Motilal Oswal Financial Services

ConCall Summary & Earnings Release

Quarter and Half year ended September 2019

25th October, 2019

Motilal Oswal Financial Services Limited (MOFSL) posted consolidated revenues of Rs 6.7 billion for Q2FY20 and Rs 13.3 billion in H1FY20. Consolidated PAT was Rs 1.42 billion in Q2FY20 and Rs 2.72 billion in H1FY20. Asset and Wealth segment revenue was Rs 3.8 billion in H1FY20. Capital Market revenue was Rs 5.9 billion in H1FY20. Housing finance-related net revenues were Rs 1.2 billion in H1FY20.

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 Raamdeo Agrawal

Chairman

Mr Motilal Oswal

Managing Director and CEO

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 H1FY20 Earnings Conference call for Motilal Oswal Financial Services Limited. We have with us today, Mr. Motilal Oswal – Managing Director and CEO, Mr. Raamdeo Agrawal - Chairman, 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 FY20	Q2 FY19	CHG. YoY	Q1 FY20	CHG. QoQ	H1FY20	H1FY19	CHG. YoY
Total Revenues	**6,732**	**6,242**	**8%**	**6,552**	**3%**	**13,284**	**12,887**	**3%**
EBITDA	2,607	1,653	58%	3,122	-17%	5,729	4,473	28%
PBT	1,262	293	331%	1,788	-29%	3,049	1,747	75%
PAT	**1,423**	**42**	**-**	**1,294**	**10%**	**2718**	**1080**	**152%**

REVENUE COMPOSITION (Rs Mn)

Particulars	Q2 FY20	Q2 FY19	CHG. YoY	Q1 FY19	CHG. QoQ	H1FY20	H1FY19	CHG. YoY
Asset Management	1,364	1,540	-11%	1,443	-5%	2,807	3,022	-7%
Wealth Management	279	319	-13%	221	26%	500	581	-14%
Private Equity	255	264	-3%	240	6%	495	457	8%
Broking	3,019	2,939	3%	2,778	9%	5,797	5,824	0%
Investment Banking	83	34	142%	3	-	86	185	-54%
Fund Based	270	-579	-	339	-20%	609	-510	-
Housing Finance	1,463	1,724	-15%	1,527	-4%	2,990	3,327	-10%
Total Revenues	**6,732**	**6,242**	**8%**	**6,552**	**3%**	**13,284**	**12,887**	**3%**

Opening remarks

Good afternoon everybody. It is my pleasure to welcome you all to the Motilal Oswal Financial Services Earnings Call for the second quarter and the half year ended September 2019. Also I want to wish you all a very Happy Diwali and a Great New Year.

So, during the quarter the consolidated revenues of MOFSL were at Rs. 6.7 billion, up by 8% year-on-year. Profits were at Rs 1.42 billion compared to Rs 42 million in the same quarter last year. Some of the key things that impacted the profit in the current quarter included mark-to-market gains compared to mark-to-market loss in the same quarter last year. We also had an impact of ARC transaction during the current quarter, the adverse impact of that is reflected in the numbers. Also, there were write backs due to change in the tax rate which is a positive impact. So, there is a negative impact of

ARC transaction, positive impact of the tax rate and the positive impact of mark-to-market gain compared to the loss in the same quarter last year.

For the half year the consolidate profits were Rs 2.72 billion up by 152% on a YoY basis. Our consolidated net worth stood at Rs. 33 billion, gross borrowing were at Rs 47 billion. Net borrowings were at Rs 41.7 billion including the home finance business. Ex-home finance business, net borrowings were at Rs 12.6 billion which is less than the market value reported investment from the balance sheet. Our overall gearing is at 1.4x while that of ex Motilal Oswal Home Finance, the number is 0.4x. The groups consolidated ROE for the first half is about 18%.

Some of the key highlights for the quarter are: During the second quarter the wealth AUM is up by 17% year-on-year at Rs. 181 billion, the distribution AUM is up by 16% year-on-year at Rs. 99 billion, the private equity and real estate AUM is up by 8% year-on-year at Rs. 66 billion. AMC AUM is up by 6% year-on-year at Rs. 385 billion. We have seen a significant improvement in the performance of all our products on the mutual fund platform and that has led to positive mutual fund net inflows for the second quarter of the year. The home finance business has undergone a name change to Motilal Oswal Home Finance. CRISIL has upgraded the long-term rating of Motilal Oswal Home Finance to AA- stable from A+ earlier. Motilal Oswal Home Finance's sale of NPA pool to ARC has resulted in net NPAs of 1.8%.

