

# Motilal Oswal (MOTOSW)

Rs 164

## WHAT'S CHANGED...

PRICE TARGET ..... Changed from Rs 203 to Rs 167  
 EPS (FY11E) ..... Changed from Rs 13.9 to Rs 12.1  
 EPS (FY12E) ..... Changed from Rs 15.6 to Rs 12.9  
 RATING..... Changed from Buy to Add

## Maintain market share, yields slide...

Motilal Oswal Financial Services' (MOFSL) calculated yields came down from 6.3 bps in Q4FY10 and 5.8 bps in Q1FY10 to 5.6 bps in Q1FY11. The volume mix of the system has shifted towards the options segment (~51% of total turnover for Q1FY11 against ~43% in Q4FY10) pressurising blended yields for MOFSL (in line with peers). Brokerage revenues grew 7% YoY to Rs 111 crore, as MOFSL reported a 13% QoQ rise in average trading volumes to Rs 3100 crore, which assisted them in maintaining their market share at 2.88% (2.83% in Q4FY10). The PAT of Rs 37.5 crore (including profit on sale of property of Rs 3.4 crore) in Q1FY11 was below our expectations of Rs 49 crore.

### Blended yields under pressure, EBIDTA margin dips

The rising contribution from the options segment and growing competition is pushing blended yields southward. EBIDTA margin declined 520 bps QoQ to 40.5%. We expect the EBIDTA margin to stay at approximately 40% till FY12E. Consolidated revenues and PAT adjusted for exceptional items (annual performance fee of Rs 10 crore, interest capitalisation of Rs 2.9 crore and profit on sale of investment of Rs 6.1 crore in Q4FY10) remained flat QoQ. We see flattish 5% CAGR in PAT over FY10-12E to Rs 188 crore.

### Franchise model continues

MOFSL has 1,481 outlets (1,397 in Q4FY10) across 586 cities. Other verticals like investment banking, asset management and fund-based businesses remained subdued QoQ and YoY.

## Valuation

We believe that maintaining the market share and protecting blended yields will be the key challenges for MOFSL, going ahead. We have valued MOFSL at a 15% discount to long-term average multiples of the broader markets and arrived at a target multiple of 13x on FY12E (similar to IIFL and Edelweiss) earnings and arrived at a target price of Rs 167. We recommend an **ADD** rating on the stock at current levels.

### Exhibit 1: Financial Performance

Rs Crore	Q1FY11	Q1FY11E	Q1FY10	Q4FY10	YoY Gr(%)	QoQ Gr(%)
Net Sales	151.4	169.6	149.2	166.6	1.5	-9.1
EBITDA	61.3	78.6	60.4	76.1	1.5	-19.4
EBITDA Margin(%)	40.5	46.3	40.5	45.7	-	(520 bps)
Reported Net Profit	37.5	49.3	35.9	51.9	4.5	-27.7
EPS	2.6	3.4	2.4	3.6	8.3	-27.8

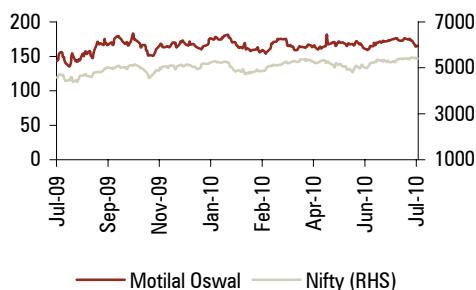
Source: Company, ICICIdirect.com Research

Rating matrix	
Rating	: <b>Add</b>
Target	: Rs 167
Target Period	: 12 months
Potential Upside	: 2%

Key Financials				
(Rs Crore)	FY09	FY10	FY11E	FY12E
Total Revenues	466	645	647	697
EBIDTA	181	277	276	294
PAT	96	170	177	188

Stock data	
Market Capitalisation	Rs 2346 crore
Net Worth (Q1FY11)	Rs 984 crore
Cash (Q1FY11)	Rs 197 crore
EBITDA (Q1FY11)	Rs 61 crore
52 week H/L	Rs 196 /131
Equity capital	Rs 143 Crore
Face value	Rs.10
DII Holding (%)	11.1
FII Holding (%)	1.2

