Motilal Oswal Financial Services Ltd

Earnings Update | Q4 FY16 & FY16 | Apr 30, 2016

Efforts into building competencies & capabilities leading to tangible business results

Presentation Plan

- Highlights
- Business Updates
- FinSight
- Industry Trends

Presentation Plan

Highlights

Business Updates

FinSight

Industry Trends

Recent trends in the Indian markets

- Control over consumer inflation within the ~4-5% range in FY16, coupled with RBI's interest rate cuts & expectations of good monsoons have brought positive cheer to the markets
- 10-Yr returns of India's Nifty is 4% (US$), higher than Emerging Market peers like Brazil's -2%, Russia's -5% & Korea's 2%
- While cash volumes in the market declined 6% YoY in FY16, its proportion within the volume mix increased from 6% to 7%
- Equity mutual funds clocked Rs 740 billion net inflows in FY16 led by retail interest, despite volatility in market performance
- Incremental demat accounts created in FY16 were 2 million, as compared to ~1 million per year during FY12, FY13 and FY14
- Individual wealth held in financial assets grew 19% YoY in FY15, as compared to a 2% drop in assets in physical assets

- 2 years of drought, impact of commodity crisis on EMs, issues in PSU bank balance sheets, sluggish IIP & export growth & freeze on capex impacted investor sentiments
- Markets reflected the sentiments:- Nifty dipped 2.6% QoQ & 8.9% YoY while Nifty 500 declined 4.1% QoQ & 7.5% YoY
- Avg volumes in the market declined 10% YoY in FY16; Within cash volumes, retail saw the maximum drop of 8%
- FIIs saw net outflows of Rs 142 billion from Indian equities in FY16, after 6 consecutive years of strong net inflows
- While equity MF folios of HNI investors grew by 33% from Mar-15 to Dec-15, that of mass-retail grew at a lower 10%
- Market share of HFCs within housing credit increased from 29% in FY10 to 37% in FY15, but it dipped to 36% by Dec-15

Consolidated financials

Particulars *Rs million*	Q4 FY16 Mar 31, 2016	Q4 FY15 Mar 31, 2015	Change (%) Y-o-Y	Q4 FY16 Mar 31, 2016	Q3 FY16 Dec 31, 2015	Change (%) Q-o-Q	FY16 Mar 31, 2016	FY15 Mar 31, 2015	Change (%) Y-o-Y
Total Revenues	**3,159**	**2,429**	**30%**	**3,159**	**2,960**	**7%**	**10,927**	**7,750**	**41%**
Operating expenses	589	604	-3%	589	606	-3%	2,325	1,945	20%
Personnel costs	714	632	13%	714	639	12%	2,510	1,902	32%
Other costs	432	370	17%	432	414	4%	1,629	1,308	25%
Total costs	1,735	1,606	8%	1,735	1,659	5%	6,464	5,155	25%
EBITDA	1,424	824	73%	1,424	1,300	10%	4,463	2,595	72%
Depreciation	94	94	0%	94	96	-2%	349	307	14%
Interest	654	165	296%	654	490	34%	1,738	309	462%
PBT	676	565	20%	676	715	-5%	2,376	1,979	20%
Tax	197	131	50%	197	206	-4%	657	523	26%
Minority Interest	8	4	119%	8	8	-6%	28	20	43%
Reported PAT	**472**	**429**	**10%**	**472**	**501**	**-6%**	**1,691**	**1,436**	**18%**
EPS - Basic	3.3	2.6		3.3	3.5		11.9	10.3	
EPS - Diluted	3.3	2.6		3.3	3.5		11.7	10.1	
No.of shares outstanding (million) - FV Rs 1/share	142	139		142	142		142	139	

- Revenues up 41% YoY in FY16 due to traction in asset management & housing finance topline
- Operating costs up 20% YoY in the year owing to higher asset management distribution fee
- Employee costs up 32% YoY in FY16 due to hiring in retail broking & housing finance businesses
- Other costs up 25% YoY in asset management & broking owing to branding costs & in housing finance due to branch expansion

Specific KPIs in FY16

Operational performance

Equity Market Share
2.0% in FY16
vs 1.5% in FY15

AUM (MF, PMS, PE)
Rs 133 bn, ↑ 61% YoY

Net Sales (MF, PMS)
Rs 52 bn, ↑129% YoY

AMC Rank (Equity AUM)
12 in Mar-2016
vs 18 in Mar-2014

Retail Broking Clients
788,957, ↑ 7% YoY

Research Coverage
230 to 251 YoY

Wealth AUM
Rs 64 bn, ↑ 52% YoY

Aspire Loan book
Rs 21 bn, ↑ 6X YoY

Financial performance

Revenues
Rs 11 bn in FY16
↑ 41% YoY

PAT
Rs 1.7 bn in FY16
↑ 18% YoY

PAT Margin
15% vs 19% YoY

Net Worth Rs 14.4 bn
Gross Debt Rs 23.7 bn

ROE (annual)
12.4% vs 11.7% YoY

Unrealized gains in MFs*
Rs 1.2 bn as of Mar

Dividend per share
Rs 3.5 in FY16 **
vs Rs 3 in FY15

Aspire NIM
~389 bp in FY16
vs ~400 bp in FY15

* Reported ROE does not include unrealised gains on investments in Motilal Oswal's MF products
** Declared Interim Dividends of Rs 2 and Rs 1.5 during the year FY16

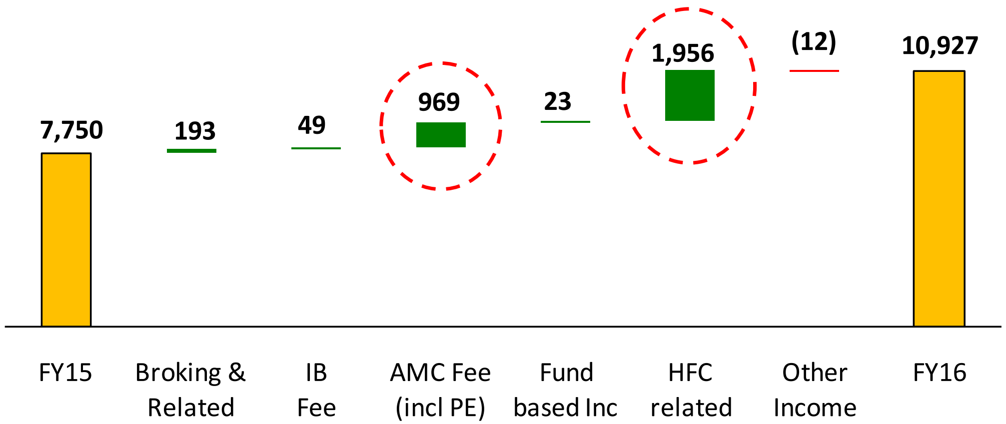
Key highlights of FY16

- PAT of Rs 1.7 bn is near the all-time high clocked by MOFSL Group
- Consolidated performance very robust with a Revenue growth of 41% YoY
- Asset Management and Home Finance businesses were the key drivers, with revenue growth of 77% YoY and 854% YoY respectively
- The revenue contribution of Traditional Capital Markets business (Broking, Wealth Management and Investment Banking) below 50% in FY16 for first time since inception
- PAT growth lower at 18% due to large investments in manpower (consolidated manpower count up 44% YoY) and brand-related spends (up 48% YoY) besides decline in market volumes in broking business by 10%
- Asset Management and Home Finance will continue to be meaningful drivers to FY17 performance
- Closure of the first growth capital fund in Private Equity business - IBEF1 in FY17 to be a meaningful contributor in terms of share of carry and gains on sponsor commitments to IBEF1
- The benefit of upfront investments made in the Traditional Capital Markets business should come through in coming years

