Motilal Oswal Financial Services

ConCall Summary & Earnings Release

Quarter and Half year ended September 2018

31st October 2018

Motilal Oswal Financial Services Limited (MOFSL) posted consolidated revenues of Rs 7.5 billion for Q2FY19, +8% YoY and Rs 14.5 billion, +11% YoY for H1FY19. Consolidated Adjusted PAT was Rs 1.1 bn, +25% YoY in Q2FY19 and Rs 2.3 bn, +19% YoY in H1FY19. Capital Market revenue was Rs 3 billion in Q2FY19, +3.6% YoY and Rs 6 bn in H1FY19 + 10% YoY. Asset management revenue was Rs 2.5 billion in Q2FY19, and Rs 4.8 billion in H1FY19, +12% YoY. Housing finance-related revenue was Rs 1.7 billion in Q2FY19 and Rs 3.3 billion in H1FY19.

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

Corporate Participants

Mr Motilal Oswal

Chairman

Mr Raamdeo Agrawal

Joint Managing Director

Mr Navin Agarwal

Managing Director

Mr Shalibhadra Shah

Chief Financial Officer

Mr Aashish Somaiyaa

Chief Executive Officer - AMC

Mr Rakesh Shinde

Investor Relations

Welcome to the Q2 FY19 and H1 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. Aashish Somaiyaa - CEO MOAMC, Mr. Shalibhadra Shah – CFO and Mr. Rakesh Shinde, Investor Relation. For the duration of the presentation all participant lines will be in listen-only mode. I will be standing by for the question and answer session. I now like to invite Mr. Navin Agarwal to make his opening remarks. Thank you and over to you sir.

MOFSL CONSOLIDATED FINANCIALS (Rs Mn)

Particulars	Q2 FY19	Q2 FY18	CHG. YoY	Q2 FY18	CHG. QoQ	H1FY19	H1FY18	CHG. YoY
Total Revenues	6,605	8,671	-24%	7,037	-6%	13,640	15,095	-10%
Total Adjusted Revenues	7,473	6,925	8%	7,055	6%	14,526	13,090	11%
EBITDA	1,653	4,750	-65%	2,820	-41%	4,473	7,737	-42%
PBT	293	3,349	-91%	1,455	-80%	1,747	4,985	-65%
Reported PAT as per Ind AS (Pre-minority)	46	2,437	-98%	1,044	-96%	1,090	3,704	-71%
Adjusted PAT as per Ind AS	741.0	1160.0	36%	1061.0	30%	1801.0	2239.0	20%
Adjusted PAT as per Ind AS (ex-Aspire)	**1099.0**	**879.0**	**25%**	**1160.0**	**-5%**	**2259.0**	**1900.0**	**19%**

REVENUE COMPOSITION (Rs Mn)

Particulars	Q2 FY19	Q2 FY18	CHG. YoY	Q2 FY18	CHG. QoQ	H1FY19	H1FY18	CHG. YoY
Broking	2,957	2,663	11%	2,922	1%	5,879	5,034	17%
Investment Banking	34	223	-85%	151	-77%	185	455	-59%
Asset Management	1,901	1,468	30%	1,846	3%	3,748	2,787	34%
Wealth Management	319	263	21%	264	21%	581	440	32%
Private Equity	247	956	-74%	182	36%	430	1,040	-59%
Fund Based	-578	1,253	-146%	69	-935%	-510	1,912	-127%
Housing Finance	1,724	1,845	-7%	1,603	8%	3,327	3,427	-3%
Total Revenues	6,605	8,671	-24%	7,037	-6%	13,640	15,095	-10%
Total Adjusted Revenues	**7,473**	**6,925**	**8%**	**7,055**	**6%**	**14,526**	**13,090**	**11%**

Note: *Adjusted revenues and PAT excludes fair valuation of unrealised gains in fund based business, and lumpy profit share on exit of PE fund investments.*

Opening remarks

Good morning, everybody. It is my pleasure to welcome all of you once again to the Motilal Oswal Financial Services con call for the second quarter and the first half ending September 2018. I will start with the consolidation numbers, our revenues in Q2FY19 stood at Rs. 6.6 billion. Adjusted revenues were at Rs. 7.5 billion up by 8% year-on-year and were up 11% to 14.5 billion in the first half of the year. Our share of annuity revenues continues to rise and is at 55% of the total revenues led by AMCs AUM growth of 26% year-on-year. Our profit after tax is excluding fair valuation of unrealized gains on fund-based investments under the Ind-AS and Aspire stood at Rs. 1.1 billion which is up by 25% year-on-year and a Rs 2.3 billion for the first half up by 19% year-on-year. Our reported profit is much lower at Rs. 46 million in the second quarter due to the impact of the mark-to-market fair valuation of investments under Ind-AS and discretionary write-off taken in Aspire about which I will talk in more detail a little later. 53% of this profit that we have reported was contributed by the capital market business and the balance was contributed by the asset and wealth businesses.

