

**CRISIL IPO grade 2/5 assigned to the
IPO of Microsec Financial Services Ltd. (MFSL)**

May 29, 2008, Mumbai

CRISIL has assigned a CRISIL IPO Grade "2/5" (pronounced "two on five") to the proposed initial public offer of Microsec Financial Services Ltd. (MFSL). This grade indicates that the fundamentals of the issue are below average relative to other listed equity securities in India. However, this grade is not an opinion on whether the issue price is appropriate in relation to the issue fundamentals. The offer price for the issue may be higher or lower than the level justified by its fundamentals. The grade is not a recommendation to buy / sell or hold the graded instrument, the graded instrument's future market price or its suitability for a particular investor.

The grading reflects MFSL's strength in the retail equity broking and investment banking business in eastern India region. The company's existing network of HNI clients in its broking business serves as a ready client base for its LAS business. In investment banking business the company is active in small ticket deals originating in eastern India region. The competitive advantage of the company lies in its access to its clients for deals originating in the eastern India region.

Our grading is tempered by the inadequacy of the present risk management systems, which need to evolve considering the increased focus on LAS business post-IPO. Going forward, Microsec will have to increasingly delink the management of broking and risk management functions, which otherwise might lead to conflict between business and risk management needs for the company. The company currently has a majority of its revenues coming from its own branches and its ability to successfully manage a large franchisee model remains to be seen. The company is a small player in the overall investment banking industry, which limits its ability to offer services in large ticket and cross-border deals. Ability to attract talent at competitive rates without a big name will be a challenge for the company's investment banking business. Further, there is inherent volatility in all key businesses of the company due to linkages with the equity markets.

The undifferentiated nature of broking business and the downward trend in brokerage charges due to competition limits the growth opportunities in the equity broking business. The ability to differentiate through client servicing would dictate the growth prospects for the company. Further, the management needs to improve its understanding of risk management systems and be more proactive in implementing them as the LAS portfolio is expected to increase significantly in size post-IPO.

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About the company and the issue

MFSL is a financial services company providing primarily retail broking, loan against shares (LAS) to support the broking business and investment banking services. It also offers commodity broking, insurance broking and distribution of financial products to complete the bouquet of offerings. Further, the company is in the process of launching institutional equities broking and portfolio management services in the current year. MFSL is headquartered in Kolkata and operates from around 196 business-locations in 49 Indian cities. Of the total 196 branches the company owns around 17 branches and the rest are franchisee-based. The company derives a major portion of its revenues from the eastern India region.

The Microsec group was started by Mr. B.L. Mittal and Mr. Ravi Kant Sharma in 2000. Later Mr. Rakesh Sony joined the company as a promoter in 2002 to build its investment banking business.

The group started operations as Microsec India Ltd in 2000. The company was registered as a Merchant banker with SEBI in 2003 and obtained the NSE membership in 2004, followed up with BSE membership in 2005. The company was registered as a depository participant of NSDL in 2005, followed up by CDSL in 2007. In 2003, the company started insurance broking through its wholly-owned subsidiary Microsec Insurance Brokers Ltd. as an IRDA registered insurance broker. It also started commodity broking through its subsidiary Microsec Commerce Ltd. on NCDEX in 2003 and MCX in 2004. In 2005, the name of Microsec India Ltd. was changed to Microsec Capital Ltd. In the same year, the promoters acquired RBI registered NBFC – Satyam Fiscal Services Pvt. Ltd. The name of the company was changed to MFSL and the promoters transferred their holding in Microsec Capital Ltd. to MFSL.

MFSL aims to raise around Rs 1600 million by this proposed public issue of 8 million equity shares.

About CRISIL IPO Grading

CRISIL IPO (Initial Public Offering) Grading is an opinion on the fundamentals of the graded issue that reflects CRISIL's independence and expertise. This opinion is expressed as a relative assessment in relation to other listed equity securities in India. The assessment is based on a grading exercise carried out by industry specialists from CRISIL Research. A CRISIL IPO Grade 5/5 indicates strong fundamentals and a CRISIL IPO Grade 1/5 indicates poor fundamentals. CRISIL IPO Grading reflects its assessment of the graded company's equity fundamentals as distinct from an assessment of debt fundamentals. A CRISIL IPO Grade should not be construed to mean a comment on the price of the graded security nor is it a recommendation to invest or not to invest in the graded security.

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