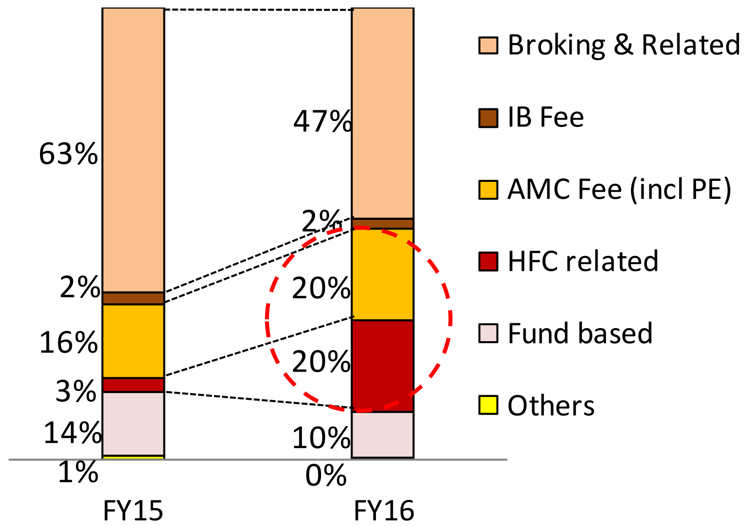
Segment-wise revenues

Particulars ₹million	Q4 FY16 Mar 31,	Q4 FY15 Mar 31,	Change (%)	Q4 FY16 Mar 31,	Q3 FY16 Dec 31,	Change (%)	FY16 Mar 31,	FY15 Mar 31,	Change (%)
Brokerage & operating income	1,265	1,370	-8%	1,265	1,334	-5%	5,091	4,898	4%
Investment banking fees	84	92	-9%	84	36	131%	242	193	25%
Asset management fees	653	567	15%	653	604	8%	2,235	1,266	77%
Fund based Income	247	193	28%	247	345	-28%	1,124	1,102	2%
Housing finance related	899	158	470%	899	627	43%	2,185	229	854%
Other income	12	50	-76%	12	13	-6%	50	62	-20%
Total Revenues	3,159	2,429	30%	3,159	2,960	7%	10,927	7,750	41%

Segment-wise attribution of incremental revenues on YoY basis



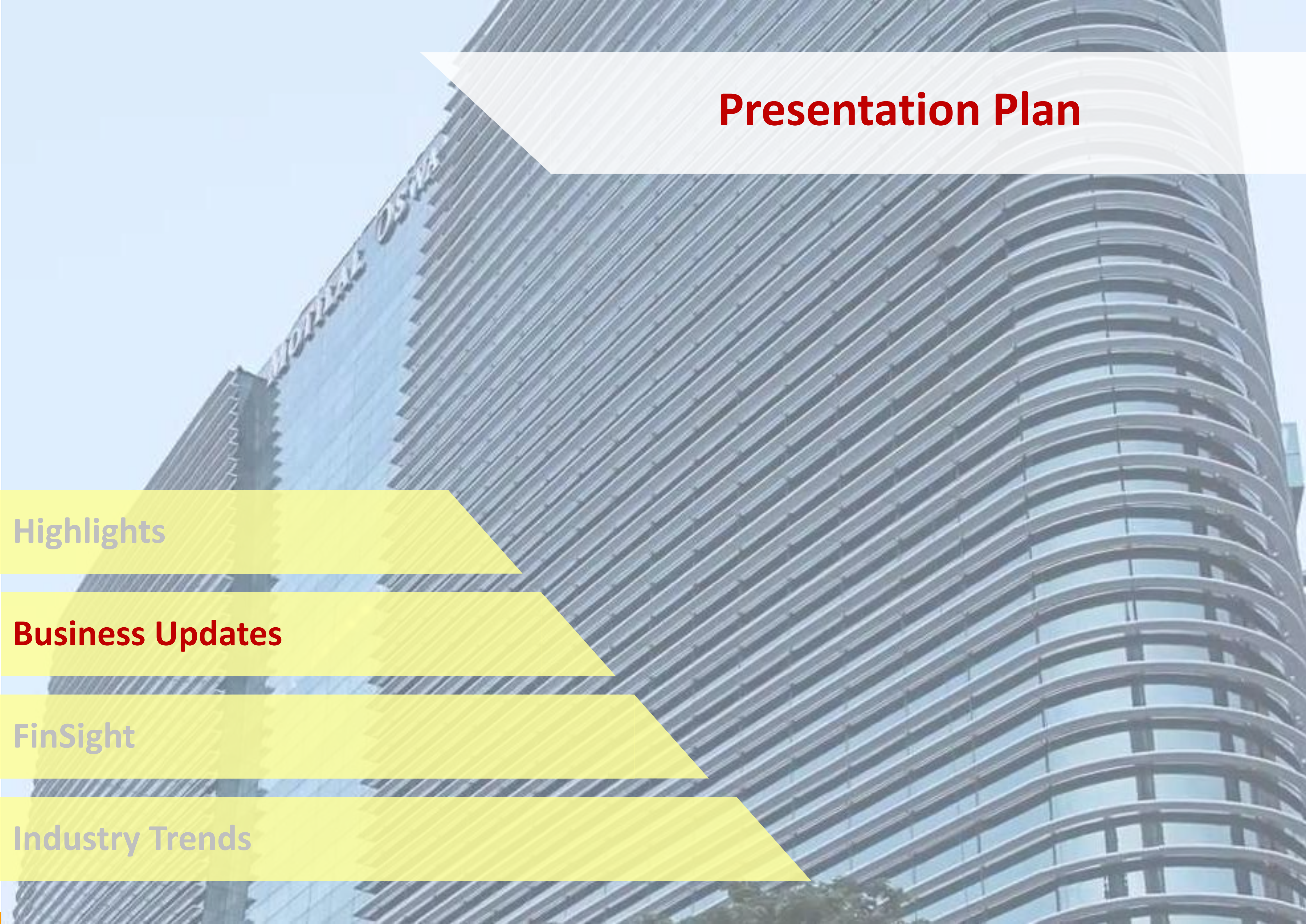
Change in the revenue mix to asset mgt & fund-based businesses



Balance sheet

Rs million	As on Mar 31, 2016	As on Mar 31, 2015
Sources of Funds		
Networth	14,365	12,949
Loan funds	23,745	7,856
Minority interest	162	63
Deferred tax liability	62	120
Total	**38,334**	**20,988**

Application of Funds		
Fixed assets (net block)	2,921	3,001
Investments	12,311	8,140
Deferred tax asset	-	-
Current Assets (A)	35,674	18,307
- *Sundry debtors*	*7,099*	*5,900*
- *Cash & Bank Balances*	*2,867*	*2,719*
- *Loans & Advances*	*24,610*	*9,606*
- *Other Assets*	*1,098*	*82*
Current liabilities (B)	12,572	8,461
Net current assets (A-B)	23,102	9,847
Total	**38,334**	**20,988**



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"Setting up the stage for the eventual performance"

Building a fair mix of capital markets, asset management and fund-based businesses, to drive ROE in the future

	Capital markets businesses	Asset Management businesses	Fund-Based Business
Pre-2007 vintage	**Retail Broking & Distribution** **Institutional Equities**	**Asset Management** (PMS) **Private Equity** (Growth Capital)	**LAS** (NBFC Loan Book)**
Since 2007	**Private Wealth Management** **Investment Banking** (M&A Advisory)	**Private Equity** (Real Estate) **Asset Management** (Mutual Funds)	
Since 2014	**Investment Banking** (Equity Capital Markets)	**Asset Management** (Offshore)	**Aspire Home Finance** (Affordable Housing Finance) **Sponsor Commitments** (to own MFs & PE funds)

***LAS is run only as a support to the Broking business, not as a separate business vertical from operations perspective*

Broad progress against strategic priorities this year

- **Traditional Capital Markets businesses**
  - **Broking & Distribution**: Building scale by leveraging on advisory, reach, digitization & products
    - Market share picked up YoY in both cash & F&O
    - Retail clients added per month in FY16 up 2X vs FY14
    - Digital business gaining traction
    - Asset-product distribution business gaining traction
  - **Institutional Equities**: Pitch research as the core USP; Use corporate access to deepen corporate relationships
    - Ramped up research coverage & roadshows
    - Research continues to win at award forums regularly
    - Block execution capability ramped up
  - **Wealth Management**: Customized advisory mandates for holistic asset allocation
    - Increase in AUM & client count YoY
    - Ramp up of RM base without compromising throughput
    - Deepening of client wallet-share
  - **Investment Banking**: Participate in upcoming ECM & M&A mandates
    - Participation in IPOs gathering steam
    - Worked on few M&A transactions

- **Asset Management businesses**
  - **Public Market Equities AMC:** Pitch as equity specialists with our time-tested QGLP investing philosophy
    - Built scale on the back of investment performance
    - Growth of market share with large distributors
  - **Private Equity:** Capture fundamentally-strong, high-quality & high-growth deal opportunities
    - 4 partial-exits & 1 full-exit from growth fund this year
    - Real estate funds seen strong traction in fundraisings

- **Housing Finance & Other Fund-based businesses**
  - **Aspire Home Finance:** Focusing on the niche affordable housing segment in the home finance space
    - Traction in book, reach & clients in small-ticket housing
    - Adding bank credit lines to maintain funds flow
    - Strong underwriting process in place
  - **ROE enhancing sponsor commitments** to own AMC & PE funds; and the NBFC LAS book
    - Proven track-record of investing philosophy in AMC funds
    - NBFC loan book run with borrowings as spread business

