

Future Capital Holdings Ltd.

Price Band	: Rs700- 765 per share	January 11, 2008
Issue open between	: January 11 - 16, 2008	
Recommendation	: Subscribe with a medium term view	
Book Running Lead Managers	: Kotak, Enam, J M Financial, UBS	
To List on	: NSE and BSE	
Market Cap post-listing	: Rs48.37Bn or \$1.2Bn (based on the cap price)	

IPO of 6.42mn equity shares of Rs10 each, aggregating to Rs491Cr or \$125mn (at the cap price)

Shareholding Pattern

Shareholder Categories	Pre-issue		Post-issue	
	No. of shares	% Holding	No. of shares	% Holding
Promoters	47,082,184	82.9%	47,082,184	74.5%
Promoter Group	618,000	1.1%	618,000	1.0%
Non Promoters	3,055,000	5.4%	3,055,000	4.8%
Employee	550,000	1.0%	550,000	0.9%
QIB	5,500,000	9.7%	9,160,996	14.5%
Mutual funds	0	0.0%	192,684	0.3%
Non Institutional Investors	0	0.0%	642,280	1.0%
Public	0	0.0%	1,926,840	3.0%
Total	56,805,184	100.0%	63,227,984	100.0%

* Promoter Group consists of Pingaksh Realty Pvt Ltd.

Recommendation - Subscribe with a medium term view

- Future Capital Holdings Ltd. (FCHL) is the financial services arm of the Future Group promoted by Kishore Biyani.
- Financial capital and human capital are critical resources for the financial services industry.
 - Fund-based financial services are capital intensive. FCHL's balance sheet size has grown from Rs162Cr in FY07 to Rs297Cr in H1-FY08.
 - To augment its human capital base, it has hired top-quality talent from within India and abroad as well.
- FCHL has a unique business model built on the investing platform. It has 3 arms viz., Investment Advisory, Future Money (retail financial services) and Future Capital Research. The first two are profit centres, while the last, though a cost centre, is critical in idea generation and trend identification.
- Most of FCHL's businesses are at very nascent stages, with major capital deployment in process. With a strong management team and aggressive expansion plans, we expect it to deliver a superlative performance going ahead.
- FCHL's advisory business already has a presence across the real estate, hospitality and consumption related sectors. It has assets under advisory of over \$1bn.
- Funds (with duration of 7-year and above) usually give returns during the last 2-3 years. Given the duration of FCHL's funds, we expect profit taking in FY10. It plans to expand in new sectors viz. logistics for which it has already entered into a JV.
- PE funds invest in companies that are in early phases of business life cycle. India is an emerging economy and the underlying sectors viz., retail, real estate and hotels, for funds which FCHL advises are in a high-growth phase.
- The IPO is aimed at funding the consumer/personal lending of Future Money.

- Consumer lending business under Future Money faces competition from several established players. The short track record of the recently launched Future Money is also a concern.
- Warrants issued to promoters in May 2006 and June 2007, were converted @ Rs10 and Rs117.50 per share respectively, while a fresh issue was made to a promoter group entity @ Rs178 per share in September 2007.
- We expect to FCHL to be in the red in the current year, as Future Money is at a start-up phase. However, it is likely to book profits from FY09 onwards. With the funds being advised by the Investment Advisory arms likely to mature only over the next 3-4 years, contribution from that arm is not likely in the near future. However, in view of the strong management background and opportunities in the consumer lending space, we advise investors to invest with a medium term perspective.

Company and Promoter Background

FCHL was incorporated in October 2005 as KB Infin Pvt Ltd. In 2006, the name of the company was changed FCHL, post-acquisition of share capital by Pantaloon Retail India Ltd. (PRIL). It is an NBFC co-promoted by PRIL, Kishore Biyani, and Sameer Sain. Och-Ziff, a prominent international fund is one of the investors.

While Kishore Biyani is the chairman, Sameer Sain, CEO and Managing Director, has 11 years of experience in the investment management business.