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

Asset and Wealth management businesses,

KEY FINANCIALS: ASSET MANAGEMENT (Rs Mn)

Particulars	Q2 FY20	Q2 FY19	CHG. YoY	Q1 FY20	CHG. QoQ	H1FY20	H1FY19	CHG. YoY
AUM (Rs bn)	**385**	**364**	**6%**	**388**	**-1%**	**385**	**364**	**6%**
Total Revenues	**1,364**	**1,540**	**-11%**	**1,443**	**-5%**	**2,807**	**3,022**	**-7%**
EBITDA	509	614	-17%	565	-10%	1,074	1,231	-13%
PBT	502	612	-18%	561	-11%	1,063	1,235	-14%
PAT	**478**	**391**	**22%**	**362**	**32%**	**840**	**795**	**6%**

The Asset Management business across mutual fund, PMS and AIF the AUM stood at Rs. 385 billion up by 6% year-on-year. Our AMC ranks number 12 by total equity assets and our PMS ranks numbers one. Revenues and profits for the quarter stood at Rs 1.4 billion and Rs. 478 million (+22% year-on-year) respectively. Our equity mutual fund AUM of Rs 199 billion is 1.9% of the industry AUM of Rs. 10.3 trillion. Our SIP AUM is growing qualitatively and profitably. Our share of alternate assets comprising of PMS and AIF is highest among AMC at 48% and it will continue to rise.

Private Equity

KEY FINANCIALS: PRIVATE EQUITY (Rs Mn)

Particulars	Q2 FY20	Q2 FY19	CHG. YoY	Q1 FY20	CHG. QoQ	H1FY20	H1FY19	CHG. YoY
Total Revenues	**255**	**264**	**-3%**	**240**	**6%**	**495**	**457**	**8%**
EBITDA	96	116	-17%	99	-2%	195	190	3%
PBT	90	113	-20%	94	-4%	184	183	1%
PAT	**56**	**79**	**-29%**	**51**	**11%**	**107**	**122**	**-12%**

Private Equity manages an AUM of Rs 66 bn (+8% YoY) across 3 growth capital PE funds and 4 real estate funds. This business has delivered on profitability and scalability fronts. Strong performance and positioning has also aided new fund raise. We closed IBEF-3 during the year with an AUM of Rs 23 bn and IREF 4 is slated to close in FY20 with a target size of Rs. 12 billion.

Wealth Management business:

KEY FINANCIALS: PRIVATE WEALTH MANAGEMENT (Rs Mn)

Particulars	Q2 FY20	Q2 FY19	CHG. YoY	Q1 FY20	CHG. QoQ	H1FY20	H1FY19	CHG. YoY
Total Revenues	**279**	**319**	**-13%**	**221**	**26%**	**500**	**581**	**-14%**
EBITDA	17	83	-79%	10	66%	28	124	-77%
PBT	13	81	-83%	7	81%	21	120	-83%
PAT	**7**	**59**	**-88%**	**5**	**32%**	**12**	**84**	**-85%**

Wealth Management business AUM grew by 18% YoY at Rs 181 bn in Q2FY20 with Net adds of Rs 6.1 bn. RM count of this business has reached 129 in H1FY20. Our trail revenues predominantly cover our fixed costs. Investments in strong RM addition suppressed reported profitability. However, as the ratio of new adds to opening RM's falls and the vintage of RM's improve, both productivity and profitability of the business will scale up.

Capital market business:

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

Broking and Distribution

Particulars	Q2 FY20	Q2 FY19	CHG. YoY	Q1 FY20	CHG. QoQ	H1FY20	H1FY19	CHG. YoY
Total Revenues	**3,019**	**2,939**	**3%**	**2,778**	**9%**	**5,797**	**5,824**	**0%**
EBITDA	1,073	1,054	2%	967	11%	2,040	2,133	-4%
PBT	653	720	-9%	597	9%	1,249	1,462	-15%
PAT	**561**	**515**	**9%**	**401**	**40%**	**962**	**1,039**	**-7%**

Capital markets comprises of Retail Broking, Institutional Equities and Investment Banking business. Revenues for this segment were Rs 5.9 bn in H1FY20 and contributed ~44% of Cons revenues. Profits were Rs 933 mn in H1FY20 and contributed ~34% of cons PAT. Broking and distribution business profit stood at Rs 962 mn in H1FY20.