Broking & Fund based activities (MOSL + MOFSL Standalone)

MOSL + MOFSL Standalone

Particulars	Q4 FY16	Q4 FY15	Change	Q4 FY16	Q3 FY16	Change	FY16	FY15	Change
Rs million	Mar 31, 2016	Mar 31, 2015	(%) Y-o-Y	Mar 31, 2016	Dec 31, 2015	(%) Q-o-Q	Mar 31, 2016	Mar 31, 2015	(%) Y-o-Y
Total Revenues	1,557	1,657	-6%	1,557	1,736	-10%	6,465	6,302	3%
PBT	178	318	-44%	178	396	-55%	1,189	1,731	-31%
PAT	156	229	-32%	156	309	-49%	931	1,271	-27%

Above is a line by line consolidation of MOFSL and MOSL P&L adjusted for inter company dividend paid by MOSL to MOFSL

- We have made strategic allocation of capital into long term RoE-enhancing opportunities like Aspire Home Finance and sponsor commitments to our own mutual fund & private equity funds. MOSL and MOFSL Standalone are the primary vehicles for these Investments
- As of Mar 2016, our investments in Motilal Oswal's mutual fund products stood at Rs 5.9 billion (unrealised gain of Rs 1.2 billion) and in Motilal Oswal's alternative investment products stood at Rs 2.0 billion (carried at cost). Our investments into Aspire Home Finance was Rs 3 billion
- **In order to understand the operating results better, it is necessary to have an aggregated view of these two entities as reflected in table above**
- Given the long-term nature of investments in Aspire and sponsor commitments to our asset management products, the operating results do not fully reflect the intrinsic gains as profits are hardly booked regularly on these investments through the quarters, which partly explains the drop in profits on QoQ and YoY basis
- Also, significant investments have been made in the Broking business in ramping up manpower, infrastructure, brand and technology in FY16. The full benefit of these investments would be seen in coming years
- A combination of the above has resulted in drop in profits of 27% on a YoY basis

Broking Business – Investing for scale

Market ADTO	MOSL ADTO	Eq. Market Share	Manpower
↓ 10% YoY	↑ 17% YoY	2.0% in FY16 vs 1.5% in FY15	↑ 42% YoY

Market Volumes:

- Cash equity ADTO at Rs 203 billion in Q4FY16 was down 11% YoY; It was Rs 202 billion in FY16, down 6% YoY
- Retail cash volumes were Rs 100 billion in Q4FY16, down 11% YoY; It was Rs 98 billion in FY16, down 8% YoY
- Institution cash volumes at Rs 60 billion in Q4FY16 was down 12% YoY; It was Rs 62 billion in FY16, up 1% YoY
- FIIs net sold in FY16 after 6 years, despite strong inflows in March month; DIIs net bought in FY16, after 5 years of outflows

MOSL Volumes:

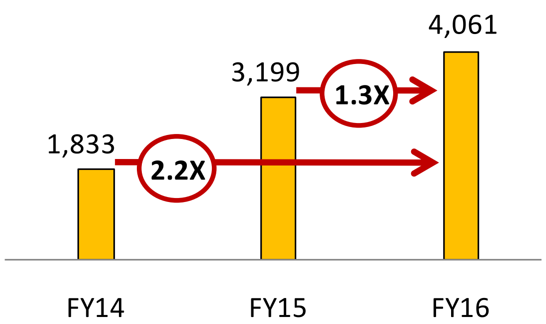
- MOSL ADTO was Rs 67 billion in Q4FY16 (Rs 56 billion in Q4FY15); & Rs 59 billion in FY16 (Rs 51 billion in FY15)
- Overall equity market share was 2.1% in Q4FY16 (1.6% in Q4FY15); & 2.0% in FY16 (1.5% in FY15)
- Market share in both cash & F&O increased YoY, as a result of our investments & focus on both areas
- Due to continued shift of the volume mix towards F&O, the blended yield was 3.5 bp in FY16 vs 4 bp in FY15

Retail Broking - Advisory, Digital, Products & Reach are Core

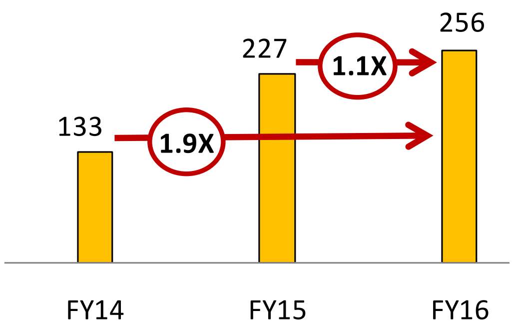
- Continued investments into quality advisors across dedicated advisory desks; Advisor count up 65% YoY
- Increased the sales-force across both own & franchisee channels
- Focusing on advisory productivity & monitoring of research-call quality
- Focus on distribution to develop an assets-based product distribution approach vs just a broking approach
- Continuing with our digital-business efforts :-
  - India's 1st broker to launch the "Smart Watch App", providing access to market updates, portfolio, etc
  - Launched India's 1st and Fastest 15-Minute Trading & Demat Account using Paperless-eKYC Aadhar-Integrated account opening process
  - Launched "Business Partner App" to enable them to monitor their business across metrics on the move

- Improvement in retail market share in both cash & F&O
- Avg monthly retail client added in FY16 was 2X of FY14
- Traction in Commodity, Currency & Interest rate futures
- Our digital business is gaining traction:
  - 21% clients traded online in FY16, vs 14% last year
  - Contribution of online business to total was 21% in FY16, vs 15% in the previous year
  - Mobile app downloads at ~70,000 within 5 months
  - Contribution of mobile app to total brokerage crossed 6% in this quarters, vs 4% in the previous quarter

Monthly runrate in retail client addition



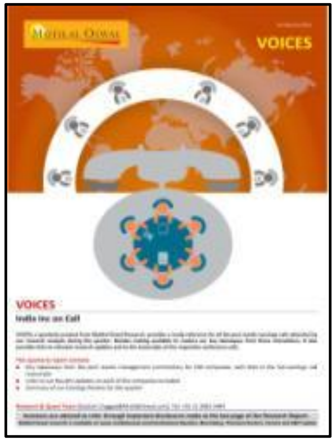
DP Assets (Rs Bn)

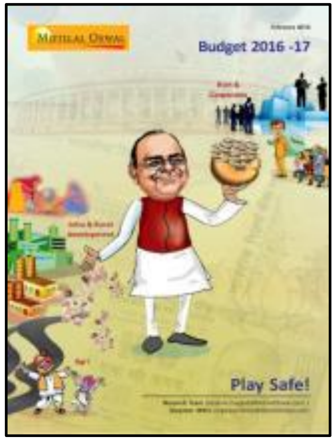


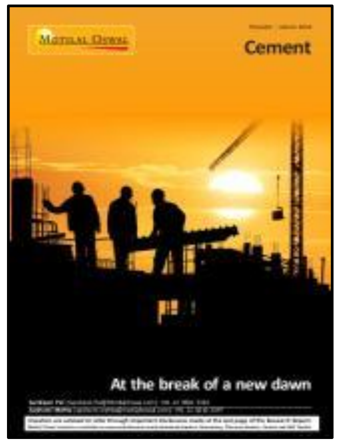
Institutional equities – Research ideas form the core USP

FII/DII Clients	Coverage	Manpower
582 to 594 YoY	230 to 251 YoY	↑ 13% YoY

- Focus remains on expanding the market share across the offshore geographies
- Ramped up the research coverage during the year, to 251 companies under coverage
- Introduced new research products like research videos, Voices (reference for earnings calls) and thematic reports like Ind-AS
- Won 11 awards at the ‘Research Bytes Investor Communication Awards 2015’, including Favourite Research House, Head of Research, Consumer Staples, Industrials, Utilities, Consumer Directory, Financial, Materials, Energy & Multi Sector
- Ranked the Best in Events/Conferences, ranked amongst Top-2 for Overall Sales Services and Best Roadshows/Company Visits and amongst the Top-3 in Best Local Brokerage, Best Execution and Sales Trading Visits at the AsiaMoney Awards 2015
- During the year, corporate access conducted several roadshows, conferences and outreach events. It was ranked Best in Events/Conferences at the AsiaMoney Awards 2015







Investment Banking – Robust pipeline and promising outlook

Particulars *Rs million*	Q4 FY16 Mar 31, 2016	Q4 FY15 Mar 31, 2015	Change (%) Y-o-Y	Q4 FY16 Mar 31, 2016	Q3 FY16 Dec 31, 2015	Change (%) Q-o-Q	FY16 Mar 31, 2016	FY15 Mar 31, 2015	Change (%) Y-o-Y
Total Revenues	85	94	-10%	85	38	127%	249	201	24%
EBITDA	22	43	-48%	22	(16)	-237%	32	12	162%
PBT	19	39	-50%	19	(20)	nm	19	(2)	nm
PAT	9	27	-68%	9	(14)	nm	8	(1)	nm