### Price movement



### Analyst's name

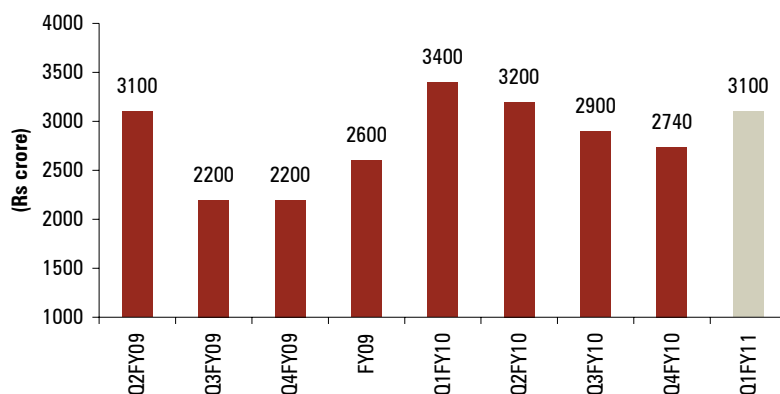
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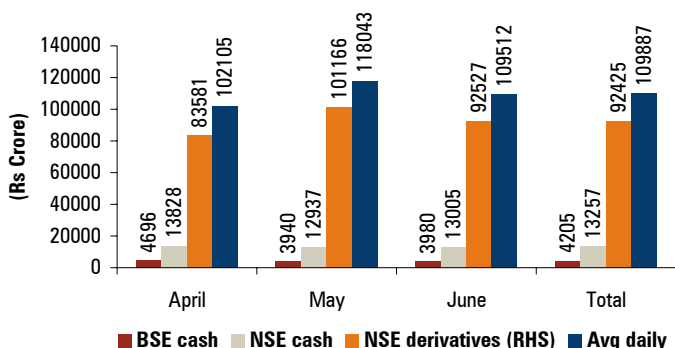
The average daily turnover for MOFSL stood at Rs 3100 crore implying QoQ growth of 13% and decline of 9% YoY

**Exhibit 2: Average daily turnover improves QoQ**



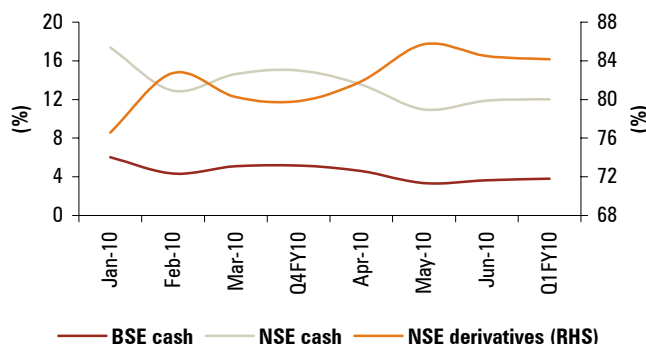
Source: Company, ICICIdirect.com Research

**Exhibit 3: Break-up of market wide volume for Q1FY11**



Source: NSE, BSE, ICICIdirect.com, Research

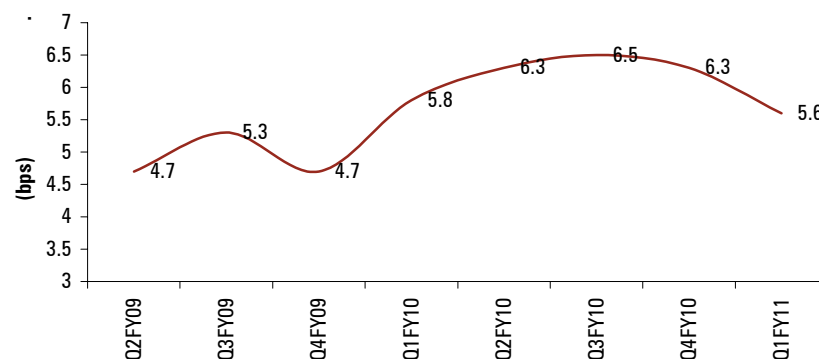
**Exhibit 4: Higher contribution from F&O segment hurting yields**