Our consolidated net worth stood at Rs 30.1 billion, gross borrowings were at Rs 53 billion, net borrowings were at Rs 47 billion including Aspire. Excluding Aspire gross and net borrowings stood at Rs 14 billion and Rs 9 billion respectively which is less than the market value of our quoted investments at Rs 16 billion. Our overall gearing remains conservative at 1.8x ex-Aspire this is at 0.5x and considering the market value of quoted investments were effectively a net cash balance sheet. Besides the financial performance, the last few quarters have been very eventful in terms of our success in our brand building endeavor.

The Motilal Oswal Private Wealth business won the prestigious best boutique wealth manager of India award asset AAA award function 2018. Our asset management company won the best portfolio management services product at the India wealth awards 2018. Our real estate business won the best real estate product at the India Wealth awards again 2018 and the CNBC-IBLA awarded Motilal Oswal as the brand of the year. These and several other awards and recognition of Motilal Oswal as a preferred consumer and employ brand in the financial services is something that we are immensely proud of.

I will now share the performance of each of our businesses.

Capital market business:

KEY FINANCIALS: Capital Markets (Retail Broking & Distribution, Institutional Broking)

Particulars	Q2 FY19	Q2 FY18	CHG. YoY	Q2 FY18	CHG. QoQ	H1FY19	H1FY18	CHG. YoY
Total Revenues	2,957	2,663	11%	2,922	1%	5,879	5,034	17%
EBITDA	1,065	897	19%	1,094	-3%	2,159	1,564	38%
PBT	701	513	37%	730	-4%	1,431	849	68%
PAT	478	367	30%	558	-14%	1,036	598	73%

Our capital market business comprises of retail broking, institutional equities and investment banking business. Revenues for this segment were at Rs. 6 billion in the first half up by 10% on a year-on-year basis and accounted for 45% of the consolidate revenues during first half. Profits grew by 24% year-on-year and contributed to 53% of the first half profits. This strong profit growth during the quarter was aided by operating leverage and a lower sustainable tax rate that we had spoken about even at the first quarter results by 600 basis points for the broking business post the merger of MOSL with MOFSL. In retail broking and distribution our market share in high-yield cash segment has improved on a year-on-year basis. Our market share stood at 1.8% in the second quarter despite higher F&O volumes. Our strategy to bring linearity through trail-based distribution business is showing results. Distribution AUM was at Rs 85 billion up by 40% year-on-year. Net sales were at Rs 5.8 billion during the quarter. We have tapped about 11% of our near million broking client base and distribution income is at 16% of the retail broking gross revenues for the quarter. We expect the AUMs to continue to rise and fee income to continue to rise as a number of clients to whom we have cross-sold and the number of products per client cross-sold continues to rise for us.

Institutional Broking business:

Our rankings with existing clients have improved. Domestic institutions contribution continues to rise in the overall revenues and new client additions are encouraging. Every aspect of the business is being strengthened and we believe that tailwinds for local firms remain quite strong.

Investment Banking

KEY FINANCIALS: INVESTMENT BANKING (Rs Mn)

Particulars	Q2 FY19	Q2 FY18	CHG. YoY	Q2 FY18	CHG. QoQ	H1FY19	H1FY18	CHG. YoY
Total Revenues	34	223	-85%	151	-77%	185	455	-59%
EBITDA	-20	178	-111%	94	-121%	74	345	-79%
PBT	-22	177	-	92	-	70	344	-80%
PAT	-16	126	-	65	-	49	277	-82%

In the Investment Banking business, we have concluded some significant transactions during this period by completing 4 ECM transactions in the first half while our revenues and profits have reported a decline. Our overall transaction pipeline for the investment banking business continues to be robust.

Asset and Wealth management businesses,

KEY FINANCIALS: ASSET MANAGEMENT (Rs Mn)

Particulars	Q2 FY19	Q2 FY18	CHG. YoY	Q2 FY18	CHG. QoQ	H1FY19	H1FY18	CHG. YoY
AUM (Rs bn)	364	289	26%	376	-3%	364	289	26%
Net inflows (Rs bn)	12	36	-66%	19	-37%	31	61	-49%
Total Revenues	1,901	1,468	30%	1,846	3%	3,748	2,787	34%
EBITDA	614	357	72%	624	-2%	1,239	714	74%
PBT	612	355	72%	623	-2%	1,235	711	74%
PAT	396	231	72%	404	-2%	800	467	71%

Our Asset Management business comprises of Mutual Fund products, PMS products and AIF. This business reached the AUM mark of Rs. 364 billion up by 26% year-on-year comprising of Rs 189 billion Mutual Fund AUM, Rs 148 billion PMS AUM and Rs 26 billion AIF AUM. Our AMC ranks number 9 by total equity assets; number one within the PMS space and the AIF part of the business continues to grow strongly.