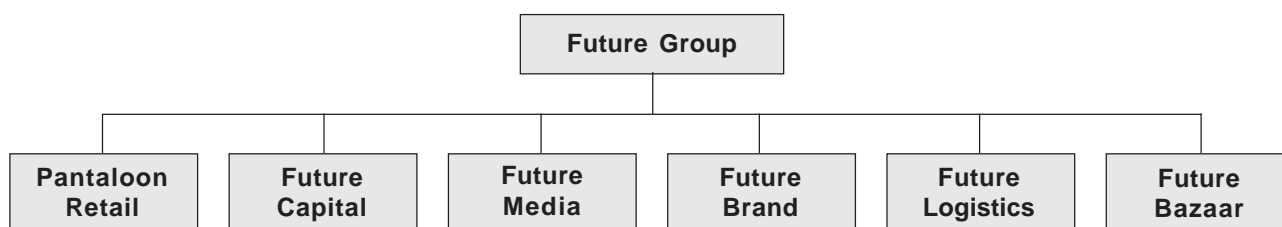
Financial Services Industry

Indian financial services accounted for 14% of total GDP in FY07. Growth in financial services is attributable to financial market reforms, introduction of innovative financial instruments and entry of domestic and international financial services participants. The financial sector has kept pace with the growing needs of corporate and other borrowers.

Overall, the \$28 billion Indian financial sector has grown at around 15% p.a. and has displayed stability for the last several years, even when other markets in the Asian region were facing a crisis, according to Ministry of External Affairs, GOI. This stability was ensured through the resilience that has been built into the system over time.

P. Chidambaram targets to spur investment and consumption so that economic growth can be sustained. Therefore, outlook of financial services industry is positive.

Business Overview



Future Capital Holdings Ltd (FCHL)

FCHL is financial services company in India with investment advisory services, retail financial services and proprietary research as its main lines of business.

Investment Advisory Services

It provides private equity and real estate investment advisory services to onshore and offshore clients. These investment advisory services include investment analysis, research and recommendations. It pursues a “mentoring” approach with regard to the investments it advises by actively assisting businesses with their strategies and implementation of their growth plans.

Investment advisors to the following funds

Name of Fund	Year	Investment manager	Size	Category of fund
Kshitij	2005	Kshitij Venture Capital Fund	Rs350Cr (\$89mn)	Onshore retail / real estate fund
Indivision	2006	Indivision Capital Mgt.	\$425mn (Rs1671Cr)	Offshore private equity
Horizon	2006	Horizon Development Mgt.	\$350mn(Rs1376)	Offshore real estate
Indus	2007	FHL Developments Co. LLC	\$200mn(Rs786Cr)	Offshore hotel fund

- Offshore funds are Mauritius based and an application is made to RBI to acquire Keystone Co. Ltd., which owns offshore investment managers.
- Kshitij Fund has invested in 11 properties of 4.7mn- 5mn sqft
Horizon has invested in real estate of 14mn-15mn sqft
Indivision portfolio comprises of Lilliput, Capital Foods, VLCC, Tops, etc
- Kshitij Fund provides for advisory fees and performance fees based on the returns achieved by the fund. It receives advisory fees as the advisor to the offshore investment managers of the Horizon Fund and Indus Fund.
- We expect all the existing funds to deliver an IRR of 24-30%.
- It plans to expand in new sectors e.g. logistics. It has already entered into a JV for the same.

Retail Financial Services

In June 2007, it launched retail financial services under the name “Future Money”. These ‘financial supermarkets’ provide 2 retail financial services products namely consumption loans, which are loans to finance the purchase of durables, furniture and other consumer goods, and personal loans, which are unsecured credit lines to individual customers.

It differentiates itself from other players through presence at the point of consumption. Pursuant to an agreement with PRIL, it has exclusive rights to provide financial services at present and future malls, stores and retail outlets in India, managed by PRIL and its subsidiaries. This arrangement gives FCHL access to PRIL's large customer base, engaged in over 45mn transactions.