Source: NSE, BSE, ICICIdirect.com, Research

The blended yield has declined from 6.3 bps in Q4FY10 to 5.6 bps in Q1FY11

**Exhibit 5: Blended yields decline QoQ**



Source: Company, ICICIdirect.com Research

The margin funding book stands at Rs 200 crore

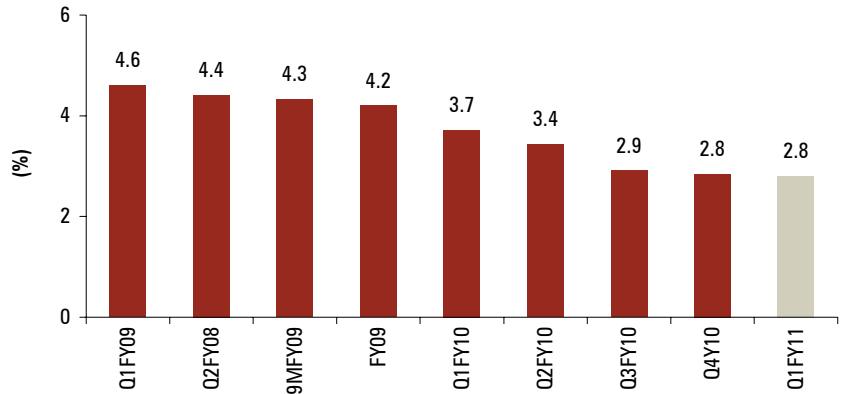
**Exhibit 6: Contribution of various verticals to total topline**

Business Segment (%)	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11
Brokerage and Operating Income	77.5	73.2	69.9	62.1	73.4
Investment Banking Fees	6.4	8.9	10.8	13.8	8.5
Fund Based Income	11.7	9.5	11.7	7.5	9.4
Asset Management Fees	3.2	3.7	6.2	11.5	5.1
Other Income	1.1	4.6	1.4	5.1	3.5
Total Revenues	100.0	100.0	100.0	100.0	100.0

Source: Company, ICICIdirect.com

The market share, that has been declining sequentially, was maintained this quarter at 2.8%. The main reason for the fall is increasing participation from proprietary firms and low penetration of MOFSL's clients in the options segment

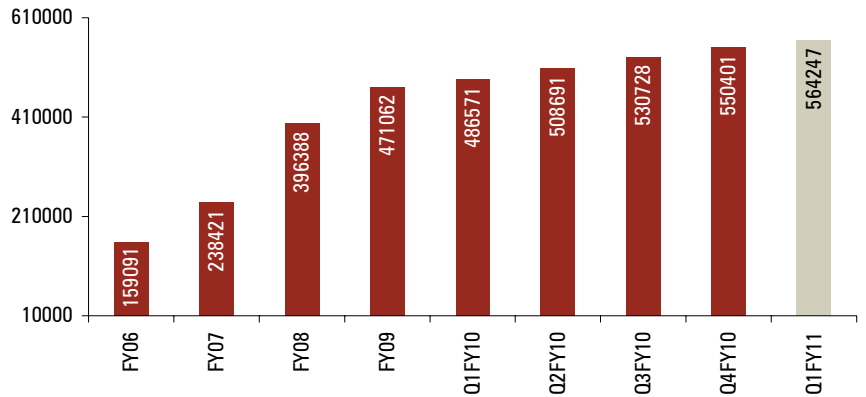
**Exhibit 7: Market share on a gradual decline, a key concern, going ahead**



