs and FIIs (Percent)



Source: BSE, NSE and Citi Investment Research

In absolute terms, however, insurance turnover volumes have also fallen from peak levels (down 45% since Oct 2007). However, relative to other segments the fall has been much less (-72% for FII turnover and -50% for MFs) and overall Insurance volumes are still relatively similar to May 2007 levels.

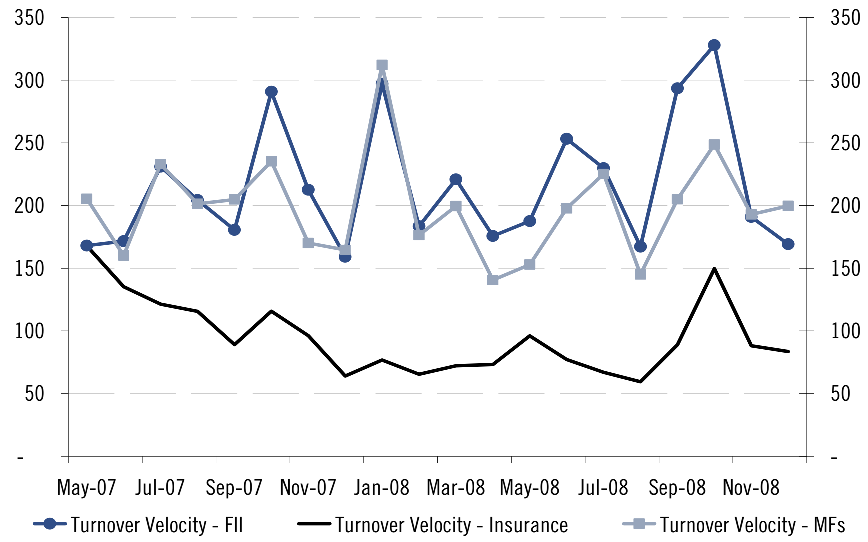
Figure 12. Relative Turnover of FII, MF and Insurance Segments (May 2007 = 100)



Source: BSE, NSE and Citi Investment Research

In terms of turnover velocity (Total Turnover/Total Market Ownership), the insurance segment has been quite stable during the last 18 months even as velocity for most other segments has been relatively volatile, suggesting that turnover for insurance has been at similar levels as it was even before the correction in equity markets.

Figure 13. Turnover Velocity – Insurance, FII and MFs (Percent)

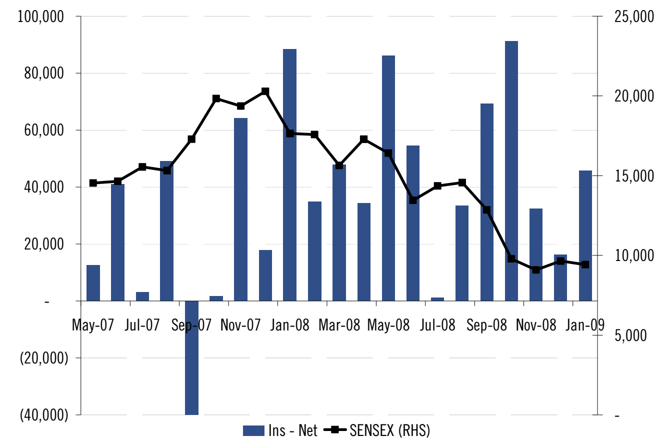


Source: BSE, NSE and Citi Investment Research

Longer-term investment horizon; increased ownership levels

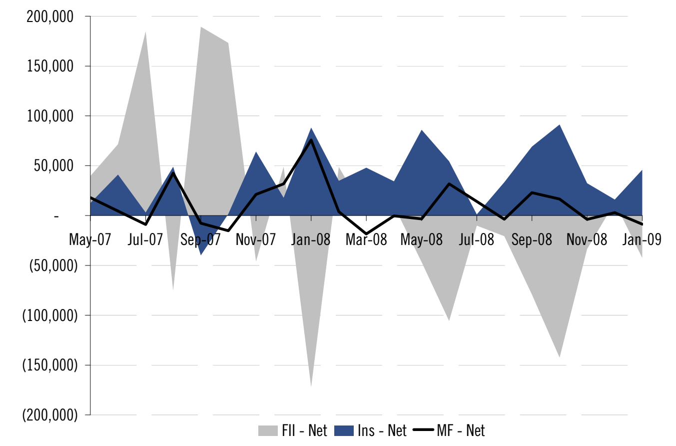
Another key support provided by the insurance companies has been their longer-term investment horizon, which has enabled them to continue to buy equity assets even when most others have been busy offloading. While this might be a good contrarian strategy (and something that might earn significant returns over the medium to long term) it has also provided some much needed support to the market – both in terms of volumes and possibly values.