Participating in emerging ECM opportunities

M&A pipeline remains robust

ECM segment

- Received clearance from SEBI for the upcoming IPOs of Parag Milk Foods, Nihilent Technologies & SP Apparels, wherein MOIAPL is a book running lead manager
- Mandated for a QIP placement by a PSU bank, which is expected in Q1 FY2017
- In advanced stage discussions for raising private equity for firms in IT, consumer & services sectors

M&A segment

- Successfully concluded one cross-border M&A transaction for an Indian engineering company
- Advised two cement companies in raising structured credit of Rs 7.50+ billion to refinance part of debt & fund the capex; thereby setting them up to capitalize on the improving fundamentals in the sector

Private Wealth – Focus on client addition & wallet-share

Particulars	Q4 FY16	Q4 FY15	Change	Q4 FY16	Q3 FY16	Change	FY16	FY15	Change
Rs million	Mar 31, 2016	Mar 31, 2015	(%) Y-o-Y	Mar 31, 2016	Dec 31, 2015	(%) Q-o-Q	Mar 31, 2016	Mar 31, 2015	(%) Y-o-Y
Total Revenues	144	111	30%	144	109	32%	444	299	48%
EBITDA	47	38	24%	47	33	43%	139	98	42%
PBT	39	37	5%	39	22	77%	109	94	16%
PAT	26	27	-3%	26	14	84%	71	65	10%

Wealth AUM
Rs 64.4 bn, ↑52% YoY

Client Families
↑59% YoY

RM-Advisory team
↑ 57% YoY

Traction in large clients & AUM-mandates

Hiring Quality Talent

- Significant investment into manpower; 77-member RM & advisory team as of Mar 2016 (49 in Mar 2015)
- Traction in AUM despite challenging markets, largely owing to on-boarding of some large clients
- Lower margins in FY16 is on account of new investments made in manpower, technology and client engagement activities which are yet to see full throughput; will see benefits of these in coming years

Holistic mix of Products

- Unique product offering, combining open-architecture with strong in-house manufacturing capabilities
- Sales continued to be strong in the new IREF III fund
- The Property Advisory team held the Real Estate Expo, showcasing projects of marquee developers
- A differentiated equity strategy was launched for clients with one of our equity partner AMCs, which will benefit from the impending economic recovery

Asset Management – Adding scale backed by performance

Particulars	Q4 FY16	Q4 FY15	Change	Q4 FY16	Q3 FY16	Change	FY16	FY15	Change
Rs million	Mar 31, 2016	Mar 31, 2015	(%) Y-o-Y	Mar 31, 2016	Dec 31, 2015	(%) Q-o-Q	Mar 31, 2016	Mar 31, 2015	(%) Y-o-Y
Total Revenues	554	495	12%	554	511	8%	1,852	881	110%
EBITDA	108	105	3%	108	116	-6%	364	61	496%
PBT	108	101	6%	108	113	-5%	354	52	574%
PAT	70	101	-31%	70	75	-7%	264	52	404%

AUM (MF/PMS)
↑ **72% YoY**

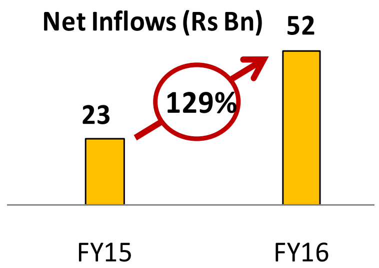
Distributors
↑ **52% YoY**

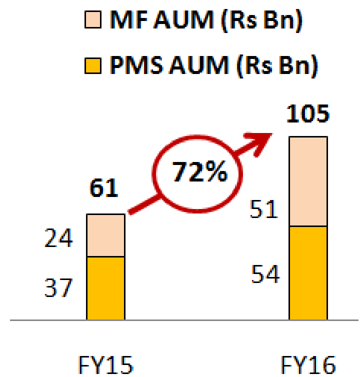
Equity MF New Folios Created
↑ **5X YoY in FY16**

Equity MF Net Sales Market Share*
3.8% in FY16 vs 2.1% in FY15

Equity MF Avg AUM Market Share*
0.9% in FY16 vs 0.3% in FY15

- Q4FY15 revenues include PMS performance fees of Rs 265 million which was negligible for Q4FY16
- Our industry rank based on Equity PMS + MF AuM improved to 12, from 14 in FY15 & 18 in FY14
- Amongst the fastest growing equity AMCs in India; AUM crossed the milestone of Rs 100 billion
- Building an Investment-focused B2B sales organization rather than Sales-focused investment organization: Investing to Sales staff strength is ~1:2
- Deepening relationship with existing large distributors who showed results through increased mobilizations; In early stages of roll-out with few more large distributors
- A highly focused and differentiated product offers healthy yield on assets managed
- Significant investments made recently in brand promotion to build a strong recall & positioning
- Updated the portal, www.motilaloswalmf.com, with useful features for B2B & B2C audience





*Equity MF Net Sales Market Share includes only Open-Ended Equity Mutual Funds

Private Equity – Traction in fund-raising & investments

Particulars	Q4 FY16	Q4 FY15	Change	Q4 FY16	Q3 FY16	Change	FY16	FY15	Change
Rs million	Mar 31, 2016	Mar 31, 2015	(%) Y-o-Y	Mar 31, 2016	Dec 31, 2015	(%) Q-o-Q	Mar 31, 2016	Mar 31, 2015	(%) Y-o-Y
Total Revenues	56	62	-10%	56	57	-1%	249	255	-2%
EBITDA	20	25	-18%	20	26	-22%	104	119	-13%
PBT	20	23	-15%	20	25	-21%	98	113	-14%
PAT	7	16	-56%	7	17	-57%	59	74	-20%

Funds in Exit mode

- **IBEF I:** $125 million invested in 13 deals. 3 full-exits & 6 partial exits in 4 companies till-date translate into ~120% capital returned (INR terms). The fund is in advanced stages for 2 exits in the next few months, which may allow it to return an additional ~50-55% capital. It expects to divest the balance companies in FY17. We hope to earn a meaningful carry & profit on Sponsor commitment in FY17
- **IREF I:** Rs 2 billion AUA in 7 deals, of which full/partial exits have been done from 6 projects so far, translating into ~86% capital returned to investors

Funds in Investing mode

- **IBEF II:** Rs 9.5 billion raised, including commitments from marquee institutions like IFC Washington, Squadron Capital & Axiom. It has made 8 investments so far
- **IREF II:** Rs 4.9 billion assets raised, of which it has committed ~83% across established developers in 8 deals following stringent due diligence process
- **IREF III:** Launched in Q3FY16 with an AUM target of Rs 10 billion, it announced its 1st close within four months in Feb 2016, raising commitments of ~ Rs 6 billion. It has made 1 investment so far

Both IBEF I & IBEF II have an Offshore fund & Domestic Fund each, & MOPE manages and/or advises these funds

Aspire – On course to build an affordable home finance entity

MOTILAL OSWAL
Financial Services

Particulars *Rs million*	Q4 FY16 Mar 31, 2016	Q4 FY15 Mar 31, 2015	Change (%) Y-o-Y	Q4 FY16 Mar 31, 2016	Q3 FY16 Dec 31, 2015	Change (%) Q-o-Q	FY16 Mar 31, 2016	FY15 Mar 31, 2015	Change (%) Y-o-Y
Sanctioned For Period	9,291	3,156	194%	9,291	5,861	59%	23,599	5,227	351%
Disbursed For Period	7,324	2,232	228%	7,324	4,424	66%	18,183	3,586	407%
Loan Book	20,940	3,574	486%	20,940	14,055	49%	20,940	3,574	486%
Net Interest Income (NII)	204	38	437%	204	140	46%	476	71	567%
Other Income	250	84	198%	250	170	47%	633	124	409%
Total Income	454	122	272%	454	310	47%	1,109	196	467%
Operating Profit (Pre- Provisioning)	298	54	451%	298	182	64%	688	53	1198%
PBT	268	45	496%	268	163	65%	613	39	1486%
PAT	177	28	529%	177	94	88%	400	22	1731%