Source: Company, ICICIdirect.com Research

The total no of retail broking clients stood at 5,64,247, as of Q1FY11

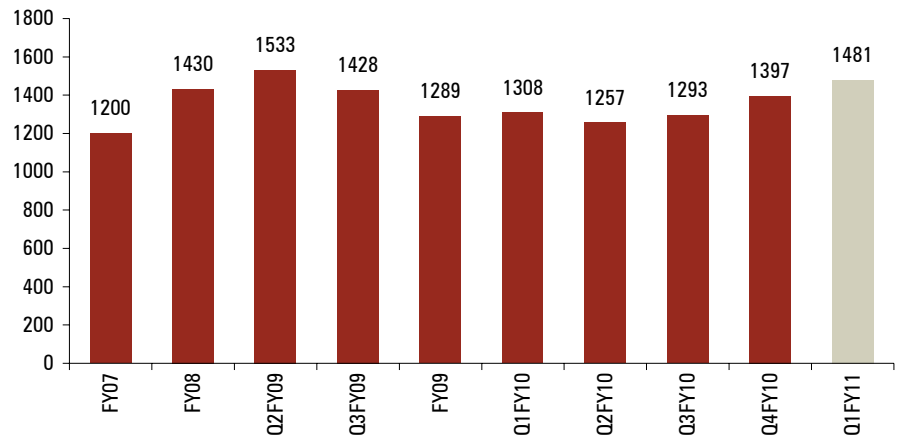
**Exhibit 8: Trend in growth of retail broking clients**



Source: Company, ICICIdirect.com Research

The no of owned branches as of Q1FY11 stood at 28 whereas there was incremental addition of 84 new franchises in Q1FY11.

**Exhibit 9: Distribution network increase mainly franchisee led**



Source: Company, ICICIdirect.com Research

**Financial scorecard**
**Exhibit 10: Valuation Summary**

Rs Crore	FY08	FY09	FY10	FY11E	FY12E
Income from Operations	690.7	457.3	625.0	625.1	672.6
Brokerage Income	562.1	326.8	455.1	425.2	456.2
Investment Banking	63.7	45.2	64.9	68.1	77.0
Management Fees- PMS	28.4	21.4	40.1	45.9	48.2
Fund Based Income	36.5	63.9	64.9	85.9	91.1
Other Income	11.1	8.7	20.3	22.3	24.6
Total Income	701.9	466.0	645.3	647.5	697.2
Net Profit (Rs crore)	162.0	93.4	170.4	176.7	188.2
EPS (Rs)	11.4	6.3	11.9	12.1	12.9
Growth (%)	97.3	-44.7	88.8	1.4	6.7
P/E (x)	14.4	26.0	13.8	13.6	12.7
Price / Book (x)	3.3	2.9	2.6	2.2	1.9
ROCE (%)	19.7	13.3	18.0	15.3	14.1
RoNA (%)	9.7	6.6	10.3	9.5	8.8
RoE (%)	22.8	11.8	18.6	16.4	15.0