Figure 14. Insurance Net Purchases (Rsm) and Sensex



Source: BSE, NSE and Citi Investment Research

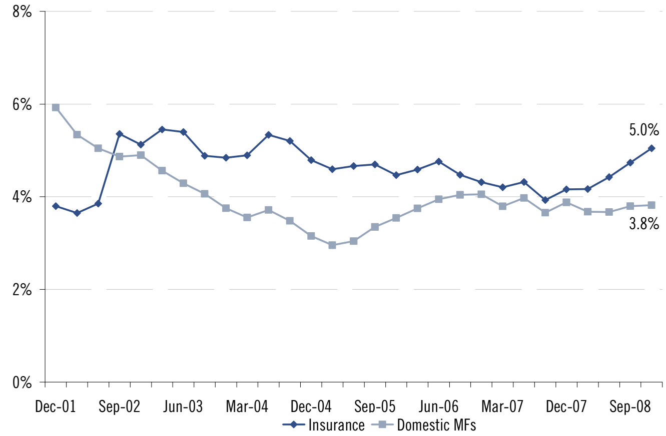
Figure 15. Insurance Net Purchases relative to Other Institutional Segments (Rsm)



Source: BSE, NSE and Citi Investment Research

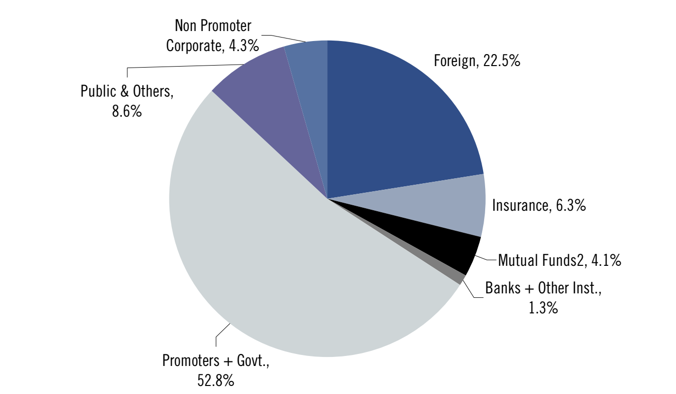
Also insurance companies have increased their market ownership levels during this period – a reflection of the continued net investments during the period. Insurance companies now own 5.0% of the BSE 500 against about 4.0% in Dec 2007.

Figure 16. Trends in Ownership Levels: Insurance and FII (%)



Source: Citi Investment Research

Figure 17. Ownership Pattern of BSE 500 Companies (Dec 2008)



Source: Citi Investment Research

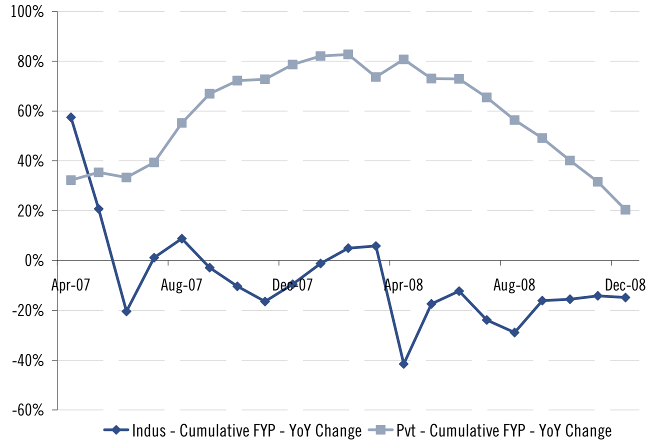
It's Getting Tougher Though

The sharp drop in equity values and rapid decline in investor confidence has raised a few concerns for insurance companies as well – a) new sales are down YTD; b) equity bias in sales/investments could potentially be lowered; and c) it also raises risks of redemptions. While these can potentially be offset by rising share of renewal premiums, it will likely make the insurance companies less of a force in the period ahead.

Industry FYP growth has turned negative for the first time in December 2008 (still positive for private sector players but has been declining every month).

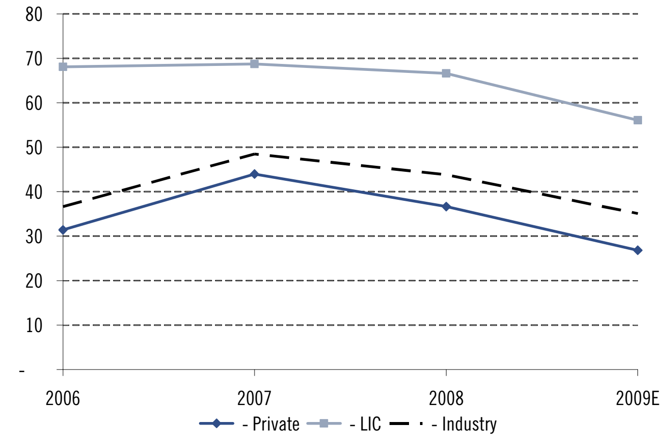
Persistent equity market weakness seems to have finally caught up with new premium sales - FYP for April-Dec 08 is down 2.4% yoy overall (+20% growth for private sector players). Moreover, any weakness carries into 4Q (typically the strongest quarter with over 40% of annual sales); combined with higher redemption risks and potential shifts in investment mix, could lead to further declines in market turnover and possibly even market levels.

Figure 18. FYP Growth – Industry, Private Players (% YoY, Cum Premiums)



Source: IRDA, Citi Investment Research

Figure 19. Proportion of First Year Premium to Total Premiums (Percent)



Source: IRDA, Citi Investment Research

Figure 20. Sector and Religare Enterprises: 3QFY09 Financial Highlights (Rupees Million, Percent)

