



# Motilal Oswal Financial Services

## ConCall Summary & Earnings Release

Quarter ended June 2018

23<sup>rd</sup> Aug 2018

Motilal Oswal Financial Services Limited (MOFSL) posted consolidated revenues of Rs 7.1 billion for Q1FY19, +8% YoY. PAT was at Rs 1.15 billion for Q1FY19. Asset & Wealth Management business top-line was +44% YoY and Capital Market business was +17% YoY. Broking business has registered 22% growth in revenues; its distribution arm clocked 59% YoY growth in AUM. Notwithstanding this strong performance in Capital Markets, the share of annuity revenue streams went up to 55%, also led by AMC's AUM growth of 55% YoY.

For a deeper insight into the company's performance and the management's expectations, we present extracts from the post-results conference call. We have edited and rearranged the transcript for greater lucidity. This presentation is available at [www.motilaloswalgroup.com](http://www.motilaloswalgroup.com)

---

### Corporate Participants

Mr Motilal Oswal

*Chairman*

Mr Raamdeo Agrawal

*Joint Managing Director*

Mr Navin Agarwal

*Managing Director*

Mr Shalibhadra Shah

*Chief Financial Officer*

Mr Rakesh Shinde

*Investor Relations*

---

This document includes forward looking statements, including discussions about the management's plans and objectives and about expected changes in revenues and financial conditions. Forward-looking statements about the financial condition, results of operations, plans and business are subject to various risks and uncertainties that could cause actual results to differ materially from those set forth in this document. You should not construe any of these statements as assurances of financial performance or as promises of particular courses of action.

Welcome to the Q1 FY19 Earnings Conference Call for Motilal Oswal Financial Services Limited. We have with us today Mr. Motilal Oswal – Chairman, Mr. Raamdeo Agrawal – Joint Managing Director, Mr. Navin Agarwal – Managing Director, Mr. Shalibhadra Shah – Chief Financial Officer, Mr. Aashish Somaiyaa – CEO, AMC and Mr. Rakesh Shinde – Investor Relations. For the duration of this presentation all participant lines will be in the listen-only mode. I will be standing by for the question-answer session. I would now like to invite Mr. Navin Agarwal to make his opening remarks. Thank you and over to you sir.

### **Opening Remarks**

Good morning everybody. It is my pleasure to welcome all of you once again to the Motilal Oswal Earnings call for the first quarter of 2019 fiscal.

During the quarter we continue to witness positive outcomes from the changes we made in our business model a few years back. A lot of our chosen areas of business have built scale and improve profitability.

### **In terms of our consolidated numbers for the quarter:**

Our revenues were at 7.12 billion, up by 8%. This is led by asset and wealth business, revenues up by 44% and the capital market's business revenues up by 17%. The share of capital market business in our total revenues was at 43% led by market tailwinds and notwithstanding this strong performance of the capital market business the share of annuities stream went up to 55% led by very strong YOY growth in the AUMs of the Asset Management business.

Our consolidated profit before tax for the quarter was 1.45 billion and consolidated profit after tax was 1.15 billion. Effectively our reported profits under IndAS excluding the fair valuation of unrealized gains on fund based investments was (-2%). However if you were to exclude the unrealized and realized gains of the fund based business the effective profit both was 27% year-on-year. This was led by the Asset and Wealth Management business reporting a 66% year-on-year growth in profits and the capital market businesses reporting a 54% year-on-year growth rates in profits. Our consolidated net worth under IndAS stands at Rs. 30 billion. Our gross and net borrowings at Rs.53 and Rs.50 billion ex-Aspire gross and net borrowings are at Rs.14 and Rs.11 billion respectively which is less than the market value of the quoted investments worth 16 billion, effectively implying a near net-cash balance sheet on a consolidated basis.

Besides the financial performance, the last few quarters have been very eventful in terms of our success in brand building, advertising and several other fronts. CNBC-IBLA has awarded Motilal Oswal Financial Services as the "Brand of the Year". The ABBY awards are the Oscars of Indian ad industry to honor creative excellence in advertising. The Motilal Oswal TV Ad – "Think Equity Think Motilal Oswal", won 3 ABBY's in the most recent award ceremony. MOFSL was awarded as the Top-15 "Best Places to Work" in the BFSI space. Mr.