Source: Company, ICICIdirect.com Research

## ICICIdirect.com coverage universe (BFSI)

					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
<b>Bank of India</b>										
<b>Idirect Code</b>	BANIND	<b>CMP</b>	410	FY10	1741.1	33.1	12.4	2.1	0.7	12.6
		<b>Target</b>	373	FY11E	2872.0	54.6	7.5	1.8	1.0	18.7
<b>Mcaps (Rs Cr)</b>	21562	<b>Upside (%)</b>	-9.0	FY12E	3367.6	55.7	7.4	1.5	0.9	18.1
<b>Bank of Baroda</b>										
<b>Idirect Code</b>	BANBAR	<b>CMP</b>	727	FY10	3058.3	83.7	8.7	2.2	1.2	21.9
		<b>Target</b>	765	FY11E	3683.2	100.8	7.2	1.8	1.2	21.9
<b>Mcaps (Rs Cr)</b>	26574	<b>Upside (%)</b>	5.2	FY12E	4373.2	119.6	6.1	1.4	1.2	21.1
<b>Dena Bank</b>										
<b>Idirect Code</b>	DENBAN	<b>CMP</b>	98	FY10	511.3	17.8	5.5	1.4	1.0	21.4
		<b>Target</b>	107	FY11E	621.0	18.2	5.4	1.2	1.0	20.3
<b>Mcaps (Rs Cr)</b>	2807	<b>Upside (%)</b>	9.4	FY12E	746.0	21.8	4.5	1.0	1.0	19.5
<b>Indian Overseas Bank</b>										
<b>Idirect Code</b>	INDOVE	<b>CMP</b>	114	FY10	707.0	13.0	8.8	1.1	0.6	9.6
		<b>Target</b>	105	FY11E	964.1	17.7	6.5	1.3	0.7	12.8
<b>Mcaps (Rs Cr)</b>	6227	<b>Upside (%)</b>	-8.1	FY12E	1224.4	22.5	5.1	1.1	0.8	15.2
<b>IDBI Bank</b>										
<b>Idirect Code</b>	IDBI	<b>CMP</b>	118	FY10	1031.1	8.8	13.5	1.8	0.5	13.2
		<b>Target</b>	134	FY11E	1220.2	12.4	9.5	1.3	0.5	11.9
<b>Mcaps (Rs Cr)</b>	8582	<b>Upside (%)</b>	13.2	FY12E	1503.6	15.3	7.7	1.2	0.5	11.6
<b>OBC</b>										
<b>Idirect Code</b>	ORIBAN	<b>CMP</b>	378	FY10	1134.7	45.3	8.3	1.3	0.9	14.5
		<b>Target</b>	424	FY11E	1359.4	54.3	7.0	1.1	0.9	15.4
<b>Mcaps (Rs Cr)</b>	9469	<b>Upside (%)</b>	12.2	FY12E	1650.5	65.9	5.7	1.0	0.9	16.2
<b>Punjab National Bank</b>										
<b>Idirect Code</b>	PUNBAN	<b>CMP</b>	1056	FY10	3905.4	123.9	8.5	2.2	1.4	23.9
		<b>Target</b>	1062	FY11E	4593.7	145.7	7.2	1.8	1.4	23.5
<b>Mcaps (Rs Cr)</b>	33282	<b>Upside (%)</b>	0.6	FY12E	5361.0	170.0	6.2	1.7	1.4	24.0
<b>SBI</b>										
<b>Idirect Code</b>	STABAN	<b>CMP</b>	2461	FY10	91.7	144.4	17.0	2.8	0.9	14.8
		<b>Target</b>	2556	FY11E	103.5	146.9	16.8	2.2	0.9	13.3
<b>Mcaps (Rs Cr)</b>	156273	<b>Upside (%)</b>	3.8	FY12E	127.1	180.3	13.7	2.0	0.9	13.4
<b>Union Bank of India</b>										
<b>Idirect Code</b>	UNIBAN	<b>CMP</b>	319	FY10	2074.9	41.1	7.8	2.0	1.2	26.2
		<b>Target</b>	358	FY11E	2444.0	48.4	6.6	1.7	1.1	24.8
<b>Mcaps (Rs Cr)</b>	16113	<b>Upside (%)</b>	12.2	FY12E	2948.7	53.1	6.0	1.4	1.2	22.8
<b>Axis Bank</b>										
<b>Idirect Code</b>	UTIBAN	<b>CMP</b>	1351	FY10	2514.5	62.1	21.8	3.5	1.7	19.2
		<b>Target</b>	1400	FY11E	3306.9	81.6	16.6	3.0	1.5	19.0
<b>Mcaps (Rs Cr)</b>	54739	<b>Upside (%)</b>	3.6	FY12E	4236.2	104.6	12.9	2.5	1.4	20.5
<b>Dhanlaxmi Bank</b>										
<b>Idirect Code</b>	DHABAN	<b>CMP</b>	180	FY10	23.3	3.6	49.6	2.9	0.3	5.4
		<b>Target</b>	190	FY11E	61.3	7.2	25.0	2.0	0.6	9.5
<b>Mcaps (Rs Cr)</b>	1155	<b>Upside (%)</b>	5.4	FY12E	99.8	11.7	15.4	1.8	0.7	11.1
<b>HDFC Bank</b>										
<b>Idirect Code</b>	HDFBAN	<b>CMP</b>	2040	FY10	2948.7	64.4	32.5	4.5	1.5	16.3
		<b>Target</b>	2151	FY11E	3927.6	85.8	24.4	4.0	1.6	17.2
<b>Mcaps (Rs Cr)</b>	95705	<b>Upside (%)</b>	5.4	FY12E	5078.0	110.9	18.8	3.6	1.8	19.6
<b>Kotak Bank</b>										
<b>Idirect Code</b>	KOTMAH	<b>CMP</b>	767	FY10	561.1	16.1	47.4	6.3	1.7	13.5
		<b>Target</b>	831	FY11E	793.6	21.8	35.1	4.8	1.9	15.0
<b>Mcaps (Rs Cr)</b>	26658	<b>Upside (%)</b>	8.4	FY12E	1009.7	27.7	27.6	4.3	2.0	15.7
<b>South Indian bank</b>										
<b>Idirect Code</b>	SOUINO	<b>CMP</b>	190	FY10	233.7	20.7	9.2	1.5	1.1	17.9
		<b>Target</b>	195	FY11E	272.5	24.1	7.9	1.4	1.0	17.4
<b>Mcaps (Rs Cr)</b>	2147	<b>Upside (%)</b>	2.6	FY12E	335.6	29.7	6.4	1.2	1.0	18.6
<b>Yes Bank</b>										
<b>Idirect Code</b>	YESBAN	<b>CMP</b>	293	FY10	477.7	14.1	20.8	3.2	1.6	20.3
		<b>Target</b>	316	FY11E	685.7	20.2	14.5	2.7	1.6	20.2
<b>Mcaps (Rs Cr)</b>	8798	<b>Upside (%)</b>	7.8	FY12E	885.6	26.1	11.2	2.2	1.5	21.6