Net sales were at Rs 31 billion in the first half of the year. Net yield remains robust at about 0.9% in the first half. Our revenues are at Rs 1.9 billion up by 30% year-on-year in the second quarter and at Rs 3.7 billion up by 34% year-on-year in the first half of the year. Profit for the quarter was at Rs 396 million up by 72% year-on-year and at Rs 800 million for the first half up by 71% on a year-on-year basis. The asset management business offers the highest scalability and operating leverage among all our businesses.

Mutual Fund AUM at Rs 189 billion is about 2% of the industry Equity AUM of Rs 9.25 trillion. However, our market share in net sales has scaled up to 3% in the first half of this fiscal year. Our SIP AUM is growing qualitatively and profitably. As our SIP market share and proportion of total inflows continue to rise. Our share of Alternate assets, comprising of PMS and AIF, is the highest among AMCs at 48% and continues to grow strongly. Yields and profitability of this business is higher than the overall business.

Private Equity

KEY FINANCIALS: PRIVATE EQUITY* (Rs Mn)

Particulars	Q2 FY19	Q2 FY18	CHG. YoY	Q2 FY18	CHG. QoQ	H1FY19	H1FY18	CHG. YoY
Total Revenues	245	999	-75%	182	35%	427	1,082	-61%
EBITDA	116	655	-82%	73	59%	190	688	-72%
PBT	113	650	-83%	70	61%	183	677	-73%
PAT	79	463	-83%	43	84%	122	475	-74%

Within Private equity business we have an AUM now of Rs 61 billion across 3 growth capital PE funds & 4 real estate funds. This business has delivered on profitability and scalability fronts. The 1st growth fund IBEF 1 has delivered an XIRR of 28%, an alpha of 10% and is expected to return nearly 6 times multiple of cost. Strong performance and positioning have also aided our new growth capital fund-raise. We launched IBEF 3 in September of 2017, a year later we have closed this fund at Rs 23 billion including the green shoe option. We have also launched our India real estate excellence fund 4 in FY19 with the target size of Rs 15 billion have done the first close in the month of August at Rs. 5.6 billion.

Wealth Management business:

KEY FINANCIALS: PRIVATE WEALTH MANAGEMENT (Rs Mn)

Particulars	Q2 FY19	Q2 FY18	CHG. YoY	Q2 FY18	CHG. QoQ	H1FY19	H1FY18	CHG. YoY
Total Revenues	319	263	21%	264	21%	581	440	32%
EBITDA	83	102	-19%	44	88%	124	156	-20%
PBT	81	100	-19%	39	107%	120	151	-21%
PAT	58	69	-15%	25	133%	84	104	-19%

The AUM for this business grew by 20% to Rs 155 billion year-on-year with strong net as of Rs 16 billion up by 26% year-on-year during the first half of this year. Revenues grew by 32% during the first half. RM count of this business is reached 135 from 98 in the same month last year up by 40%. Investments in strong RM addition has impacted our reported profitability yields stand at 82 basis points lead by favorable equity mix of about 65% of the total AUM. The overall, Asset and Wealth business revenues were at Rs 4.8 billion in the first half and contributed to 35% of the consolidated revenues. Profits were at Rs 1 billion and contributed 47% of the consolidated profits.

Home Finance business:

KEY FINANCIALS: ASPIRE HOME FINANCE (Rs Mn)

Particulars	Q2 FY19	Q2 FY18	CHG. YoY	Q2 FY18	CHG. QoQ	H1FY19	H1FY18	CHG. YoY
Net Interest Income	700	738	-5%	576	21%	1,276	1,241	3%
Other Income	26	89	-71%	33	-22%	59	151	-61%
Total Income	726	827	-12%	609	19%	1,335	1,392	-4%
Operating Profit	467	583	-20%	342	37%	810	900	-10%
PBT	-541	410	-	-172	-	-712	469	-
PAT	-371	293	-	-108	-	-480	350	-

Sanjay Athalye has been appointed as the Managing Director and CEO during the current quarter. Sanjay comes with a career credit and risk background which the architecture with which we have trying to rebuilt Aspire. The loan book for this business stood at Rs 46 billion, NII grew at 3% year-on-year in the first half. Cost-to-income ratio is quite elevated at 39% due to slowdown in disbursements and building up of a verticalized organization supported by a full captive collections team.

