

Mr Parasmal Doshi
Chairman,
Indo Thai Securities Limited,
16, 4th Floor, Dawa Bazar, R.N.T. Marg,
Indore-452001, Madhya Pradesh

32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015.
Tele: +91-79-40265656, Fax: +91-79-40265657
E-mail: care.ahmedabad@careratings.com
Website: www.careratings.com

August 23, 2011

Confidential

Dear Sir,

IPO Grading

Please refer to our letter dated August 3, 2011 on the above subject.

2. The rationale for the grading is attached as an **Annexure - I**. Kindly note that the rationale would be published in the forthcoming issue of our quarterly journal, 'CAREVIEW'.

3. A write-up on the above grading is proposed to be issued to the press shortly. A draft of the press release is enclosed for your perusal as **Annexure - II**.

4. We request you to peruse the Rationale and Press Release and offer your comments, if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert at the earliest.

If you have any further clarifications, you are welcome to approach us.

Thanking you,

Yours faithfully,

[Kalpesh Patel]
Manager

Encl: As above

DISCLAIMER

CARE's IPO grading is a onetime assessment and the analysis draws heavily from the information provided by the issuer as well as information obtained from sources believed by CARE to be accurate and reliable. However, CARE, does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. CARE's IPO grading does not take cognizance of the price of the security and it is not a recommendation to buy, sell or hold shares/securities. It is also not a comment on the offer price or the listed price of the scrip. It does not imply that CARE performs an audit function or forensic exercise to detect fraud. It is also not a forecast of the future market performance and the earnings prospects of the issuer; also it does not indicate compliance/violation of various statutory requirements. CARE shall not be liable for any losses incurred by users from any use of the IPO grading.

Annexure I

Grading Rationale

Indo Thai Securities Limited (ITSL)

Grading

Particulars	No. of equity shares of (face value of Rs.10/- each)	Grading ¹	Remarks
IPO Grading	40,00,000	'CARE IPO Grade 2'	Assigned

CARE has assigned a 'CARE IPO Grade 2' to the proposed IPO issue of Indo Thai Securities Limited (ITSL). 'CARE IPO Grade 2' indicates Below Average Fundamentals. CARE assigns IPO grades on a scale of Grade 5 to Grade 1, with Grade 5 indicating strong fundamentals and Grade 1 indicating poor fundamentals. CARE's IPO grading is an opinion on the fundamentals of the issuer. The grade assigned to any individual issue represents a relative assessment of the 'fundamentals' of the issuer.

ITSL proposes an initial public offering of 40,00,000 equity shares of face value of Rs.10 each, through 100% book building process.

Grading Rationale

The grading of Indo Thai Securities Limited (ITSL) is constrained due to the small scale of operations in a highly competitive broking industry marked by the low market share and limited revenue diversification. The geographical concentration with the limited branch network and high dependency on the capital markets which are inherently volatile leading to uncertainties in ITSL's earning profile, further constrain the grading.

The grading, however takes into account the experience of the promoters with the track record of more than two decades and comfortable financial risk profile commensurate with the present scale of operations.

Background

ITSL, incorporated as a public limited company in January 1995, was promoted by the Indore-based chartered accountant brothers Mr Parasmal Doshi and Mr Dhanpal Doshi.



¹Complete definition of the grading assigned is available at www.careratings.com and other publications of CARE

Mr Parasmal Doshi is the chairman, chief executive officer and whole-time director and looks after the overall operations of the company. He is assisted by his brother Mr Dhanpal Doshi, managing director, who is responsible for the day-to-day operations. ITSL is a flagship company of the Indo-Thai Group, which consists of 12 other companies.

ITSL provides services related to the purchase and sale of securities such as equity and derivatives (including equity and currency derivatives). Furthermore, ITSL extends its services as Depository Participant (DP) and is registered as a DP of Central Depository Services (India) Limited (CDSL). ITSL also started Mutual Fund Service System (MFSS) and Interest Rate Futures (IRF) through National Stock Exchange (NSE). Apart from stock broking and depository services, ITSL is involved into the proprietary trading activities in the equity market.

Corporate Governance

ITSL has complied with the requirements of the clause 49 of the listing agreement with respect to the constitution of board of directors and various Committees. ITSL's board of directors consists of six directors of which three are independent directors. ITSL has constituted the Audit Committee, Remuneration Committee and Shareholders Grievance Committee in August 2010.