Banks given LOCs*
23 in FY16
vs 7 in FY15

HFC Loan Book
↑ 6X YoY

Annual Disbursal
↑ 5X YoY

Gross NPL
0.2% in Mar 2016
vs 0.0% in Mar 2015

Aspire NIM
~389 bp in FY16
vs ~400 bp in FY15

- Disbursed Rs 18.2 billion in FY16, up 5X YoY; QoQ traction strong
- Loan book stands at ~ Rs 20.9 billion across ~21,000 families
- Approx 50% of borrowings are from capital markets via NCDs
- Rs 3 billion cumulative capital infusion by sponsors till-date
- Investments in Branches (up 14 to 51 YoY) & Employees (~150 to ~500 YoY) should push traction in volumes, going forward
- For FY16, RoA was 3.3%, RoE was 16.0% and D/E ratio was 5.1X

- Crisil upgraded its rating to CRISIL A+/Stable, ICRA upgraded its long-term rating to [ICRA]AA- (Stable))
- Won the Finnoviti 2016 award for the ‘MALA’ (Mahila Awaas Loan) product from Banking Frontiers & Deloitte
- As a Primary Lending Institution, it has provided subsidy to 78 clients under Credit Linked Subsidy Scheme of Pradhan Mantri Awas Yojana. Total subsidy of Rs 16 million transferred to borrowers under CLSS

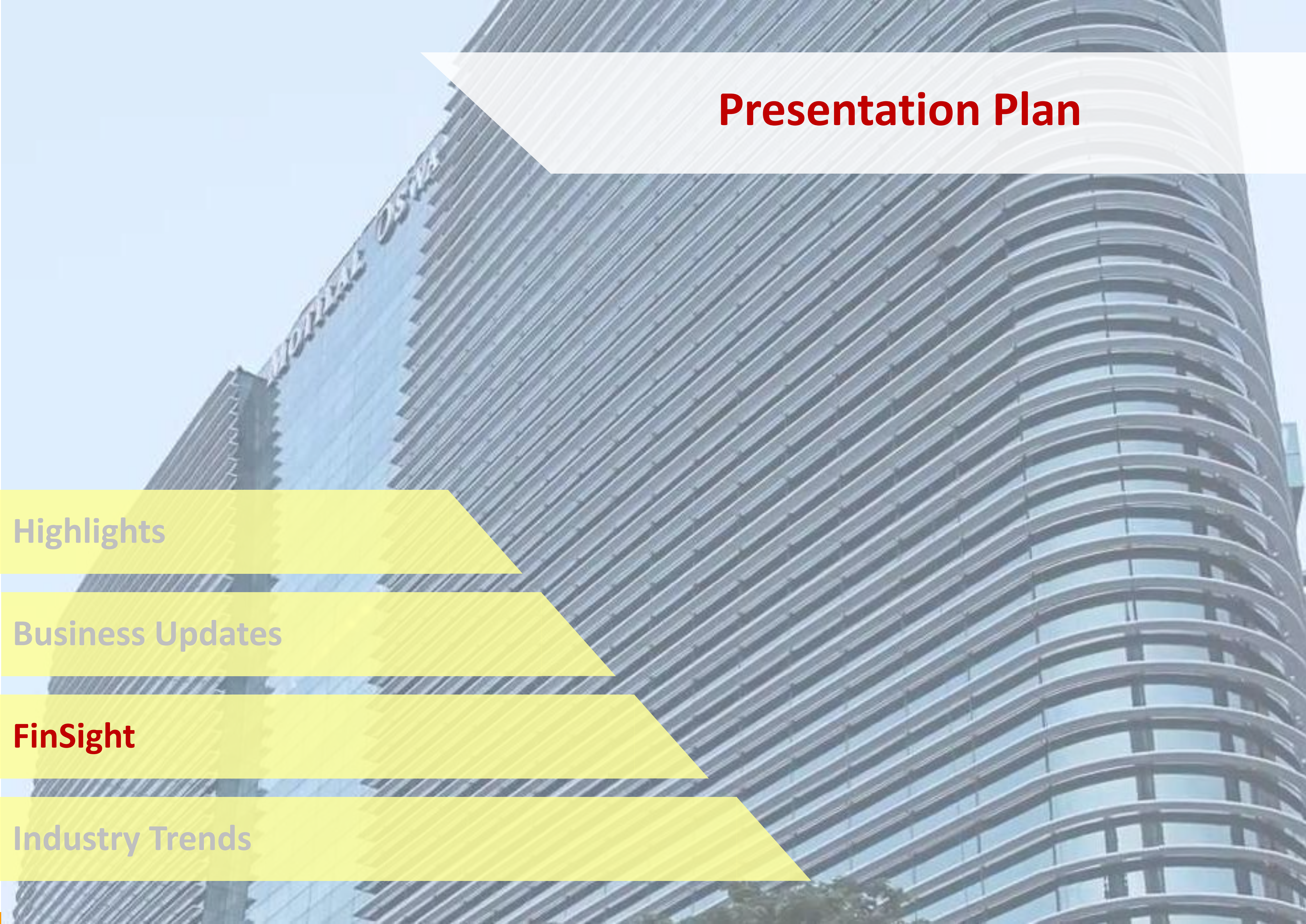
** Term-loan drawdown from 22 banks and 1 NBFC, as of Mar 2016*

Driving Social Responsibility – Motilal Oswal Foundation

Key CSR Areas: (a) Institutions: Hostels/Campus; (b) Education: School devp./Mid-day meal/English Lab, (c) Employee Volunteering

English Language Lab: Sponsored the set-up of English-Language Lab at Anjuman Khairul Islam Urdu High School Mumbai, to create a better learning experience & equip the students with essential skills. This lab would help 1000+ students learn conversational English through interactive modules & in-built assessment tests

Inspiring Youth: As part of engagement with schools, 120 students of Bal Mohan High School had an interactive session with Raamdeo Agrawal, who guided them on their goal setting & tips for overall development. The students also visited the dealing-room where advisors oriented them on stock markets



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fin-sight **Thematic Series**

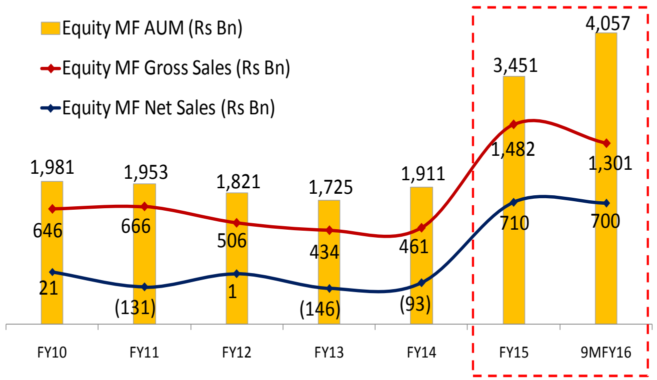
MOTILAL OSWAL Financial Services

"Reasons for the surge in retail interest in equity mutual funds; & learnings from the evolution in USA"

Last 2 years witnessed rapid uptick in equity mutual funds in India; but headroom for further growth still exists

- Equity MF AUM, where maximum retail interest lies, grew at 54% CAGR from FY14 to 9MFY19
- After 9 successive quarters of outflows, the last 8 quarters saw equity MFs clock positive net flows
- Equity MF AUM grew 101% from Mar 2014 to Dec 2015 to Rs 3.4 tn vs 25% in Non-equity funds
- With ~34 mn individual folios in equity MFs, the penetration is still only ~3-4% of India's population
- Headroom for growth exists and disposable incomes and discretionary allocations expand

Renewed interest in equity MFs since last 2 years

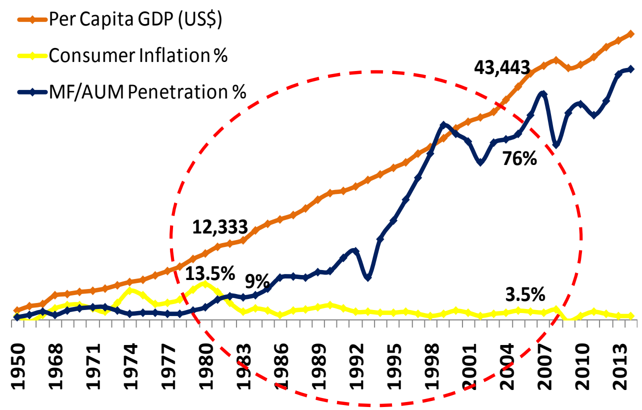


Reasons for uptick in retail interest in equity mutual funds

Rise in disposable incomes pushes discretionary allocations towards equities - the US example