	Sector				Religare Enterprises			
	3Q09A	Difference - Est. Vs. Act.	YoY Change (%)	QoQ Change (%)	3Q09A	Difference - Est. Vs Act.	YoY Change (%)	QoQ Change (%)
Broking	2,212	-31.7%	-58.2%	-21.4%	1,041	-32.7%	-51.1%	-11.7%
Interest Income	1,856	-13.1%	26.3%	-8.0%	745	-31.6%	10.1%	-23.3%
Other Income	3,121	73.6%	85.5%	74.5%	2,454	374.4%	3181.0%	315.6%
Gross Total Income	7,189	0.3%	-14.8%	8.6%	4,241	34.4%	47.2%	54.7%
less: Interest Expense	-1,100	-32.8%	-23.4%	-28.2%	-819	-28.6%	13.1%	-20.9%
Net Income	**6,088**	**10.1%**	**-13.1%**	**19.6%**	**3,421**	**70.3%**	**58.7%**	**100.6%**
Operating Expenses	(4,373)	7.1%	4.9%	0.8%	(2,727)	44.0%	74.3%	23.5%
Pre-Tax Profit	1,715	18.4%	-39.5%	128.0%	694	507.2%	17.5%	NA
Tax	(619)	26.5%	-37.4%	30.9%	(250)	12232.5%	-2.2%	6288.0%
Minorities	(66)	-14.8%	30.1%	-15.8%	0		-100.0%	
Net Profit	**1,030**	**16.9%**	**-42.7%**	**357.8%**	**444**	**295.6%**	**32.8%**	**NA**

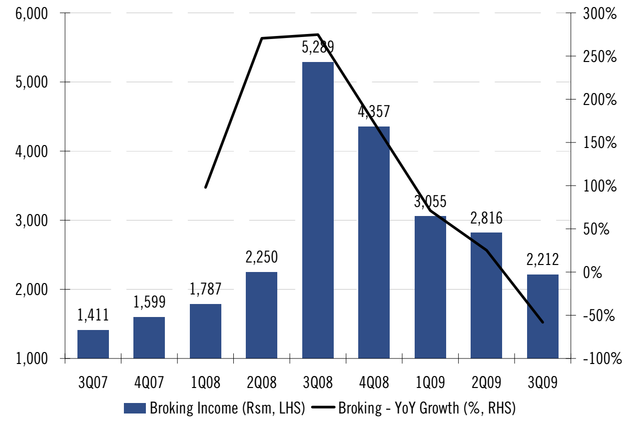
Source: Citi Investment Research

Figure 21. Motilal Oswal Financial Services and EdelWeiss Capital: 3QFY09 Financial Highlights (Rupees Million, Percent)

	Motilal Oswal Financial Services				EdelWeiss Capital			
	3Q09A	Difference - Est. Vs Act.	YoY Change (%)	QoQ Change (%)	3Q09A	Difference - Est. Vs Act.	YoY Change (%)	QoQ Change (%)
Broking	694	-29.4%	-63.8%	-27.6%	477	-32.4%	-61.8%	-29.7%
Interest Income	184	-12.9%	46.0%	-8.5%	927	11.1%	39.2%	9.8%
Other Income	84	-67.4%	-70.4%	-62.5%	583	-43.0%	-56.0%	-40.2%
Gross Total Income	962	-33.8%	-58.6%	-30.5%	1,986	-22.5%	-38.6%	-20.4%
less: Interest Expense	-23	-71.2%	-40.5%	-68.1%	-258	-37.3%	-61.7%	-39.1%
Net Income	**939**	**-31.6%**	**-58.9%**	**-28.4%**	**1,728**	**-19.7%**	**-32.5%**	**-16.6%**
Operating Expenses	(643)	-30.0%	-56.5%	-26.9%	(1,003)	-21.1%	-10.8%	-19.7%
Pre-Tax Profit	296	-34.8%	-63.3%	-31.4%	725	-17.6%	-49.6%	-12.0%
Tax	(93)	-44.8%	-64.2%	-35.6%	(276)	-13.4%	-41.7%	-15.0%
Minorities	1	-110.7%	-112.6%	-108.3%	(67)	2.9%	69.9%	7.3%
Net Profit	**204**	**-25.2%**	**-62.0%**	**-24.7%**	**381**	**-23.0%**	**-58.7%**	**-12.5%**
Key Parameters								
Average daily turnover	22,000		-52.2%	-29.0%	31,500		-47.5%	-33.0%
Market Share	3.9%		-0.7	-0.5	5.6%		-0.3	-1.2
Debt	10			-99.3%	8,000			-38.5%
Debt/ Equity Ratio	0.1%			-18.1	40%			-26.0
Shareholders' Funds	7,910			2.7%	20,200		13.3%	1.9%
Book Value Per Share	56			2.7%	270		13.3%	1.9%
Customer Base	527,368		36.8%	3.5%				

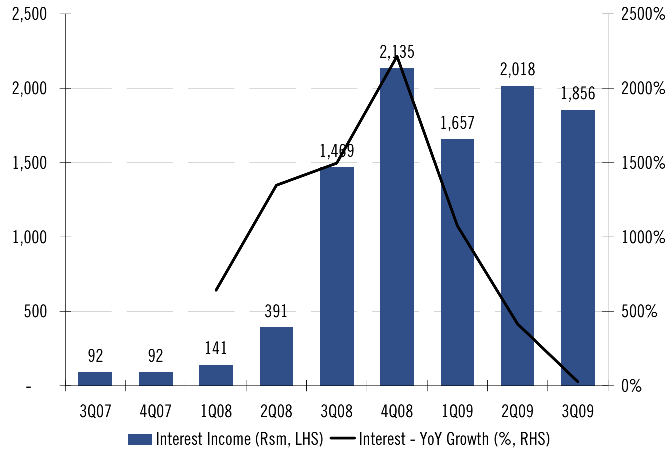
Source: Citi Investment Research

Figure 22. Sector Broking Income (Rsm) and its YoY Growth (%)