Margins stood at 4.6% in the first half versus 4.1% in the same period last year and this was because of lower cost of borrowings as well as lower absolute borrowing mix in the total capital employed in the business. As guided post the full year FY18 results, our asset quality deterioration in H1FY19 was on account of seasoning of the legacy portfolio and the impact of seasonality. Cleanup of the legacy book expected positive trend in disbursements in second half along with improvement in collection efficiency auger well for the future asset quality outlook. Our provisions at Rs 1 billion were on account of higher write-offs in the second quarter should made to clean up the legacy book. Our provisions including write-off and standard asset now stand at 66% of the total stress book. We continue to provide strong support to Aspire with capital infusion of Rs 1 billion during the 3rd quarter and a further Rs 1 billion proposed during the second half of this fiscal year. Our branch expansion is being pursued selectively in the new states where we commenced operations 18 months ago and we added 5 branches in the first half taking the total count to 125. Our gearing has fallen and remains conservative at 5.4x. Cumulative capital infusion from sponsor is at Rs 6.5 billion as of 30th of September. Net worth is at Rs 7.22 billion, Rs 7.65 billion as per IGAAP as of September 2018.

As highlighted earlier we plan a capital infusion of Rs. 1 billion in third quarter post which net worth will raise to Rs 8.22 billion and leverage will come down to about 4.75x. Limited repayments till March 2019, equity infusion during the second half undrawn borrowing lines, calibrated pace of disbursement growth and zero outstanding commercial paper places us in a very comfortable liquidity position.

Fund-based activities

KEY FINANCIALS: MOFSL Standalone (Rs Mn)

Particulars	Q2 FY19	Q2 FY18	CHG. YoY	Q2 FY18	CHG. QoQ	H1FY19	H1FY18	CHG. YoY
Total Revenues	-846	1,944	-	193	-	-653	2,797	-
PAT	-761	1,606	-	155	-	-606	2,354	-100%

Commitments to our assets management products not only helps seed these businesses by investing in highly scalable opportunities but they also represent highly liquid resources of future capital deployment. Investments in quoted equity investments stood at Rs 11 billion at cost while the unrealized gains on these investments stood at about Rs. 4.8 billion. Mark-to-market gains are now part of the reported earnings and the Ind-AS are adjusted numbers that I spoke about earlier exclude this impact on a quarterly basis. The cumulative XIRR of these investments have stood at about 18% and which is in our view the see-through ROE of this business.

Outlook: To sum up, our strategy of diversified business model towards linear sources of earnings continues to show results. Our businesses continue to grow insignificant investments, our building scale and offer meaningful operating leverage. The portfolios of businesses are also well positioned to capitalize on the various tailwinds created by financialisation of savings and the 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 focused on deepening modes in these businesses.

Q&A

How is the trend in the MF inflows and how this quarter is shaping up both for the equity as well as for the debt? And second question is what is the impact of new TER change on our wealth and distribution business?

I will first answer the question on the mutual fund inflows and then I will handover for the distribution part of it. So, if you actually see mutual fund inflows from the peak, let us say in December-January which was the peak months in the recent cycle let us say the industry was doing Rs 270 billion net flows. From there you are well aware that the industry is down to about Rs 100 billion to Rs 110 billion of net flows. There are 2 things which are holding up the number one clearly is that in any given month about Rs 30 billion to Rs 40 billion has been coming as seen highest even some Rs 50 billion net flow coming by way of new fund launches and the other component which is Rs 75 billion by way of SIPs that is something which is lending the stability. So, there is a significant decline as far as the net flow numbers are concerned. But at the same time we are from this level, this Rs 90 billion - Rs 100 billion what you are seeing now from there we have not seen any decline in the last 3-4 months. So, we are clearly not in the hey days but I do not think there is any panic at this point in time.

Geography wise like beyond top 15 cities, is there any change in this trend of inflows?

No, there is no trend change in the split between the top 30 cities or beyond the 30 cities. No, when the TER changes happens for example you might be aware that in the past there is beyond 30 cities commission was being paid upfront that was in line with the regulations and now it has been said that it should not be paid up front and plus the amount of the nature of investments on which this B30 is paid that also has been significantly restricted. So, when the new regime gets fully implemented I do expect that the split will change but at this juncture there is no change in terms of how much comes from top 30 and how much comes from beyond 30.

Second is that impact of the new TER change on our wealth and distribution business?

