

**Motilal Oswal Financial Services Ltd. - Q3-FY09 Results Update**

**January 15, 2008**

**Price: Rs67.95 (Jan.14)**

**52wk high/low: 1959/48**

**Market Cap: Rs965Cr**

Motilal Oswal Financial Services Ltd. (MOFSL) announced results for Q3-FY09. MOFSL listed on Indian stock exchanges following its IPO in August 2007 with an issue price of Rs 825 per share. The stock price of MOFSL is down 92% vis-à-vis the IPO price.

### Consolidated Results

(RsCr)

Particulars	Q3-FY08	Q2-FY09	Q3-FY09	% growth (y-o-y)	% growth (q-o-q)
Income from Operations	228.64	132.42	87.57	-61.7%	-33.9%
Other Operating Income	6.34	6.02	6.79	7.1%	12.8%
<b>Total Income</b>	<b>234.98</b>	<b>138.44</b>	<b>94.36</b>	<b>-59.8%</b>	<b>-31.8%</b>
<b>Expenditure</b>					
Operating Cost	67.81	28.22	19.60	-71.1%	-30.5%
Employees cost	56.88	36.32	24.57	-56.8%	-32.4%
Depreciation	3.78	4.46	4.74	25.4%	6.3%
Other expenditure	22.78	18.98	15.37	-32.5%	-19.0%
<b>Total expenditure</b>	<b>151.25</b>	<b>87.98</b>	<b>64.28</b>	<b>-57.5%</b>	<b>-26.9%</b>
<b>Operating Profit</b>	<b>83.73</b>	<b>50.46</b>	<b>30.08</b>	<b>-64.1%</b>	<b>-40.4%</b>
Other Income	0.95	-0.06	1.84	93.7%	-3166.7%
Interest	3.90	7.27	2.32	-40.5%	-68.1%
<b>PBT</b>	<b>80.78</b>	<b>43.13</b>	<b>29.60</b>	<b>-63.4%</b>	<b>-31.4%</b>
Tax expense	26.03	14.45	9.31	-64.2%	-35.6%
<b>NPAT before minority interest</b>	<b>54.75</b>	<b>28.68</b>	<b>20.29</b>	<b>-62.9%</b>	<b>-29.3%</b>
Minority Interests	-1.03	-1.57	0.13	112.6%	108.3%
<b>NPAT after minority interest</b>	<b>53.72</b>	<b>27.11</b>	<b>20.42</b>	<b>-62.0%</b>	<b>-24.7%</b>
Paid-up equity share capital	14.20	14.20	14.20		
FVPS	1	1	1		
<b>EBITDA margins</b>	<b>35.6%</b>	<b>36.4%</b>	<b>31.9%</b>		
<b>EPS (Rs)</b>	<b>3.78</b>	<b>1.91</b>	<b>1.44</b>		

### Key data points

	Q2-FY09	Q3-FY09	% change (q-o-q)	Analysis
No. of Clients	509,400	527,368	3.5%	In spite of the challenging times, it managed to increase its client base
Average daily turnover (Rsbn)	31	22	-29.0%	Fall in volumes are linked to fall in market
No. of Outlets	1,533	1,428	-6.8%	Few of the outlets have been merged to attain cost efficiencies
No. of Cities	487	512	5.1%	Strategy to expand presence in new cities to reach out new clients

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## Analysis of Q3-FY09 results

### Non-broking segment failed to perform during the challenging times in capital markets

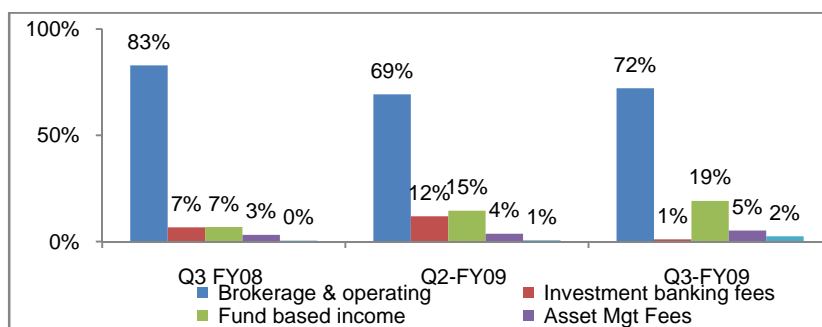
The management expected to continue traction from the non-broking business, which would help diversify the revenue base and capitalize on the emerging opportunities in those spaces. However, the non-broking revenue was also affected during the quarter.