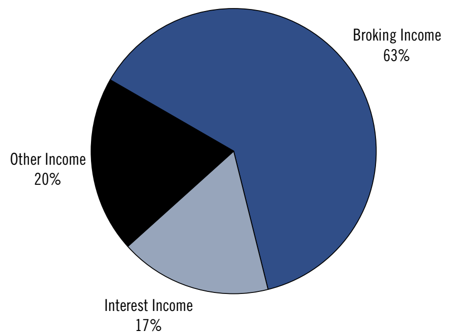
Source: Citi Investment Research

Figure 23. Sector Interest Income (Rsm) and its YoY Growth (%)



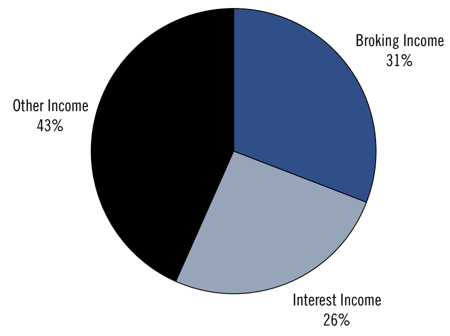
Source: Citi Investment Research

Figure 24. Revenue of Sector: Split in 3Q08



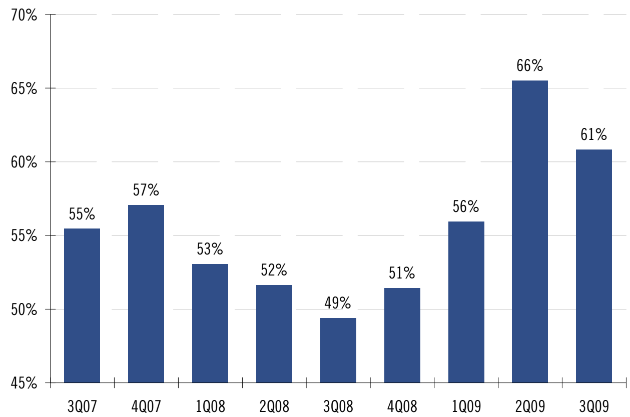
Source: Citi Investment Research

Figure 25. Revenue of Sector: Split in 3Q09



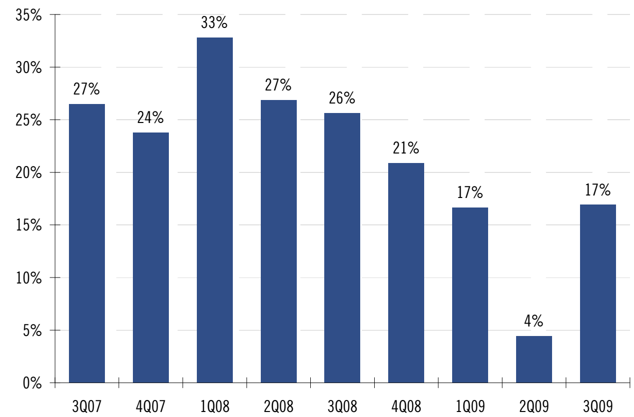
Source: Citi Investment Research

Figure 26. Sector: Cost to Income Ratio



Source: Citi Investment Research

Figure 27. Sector: Net Profit to Net Income Ratio

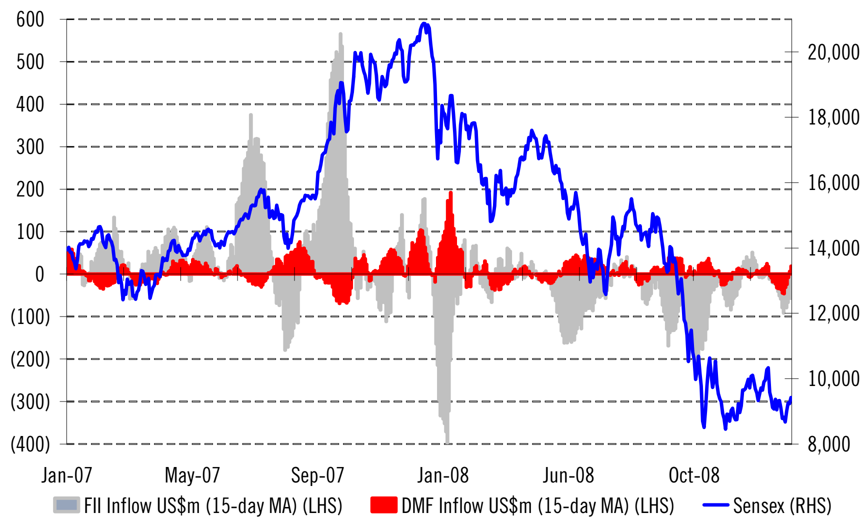


Source: Citi Investment Research

Equity Volumes and Flows

FII outflows were $868m and the Mutual Funds withdrew $177m in January 2009. This trend was a reversal compared with the previous month in which the FIIs and MFs were net buyers to the extent of $271m and $63m respectively. The broad market index (Sensex) fell 2% during the month and CIR brokerage index fell by 18%.