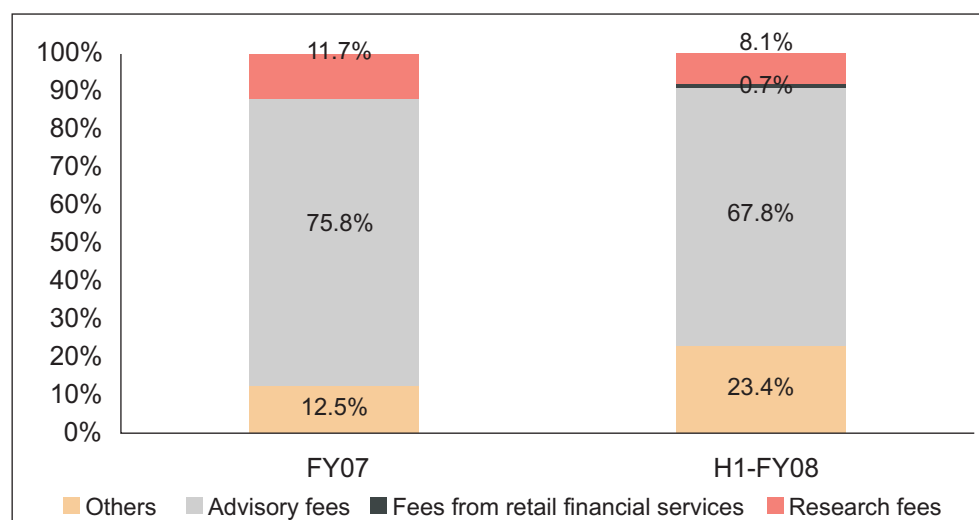
- Currently, it has 95 Future Money outlets located in 26 cities across India located in PRIL and its subsidiaries.
- As of Nov 2007, the consumption loans disbursed were Rs3.21Cr (31% of the total loans disbursed) and the personal loans disbursed were Rs7.20Cr (69% of total loans disbursed).
- Entered into agreement with ICICI Bank to market credit card “Future Card” which will be launched shortly.
- It is in process to finalize terms for acting as a corporate agent, for Future Generali India Insurance for general insurance products and, for Future Generali India Life Insurance for life insurance products.
- Plans to offer home equity loans and money transfer services but have not yet entered into any agreements for the same.

Research

The research by FCHL provides fundamental research that assists the process of value creation for all Pantaloon Retail businesses and investments.

Future Capital Research conducts and publishes economic research on India with the objective to enhance value creation across businesses. It develops proprietary indices to highlight trends in consumer behaviour. It is largely meant for captive consumption.

Revenue-mix



Comments

- **Advisory fees**
 - Recognised on basis of agreed mark up on costs or according to the arrangements entered in.
 - It is again bifurcated into management fees and 20% performance fees.
 - Performance fees are usually recognised at the time of investment exits, subject to certain minimum return.
- **Research fees**
 - Recognised on basis of arrangements entered with parties.
 - Primarily meant for captive consumption.
 - It provides research to those companies wherein the private equity funds invest in.
- **Fees from retail financial operations**
 - It comprises of financing income from consumer loans and processing fees.
 - Since future money was launched in June 2007, income from this head was not present in FY07.

The contribution of advisory and research fees is likely to alter with expansion of retail financial services

Competitive Strengths

- Experienced management team and hired talented professionals across the globe.
- Being associated with the future group, it automatically gets a tag for reputation in the market.
- It has synergy with the Future Group.
- Unique and differentiated business model. It provides financial services at the point of consumption through agreement with PRIL.

Objects of the issue

The main object of the issue is to augment the capital base to expand Future money loan portfolio.

Means of Finance

The objects of the issue will be funded from the IPO proceeds. Shortfalls, if any, shall be met through internal accruals.

Strategy

FCHL aims to become a one-stop shop for financial products and services. To achieve this, it has laid down the strategies.

- To attract and retain talent. For this purpose, it offers equity option plans and compensation schemes.
- To grow investment advisory business by entering into new agreements and exploring new segments. It has plans to offer investment advisory in new sectors like logistics.
- To expand the network of Future Money outlets. It plans to offer credit card named 'Future Card' through a tie-up with ICICI Bank. It will also foray into insurance distribution as well as money transfer services.

Investment Concerns

- It has a very limited financial track record.
- To retain talented professionals will always be a challenge.
- It is still at an inception phase and still has a long way to go ahead in the competitive landscape. However, its unique business model serves as a differentiator.
- When stand-alone Future Money outlets are set up, selling financial products outside PRIL credit requirements may pose a challenge.

Peer Valuation table

(RsCr)

	Sales		PAT		EPS (Rs)	
	FY08E	FY09E	FY08E	FY09	FY08	FY09
Reliance Capital	3774.11	6435.68	873.87	1097.00	34.98	44.10
Edelweiss Capital	645.20	958.20	193.60	289.20	25.70	38.30
IL & FS Invest smart	262.20	290.00	67.40	79.90	15.95	11.94

Source: Bloomberg estimates

Peer comparison

(RsCr)