Pending Litigation

A summary of pending litigations as on April 30, 2011 is as follows:

Sr. No	Particulars	Case/Disputes	Nature of case		Amount (Rs. crore)
			Civil	Criminal	
1.	Case filed by company	9	2	7	0.13
2.	Case filed against Promoters /Directors	1	1		1.30

Penalties

Exchange	NSE	NSE	CDSL	NSE	MCX-SX
Period	FY06	FY08	FY09	FY10	FY10
Paid Penalty (Rs.)	25,300	58,600	26,000	60,000	10,000
Office of collector of stamps					
Period	FY07		FY08		FY09
Unpaid Penalty (in Rs.)	67,652		71,888		16,992

NSE, MCX-SX and CDSL had imposed penalties in the last five years on ITSL. The above penalties largely relate to the non-compliance of operational, system and internal audit as per the prescribed guidelines of the regulators. Further, the penalties from the collector of stamps include the penalty on account of the delay in the stamp duty payment.

100%

Business Operations

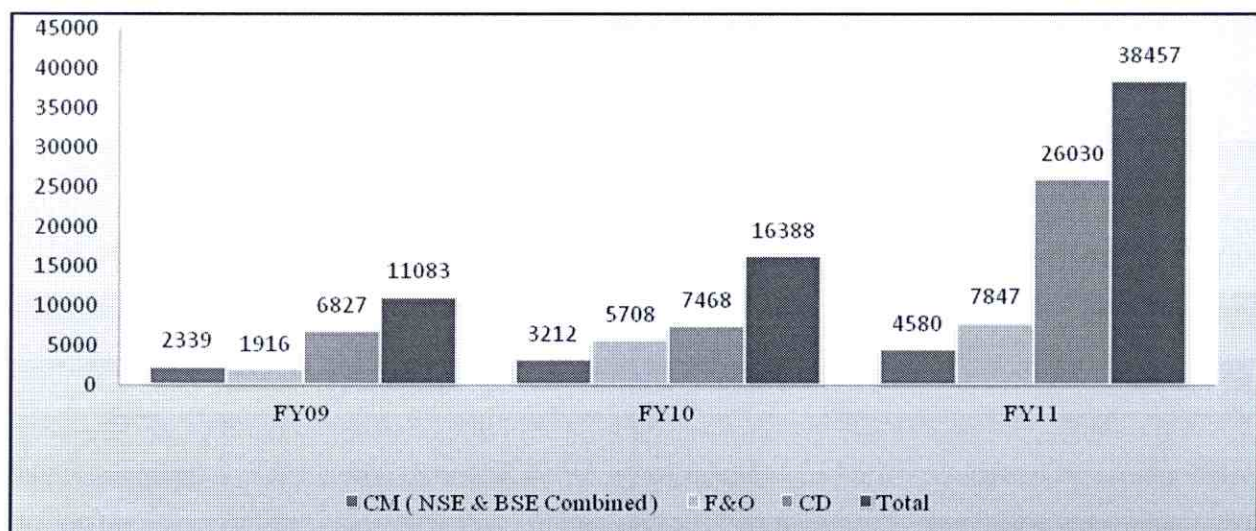
ITSL is primarily into the equity broking and registered with Securities Exchange Board of India (SEBI) as an approved stock broker and is the member of NSE, Bombay Stock Exchange (BSE) in the cash and derivatives segments. ITSL is also the member of NSE, Multi Commodity Exchange Stock Exchange Ltd (MCX-SX) and United Stock Exchange (USE) for their currency derivative segment. Apart from brokerage, ITSL is involved into the proprietary trading activities in the equity market.

ITSL's head quarters and registered office is at Indore and it operates through 14 branch offices out of which 12 are in Madhya Pradesh (M.P.) and two are in Mumbai (Maharashtra). In addition, ITSL has about 60 business associates (on the revenue-sharing basis) spread across six states with the major concentration in M.P.

Broking service accounts for major share of operations. ITSL offers broking services to the retail and High Networth Individuals (HNI) clients. ITSL has a client base of 7178 as on July 19, 2011, of which only about 15% are actively involved into the trading activities. ITSL's trading volume has increased over the last couple of years; however, the market share has remained miniscule at 0.10% and 0.03% of traded volume in the Cash Market (CM) and Futures and Option (F&O) segment respectively during FY11. Details of the trading volume in the CM, F&O and Currency Derivatives (CD) segment over the past few years is given below:

Figure 1: ITSL's Total turnover (NSE & BSE Combined)

(Rs crore)



WBS

ITSL is also a registered DP with CDSL since 2007. ITSL has 2631 demat accounts as on July 19, 2011. Income from the depository services was Rs.14.7 lakh in FY11.

IPO details

Size of the issue

ITSL proposes an initial public offering of 40,00,000 equity shares of face value of Rs.10 each, through 100% book building process.