Oswal was awarded “Outstanding Institution Builder” at the All India Management Association. These and several other awards our recognition of the Motilal Oswal a brand as a preferred consumer and employee brand in the BFSI in the financial services space.

**Turning to the segmental performance:**

I will start with the **Capital Market business** comprising of Retail and Institutional Broking and Investment Banking businesses. The revenues for the segment were at Rs. 3 billion during the quarter up by 17% accounting for 43% of our total revenues. Profits grew much faster at 54% on a year-on-year basis. This strong profit growth during the quarter was aided by continued operating leverage and a lower sustainable tax rate by about 600 basis points post the merger of MOSL with MOFSL.

In the **Retail Broking & Distribution business** our market share in the high-yield cash segment has improved on a year-on-year basis. Overall market share stood at 1.8% during the quarter despite higher F&O volumes.

Our strategy to bring in linearity through the trail-based distribution business continues to show robust results. Distribution AUM was 83 billion up by nearly 60% year-on-year with only 11% of the near million client base tapped, distribution income is already at 17% of the overall retail broking gross revenues and we expect a meaningful increase in both the AUM as well as the fee income as a number of clients to whom we have cross-sold and the number of products that we have cross-sold or client continues to show rising trends.

In the **Institutional Broking business** rankings with existing clients improved. Domestic institutions contributed to a larger proportion of revenues and the trend in net client additions continue to be encouraging. Every aspect of the business is being strengthened and we see tailwinds for local firms continuing to remain quite strong.

**Investment Banking business** is continued to engage in conclude some significant transaction. In this period, we have concluded two ECM transactions in 1Q and the overall transaction pipeline remains robust.

**Turning to the Asset and Wealth businesses:**

Our **Assets Management business** spanning the Mutual Fund, PMS and AIF business reached an AUM of Rs. 376 billion which is up by 55% on a year-on-year basis comprising of 194 billion Mutual Fund AUM, 154 billion PMS AUM and 26 billion AIF AUM. Our AMC ranks among the Top-10 players by total equity assets, PMS ranks #1 while the AIF part of the business is growing rapidly. Net sales were at 19 billion in the first quarter of this fiscal, net yield remained robust. Revenues were 1.8 billion in the first quarter up by 40%, profits were at 404 million up by 71% year-on-year. We continue to believe that the Asset Management business in our portfolio of businesses offer the highest scalability and operating leverage.

Our Equity Mutual Fund AUM of 194 billion is 2% of the industry Equity AUM of 9.05 tn. However, our market share in Equity Mutual Fund Net Sales has scaled up to 3.3% in the first quarter compares with 2.7% in the same quarter last year implying that we have gained market share on a year-on-year basis in the Mutual Fund business. Our endeavor would be to sharpen the QGLP philosophy to sustain alpha generation to increase our share of net sales as funds formed part of the performance league tables and there is a strong distribution pull. This will aid closing the gap between our share in AUM and Net Sales while improving our share in overall Net Sales. Our SIP AUM is growing qualitatively and profitably. Our market share in SIPs and the proportion of total inflows rose in the current quarter compared to the quarter last year and the whole of last year.

Our share of Alternate assets, comprising of PMS and AIF, is the highest among Asset Management Companies at 48% and continues to grow strongly. Yields and profitability of Alternates assets is higher. As of June 2018, about 20% of Alternates AUM is performance-fee linked, and our target is to increase this further.

**Turning to the Private Equity business:**

It manages an AUM of Rs 51 billion across 3 growth capital PE funds & 3 real estate funds. This business has delivered on profitability and scalability fronts. The 1st growth fund (IBEF 1) has delivered an XIRR of 28%, and an alpha of 10% is expected to return gross MoC (Multiple of Cost) of nearly 6x. Till date, 3.5x has been returned for INR investors. Strong performance and positioning has also aided our new fund-raise. We launched IBEF third series in September '17 have received a phenomenal response by garnering Rs. 18 billion already and are expected to cross the 20 billion targeted size during the current quarter ending September 2018.

Our **Wealth Management business** AUM grew by 35% year-on-year at 153 billion. Our Net asset addition during the current quarter was at Rs 10 billion, up by 172% year-on-year. Revenues were up by 47%. However, our RM count, Relationship Manager count increased by 56% year-on-year from 81 to 126 and this strong relationship manager count increased has suppressed our reported profitability during the current quarter. Our yields on this business stood at 72 basis points in the first quarter led by favorable equity mix at nearly 70% of the total Wealth Management AUM.