- Investment banking was down by 93% and its contribution to the overall revenues has fallen sharply to 1%, the reason being the delay in closure of some mandated projects.
- Fund based income, second largest contributor to the total revenues and for which MOFSL raised Rs246Cr also could not grow. Fund based income had helped reduce the impact of market downturn in Q2, but not during Q3.

### Revenue-Breakup (RsCr)

Particulars	Q3-FY08	Q2-FY09	Q3-FY09	% growth (y-o-y)	% growth (q-o-q)	Comments
Brokerage & operating	1,96	96	69	-64.5%	-27.6%	Fall attributed to tough market conditions.
Investment banking fees	16	17	1	-93.7%	-93.9%	Delay in closure of few mandated projects
Fund based income	16	20	18	14.3%	-8.5%	was marginally affected
Asset Management Fees	8	5	5	-33.3%	-2.0%	includes PE business, which is affected across the industry
Other income	1	1	2	140.0%	200.0%	
<b>Total Revenues</b>	<b>236</b>	<b>138</b>	<b>96</b>	<b>-59.2%</b>	<b>-30.5%</b>	

### Contribution of various segments to MOFSL total revenues



### Cost optimization through all possible ways....

- Consolidation in the outlets

The outlet count stand at 1,428 compared to 1,553 the last quarter. The closure of the outlets is attributable to merging of the outlets to have cost efficiencies. It looks to enter into new cities but is merging outlets within city.

- Employee cost declined by 57% y-o-y and 32% q-o-q

Head count was reduced by 300 during the quarter and today stands at 1400. In the last quarter too, they had laid off 300 employees. Management states the staff removed was mainly temporary. Evaluations are carried out for the new hires that are likely to join soon.

## ....yet cost pressures evident

(as % of revenues)	Q3-FY08	Q2-FY09	Q3-FY09
Operating Cost	28.9%	20.4%	20.8%
Employees cost	24.2%	26.2%	26.0%
Depreciation	1.6%	3.2%	5.0%
Other expenditure	9.7%	13.7%	16.3%
<b>Total expenditure</b>	<b>64.4%</b>	<b>63.6%</b>	<b>68.1%</b>

## Key concern

### Retail market share declining continually over last 4 quarters

	Q4-FY08	Q1-FY09	Q2-FY09	Q3-FY09
Market share	4.69%	4.58%	4.49%	4.32%

Market share on the institutional front is also affected.

### Q4 likely to remain difficult

Investment banking is under pressure during the difficult times. Many of the IB deals which could have been booked in Q3 and were in advanced stages are likely to be now delayed to Q4. There are chances of a few deals not even materializing. MOFSL has 12 mandates in the pipeline.

### Way ahead

- To tap new businesses like mutual fund business

This segment is in initial stages and MOFSL will look to develop it further with more concrete strategy which will be visible in next 2-3 quarters. It has already got AMC license and the basic infrastructure set-up has been done. This business is still in formative stage.

- Going forward, management will consider more means of cost optimization.

### Valuations based on TTM earnings

	MOFSL	Edelweiss	Indian Infoline
EPS (Rs)	28.15	38.73	34.95
<b>TTM P/e (x)</b>	<b>2.4</b>	<b>6.3</b>	<b>1.4</b>

### Forward valuations

	MOFSL	Edelweiss	Indian Infoline
Total Income FY09E (RsCr)	681.62	1266.47	1504.73
Total Income FY10E (RsCr)	855.82	1668.05	2111.50
EPS (Rs) FY09E	53.00	41.18	43.88
EPS (Rs) FY10E	62.74	54.52	59.58
<b>P/e (x) FY09E</b>	<b>1.3</b>	<b>6.0</b>	<b>1.1</b>
<b>P/e (x) FY10E</b>	<b>1.1</b>	<b>4.5</b>	<b>0.8</b>

(Consensus consolidated earnings estimates)

**Keynote Capitals Ltd.**

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