Objects of the issue

The primary object of IPO is for the working-capital requirement, purchase and set up of the regional and corporate office premises, expansion of the branches and for brand building and advertisement. The details of the proposed utilization of IPO proceeds are summarized in the following table:

(Rs. Crore)

Sr.No.	Particulars	Proposed Utilization
1.	Expansion of branches and set up network of branches	2.00
2.	Purchase of office space for Mumbai regional office	4.00
3.	Purchase & set up of office space for corporate office	4.00
4.	Brand Building & advertising	3.00
5.	Augmenting long term working capital requirements	10.00
6.	General corporate purpose	*
7.	Public issue expenses	*
8.	Total	**

Financial Performance

Total income of ITSL grew by 89% in FY10 over FY09 mainly on account of the increase in brokerage income which registered a growth of 78% in FY10 coupled with the doubling of long-term capital gains on the proprietary trading and interest income. The trading volume of ITSL in both the segment i.e. CM and F&O (including currency derivatives) segment grew by 134% in FY10 over FY09 on the back of recovery in the capital market. Further, in 9MFY11, ITSL has achieved a total income Rs.4.27 crore and PAT of Rs.1.15 crore.

PAT margin has improved substantially in FY10 as compared to FY09 mainly on account of the income from long-term capital gain coupled with the interest income on the fixed deposits. During 9MFY11, PAT margin declined to around 27% (around 38% in FY2010) on account of absence of income from the long-term capital gain. Interest coverage remained comfortable in FY10.



The overall gearing is also comfortable at 0.30 times as on March 31, 2010. EPS improved from Rs.2.60 in FY09 to Rs.9.75 in FY10 on the back of improvement in profitability. However, during 9MFY11, EPS has declined to Rs.2.56 mainly due to the increase in equity base on back of capitalization of the reserves by issuing bonus shares in the ratio of 2:1 in July 2010.

Industry Review

A transparent, efficient and well developed stock market facilitates the investment and economic growth. It is also an important factor in the development of the financial markets. India's stock market has evolved over the years and has seen structural reforms in the system as well as regulation and supervision, particularly after the establishment of SEBI as the market regulator. Stringent regulations put forth by SEBI periodically and improving technology led to the well regulated and highly systems enabled capital market in India. Screen based nation-wide trading, T+2 settlement, scrip less settlement and electronic transfer of securities, rolling settlement and derivatives trading and improved regulatory framework has led to the growth in the market and increased transparency and efficiency. Presently, there are 22 recognized stock exchanges in India and the stock markets now have various players including mutual funds, FIIs, hedge funds, corporate, individuals and other institutions.

However, the capital markets have inherent nature of uncertainty which leads to volatility in the trading volumes and stock prices. This volatility may have negative impact on the revenues of entities dependent on the markets. Also, with a large number of financial intermediaries, the broking business is highly competitive with the continuous pressure on the margins.



Past Financials

(Rs. Crore)

Profit & Loss Account	31/03/08	31/03/09	31/03/10	31/12/10
	<i>[12 m, A]</i>	<i>[12 m, A]</i>	<i>[12 m, A]</i>	<i>[9 m, A]</i>
Fund based income	0.50	0.55	1.29	0.32
Fee based income	3.33	2.14	3.82	3.95
Other income	0.02	0.04	0.04	0.00
Total Income	3.84	2.72	5.15	4.27
Interest Expense & Financial Charges	0.19	0.17	0.17	0.31
Employee Costs	0.93	0.90	1.15	0.91
Other operating expenses	1.58	0.87	1.02	1.22
Depreciation & amortization	0.16	0.18	0.15	0.09
Provisions & Write offs	0.14	0.00	0.12	0.02
Total Expense	3.00	2.12	2.61	2.57
Operating Profit	0.84	0.60	2.54	1.70
PBT	0.84	0.60	2.54	1.70
Tax	0.30	0.07	0.59	0.55
PAT	0.55	0.52	1.95	1.15
Balance Sheet				
Net Worth	4.23	4.80	6.78	7.98
Total Debt	1.71	1.89	2.03	2.01
Investments	0.73	0.64	0.81	0.78
Total Assets	11.13	11.63	13.56	23.15
Ratios				
<i>Growth %</i>				
Total Income	80.17	-29.28	89.54	-17.21
PAT	202.70	-4.56	273.23	-41.10
<i>Solvency (times)</i>				
Overall Gearing	0.41	0.39	0.30	0.20
Interest coverage	5.52	4.51	15.86	6.51
<i>Profitability & Operating Efficiency Ratios (%)</i>				
Total Income / Average Total Assets	44.14	23.89	40.91	49.15
ROTA (PAT / Average Total Assets)	6.29	4.59	15.49	13.24
PAT / Total Income	14.25	19.23	37.86	26.93
RONW	13.70	11.59	33.71	28.80
Earnings per share	2.75	2.60	9.75	2.56

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Annexure - II

Press Release

CARE assigns 'CARE IPO GRADE 2' to the Initial Public Offering of Indo Thai Securities Limited (ITSL)

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During 9MFY11 (audited), ITSL has reported a profit after tax (PAT) of Rs.1.15 crore on the total operating income of Rs.4.27 crore.

Analyst Contact

Name: Kalpesh Patel

Tel # 079-40265611

Mobile # +91 99090 26322

Email: kalpesh.patel@careratings.com

CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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