Overall, **Asset and Wealth Management** revenues were 2.3 billion during the quarter up by 44% and accounted for the third of our consolidated revenues. Profits grew by 66% year-on-year and contribute to over 40% of consolidated profits.

**Turning to Aspire:**

The loan book grew by 11% year-on-year at Rs 48 billion. Due to NIM expansion NII grew by 14%, cost-to-income ratio stood at 44%. NIMs during the quarter were at 4.6% compared to

4.2% in the same quarter last year. This margin expansion is despite interest reversals and is contributed by lower cost of funds.

A ramp-up of collections headcount continue during the current quarter. We expect improved collections efficiency due to rising vintage of the collection team due to technology driving productivity of this team and the contribution of legal team in the recovery process. These initiatives are expected to drive stabilization in the asset quality going forward.

As guided post fourth quarter results asset quality deterioration in 1Q was on account of seasoning of the legacy portfolio and the impact of seasonality. Our bank expansion is being pursued a new states where we commenced operations a year ago. Five new branches were added during the current quarter taking the total branch count of Aspire from 120 numbers to 125.

Gearing continues to remain conservative at 5x. Cumulative capital infusion from the sponsored till date is Rs. 6.5 billion and we remain committed to provide further capital as the business scales up.

**Turning to the Fund Based activities** like commitments to our asset management products etc., not only does this activity helped seed new businesses by investing in highly scalable opportunities, but they also represent liquid resources for future opportunities.

Our investments in quoted equity investments stood at Rs 10 billion at cost, while the unrealized gain on these investments stood at Rs 5.7 billion. Mark to market on these gains are now a part of our reported earnings and net worth under IndAS. The post-tax cumulative XIRR of these investments is about 21%, which is the see-through ROE versus the reported ROE of just 3% in the numbers for the year and the quarter.

### **Outlook**

To sum up, our strategy of diversified business model towards linear sources of earnings is showing definite results. Our businesses continue to grow strongly, make significant investments, are building scale and offer operating leverage. The portfolio of businesses are also well positioned to capitalize on the various tailwinds created by financialization of savings shift from unorganized to organized sector and several other macro trends. Our brand is now being recognized in each of our businesses. We remain excited about the headroom to grow in our existing businesses and remain sharply focused on deepening modes in these businesses. We are now open to Q&A.

### Capital Market Business

#### **Can you explain the reason for the strong operating leverage in broking business?**

Actually if you look at the numbers the operating leverage looks extraordinarily strong if you do a YOY comparison of the numbers. However across the four quarters of the last year itself we have seen operating margin of this business continuously improve, so that's point number one. Top line growth itself has resulted in newer highs in the operating profit margin of this business also. I will just run you through some of the operating profit margin numbers; so across the four quarters of last year our operating profit margin moved up from 29% in 1Q to 33% in Q2, 36 in the fourth quarter and now we are at 38%. The reported profit after tax trend looks even more exaggerated because we expect tax rates for this business to continue to remain lower by about 600 basis points due to the impact of the merger of MOSL with MOFSL. So the net profit margin looks steeply higher also. And the second point that we have highlighted which is more structural in nature is that the fee income that we earn on this 60% YOY growth in the distribution AUM comes with very little incremental cost because it is a cross sell to the existing customer base and that will continue to contribute to our EBITDA margin for the broking business going forward.

#### **On the distribution income if you could give us some sense what is the contribution from Top-15 cities as of now, what is the potential beyond the Top-15 cities and our approach to grow the business in that specific region?**

The AUMs from the Top-15 cities so dominant part of the Wealth Management AUM as far as Retail Broking is concerned as you are aware our distribution is very strong in the non-top 15 cities so whether it is East of India whether it is from north-east of India and so on and so forth. So that is the big driver to our overall distribution AUM growth and is not concentrating in the Top-15 cities.

#### **On the Broking and Distribution business when we speak of the low market share within franchisee network and the inability to cross sell I was just trying to understand have we done any analysis in terms of what share of our franchisees will already be distributors in their own right and therefore not really looking to partner on actually lose a certain percentage of the kind of seeds the partner and what can we really do too incentivize that particular shift?**

We are working on the balance 80%, so 20% maybe directly engaging in this activity. The balance 80% is a large enough pot for us to and as I gave you the number we have an 11% client penetration as of today. So the headroom is enough to keep us busy for the next 3 to 4 years.

