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Mumbai

CRISIL Equities assigns IPO grade 2/5 to Microsec Financial Services Ltd.

CRISIL Equities has assigned a CRISIL IPO grade of “2/5” (pronounced “two on five”) to the proposed initial public offer (IPO) of Microsec Financial Services Ltd (MFSL). This grade indicates that the fundamentals of the IPO 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 grade is not a recommendation to buy, sell or hold the graded instrument, or a comment on the graded instrument’s future market price or its suitability for a particular investor.

The assigned grade reflects MFSL’s position as one of the established equity broking and investment banking companies in Eastern India. However, in its pan-India expansion, we expect the company to face strong competition from brokers who have nationwide operations. MFSL is also likely to face integration challenges as it aggressively rolls out branches and franchisees across India over the next two-three years.

In investment banking, the company’s experience is limited to a few small-ticket deals in Eastern India. The limited deal-execution experience will constrain MFSL’s ability to bag deals outside the Eastern region. The investment banking industry is dominated by established players who have a strong relationship with institutional clients and corporates. To develop client relationships beyond the Eastern region, MFSL will need to ramp up its management team for investment banking operations.

The grade also takes into account MFSL’s concentrated presence in Eastern India, where fund-raising activity is lower than in other regions in the country. Although we expect fund-raising to pick up in Eastern India, the region will still account for a lower share of total fund-raising than the other regions. The grade also factors in the fragmented nature and inherent volatility of the capital market business. Talent retention, an industry-wide challenge, will be a daunting task for an emerging player like MFSL. Although the company does provide stock options to its key management personnel, its ability to retain employees will be a key monitorable.

About the company and the issue

MFSL is a financial services company that focuses on providing retail broking and investment banking services. The company also offers loan against shares (LAS) to support its broking business. Its other services include commodity broking, insurance broking and distribution of financial products.

Headquartered in Kolkata, MFSL has 235 branches spread across 17 states in India. It has a pronounced presence in West Bengal - 169 branches in West Bengal, of which 100 branches are in Kolkata. The company derives a major portion of its revenues from Eastern India, especially Kolkata. MFSL recently set up an institutional equities broking desk in Mumbai.

The Microsec Group was established by Mr B.L. Mittal and Mr Ravi Kant Sharma in 2000. Mr Mittal looks after MFSL’s investment banking arm whereas Mr Sharma heads the broking business.

For the half year ended September 2009, MFSL posted a top line of Rs 268.5 mn and PAT of Rs 109.4 mn. The broking segment constituted 43%, investment banking 18%, and financing and investment 39% of the top line. For the same period, EPS was Rs 5.6.

MFSL will use the IPO proceeds mainly for expanding its LAS portfolio. It also plans to use a part of the funds to open regional offices and branches.

About CRISIL IPO Grading

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