	Reliance Capital	Edelweiss Capital	IL& FS Invest smart	Future Capital
Net Sales	1425.98	368.98	49.23	38.96
Net Profit	888.23	109.01	20.04	3.49
Paid-up-Equity capital	245.63	40.76	69.84	44.44
Price (9-Jan-08)	2860	1643	250	765
Market Cap	70240	13395	1744	3400
EPS (Rs)	36.16	13.37	2.87	0.78
Book Value (Rs)	215.4	644	98.99	23.96
P/E (x)	79.1	122.9	87.0	974.6
P/B (x)	13.3	2.6	2.5	31.9
P/S (x)	49.3	36.3	35.4	87.3
EBIDTA margin	80.8%	52.6%	43.9%	21.1%
NPM	62.3%	29.5%	40.7%	9.0%
52 week High (Rs)	2896	1795	300	-
52 week Low (Rs)	560	1370	145	-
FVPS (Rs)	10	5	10	10

Note: TTM expect for Edelweiss and Future capital that are consolidated FY07.

Future Capital vis-à-vis Reliance Capital Ltd. (RCL)

Data Points	RCL	FCHL
Year of Incorporation	1986	2005
Promoter	Anil Ambani	Kishore Biyani
Promoter holding	52.4%	75.5%*
Lines of business	Asset Management Life & General Insurance, PE, broking, depository and other activities in financial services.	Investment advisory retail financial services and research.
Major Income (FY07)	General Insurance (48.9%)	Advisory fees (67.8%)
Employee cost (% of sales) H1-FY08	7.8%	66.2%
Launch of retail financial services	Reliance Money in April 2007	Future Money in June 2007
No. of outlets	2700	95

Financial Comparison (FY07)

	RCL	FCHL
Net worth (RsCr)	5302.38	106.50
Debt (RsCr)	1402.96	55.47
Balance sheet size (RsCr)	6705.34	161.96
Debt equity ratio	0.26	0.52
EBITDA margin	40.23%	21.1%
Book value (Rs)	215.40	42.62
EPS (Rs)	28.43	0.78
ROE	13.2%	3.3%

Consolidated Profit & Loss Statements (RsCr)

For period ending	31-Mar-07	30-Sep-07
Income from operations	38.96	31.20
Expenditure		
Personnel exps	18.32	20.64
Admin and other exps	12.36	16.98
Preliminary exps	0.05	0.00
Total Expenditure	30.73	37.62
EBITDA	8.24	-6.43
Other income	0.03	0.07
Financial exps	2.49	3.64
PBDT	5.77	-9.99
Depreciation / amortisation	0.83	1.27
PBT	4.94	-11.26
Current tax	0.87	1.26
Deferred tax	-0.77	-0.49
FBT	0.16	0.18
PAT before adjustments	4.68	-12.21
Tax Adjustments	0.08	0.00
Minority interest	1.28	0.22
PAT after adjustments	3.49	-12.43
EBITDA margins	21.1%	-20.6%
EPS (Rs)	0.78	-2.19
Book value (Rs)	23.96	42.62

Consolidated Balance sheets (RsCr)

As at	31-Mar-07	30-Sep-07
Sources of funds		
Share capital	44.44	56.81
Share application money	11.05	0.00
Reserves and surplus	51.01	185.32
Total Shareholders Funds	106.50	242.13
Secured loans	55.47	55.44
Total liabilities	161.96	297.57
Application of funds		
Gross block	80.76	86.17
Less:depreciation	0.87	2.14
Net block	79.90	84.03
Capital work-in-progress	0.78	2.23
Goodwill	7.61	7.61
Investments	53.55	130.83
Cur. assets, loans and adv.		
Sundry debtors	14.76	8.46
Cash and bank balances	3.89	52.14
Investments held for sale	0.00	16.75
Stock on hire	0.00	1.14
Loans and advances	17.79	57.55
Total Current Assets	36.44	136.04
Current liabilities	14.94	63.70
Provisions	0.37	0.57
Net Current Assets	21.13	71.77
Minority interest	1.77	0.18
Deferred tax assets	0.77	1.28
Total Assets	161.96	297.57

Keynote Capitals Ltd.

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Registered Office

4th Floor, Balmer Lawrie Building,
5, J. N. Heredia Marg,
Ballard Estate, Mumbai 400 001.
Tel Nos. 022-22694322-25

Ratings structure

Subscribe & Hold	:	subscribe for listing gains, hold for further appreciation
Subscribe for listing gains	:	expect decent appreciation on listing
Subscribe with a medium term view	:	stock can deliver only over 6-8 months after listing
Subscribe with a long term view	:	value can only be realised over 12-18 months
Await listing	:	good fundamentals; consider valuations on listing

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