#### **As much as 80% would not to the distributors already has and they are not engaged in this business as per the assessment?**

Yes. One of the things to keep in mind is that as compliance in the industry keeps rising the regulator is actually getting into conducting due diligence individual distributors. It is done through the association of Mutual Funds. But still the regulator is insisting on more and more regulation for independent or individual advisors on Mutual Funds distributors. So even if there are some franchisees who offer find them on basis where distributing Mutual Funds on their own, they would definitely incrementally in future they might love to get under a larger platform so that compliance and operations are taken care of and the second thing to also keep in mind is that when you are a franchisee of Motilal Oswal then you know you are taking all your client balances and everything consolidated under Motilal Oswal platform. But if you're doing Mutual Fund distribution separately then you are never going to be able to produce a Wealth Management statement to the clients. So while I'm not part of the Broking business but since I observe the industry practically people are preferring consolidating under platforms.

Actually the trend shows that the distribution industry will consolidate and there will be large kind of platforms will actually get larger and larger. Whether they are digital platforms or they are national platforms like Motilal Oswal eventually platforms will probably dominate.

#### Asset Management Business

**Can you please give some color on the net inflows trend in the Asset Management business? And secondly in the Retail Distribution side what is our long-term goal like how big this business can become and similarly for our Wealth business?**

Actually we had a wonderful flow last year, the Q1 is somewhat slower still we have done about 1900 net flow for the quarter which actually the first month was very strong, second and third month were somewhat more weaker. But we think that that is a holiday month and all I mean year-on-year it is quite a growth but you know the nature of the market you never know so still we never had any month of negative flow. Few days of negative flow were there. Last 2-3 months flows are slightly weaker but we see that rest of the year holds promiscuous. It may not be as big as that of last year but flow still remains pretty good.

In terms of the numbers also disclose that our market share in the Mutual Fund business in the first quarter was at 3.3%. This compared with 2.9% in all of last year and compared with 2.7% in the first quarter of last year. And this is because we have improved our market share in net sales a lot more. In fact, one of the interesting thing that we have highlighted is that our market share in net redemptions of the industry is much lower at about 1.1% compared to our overall market share in net sales of 3.3%. Getting to your other question about the scalability of the distribution AUM across the Retail Broking business as well as the Wealth management business, so the Wealth management business has seen a strong growth in AUM we'd closed at 153 billion during the current quarter as compared with the 113 billion AUM in the same quarter last year implying a 35% year-on-year growth. But we have highlighted earlier that the distribution AUM is a very big opportunity. That part of the AUM grew by 60% year-on-year it was at 52 billion in the same quarter last year and was at 83 billion in the current quarter. As we guided given the very small penetration that we have of the entire Retail Broking client

base and the low cross sale ratio we think that this AUM can continue to grow very strongly in the next 3 years time.

**One more question on the SIP and overall Asset Management side like our average SIP is about Rs.4300 per month so I would like to understand that in the next 2-3 years do you think that single portfolio under the SIP and under the single folio total amount will cross Rs. 15-20 or Rs. 30 lakh kind of average? Reason I'm asking is I have met couple of the MF distributors and financial product distributors and they are seeing some early trend wherein guys who find Rs. 25-30 lakh kind of a cumulative in their Mutual Fund portfolio, they may consider to redeem and look out for some other big real estate asset which can likely be a bigger outflow on the Asset Management business in the next coming 2-3 years time. Do you think is there any kind of possibility?**

I think directly indirectly what you are referring to is about fulfilling people's financial goals which is why Mutual Funds exist and that is how SIPs are supposed to be really offered to people so I don't think anything wrong with that. But the point to keep in mind is that there will always been you and your people who will keep coming in. We can't grudge the fact that some people will accumulate money enough to make their goals and they might actually fulfill those goals and move out like you mentioned buying real estate or buying a house so that is part and parcel of the new service that we are offering to people. At the same time what we need to see is we are reporting net sales numbers, we are reporting our market shares in net sales, we are reporting how SIP as a percentage of our AUM keeps moving. And I think those trends will show you how we are performing. People moving out is part and parcel of the game. There is no doubt about it.

