

Microsec Financial Services : Weak Issue, Avoid IPO Note: Stiff Competition From Established Players Rating*

Issue details

Price band (Rs)	Rs.113-118
IPO Opening Date	17/09/10
IPO Closing Date	21/09/10
Issue Size	Rs.147.00 Crore

Valuations & Recommendation

It had reported total revenue of Rs 58.5 crore last year, out of which Rs15 crore came from investment banking and Rs 23 crore from brokerage and rest from wealth management. Its consolidated EPS on post-issue equity works out to Rs 7.7 for FY 2010. At the price band of Rs 113 to Rs 118, P/E works out to 14.7 to 15.4 times. Listed players like Motilal Oswal Financial services, Indiabulls financial services, Emkay Global Financial Services, India Infoline, and Edelweiss Capital having all-India presence, comparatively higher revenue and PAT, and are trading at PE in between 10.8 and 15.3.

The company is in the business where profitability is highly unpredictable and it has to face stiff competition in the LAS business from several other established players, including, Indiabulls Financial Services Limited, India Infoline, Motilal Oswal Financial Services Limited, Religare Enterprises Limited and Sharekhan. Keeping all the aspects in view we will recommend a 'avoid' suggestion for subscribing the issue.

Highlights

- ◆ Multiple services provider like investment banking, retail brokerage, wealth management, insurance broking and financing services
- ◆ CRISIL Equities has assigned an 'IPO Grade 2/5' to the proposed Initial Public offering of the company
- ◆ Consolidated EPS works out to Rs 7.7 for FY 2010. At the price band of Rs 113 to Rs 118, P/E works out to 14.7 to 15.4 times, which is higher compared to well established players
- ◆ No NPAs end March 2010.

Company Introduction

Company Profile

It is a well-diversified financial services company providing an array of services including investment banking, retail brokerage, wealth management, insurance broking and financing services to corporate/institutional/high net worth individual clients. Further, the company is also in the process of launching institutional equities and portfolio management services. MFSL offers loans to clients, including brokerage clients of MCap and MCL, against specified securities which fall within the 'approved list' of the Microsec Group. Margin levels of exposure can be monitored on a real-time basis as the selling price of the securities securing the loan are usually transparent and easily accessible on a stock exchange. Microsec Financial Services, a non-banking financial company registered with the Reserve Bank of India, is into financing and investment, investment banking, broking and wealth management, insurance broking, financial planning and related services.

Subsidiaries

The Microsec group operates through the issuer, MFSL, and its

subsidiaries, Microsec Capital, Microsec Resources, Microsec Technologies, Microsec Insurance Brokers, Microsec Commerze, and PRP Technologies.

Segment wise Revenue

Broking revenue constituted 36% of the total revenue in the fiscal ended March 2010 (FY 2010), followed by 26% each by the financing and investment and investment banking businesses. Wealth management contributed 9% of the total revenue, while other income formed 2%. The share of wealth management in total revenue rose sharply from 2% in FY 2009 to 9% in FY 2010.

Market Share

MFSL had 75 clients in the loan against shares business and an outstanding loan amount of Rs 40.53 crore end March 2010. The company had no non-performing assets (NPAs) end March 2010. The mandate book size of the investment banking business was Rs 18.26 crore end June 2010. The company had a market share of 0.19% in the cash segment of the NSE and the BSE in FY 2010, while the market share in the futures and options (F&O) segment was 0.04%.

The Microsec group operates in 16 states through a network of 239 branches. Out of these, 99 branches are in Kolkata. These are in addition to 79 branches in West Bengal.

IPO & Proceed

MFSL is coming with an IPO to raise around Rs 141 crore at the lower band of Rs 113 per share and Rs 148 crore at the upper band of Rs 118 per share consisting of a fresh issue of 1.25 crore equity shares. The company intends to utilize the net proceeds to expand its financing business and network of branches (30 branches), enhance technological capacity, and for general corporate purposes.

Financial Summary

Particulars	0803 (12)	0903 (12)	1003 (12)
Sales	41.11	37.87	57.09
OPM (%)	55.6	39.3	58.9
Net Profit	16.14	8.61	24.45
EPS* (Rs)	5.1	2.7	7.7

* Annualised on post-issue equity of Rs 31.81 crore.

RANKING METHODOLOGY

WEAK	*
AVERAGE	**
GOOD	***
VERY GOOD	****
EXCELLENT	*****

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