So, as far as the wealth business is concerned roughly 15% of their revenues are from the mutual fund business and so there is some impact on this 15% revenue pool. And as far as the distribution part of the retail booking business is concerned they have about 20%-25% of the revenues from mutual funds and there will be again some impact on that as well. How much will this be is something that I think we need some time to pass but the quantum of revenues that will be impacted will be roughly 15% of the wealth and 20% to 25% of the distribution part of the retail bookings.

So, we had an NFO last quarter, how was the performance of, I mean how was the fund raised in that and we have also seen a surge in NFOs in the whole industry last quarter what can be the reason for that?

We had an NFO the equity hybrid fund which, I mean equity hybrid is a nomenclature which are basically it is balance-oriented product 65% equity, 35% fixed income. The amount we raised was about Rs 2.26 billion in that particular fund. As far as the market itself is concerned, my sense is that if you see we have been very judicious with the number of products we manage and the number of NFOs we do. I think NFOs are few as far as we are concerned because we want to keep the product range very tight. My sense is that going forward in the industry itself the number of NFOs that are launched will come down; I mean they will come dramatically. 3 reasons for this, one is that the numbers of NFOs which were coming, a lot of them were in the close ended range. So, let us say if somebody did a 2.5% per year total expense ratio and the fund at a 3 year close ended tenure they were expecting that in 3 years they would charge 7.5% and they might get away by paying some 4%-5% upfront commission. So, we have never done any close ended NFOs and we have never paid any upfront to anybody. And now I think the regulation has come down heavily by cutting the TER for close ended funds and also banning upfront at the same time. So, my sense is that NFOs will come down dramatically because of going forward because of change in commission practices. Second is close ended has been made prohibitively unattractive because for a normal fund if the TER is capped 2.25% for close ended funds it has been capped at 1.25%. So, it becomes commercially unattractive for anybody to do these close ended funds whoever has been doing it. And the third point is any which way there is a huge consolidation in terms of product categorization. So, even outside of close ended, if you see open ended funds I think for every fund house most of the categories are already populated. So, no reason to keep doing more and more NFOs and in the last 3 to 4 months in fact some of these NFOs, last moment NFOs coming through they have kind of propped up the net flows for the industry, so to that extent it is good. I mean, it has served some purpose for keeping the flows going but as far as we are concerned NFOs was never a big play and I do not expect it to be a big play even going forward. Barring here and there we may feel the need to complete some part of the product range those are the only exceptions.

So apart from the NFOs now overall, we have seen a huge inflows in last few years. With now market of volatility do you expect this to come down severely or can we come down to a figure of net outflow?

So, couple of things. One is that this net outflow situation can emerge from 2 things. One, like you rightly pointed out people’s response to what is happening in the market. Now as you can see people’s response to what is happening in the market has been pretty mature. We were from a peak of Rs 270 billion which was you can say that okay that was abnormal people were showing a lot of excitement Rs 270 billion net flow and Rs 2.5 trillion for the whole year maybe you can say that was the out layer but even if you leave that aside even now we are Rs 100 billion to Rs 110 billion net flow. And this small and mid-caps are down 20%-30% NAVs are down, so you can clearly see I do not think we would be wrong in assuming that the reaction to the market behavior is already there in the flows. It is already reflected and we are not going anywhere much below Rs 100 billion -110 billion. So, I would like to say that the reaction as far as market behavior is concerned it is pretty mature. Now coming to your second part what else can cause net flows to go bad and I am fearful that when the TER change and the commission changes when they are implemented in full flow on an industry wide basis there could be some impact not because people are redeeming only because the inflows might decline. Because when we are talking net flows one is likely to get confused between inflow and redemption. What I am talking about is not about redemption let us say the redemption continues where it is but if the inflows fall significantly then there could be a temporary blip till the market adjusts to the new commissions and the new pricing. There could be a temporary blip which I will not rule out. But I do not think it is a scenario which I am very worried about speaking specifically about Motilal Oswal AMC like I already clarified NFO is not a way of life for us. And in the last 5.5 to 6 years of our mutual funds existence we never paid upfront commission. So, I do not see any impact of TER changes and commission changes I do not think that is going to impact us as an AMC but wider industry, yes it is something to really think about. That is the only something to watch for. But on the first part market reaction, I think it has been pretty mature and I do not see flows falling of much more from here.

One question which I have is, what is the difference between your AIF product and your IREF product?

