

March 9, 2010

Rating	Accumulate
Price	Rs121
Target Price	Rs152
Implied Upside	25.5%
Sensex	17,103

(Prices as on March 8, 2010)

Trading Data

Market Cap. (Rs bn)	34.3
Shares o/s (m)	283.4
Free Float	66.25%
3M Avg. Daily Vol ('000)	2,429.9
3M Avg. Daily Value (Rs m)	311.9

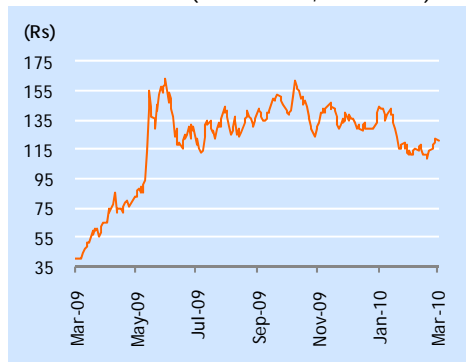
Major Shareholders

Promoters	33.75%
Foreign	18.88%
Domestic Inst.	20.41%
Public & Others	26.96%

Stock Performance

(%)	1M	6M	12M
Absolute	9.0	(14.4)	195.7
Relative	1.7	(20.5)	90.3

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



Source: Bloomberg

- Steadily gaining market share in broking:** India Infoline's (IIFL's) reported overall market share numbers are up only marginally over the past few quarters (3.9% in Q3FY10 v/s 3.6% in Q1). However, this masks its impressive gains in the cash segment due to rising institutional volumes and expanding retail reach. At 2108 outlets (517 branches & 1591 franchisees), IIFL has one of the largest and strongest networks in India. However, given its high market share, the company's overall trends are likely to follow the broader market. After peaking in July 2009, cash market volumes are now at a 10-month low (in February 2010). Till date, the average cash volumes in Q4FY10 are 9.2% lower than Q3FY10.
- Increasing mortgage lending:** At the end of Q3FY10, IIFL had an 'Advances book' of Rs12bn (Rs7bn consumer loans and Rs5bn capital market loans). Within consumer, the company is expecting only the mortgages segment (Rs5.5bn) to grow rapidly. Overall, we expect the advances book to grow to Rs24bn by the end of FY11. Higher NPA write-offs resulted in an increase in the direct costs in Q2 and Q3. We expect the same to decline marginally (to 20.2% of revenue in Q4 v/s 22.6% in Q3), but still remain high.
- Insurance segment to sustain revenues despite new regulations:** December 2010 saw a surge in policy sales due to the new regulations (limiting difference Gross and Net NAV to 2.25%) coming into effect from January 2010 which would make many policies redundant. However, our conversation with IIFL indicates that the impact may not be as severe as expected. Overall, Q4FY10 insurance commission income is likely to remain flat over Q3FY10, instead of the decline feared earlier. Non-ICICI Pru policy sales is now 25% of sales for IIFL.
- Valuation attractive, but equity volume concerns remain:** Recent transaction involving buying back the minority investor from its two subsidiaries for US\$80m has impacted IIFL's networth by a marginal Rs550-600m. At 1.8x FY11 BV, IIFL is attractive in our opinion from a 12-18 month perspective even though near-term concerns regarding poor cash market volumes remain high.

Key financials (Y/e March)	FY09	FY10E	FY11E	FY12E
Revenues (Rs m)	9,607	12,108	14,606	17,573
Growth (%)	(5.8)	26.0	20.6	20.3
EBITDA (Rs m)	2,898	4,548	5,711	7,053
PAT (Rs m)	1,447	2,275	2,981	3,593
EPS (Rs)	5.2	7.9	9.9	11.3
Growth (%)	(17.0)	50.3	25.1	14.5
Net DPS (Rs)	2.8	2.0	2.5	3.0

Source: Company Data; PL Research

Profitability & valuation	FY09	FY10E	FY11E	FY12E
EBITDA margin (%)	30.2	37.6	39.1	40.1
RoE (%)	8.2	14.5	17.9	17.2
RoCE (%)	7.7	12.1	13.7	14.5
EV / sales (x)	2.8	2.8	2.7	2.3
EV / EBITDA (x)	9.4	7.5	6.9	5.8
PE (x)	23.1	15.4	12.3	10.7
P / BV (x)	2.2	2.1	1.8	1.6
Net dividend yield (%)	2.3	1.7	2.1	2.5

Source: Company Data; PL Research

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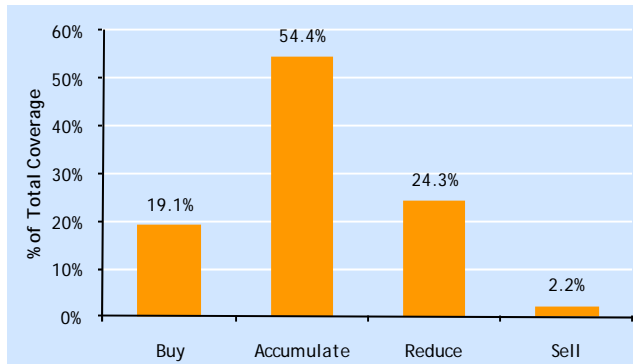
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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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