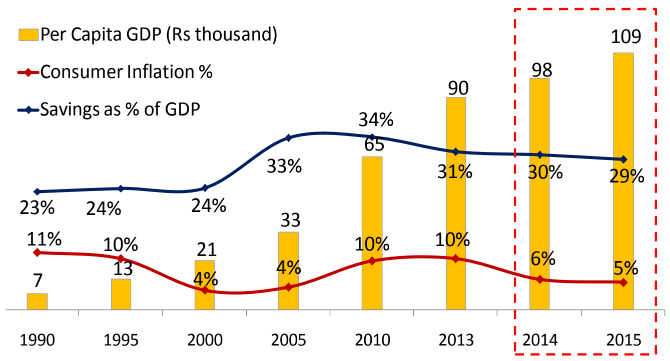
- In USA, economic stability came post-1950s & it took ~30 years till 1980s to reach the combination of growing incomes and low inflation - ***which is when mutual fund penetration truly took off***
- AUM/GDP ratio in USA reached 90% by 2014 from 9% in early 1980s, and ~89% of US MF assets are held by retail. Median MF assets in a US household is $103,000, half of its $200,000 financial assets
- Assuming post-1990s to be economic stable years in India, we are now at a similar inflection point

Inflection-point in US took ~30 years after stability in 1950s



- 2014-onwards saw rising income and low inflation deepening penetration of mutual funds in India
- Equity AUM per folio of individuals reached Rs 98,100 in Dec 2015, up from Rs 58,000 in Mar 2014
- There is still immense opportunity to grow further, since AUM/GDP ratio in India was still 8%
- IMF estimates India's per capital income to grow at 12% CAGR from FY15-FY20 (2X of present-level), consumer inflation to be muted at ~5% and savings rate to hold at ~29% for the 5 years till 2020
- This augurs well for continued growth in incomes and allocation to equities, just like it did in USA

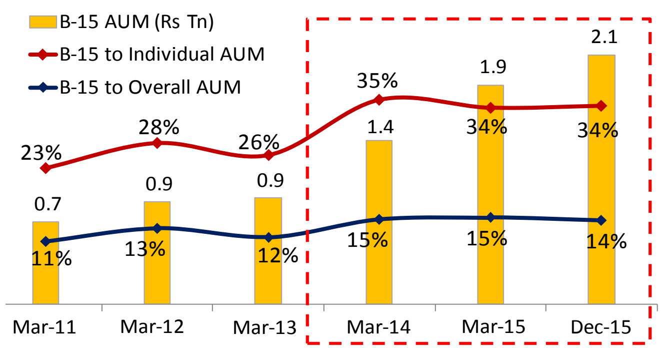
Combination of stable macros in India from 2014 onwards



Expansion into smaller towns across the hinterland

- B-15 AUM (Beyond Top-15 towns) grew 52% from FY14-Dec 2015, due to push via investor seminars
- Of the ~Rs 750 billion net inflows into equity funds this year so far, ~40% are from B-15
- B-15 has a more favourable mix of equity in the AUM – B-15 has ~48% in equity MFs vs T-15's ~27%
- But the spread of distributors has to expand to capture the B-15 opportunity further

Despite uptick in AUM, B-15's proportion remains flat



Role of Distributors has been critical for asset flows into mutual funds

- India is primarily distributor-driven, as direct channel accounted for only ~13% of individual assets
- Commission of AMFI-disclosed brokers was up 84% YoY to Rs 47 bn in FY15, higher than prior years
- Even USA is Advisor-driven, with 40% households buying solely with professionals & 13% only direct

As incomes grew, younger generations in USA started investing in MFs at an earlier age than their parents. Hence, the investing lifetime also expands, apart from widening the base

- Inflows were driven by Top-15 distributors as their proportion rose from 50% in FY11 to 61% in FY15
- IFAs manage 66% of assets in US. Similar proliferation of IFAs in India can garner more inflows in B-15

Investors have also matured in the way they now view equities for the long-term

- Despite lack of market performance in CY2015, there were no high redemptions unlike in the past
- Investors acted with maturity in holding their funds for the long-term, despite short-term volatilities
- Even AMCs have matured from pitching a product-push approach to a solution-based approach

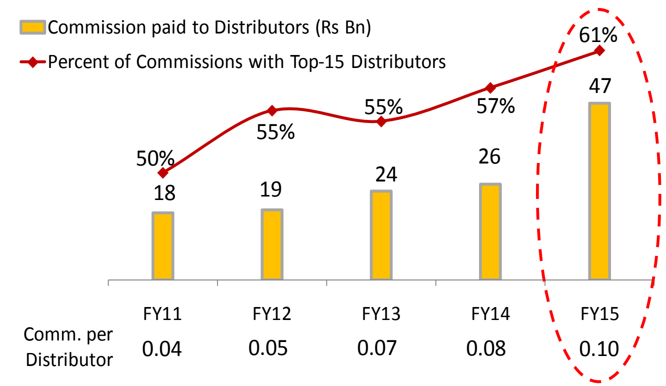
Investor education improved peoples' awareness about the very need for mutual funds

- Relentless education seminars by AMCs helped improve awareness & widen the retail base
- No. of programmes/participants in last 2 years is almost equal to those in the 3 years prior to that

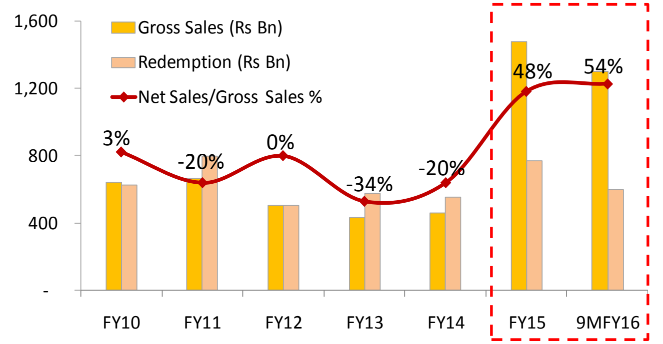
New online platforms have enabled easy and convenient access to buy mutual funds

- Robo-advisors like Aditya Birla's MyUniverse, Arthayantra and FundsIndia, which give financial planning by recommending a basket of mutual funds, have seen rapid traction in recent years
- The shift to advisory fee on assets managed may help expand MF flows on such platforms further

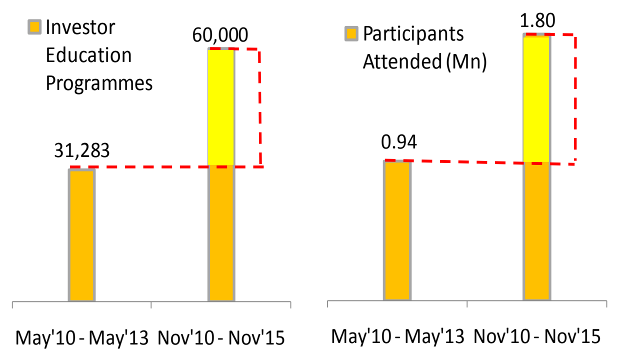
Uptick in AUM largely a result of distributor network



Panic-induced redemptions reduced in last 2 years



Efforts in the last 2 years equals that of prior 3 years

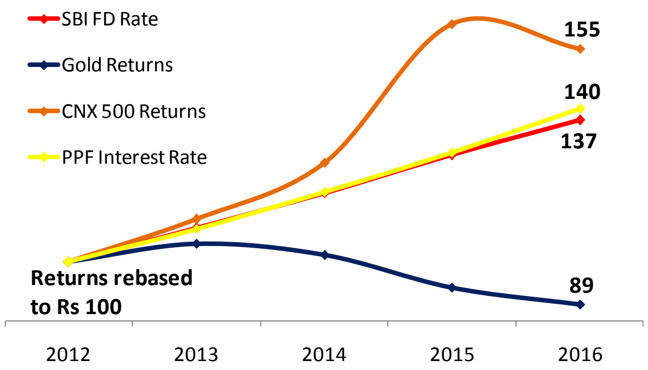


MOTILAL OSWAL Financial Services

Relative attractiveness of other savings products reduced vs. equity in recent years

- ~70% of household savings goes to gold & real estate, but gold returns were stagnant in recent years
- ~90% of financial savings goes to banks, PPF and life insurance. But FD rates have declined
- Many companies are not contributing to EPF. So, the relative attraction of other products has reduced
- Investors need inflation-adjusted long-term returns, and now accept an equity component is needed

Equities have outperformed others in recent years



Long-term retirement products can fuel maximum interest in equity MFs, just like in USA

- In USA, retirement has been the main goal why households save in equity MFs, esp. through employer-sponsored retirement plans or IRAs
- Long-term retirement planning also implies the demand is for growth (hence, equity) rather than income (debt). This enables AUM stability
- Long-term planning broadens the number of funds held for diversification (median no. of funds held in US is 4)
- With social security non-existent and life-tenures increasing, there is a need for retirement planning in India. This can push the demand for MFs