So, by regulatory structure both are AIFs. IREF is, it would be more AIF category II which has real estate, I mean fixed income structures related to real estate as the underline. As far as the AIFs which were discussed in the AMC part of the presentation these are AIF CAT- III**.** IREF is basically also an AIF which is AIF category II. So, we have a private equity and real estate business where again we manage private equity and real estate which is structurally or by regulation they are also AIFs. But they fall in AIF CAT- II. The AIF was discussed in the asset management business these are long only AIFs which are CAT- III. So, all public long only equity is managed within the AMC and real estate and private equities managed in the other business. But structurally and by regulation all are ultimately AIFs.

So what is the difference between your mutual fund PMS and your AIF, if AIF has long only equities?

Couple of differences very quickly. I mean, some of it might be academic in nature. So, I will try to rush through very quickly and if there are any further questions it will be great if you send me an email offline. But just on your question very quickly we have 3 structures, the mutual fund, the PMS and the AIF. Mutual fund is widely understood, so I will keep that aside for a moment. PMS, clearly is where we are managing individual portfolios and individual clients Demat accounts. So, while we may have a strategy where we may be executing certain long only ideas but the fact, PMS is that it is managed that individual level of a client by opening segregated Demat accounts for those clients. Plus in a PMS if you see the investment pattern is more flexible. In the sense that there are no regulations on what is large cap, what is mid cap, how much percentage allocation you can have in a stock and the flows, the inflow and outflow is that individual client level. It is not managed technically as pool. When you see the AIF,, in the AIF also we are executing long only equity strategies but the AIF is more like a cross breed between a PMS and the mutual fund. So, it has the attractive structure which a mutual fund has, so you manage it as a pool the holdings are unitized, the fund flows are managed cohesively together for all investors across. But on the other hand the relaxations that you have in a PMS in terms of what is the investment universe what percentage allocations you can have in stocks. So, you have the what you call you have the liberty or the free structure which you have in a PMS and at the same time operationally it is as convenient as a mutual fund. So, I would say AIF is more like a cross breed between PMS and mutual fund but if you have to compare it is closer to a PMS than being closer to a mutual fund. I think, these structures ultimately the return comes from the underlying asset class and the skill of the portfolio manager. But I think, these different structures enable you to give people different combinations of risks and return across holding periods.

Is there any difference in the yields which Motilal gets from all these different products?

So, in terms of packing order the least yield would be in a retail product like mutual fund. Then you would have PMS and AIF I would say they are comparable. I think, it is only operationally convenient to run a AIF and lot of people prefer to go by AIF that is why we offer an AIF but PMS and AIF we are indifferent as far as yield is concerned. And AIF typically can be more bulleted in the sense you launch now with a 3 to 4 years maturity. So, a lot of AIFs are actually closed ended structures where you are managing with a definite finite time horizon. But on your question on yield we are indifferent. PMS can have fixed fee and carry. AIF can also have fixed fee and carry. So, to that extent but, I mean, I can say that most of the AIFs have a carry structure. So, in terms of end outcomes it might turnout superior but I would still say that PMS and AIF we are indifferent mutual fund has lower yield.

In your investor deck you mentioned that the disbursements are likely to pick up in the second half of the year. So, I just wanted to understand what kind of growth if you can share some light in terms of absolute numbers it will really help with regards to disbursement. And the second question also regarding your housing finance business in terms of your credit cost, it has short up, you have done the cleaning up of your book. But in the second half where do we see in terms of provision through P&L and therefore credit cost for the business overall in the second half and for the full year?

So if you look at the disbursements in the first half they were a mere Rs. 1.5 billion and given the 450 sales force that we have even at industry bottom productivity of Rs 10 lakhs-15 lakhs RM per month this month number can grow quite substantially. So, we will, I mean the disbursements will be much higher than Rs 1.5 billion of the first half but without giving out any guidance we will allow this number to ramp up gradually in the third quarter over the second quarter and then further in the fourth quarter over the third quarter. But we are not giving out any guidance number from that. As far as the provisioning question is concerned we have also explained in our presentation that the entire stress book is covered through provisions write off by almost 66% which given the secured lending product is more than adequate in our view. So, we think that the incremental requirement to provide may not be significant on that stress book going forward.

Earlier you were saying in last year on an average you were doing 1.22 approx. the 1 point up to 2% credit cost quarter-on-quarter basis. So, can we expect that number to be reflected in H2 of this year?

I am sorry we are not giving out any guidance on that as of now. We may be able to give you some maybe more clearer numbers post the panning out of December quarter. But basically, what we are looking at is incrementally at least on the next year onwards the provisioning as per the ECL model and no extra provisioning at least on the next year onwards. So, the idea was to try and accelerate this whole provisioning in the current year and mostly in the first half of this year itself.