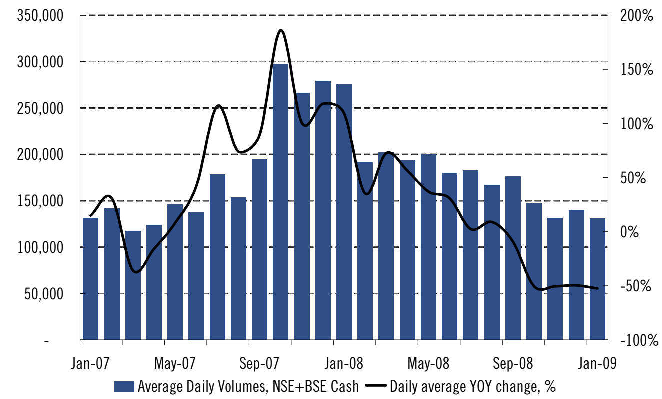
Figure 28. FII, DMF Flows and SENSEX



Source: Citi Investment Research

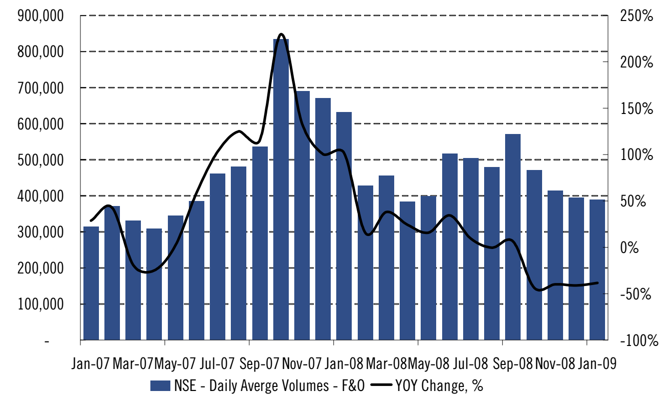
Average Daily Turnover (ADT) in cash and F&O segment fell by 5.7% mom (down 51% yoy) and 1.5% mom (-39% yoy) respectively. Within the cash segment, institutional ADT increased 12% mom (-64% yoy) whereas retail ADT fell 15% mom (-49% yoy).

Figure 29. Cash Equity ADT (NSE + BSE, Rsm) and YoY Growth (%)



Source: BSE, NSE

Figure 30. Derivative ADT (NSE, Rsm) and YoY Growth (%)



Source: NSE

Industry News

MFs told not to give indicative portfolios, yields

SEBI has reduced the limit of maturity of papers that liquid funds can invest in and also disallowed mutual funds from offering indicative portfolios and yields on their debt schemes. (Business Line. Jan 19). http://www.thehindubusinessline.com/2009/01/20/stories/2009012051711000.htm and http://www.business-standard.com/india/news/sebi-comes-down-harddebt-funds/00/41/346573/

BSE set to relaunch derivatives products

BSE is planning to re-launch various products in its derivatives segment in the coming days. The exchange has been facing a severe crisis in its F&O category, which is threatening its profitability. (Financial Express. Jan 22). http://www.financialexpress.com/news/BSE-set-to-relaunch-derivatives-products/413654/ and http://economictimes.indiatimes.com/Opinion/Fourth_currency_exchange_gets_Sebi_approval/rssarticleshow/4014473.cms

LIC employees' union demands 50% wage hike

The All India Life Insurance Employees Association has demanded a wage hike of 50%. The association has rejected the management's offer of a 12% wage hike. (Financial Express. Jan 14). http://in.biz.yahoo.com/090113/203/6zawt.html

Jeevan Aastha mop-up much below target

LIC has collected around Rs40b through the sale of its policy Jeevan Aastha, substantially lower than its targeted collection. The corporation had planned to collect Rs 250b through the sale of this policy. (Business Line. Jan 19). http://www.thehindubusinessline.com/2009/01/20/stories/2009012050690600.htm

IRDA eases solvency margins for ULIPs

IRDA has eased solvency margins for unit-linked insurance plans. “The move will help enhance ULIP sales, especially pension and health products. It will also lower the cost structure in ULIPs. Life insurers selling ULIPs will have a level playing field vis a vis companies selling traditional products whose solvency margins were lowered recently,” said R Kannan, member, IRDA. (Economic Times. Jan 2). http://economictimes.indiatimes.com/Insurance_news/IRDA_eases_solvency_margins_for_ULIPS/articleshow/3924137.cms

IRDA seeks Ulip investment details

IRDA will ask companies to disclose their ULIP exposure to all firms. “If the exposure of individual insurance companies exceeds 0.25% of the AUM, insurers will have to inform the regulator,” an IRDA official said. (Business Standard. Jan 13). http://www.business-standard.com/india/news/irda-seeks-ulip-investment-details/02/46/345990/

IRDA liberalizes investment norms

Insurance companies can invest more in infrastructure, housing sectors. The IRDA allowed insurers to acquire up to 20 per cent debt and equity in an infrastructure-related company, compared with 10 per cent earlier. (Business

Standard). http://www.business-standard.com/india/news/irda-liberalises-investment-norms/11/01/344797/

IRDA asks insurance cos to reapply for offshore offices

IRDA has asked the domestic insurance companies, whose applications for permission to open representative offices aboard are pending, to apply again in conformity with the fresh guidelines. (Economic Times. Jan 26). http://economictimes.indiatimes.com/Insurance_news/IRDA_asks_insurance_cos_to_reapply_for_offshore_offices/articleshow/4030551.cms