## Continued...

**NBFC**

					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
<b>IDFC</b>										
<b>Idirect Code</b>	IDFC	<b>CMP</b>	189	FY 09	848.0	6.5	28.8	3.9	2.8	14.3
		<b>Target</b>	200	FY10	1062.1	8.2	23.0	3.5	3.2	15.9
<b>Mcap (Rs Cr)</b>	24437	<b>Upside (%)</b>	6.0	FY11E	1326.8	9.1	20.7	2.5	3.4	14.7
<b>LICHF</b>										
<b>Idirect Code</b>	LICHF	<b>CMP</b>	1131	FY 09	531.6	62.6	18.1	4.4	2.0	26.1
		<b>Target</b>	1161	FY10	662.1	69.7	16.2	3.0	1.9	22.7
<b>Mcap (Rs Cr)</b>	10739	<b>Upside (%)</b>	2.7	FY11E	861.9	90.8	12.5	2.5	1.9	21.9
<b>Rel Cap</b>										
<b>Idirect Code</b>	RELCAP	<b>CMP</b>	782	FY10	434.6	17.7	44.3	2.5	2.4	5.7
		<b>Target</b>	800	FY11E	771.3	31.3	25.0	2.3	4.0	9.5
<b>Mcap (Rs Cr)</b>	19208	<b>Upside (%)</b>	2.3	FY12E	761.9	31.0	25.3	2.1	3.5	8.7

**Brokerage firms**

					NP (Rs Cr)	EPS (Rs)	PE (x)	P/BV (x)	RoNA (%)	RoE(%)
<b>Edelweiss Capital</b>										
<b>Idirect Code</b>	EDECAP	<b>CMP</b>	500	FY10	244.9	30.5	16.4	1.7	5.3	11.2
		<b>Target</b>	455	FY11E	268.1	33.6	14.9	1.5	4.0	11.3
<b>Mcap (Rs Cr)</b>	3753	<b>Upside (%)</b>	-9.0	FY12E	288.2	36.1	13.9	1.4	3.7	11.1
<b>India Infoline</b>										
<b>Idirect Code</b>	INDINF	<b>CMP</b>	93	FY10	232.0	8.1	11.4	1.6	5.7	14.9
		<b>Target</b>	111	FY11E	244.0	8.6	10.9	1.5	4.1	15.3
<b>Mcap (Rs Cr)</b>	2651	<b>Upside (%)</b>	19.4	FY12E	258.4	9.1	10.3	1.3	4.5	14.6
<b>MOFSL</b>										
<b>Idirect Code</b>	MOTOSW	<b>CMP</b>	164	FY10	170.4	11.9	13.8	2.6	10.3	18.6
		<b>Target</b>	167	FY11E	176.7	12.1	13.6	2.2	9.5	16.4
<b>Mcap (Rs Cr)</b>	2346	<b>Upside (%)</b>	1.8	FY12E	188.2	12.9	12.7	1.9	8.8	15.0

## RATING RATIONALE

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 Add: Up to 10%;  
 Reduce: Up to -10%  
 Sell: -10% or more;

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