**Just on the Asset Management business just trying to understand there'll be certain kind of national distributors that would insist on a 3 year performance track record before actually empanelling an asset manager. I was just trying to understand how much would this be in terms of distribution opening up and how significant and opportunities also growth for us.**

So how we have kind of approached this whole thing is that when we started scaling the Asset Management we already had a portfolio management services track record of 10 years so we got onto a lot organized platforms with their willingness to showcase our portfolio management services to be Wealth and Private Wealth segments of their business so that's how we got entry into a lot of marquee platforms and by the buy obviously the Mutual Funds business finished a 5 year track record. 2018 is the year when our large-cap funds finished 5 years and next year is the year when our mid-cap and multi-cap—multi-cap is our flagship—that will finish 5 years next year. So as we speak right now the very same partners who on-boarded us for a PMS or a AIF in the last 4-5 years the very same partners are now conducting due diligences on us to on-board the Mutual Funds. And as we speak quite a few of those platforms which started with just one side of the offering have already put us on for the Mutual Funds. So there is a runway out there and that is one of the areas where I hope that our market share will actually show traction starting this year.



**At what size do we consider listing of AMC business for value unlocking?**

There is no proposal at this juncture for separate listing of AMC because one we don't need capital in the business itself doesn't need capital and now the free cash flow of 175-200 crores whatever is their right now is actually more than sufficient. So clearly we don't see any need to list it but right now it is not there but if there is any need be at some point of time going forward for some reason, definitely the financials are not the reasons. But for some other reason if by chance there is a reason for us to look at it we will look at it. But right now there is nothing on the board.

**On the Mutual Fund side if you give some color on the contribution beyond Top-15 will be helpful.**

So actually, you need to see this into two parts because we have half our assets in Alternates which is PMS & AIF and we have half our assets in Equity Mutual Funds which is roughly 19,500 crores of Equity Mutual Funds. Now when we see Equity Mutual Funds itself approximately 20% of the asset would be outside of T-15. If you go to any industry data you might find the numbers on the representative of what I am talking to you because we have a very high prof-commitment and a high prof-commitment obviously shows up in Mumbai so please discount that. But if you take the non-prof assets what you will find is that about 20% for those as well as AUM is outside of the Top-15 metro cities. Also one of the trends which is not highlighted in the presentation but its part of the normal course of business, in the last one-year we have moved out of cities like Bombay, Delhi, Hyderabad and Chandigarh and stuff. We have actually opened our presence in places like Guwahati, Ranchi, Jamshedpur, Nasik, Rajkot. So AMC itself in the last few months has moved its own brand presence from about 17 locations and I think before the year ends we will end up at about 30 locations. So beyond these locations of course we have distribution tie-ups with very large national platforms including my own parent company apart from that NJ-India and so many of the large distributions. But our own brand presence is moving up to 30 the near future. So we see a lot of potential beyond the Top-15 and there is a clear habit change and pattern change which we are sensing and there is a long tail to grow in that. Yes there is no doubt about it and plus all the digital platforms will only aid into whatever is going to happen. So that is set to grow actually, not only habits also distribution.

**Given that still there is lot of room for maybe distribution and part of the branch expansion which you just mentioned so this contribution directionally should increase only so they should be growing at 2x of Top-15 cities or more?**

I would actually not hazard such a guess, the reason being that for the Mutual Fund industry and for Motilal Oswal AMC specifically it's not like we had a big percentage of whatever we want to be even in a Bombay or a Delhi for that matter. So I would definitely not put the number at 2x on a low if you are counting percentage growth on AUM equity even show-up at 2x but in terms of the actual penetration and where we would like to be I don't see it that in a Bombay-Delhi is less priority outside is more priority I don't see it that way. Though it's very

simple that in Bombay itself do we have a million investors? Probably answer is no so that's the point.

#### Wealth Management Business

**In the Wealth Management business what is the sustainable EBITDA margin you are looking at and what is the RM additions you are expecting this year?**

We have had extraordinary RM additions of almost 60% year-on-year. We continue to see a strong addition of RMs during the current year so our focus on this business is to build a high-quality trail-led predominantly equity AUM so that's our positioning or strategy. And we think that the headroom to grow this business is enormous so we will continue to invest without focusing on our EBITDA margin, focusing more on the quality of asset, the yield on those assets, the mix between equity and debt predominantly in favor of equity and so on. And we think that the longer-term EBITDA margin, sustainable EBITDA margins could be much higher. You already have other comparable Wealth Management firm EBITDA margins available to you I think longer-term that is the direction in which we should head also once our RM additions close down which doesn't seem likely in the current year at least.