Company News

Reliance Cap gets nod for housing fin biz

Reliance Capital Ltd, the financial arm of the Reliance Anil Dhirubhai Ambani Group (ADAG), announced that the company has received the necessary approval from the National Housing Bank (NHB) for setting up a housing finance company. (Financial Express. Jan 15).
http://in.biz.yahoo.com/090114/203/6zb25.html

ICICI Prudential Life records 28% premium growth for 9MFY2009

ICICI Prudential Life Insurance garnered a total premium (new business + renewal) of Rs99.2b for the nine month period ended December 31, 2008 (9MFY2009) as against Rs77.6b during the corresponding period last year, registering a growth of 28%. (Business Standard. Jan 19).
http://www.business-standard.com/india/storypage.php?autono=346531

Kotak Life ties up with DHFL Vysya

Kotak Life Insurance (on Jan 20) announced its tie-up with the Bangalore-based housing finance company, DHFL Vysya, which has tied up with the former as its corporate agent. (Economic Times. Jan 20).
http://economictimes.indiatimes.com/Personal_Finance/Kotak_Life_ties_up_with_DHFL_Vysya/articleshow/4007138.cms

HDFC MF demands fee refund

In a move that is expected to create a flutter among mutual fund distributors, HDFC Mutual Fund has asked its distributors to refund a part of the brokerage they received for selling fixed maturity plans, as a result of premature redemptions in those schemes. (Economic Times. Jan 22).
http://economictimes.indiatimes.com/Personal_Finance/HDFC_MF_demands_fee_refund/articleshow/4014108.cms

Future Capital net at Rs62.5m

Kishore Biyani-led Future Capital Holdings said it has posted at standalone net profit of Rs62.5m for the third quarter ended December 31, 2008. (Financial Express. Jan 23). http://www.financialexpress.com/news/rel-power-net-at-rs-106-cr-maricos-at-rs-51-cr/414111/3 and http://www.business-standard.com/india/news/future-capital-holdings-q3-net-at-rs-625-cr/14/30/53446/on

Extraordinary income pushes up Geojit net by 74%

Geojit Financial Services reported a 74% increase in its consolidated third quarter net profit, at Rs386m. But the increase was only because of extraordinary gains amounting to Rs400m. (Business Line. Jan 13).
http://www.thehindubusinessline.com/2009/01/14/stories/2009011451571000.htm

BNP Paribas ups stake in Geojit Financial

French bank BNP Paribas has substantially increased its stake in broking firm Geojit Financial Services after conversion of 140m warrants issued to the former on preferential basis on March 13 '07. (Economic Times. Jan 24).
http://economictimes.indiatimes.com/Stocks_in_News/BNP_Paribas_ups_stake_in_Geojit_Financial/articleshow/4021073.cms

Companies Mentioned

Edelweiss Capital (EDEL.BO; Rs290.40; 3H)

Valuation

Our target price of Rs240 is based on a sum-of-the-parts valuation. We use 9x 1yr Fwd PE to value its brokerage business. Our target multiple is at par with the broader Sensex multiple currently due to a weaker capital market outlook. This values the brokerage and related businesses at Rs30 per share. We value the financing business and arbitrage businesses at 1.0x 1yr Fwd BV, valuing them at Rs104 and Rs107 per share respectively.

We value the brokerage/related businesses at par with broader market earnings multiples to factor in a weaker capital market outlook and relatively low visibility of a rebound in volumes. To better capture the asset-heavy nature of the capital-intensive financing and arbitrage businesses, we use a P/BV approach. We value the financing business at 1.0x 1yr Fwd BV, largely in line with our target multiples for other similar financing businesses, after factoring in its risk-reward profile, growth potential, capital-market dependence and wholesale funding model. We use a similar multiple for arbitrage trading (compared to the financing business) to reflect its relatively lower return profile but lower balance sheet risks.

Risks

We rate Edelweiss High Risk, though our quantitative risk-rating system, which tracks 260-day historical share-price volatility, suggests Speculative Risk due to the stock's short trading history. We prefer High Risk to Speculative Risk because Edelweiss is diversifying its revenue profile from purely brokerage and arbitrage to financing, wealth management, asset management and retail brokerage; and the company has a good track record. However, its revenues continue to be closely linked to capital market growth and volatility. Upside risks to our target price include: a) stronger than expected growth in brokerage volumes; b) higher than expected returns on the treasury portfolio; c) further infusion of capital/faster than estimated growth in the financing portfolio; d) a decline in interest rates; e) forays into other businesses, including retail brokerage; and f) regulatory changes.

Kotak Mahindra Bank (KTKM.BO; Rs281.10; 3H)

Valuation

Our target price of Rs282 (previously Rs400) is based on our valuation of KTKM's different businesses via the sum of parts methodology. This values the banking business at Rs157 per share 1.1X PBV 1 year fwd (previously Rs213 at 1.5X PBV 1 year fwd), the investment banking and broking business at 9X 1Yr Fwd PE or Rs31 (previously 10x, Rs66 per share), the insurance subsidiary at Rs56 at 8x FY10E NBAP (previously Rs68 per share at 10x NBAP multiple), and we attribute Rs38 to the AMC business (4% of AUM for MF, and 6% for Portfolio and alternative assets, previously Rs53 per share). While our target multiples are relatively conservative in the historical India scenario, they are not worst case scenarios, and only factor in a continued weak economic and market outlook, rather than one with significant deterioration.