Large states which offer maximum opportunity for distributors

Large States	AAUM Rs Bn	Equity to AUM	Per Capita AUM	AUM % to GDP
MP	103	64%	1,420	2%
Ker	134	43%	4,010	3%
Tel	152	40%	4,330	4%
AP	204	42%	4,170	4%
PB	129	48%	4,650	4%
UP	431	48%	2,160	4%
TN	628	32%	8,710	6%

Click here to read the full article, and access previous FinSight articles:
http://www.motilaloswalgroup.com/Investor-Relations/Finsight

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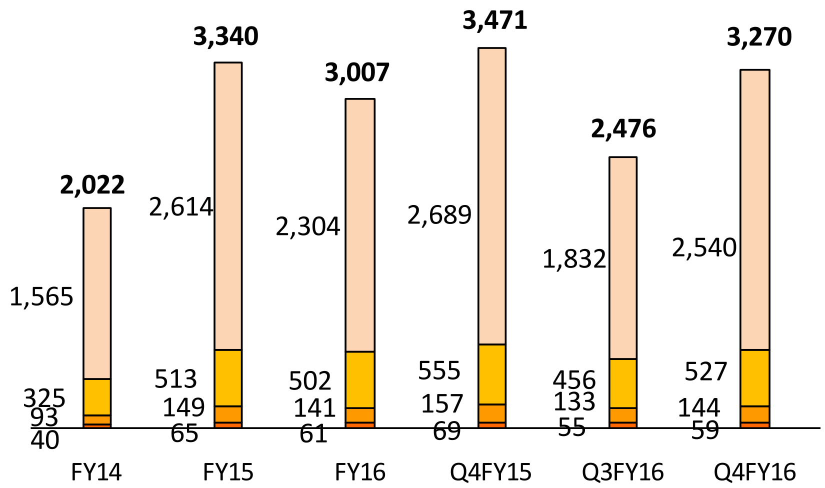
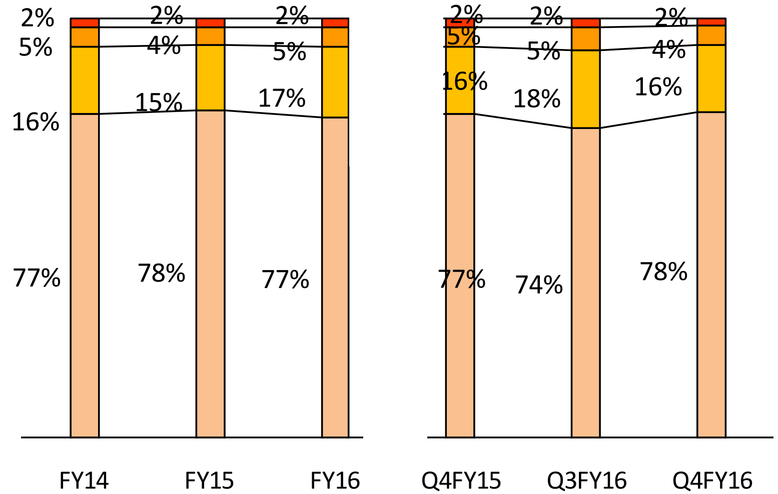
Volumes dip during the year, but options pick up in Q4

Market ADTO declined this year owing to dips across all segments; But it was up this quarter on QoQ basis as options picked up (Rs Bn)



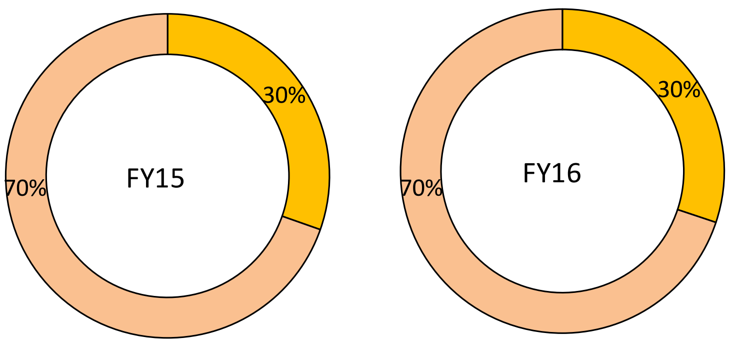
Source: NSE, BSE

Options dipped more than cash in FY16, hence it declined within the mix declined; But it grew in Q4 as options volumes picked up



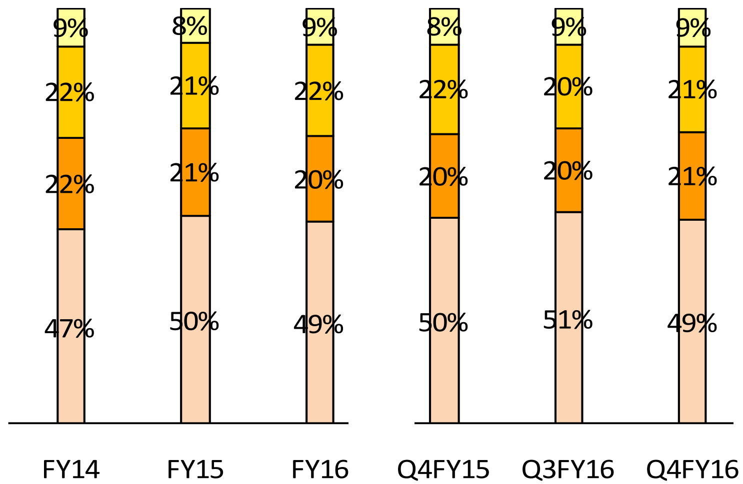
Source: NSE, BSE

Proportion of delivery within the cash volume mix has held constant this year, as compared to last year



Source: NSE, BSE

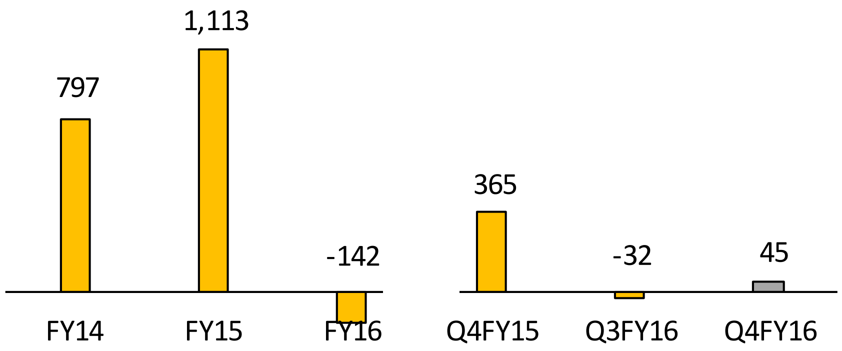
Retail saw a drop within the cash volume mix this year, while DII saw an uptick; Retail's proportion also dropped on QoQ basis



Source: CDSL, SEBI

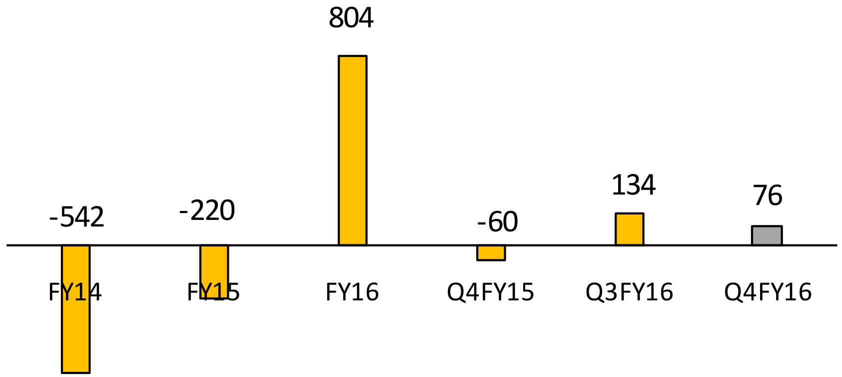
Inflows by DIIs help counter the outflows by FIIs this year

FIIs register net outflows this year after 6 years of net inflows; However, March month saw strong net inflows (Rs Bn)