#### Aspire Home Finance

**On housing finance what kind of credit cost to be foresee for FY19 and FY20 onwards should growth on advances come back given asset quality issues seem to be behind and the team scale could give us some perspective that will be helpful.**

I will start with Aspire; so we had guided that we expect asset quality stress in the first half and we expect stabilization from the second half. As you have seen we have already increase the branch counter by five and we have a revamped credit policy already in place. We have a verticalized organization structure already in place. We've got a sizable collection team and the collection efficiency ex-bucket, 1 bucket, 2 buckets, 3 buckets have shown trends of improvement in line with our expectation so we think that firstly the second of disbursement itself in the current year should be much better than the first half and that trend should then sustain going forward as well. So that's as far as the Home Finance business.

**I had a question in the Aspire Housing plan subsidiary, so the level of NPAs as you told is because seasoning so is this a level peak level or there is some room for further deterioration in that level?**

That's exactly what we have guided that we think that in the first of there has been increase in this number and we expect stabilization going forward and as of now we are sticking to that guidance.

**Could you throw some light on what was the immediate reason for such kind of abrupt like this kind of..... what were the mistakes that there had been because of which the NPAs have increased in what management has done now so that future it will be better?**

We have had very detailed discussions over the last four calls and I would maybe repeat them for your benefit, so pace of growth not dialing down the credit some of the credit segments in time and not having independent collection and legal machineries in place where the primary factors that we have highlighted even in our presentations of the last four quarters and discussed at length in the con calls as well. So I would like to just reiterate that the whole host of corrective actions have been discussed again over the last few calls again I would like to repeat them that we now have a full scale and an effective collection engine that is working. We have a legal machinery that is active in working on the recovery front. The credit segments where we saw issues a lot of them have been dialed down so whether it's plot loans or whether it's composted loans or whether it is the certain ticket size whether it is certain region whether it is certain customer segments or product segments so we have rich 60,000 live code knowledge that we have readily with us. All of that has been incorporated in the credit policy, the credit score card. So you believe that with the vertical organizational structure with controls on credit, technical, legal, FCU and independent collection machinery a credit policy that incorporates all the learnings we can now use this as a foundation to scale up in our next version from here on going forward.

**What kind of growth we see in this division of business going forward?**

The business potential is enormous and as I had just replied in one of the earlier questions that we expect second half disbursements to now be much higher given the rollout of the policy and the new organization structure and several new leadership team members. So I think the market potential is enormous as you can see in the growth rates of some of the affordable housing companies. We think that we will also start leveraging that potential of the market starting the second half of this year. As of now I'm constrained to give any specific numbers of guidance in terms of how we scale up over the next couple of years.

**You told that the NPA level should be stabilizing by the end of the year.**

Yes.

**So what kind of level we see coming down what kind of level it should be like?**

We haven't given any specific number. But as we have guided that the collection efficiency across all buckets ex-bucket, 1 buckets, 2 buckets, 3 buckets are showing clear trends of improvement so you should see that driving the stabilization soon enough.

## **INVESTOR UPDATE**

### **Motilal Oswal Financial Services reports Q1FY19 Revenues of Rs 7.12 billion and PAT of Rs 1.15 billion.**

**Mumbai, August 21, 2018:** Motilal Oswal Financial Services Ltd. announced its results for the quarter ended June 30, 2018 post approval by the Board of Directors at a meeting held in Mumbai on August 21, 2018.

#### **Performance for the quarter ended June 30, 2018**

- Consolidated revenues were Rs 7.12 billion in Q1FY19, +8% YoY. Asset & Wealth Management business top-line was +44% YoY and Capital Market business was +17% YoY. Broking business has registered 22% growth in revenues; its distribution arm clocked 59% YoY growth in AUM. Notwithstanding this strong performance in Capital Markets, the share of annuity revenue streams went up to 55%, also led by AMC's AUM growth of 55% YoY.
- Consolidated PBT was Rs 1.45 billion and PAT was Rs 1.15 billion in Q1FY19. PAT growth excluding fair valuation of unrealised gains on fund based investments was -2% and 13% as per IGAAP. PAT growth was contributed by 66% YoY growth in PAT of Asset & Wealth businesses and 54% YoY growth in Capital Market businesses.
- Consolidated net worth stood at Rs 30.2 bn, gross borrowing was Rs 53 bn and net borrowing was Rs 50 bn (including Aspire). Excluding Aspire, gross and net borrowings were Rs 14 bn and Rs 11 bn respectively and this is less than the market value of quoted investments at Rs 16 bn.
- Besides financial performance, the last few quarters have been very eventful in terms of our successes in brand building, advertising and several other fronts. CNBC-IBLA awarded Motilal Oswal Financial Services as the “Brand of the Year”. The ABBY awards are the Oscars of Indian ad awards to honor creative excellence in advertising. Motilal Oswal TV Ad - “Think Equity Think Motilal Oswal”, won 3 ABBY awards. MOFSL was awarded Top-15 Best Places to Work in the BFSI space. Mr Oswal was awarded Outstanding Institution Builder at the All India Management Association awards. These, and several other awards, are recognition of Motilal Oswal as a preferred consumer and employee brand in the financial services space.