Risks

We rate KTKM as High Risk. We believe the High risk rating is justified on account of revenue pressures, its relatively small balance sheet, and on account of the global uncertainty surrounding financial institutions. Our quantitative risk rating system which tracks the 260-day share price volatility of the stock suggests Speculative risk, but the broad-based nature of the businesses, high capital levels and conservative management of the company, moderate the risk levels of the business. Upside risks to the stock and business would be: a) Strong bounce-back in the capital markets; b) Its large capital position - which positions it at a distinct advantage to competitor and peer banks; and c) Less than anticipated pressures on the banking business, and its quality. These risks could prevent the stock from achieving our target price.

Motilal Oswal Financial Services (MOFS.BO; Rs62.40; 3H)

Valuation

Our target price for MOFS is Rs61, which is set at 9x one-year forward earnings, and is at par with the broader market (Sensex) P/E multiple. We value brokerages on a P/E basis, benchmarked off the broader market multiples, as we believe it best captures the cyclical nature of the business. While trading volumes have come off significantly in recent months, valuations for brokerages are still not significantly cheaper vs. the broader market.

Risks

We rate MOFS High Risk, though our quantitative risk-rating system, which tracks 260-day historical share price volatility, suggests a Speculative Risk rating. MOFS has a broad and diversified business revenue mix, is well balanced between the retail and institutional segments and has a strong and relatively risk-averse management, which we believe reduces operating risk. Key risks that could prevent the shares from reaching our target price are: a) higher than expected trading volumes; b) aggressive expansion; c) strong market share gains; and d) regulatory changes.

Reliance Capital (RLCP.BO; Rs409.55; 3M)

Valuation

We have a target price for Reliance Capital of Rs500. We use a sum-of-the-parts methodology to value RCap as it is present in diverse businesses, and each of these businesses is valued based on a different methodology. As many of its businesses are still growing or are not consolidated, we believe P/E or P/BV approaches are not properly reflective of value. We value the AMC business at Rs124 per share (a DCF approach, implying a value of 4.7% of AUM); the life insurance business at Rs294 per share (12x 1-year forward NBAP; 15-20% premium to peers due to higher growth profile); the non-life insurance business at Rs21 per share (10x 1-year forward economic profits, in line with peers); the broking business at Rs22 per share (10x 1-year forward earning, in line with the Sensex), and the consumer finance business at Rs42 per share (1.0x 1-year forward book value, in line with peers). We do not attribute any value to unrealized gains on its investment portfolio due to the continued uncertainty in capital markets.

Risks

We rate Reliance Capital as Medium Risk even though a Speculative Risk rating is suggested by our quantitative risk model, which tracks 260-day historical share price volatility. We believe a Medium Risk rating is appropriate as RCap's businesses, though related to capital markets, are significantly diverse in nature. Key upside risks to our valuations and target price include: a) sustained buoyancy in capital markets; b) an easy liquidity environment or a reduction in interest rates; b) a reversal in the asset quality environment; d) higher than anticipated growth and market share gains in different businesses; and e) early execution of growth plans.

Religare Enterprises (RELG.BO; Rs321.10; 3H)

Valuation

Brokerages are usually benchmarked off P/E multiples in aggressively growing markets. 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 in a normalised environment; however, due to the sharp fall in current turnover, we value REL at 1.5x 1yr Fwd Revenues, which is comparable to its peers. Our target multiple implies a target price of Rs197.

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.

Risks

We rate REL share as High Risk due to its high linkage to capital market volatility in revenues, 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, it will continue to significantly depend on retail broking and margin finance businesses for growth and earnings. Key upside risks that could cause the shares to continue to trade above our target price 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.

Appendix A-1

Analyst Certification

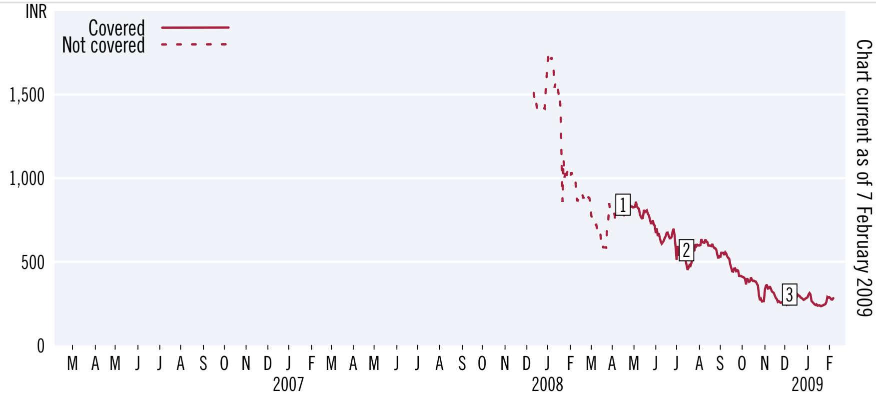
Each research analyst(s) principally responsible for the preparation and content of all or any identified portion of this research report hereby certifies that, with respect to each issuer or security or any identified portion of the report with respect to an issuer or security that the research analyst covers in this research report, all of the views expressed in this research report accurately reflect their personal views about those issuer(s) or securities. Each research analyst(s) also certify that no part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this research report.