If we look at Aspire, channel check suggests that Aspire has a large exposure beyond city limits. So, if you could highlight some of the challenges we are facing in terms of these properties we are beyond city limits in terms of repossession in Maharashtra and Gujarat, if you could throw some light? And on Aspire what is the roadmap given to which the, board has given to Sanjay in terms of credit risk NPL recovery. I am not looking at on number but more diligence in terms of income verification taking a guarantor land titles? So, the approach of the newer ways of business, if you can highlight that will be helpful.

Just to answer your second question, the mandate when you get a CEO with a strong risk and collection background the mandate is very clear that first you control your cost in terms of collection and credit. And second thing is that how do you improve in the productivity about the legacy book. And then I would say that we are far more confident and what we were saying maybe 6 months back in terms of bringing the business back on track. The team is being rebuilt under Sanjay and I am very confident and now next maybe couple of quarters we will back on the growth path. So, that is the mandate to

Sanjay but we are not in hurry to scale up the sales very fast. Effort is first to control the situation, control the existing book and may complete and I think most of the clean-up is over but less affect for a quarter or so. So, the confidential level is very high in terms of now the quality of book problems being kind of, I think now completely being understood decoded and bringing to the solution and more. Your first question was about the quality of collateral in terms of the problems being faced on the regulatory side.

Yes, especially beyond city limits do we have a large exposure because some of the channels like do suggest that?

Whenever average ticket size is Rs 8.5 lakh average ticket size of course; the business cannot happen in city side. So, I do not see any trend that which particular state or which particular cities would have beyond cities would have certain issues but I do not think fairly that is a challenge for us.

And you spoke about real estate funds doing well, so if you could give us some sense of what are we reading in that specific sector in terms of consolidation our smaller builders getting short or branded players getting market share and what are we focused on, is it more of commercial less of residential which is where we have delivered these returns?

So, I would say 80%-90% is residential and into the more affordable segments rather than a luxury segment. In our history of, I think more than 20 days we have completed and many exited not a single default it has happen at our end. So, that gives us the confidence that the way we are managing the risk the way we select the developers I think the business is doing well and that is what we raise again fourth real estate fund recently. So, I do not see any stress in our book, of course at the business level at the industry level there would be stress particularly in the luxury segment.

And what are we reading in terms of consolidation in the sector, if you could throw some light that will be helpful?

It is too early because RERA right now effecting only in few states but definitely the message is very clear that has to be consolidation. The only problem is the regulatory problems which are not along the series consolidation. So, but I am not an expert of real estate.

Also sir on the fund business line item how do we report revenues and PAT because the fund business has more or less fair value of underlying equities which you guys have invested in , right?

Yes, that is right. So, in the fund-based line item which is reported we actually have the realized profits on the fund based book or it would be even the mark-to-market included in the fund based line items. So, if you see the current line item which we have reported, so there is an impact of mark-to-market of Rs 720 million which we have reported as the mark-to-market impact during the quarter on the investment book that we carry.

So, the revenue line item is whatever is booked?

Booked and mark-to-market both. It is booked plus mark-to-market because under Ind-AS now you have to do mark-to-market on all your investments. So, every quarter you will see this reflection of mark-to-market on this fund based line item.

<u>INVESTOR UPDATE</u>

Motilal Oswal Financial Services reports Q2FY19 Adjusted PAT of Rs 1.1 billion, +25% YoY.

(Adjusted PAT excludes fair valuation of unrealised gains in fund based business and lumpy profit share on exit of PE fund investments. Adjusted PAT is also ex-Aspire)

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

Performance for the quarter and half year ended September 30, 2018

- Consolidated Adjusted revenues (excluding fair valuation of unrealised gains in fund based business and lumpy profit share on exit of PE fund investments) were Rs 7.5 bn in Q2FY19, +8% YoY and Rs 14.5 bn, +11% YoY in H1FY19. Consolidated revenues stood at Rs 6.6 bn in Q2FY19 and Rs 13.6 bn in H1FY19. Consolidated Adjusted PAT was Rs 1.1 bn, +25% YoY in Q2FY19 and Rs 2.3 bn, +19% YoY in H1FY19. Consolidated PAT was Rs 46 mn in Q2FY19 due to impact of MTM fair valuation of investments under IND-AS and discretionary write off taken in Aspire.
- Consolidated net worth stood at Rs 30.1 bn, gross borrowing was Rs 53 bn and net borrowing was Rs 47 bn (including Aspire). Excluding Aspire, gross and net borrowings were Rs 14 bn and Rs 9.4 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. MOPWM won the prestigious **'Best Boutique Wealth Manager India**' at the Asset Triple A Award 2018. **MOAMC** won '**Best Portfolio Management Service Product**' at India Wealth Awards 2018. **MORE** won '**Best Real Estate Product**' at India Wealth Awards 2018. CNBC-IBLA awarded Motilal Oswal Financial Services as the "Brand of the Year". 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 September 30, 2018