**Speaking on the performance of the company, Mr. Motilal Oswal, CMD said** *“Our strategy to diversify our business model towards linear sources of earnings continues to show results, with bulk of the revenue pie now coming from these new businesses. Each of these businesses offers significant headroom for growth and operating leverage as they scale up. Even our traditional businesses also saw strong uptick during the quarter by registering record revenues. Prestigious awards like Brand of the Year from CNBC-IBLA, Top-15 Best Places to Work, 3 awards at ABBY and several others have made all associated with the group immensely proud”.*

#### **Performance of Business Segments for the quarter ended June 30, 2018**

- **Capital markets Businesses (Broking & Investment banking)**
  - Capital markets comprises of Retail Broking, Institutional Equities and Investment Banking business. Revenues were Rs 3 bn in Q1FY19, +17% YoY for this segment and contributed ~43% of consolidated revenues. Profits grew much faster at 54% YoY and contributed ~54% of consolidated PAT.

- In **Retail Broking & Distribution**, our Market share in high-yield cash segment has improved on YoY basis. Overall market share stood at 1.8% in Q1FY19 despite higher F&O volumes.
  - Our strategy to bring in linearity through the trail-based distribution business is showing results. Distribution Net Sales were Rs 5.3 bn in Q1FY19 and AUM was Rs 83 billion, +59% YoY. With only 11% of the near million client base tapped, Distribution income is already at 17% of retail broking gross revenues. We expect a meaningful increase in AUM and fee income as number of clients to whom we have cross sold and number of products per client cross sold rises.
  - In **Institutional Broking**, rankings with existing clients improved, domestic institutions contribution improved and new client additions were encouraging. Every aspect of the business, research, sales, sales trading and corporate access is being strengthened. Tailwinds for local firms remain strong.
  - **Investment Banking** business has continued to engage and conclude some significant transactions in this period. We have completed 2 ECM transactions in Q1FY19. Overall transaction pipeline remains encouraging.
- **Asset Management businesses are nearing critical mass**
    - **Asset Management** business across MF, PMS & AIF reached the mark of Rs 376 bn AUM, +55% YoY this year. Our AMC now ranks among the Top-10 players by total equity assets, PMS ranks #1 while AIF assets are growing rapidly. Net Sales were Rs 19 bn in Q1FY19. Revenues were Rs 1.8 bn in Q1FY19, +40% YoY and PAT is Rs 404 mn, +71% YoY. Asset management business offers highest scalability and operating leverage among all businesses.
    - Our Equity MF AUM of Rs 194 bn is just 2% of the Industry Equity AUM of Rs 9.05 tn. However, our market share in Equity MF Net Sales (including balance) has scaled up to ~3.3% in Q1FY19. Our endeavor would be sharpen the QGLP philosophy to sustain alpha generation, to increase our share of Net Sales as funds form part of performance league tables and there is stronger distribution pull. This will aid closing the gap between our share in AUM and Net Sales while improving our share in Net Sales. Our pricing power in MF is improving and the direct AUM is now 36% of total MF AUM. This will help improve net yields.
    - Our share of Alternate assets, comprising of PMS & AIF, is the highest among AMC's at ~48% and continues to grow very strongly. Yields and profitability of Alternates is higher. As of June 2018, ~20% of Alternates AUM is performance-fee linked, and our target is to increase this further.
    - **Private Equity** manages an AUM of Rs 51 bn across 3 growth capital PE funds & 3 real estate funds. This business has delivered on profitability and scalability fronts. The 1st growth fund (IBEF 1) has delivered an XIRR of 28%, and alpha of 10% and is expected to return nearly 6x MoC (Multiple of Cost). Till date, 3.3x MoC has been returned for INR investors and 2.2x for USD investors. Strong performance and positioning has also aided new fund raise. We launched IBEF-3 this year and received phenomenal response by garnering Rs 18.6 bn and expected to achieve targeted size of Rs 20 bn by September 2018.
    - **Wealth Management** business AUM grew by 35% YoY at Rs 153 bn with net sales of Rs 10 bn, +172% YoY, and revenues grew 47% YoY at Rs 264 mn. RM count of this business has reached 126 in Q1FY19, +56% YoY. Investments in strong RM addition suppressed reported profitability. As ratio of new adds to opening RM falls and the vintage of RM improve, both productivity and profitability of the business will scale up.
    - Overall **Asset and Wealth Management** revenues were Rs 2.3 bn in Q1FY19, +44% YoY and contributed 32% of consolidated revenues. Profits grew by 66% YoY and this segment now contributes 41% of consolidated profits, with highest scalability and with least capital employed among our portfolio of businesses.