IMPORTANT DISCLOSURES

EdelWeiss Capital (EDEL.BO)

Ratings and Target Price History
Fundamental Research

Analyst: Manish Chowdhary, CFA
Covered since April 17 2008



	Date	Rating	Target Price	Closing Price
1	16-Apr-08	*3H	*760.00	792.85
2	15-Jul-08	3H	*460.00	481.70
3	8-Dec-08	3H	*240.00	245.00

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Kotak Mahindra Bank (KTKM.BO)

Ratings and Target Price History
Fundamental Research

Analyst: Aditya Narain, CFA

	Date	Rating	Target Price	Closing Price
1	16-Mar-06	2M	*280.00	246.95
2	28-Sep-06	2M	*355.00	338.00
3	23-Jan-07	2M	*512.00	462.20
4	26-Jul-07	2M	*825.00	730.55
5	29-Oct-07	2M	*1,110.00	1,041.20
6	29-Jul-08	2M	*635.00	521.00
7	11-Dec-08	2M	*400.00	380.05
8	22-Jan-09	*3H	*282.00	276.65

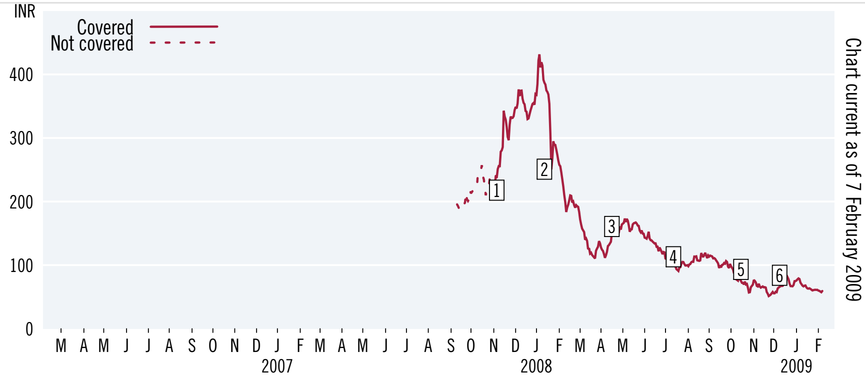
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Motilal Oswal Financial Services (MOFS.BO)

Ratings and Target Price History
Fundamental Research

Analyst: Manish Chowdhary, CFA
Covered since November 6 2007



	Date	Rating	Target Price	Closing Price
1	6-Nov-07	*1M	*300.00	237.99
2	11-Jan-08	1M	*480.00	386.97
3	16-Apr-08	1M	*165.00	151.04
4	11-Jul-08	*3M	*118.00	105.36
5	15-Oct-08	*3H	*82.00	75.10
6	9-Dec-08	3H	*61.00	64.75

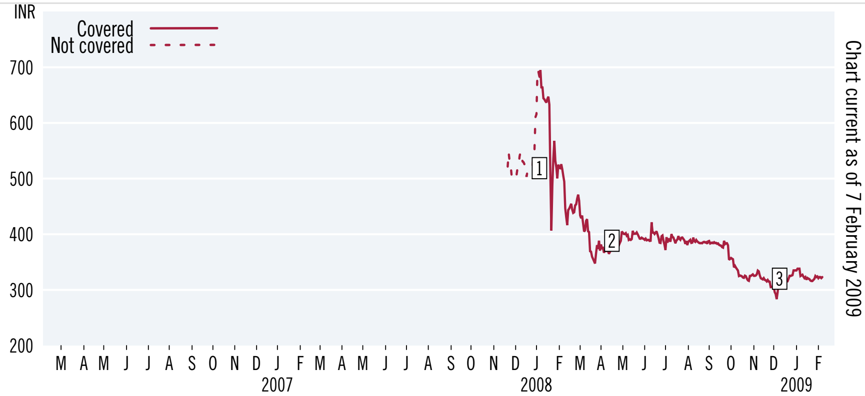
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Religare Enterprises (RELG.BO)

Ratings and Target Price History
Fundamental Research

Analyst: Manish Chowdhary, CFA
Covered since January 5 2008



	Date	Rating	Target Price	Closing Price
1	4-Jan-08	*3H	*515.00	683.05
2	16-Apr-08	3H	*270.00	375.45
3	9-Dec-08	3H	*197.00	315.20

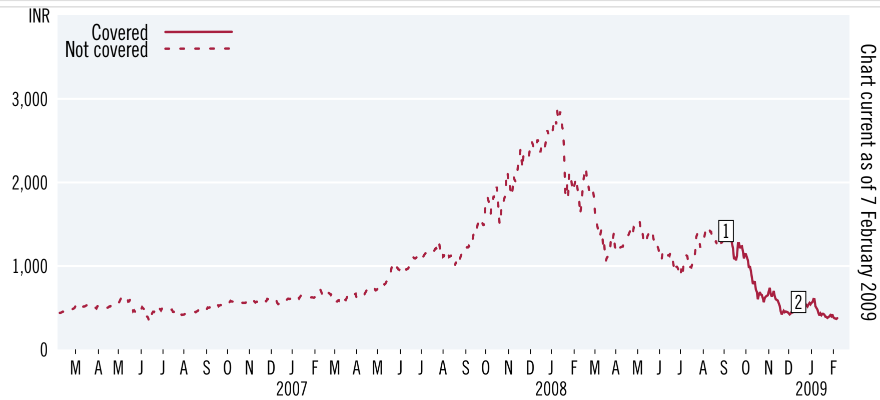
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Reliance Capital (RLCP.BO)

Ratings and Target Price History
Fundamental Research

Analyst: Manish Chowdhary, CFA
Covered since September 3 2008



	Date	Rating	Target Price	Closing Price
1	3-Sep-08	*3M	*1,250.00	1,418.90
2	15-Dec-08	3M	*500.00	546.10

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

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