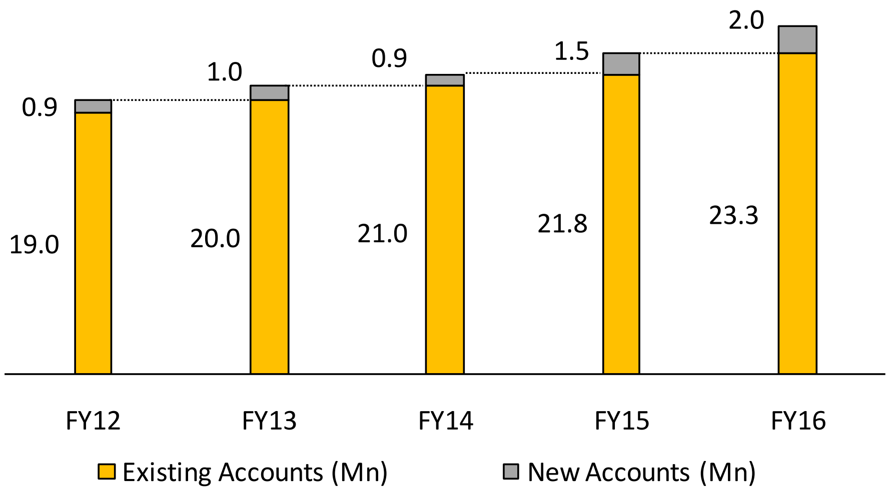
Source: NSE, BSE

DIIs saw renewed inflows after five consecutive years of net outflows, especially into equity mutual funds (Rs Bn)



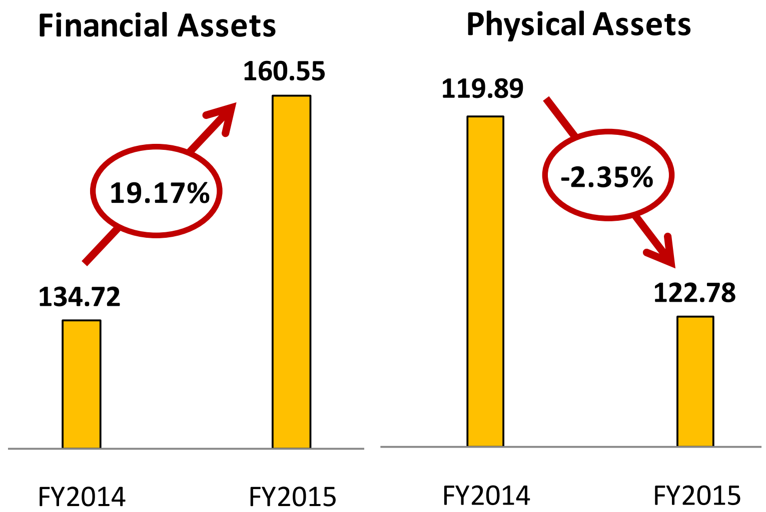
Source: NSE

As IPOs picked up slightly since last two years, incremental demat accounts have been higher than the previous years



Source: CDSL, NSDL

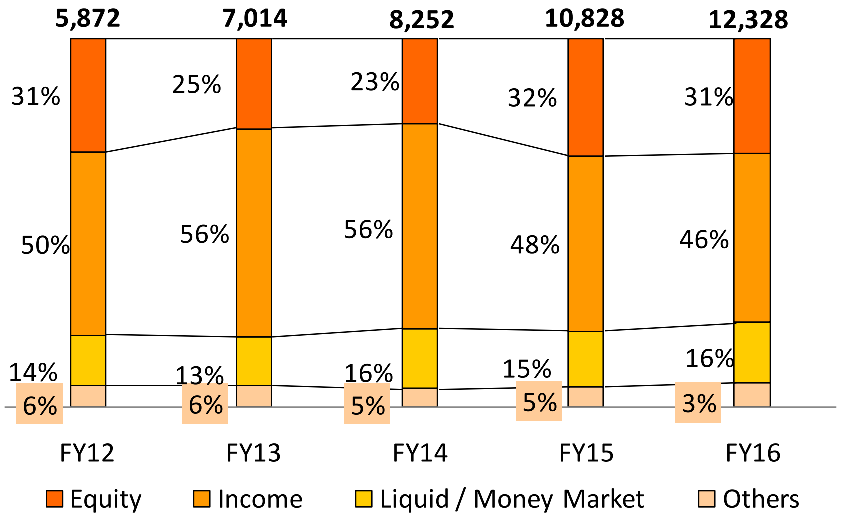
YoY growth in individual wealth held in financial & physical assets (Rs Tn)



Source: Karvy Report 2014

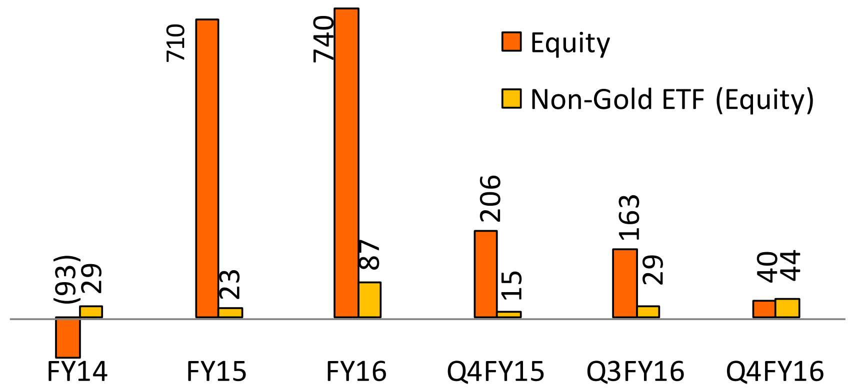
Equity MF see AUM uptick due to continued strong inflows

Equity MFs helped push MF AUM to highs, as its proportion within the mix rose from 23% in FY14 to 31% in FY16 (Rs Bn)



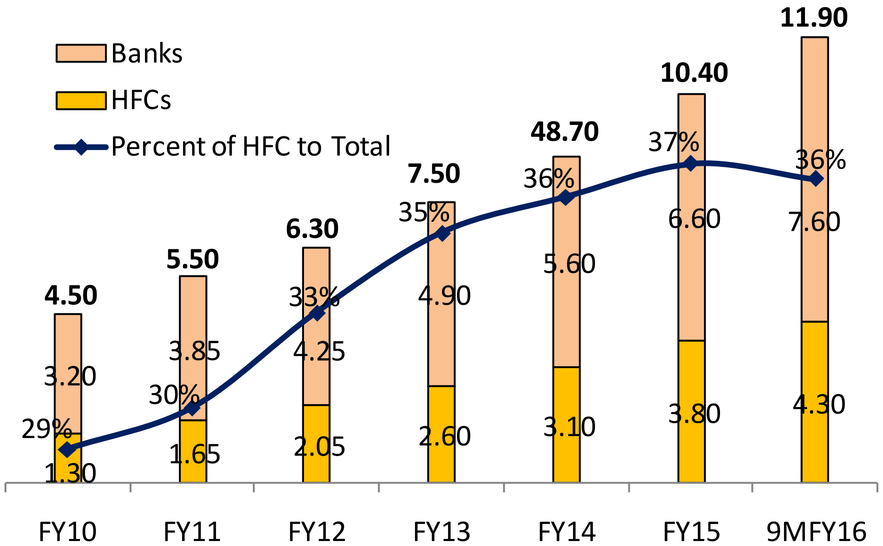
Source: AMFI

The uptick in Equity MF AUM has been led by strong net inflows in last two years, apart from appreciation (Rs Bn)



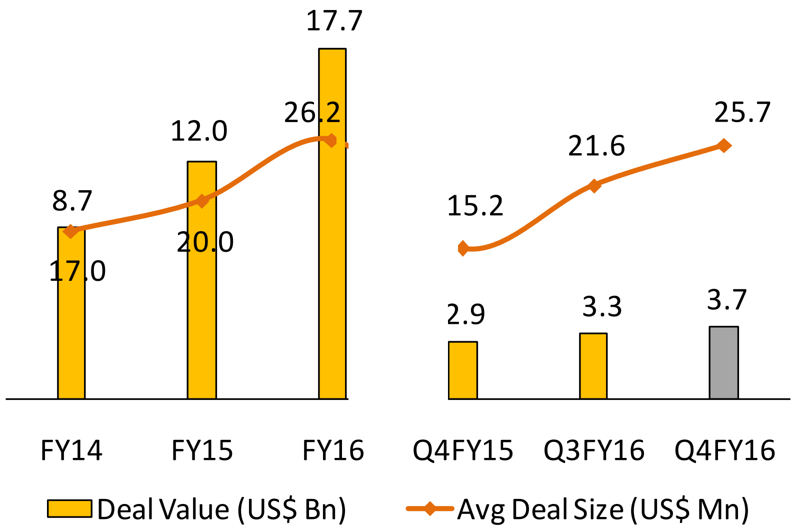
Source: AMFI

YoY trend in housing credit in India (Rs Tn)



Source: ICRA

PE deal values & avg size increased this year, led largely by high-value deals in E-Commerce & Renewables



Source:: Venture Intelligence

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