- **Housing finance business**

- Loan book grew by +11% YoY at Rs 48 bn. NII grew by 14% YoY in line with loan book growth. Cost to Income ratio stood at 44%.
- Margins stood at 4.6% in Q1FY19 versus 4.2% in Q1FY18. This margin expansion, despite interest reversals, was on account of lower cost of funds.
- As guided post Q4FY18 results, asset quality deterioration in Q1FY19 was on account of seasoning of legacy portfolio and impact of seasonality.
- Ramp of collection headcount continued in the quarter. We expect improved collection efficiency due to rising vintage of collection team, technology driving productivity of collection team and contribution of legal team in recovery process. These initiatives are expected to drive stabilisation in asset quality.
- Management team has been strengthened with additions and changes in Heads of Credit, Technical, Collections, Operations, HR, Business Process & Quality and Compliance.
- Branch expansion is being pursued in new states where we commenced operations year ago. Five new branches were added during the quarter, taking the total count to 125.
- Gearing remains conservative at 5x. Cumulative capital infusion from sponsor till date is Rs 6.5 bn and we remain committed to provide further capital as the business scales up.

- **Fund based business** includes sponsor commitments to our AMC & PE funds and strategic equity investments.

- **Fund Based** activities like commitments to our asset management products, not only helped seed these new businesses by investing in highly scalable opportunities, but they also represent liquid resources for future opportunities.
- Investments in quoted equity investments stood at Rs 10 bn at cost, while the unrealised gain on these investments stood at Rs 5.7 bn. These gains are now MTM and reflected in the reported earnings. The post-tax cumulative XIRR of these investments is ~21%. Investment in seeding our PE funds is Rs 2.7 bn at cost. IBEF-1 is expected to deliver a 6x MoC.
- Consolidated RoE for the Group for Q1FY19 was 16% under Ind-AS on account of lower MTM gains accrued during the quarter on higher MTM gains included in net worth on opening transition. Asset & Wealth Management RoE was 134% and Capital Markets RoE was 125%.

#### **About Motilal Oswal Financial Services Limited**

Motilal Oswal Financial Services Ltd. is a financial services company. Its offerings include capital markets businesses (Retail broking, Institutional broking & Investment banking), Asset & Wealth Management (Asset Management, Private Equity & Wealth Management), Housing Finance & Equity based treasury investments. Motilal Oswal Financial Service won the 'Brand of the Year' award at the IBLA CNBC TV 18. Motilal Oswal Securities won the 'Best Performing National Financial Advisor Equity Broker' award at the CNBC TV18 Financial Advisor Awards for the 6<sup>th</sup> time. It was ranked the Best in Events/Conferences, ranked amongst Top-2 for Overall Sales Services & Best Roadshows/Company Visits & amongst the Top-3 in Best Local Brokerage, Best Execution & Sales Trading Visits at the Asia Money Awards 2015. Motilal Oswal Private Equity won the 'Best Growth Capital Investor-2012' award at the Awards for PE Excellence 2013. Motilal Oswal Private Wealth Management won at the UTI-MF CNBC Financial Advisor Award in HNI Wealth Management category for 2015. Aspire Housing Finance was awarded 'India's Most Admired & Valuable Housing Finance Company' at India Leadership Conclave 2015.