- **Capital markets Businesses (Broking & Investment banking)**
  - Capital markets comprises of Retail Broking, Institutional Equities and Investment Banking business. Revenues were Rs 6 bn in H1FY19, +10% YoY for this segment and contributed ~45% of consolidated revenues. Profits grew by 24% YoY at Rs 1.1 bn in H1FY19 and contributed ~53% 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 Q2FY19 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 5.8 bn in Q2FY19 and AUM was Rs 85 bn, +40% YoY. With only 11% of the near million client base tapped, Distribution income is already at 16% 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 4 ECM transactions in H1FY19. Overall transaction pipeline remains encouraging.

- **Asset Management businesses are nearing critical mass**
  - **Asset Management** business across MF, PMS & AIF reached the mark of Rs 364 bn AUM, +26% 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 is Rs 31 bn in H1FY19. Revenues are Rs 1.9 bn (+30% YoY) and Rs 3.7 bn (+34% YoY) in Q2FY19 and H1FY19 respectively. PAT is Rs 396 mn (+72% YoY) and Rs 800 mn (+71% YoY) in Q2FY19 and H1FY19 respectively. Asset management business offers highest scalability and operating leverage among all businesses.
  - Our Equity MF AUM of Rs 189 bn is just 2% of the Industry Equity AUM of Rs 9.24 tn. However, our market share in Equity MF Net Sales (including balance) has scaled up to ~3% in Q2FY19. The direct AUM is now 36% of total MF AUM.
  - 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 September 2018, ~23% of Alternates AUM is performance-fee linked, and our target is to increase this further.
  - **Private Equity** manages an AUM of Rs 61 bn across 3 growth capital PE funds and 4 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). Strong performance and positioning has also aided new fund raise. We have launched IBEF-3 in FY18 and received phenomenal response by garnering Rs 23 bn. We have launched IREF IV in FY19 with a target size of Rs. 15 bn has achieved 1st close in the month of August at ~Rs. 5.6 bn.

  - **Wealth Management** business AUM grew by 20% YoY at Rs 155 bn in H1FY19 with net sales of Rs 16 bn, +26% YoY, and revenues grew 32% YoY at Rs 581 mn. RM count of this business has reached 135 in Q2FY19, +38% 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 4.8 bn in H1FY19, +10% YoY and contributed 35% of consolidated revenues. Profits were Rs 1 bn and contribute 47% of consolidated profits, with highest scalability and with least capital employed among our portfolio of businesses.

- **Housing finance business**
  - MD & CEO with career credit and risk background appointed during the quarter.
  - Loan book stood at Rs 46 bn. NII grew by 3% YoY in H1FY19. Cost to Income ratio stood at 39%.
  - Margins stood at 4.6% in H1FY19 versus 4.1% in H1FY18. This margin expansion was on account of lower borrowings and cost of funds.
  - As guided post FY18 results, asset quality deterioration in H1FY19 was on account of seasoning of legacy portfolio and impact of seasonality. Clean up of legacy book, expected positive trends in disbursements in H2FY19 along with improvement in collection efficiency augur well for future asset quality outlook.

- Provisions of Rs 1 bn on account of higher write off in Q2FY19 to clean up the legacy book. Provisions including write off stands at 66% as of Q2FY19. Strong support from parent with capital infusion of Rs 1 bn in Q3FY19 and further Rs 1 bn is proposed during H2FY19.
- Branch expansion is being pursued in new states where we commenced operations year ago. Five new branches were added in H1FY19, taking the total count to 125.
- Gearing remains conservative at 5.4x. Cumulative capital infusion from sponsor is Rs 6.5 bn and net worth is Rs 7.22 bn, (Rs 7.65 bn as per IGAAP) as of September 2018. Capital infusion of Rs 1 bn in H2FY19 post which Net worth will rise to 8.22 bn and leverage will come down to 4.8x.
- Limited repayments till March 2019, equity infusion, undrawn borrowing lines, calibrated pace of growth, places us in comfortable liquidity situation.

- **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 11 bn at cost, while the unrealised gain on these investments stood at Rs 4.8 bn. These gains are now MTM and reflected in the reported earnings. Cumulative XIRR of these investments is ~18%. Investment in seeding our PE funds is Rs 2.7 bn at cost, while the unrealized gains stood at Rs 1.2 bn.

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 6th 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.