In Retail Broking & Distribution, our Market share in high-yield cash segment continues to rise. Our overall market share stood at 2.3% (ex-prop) in H1FY20 due to rising F&O volumes in market.

Our strategy to bring in linearity through the trail-based distribution business is showing results. Distribution AUM was Rs.99 billion, +16% YoY. With only 17% of the near million client base tapped, we expect continued 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.

Turning to the Institutional Broking business:

In the institutional broking business ranking with existing clients improved, domestic institutions, contribution improved, and new client additions were encouraging. Most of the assets of the business including research, sales, trading, etc., are being strengthened. Business has been adversely impacted by lower yields although tailwinds for well managed local firm remain strong.

Investment Banking

KEY FINANCIALS: INVESTMENT BANKING (Rs Mn)

Particulars	Q2 FY20	Q2 FY19	CHG. YoY	Q1 FY20	CHG. QoQ	H1FY20	H1FY19	CHG. YoY
Total Revenues	**83**	**34**	**142%**	**3**	**-**	**86**	**185**	**-54%**
PBT	21	-22	-	-56		-35	70	-
PAT	**10**	**-16**	**-**	**-39**	**-**	**-29**	**49**	**-**

Investment banking business was impacted by the headwind face by ECM business and poor deal closures although the transaction pipeline remains encouraging.

Home Finance business:

KEY FINANCIALS: MOTILAL OSWAL HOME FINANCE (Rs Mn)

Particulars	Q2 FY20	Q2 FY19	CHG. YoY	Q1 FY20	CHG. QoQ	H1FY20	H1FY19	CHG. YoY
Net Interest Income	**542**	**700**	**-23%**	**578**	**-6%**	**1,119**	**1,276**	**-12%**
Other Income	23	26	-11%	22	6%	45	59	-24%
Total Income	565	726	-22%	599	-6%	1,164	1,335	-13%
Operating Profit	**316**	**467**	**-32%**	**360**	**-12%**	**677**	**810**	**-16%**
PBT	-175	-541	-	250	-	75	-712	-
PAT	**-118**	**-358**	**-**	**171**	**-**	**53**	**-458**	**-**

Motilal Oswal Home Finance (MOHFL) reported profit of Rs 53mn in H1FY20 against loss in a same period last year.

During the quarter, MOHFL has sold pool of NPA's of Rs 5.4 bn (having Net Outstanding book value of Rs 3.45bn) to Phoenix ARC Private Ltd and realised full cash consideration of Rs 2.6 bn. This has resulted in significant reduction of the GNPA & NNPA ratios to 2.39% and 1.82% respectively. This lower NPL's will help us in further adding to lenders' confidence and bringing down incremental cost of funds. MOHFL has received credit rating upgrade amid challenging environment based on several positive changes undertaken including name change. CRISIL has upgraded MOHFL's rating to AA- (stable outlook) from earlier A+ (stable). This will further benefit MOHFL in bringing down cost of funds and improve spreads.

Name change to "Motilal Oswal Home Finance" is expected to yield multiple benefits like reduction in cost of funds, leveraging on brand, group level synergy across functions, locations and business associates. Loan book stood at Rs 38.5 bn as of H1FY20. Disbursements in H1FY20 were Rs 850 mn. New book sourced from April'18 has encouraging performance, with only 6 cases in NPA out of ~4000 loan cases.

Margins remained stable at 5.1% in H1FY20, on account of improvement in yield coupled with equity infusion in CY19. Our spreads have remained stable in an environment of higher cost of funds. Strong traction in legal recourse coupled with improvement in collection efficiency will result in faster resolution of delinquent cases. With likely pick-up in disbursements coupled with improved collection efficiency, augur well for future asset quality and profitability outlook. Strong support from parent continues with capital infusion of Rs 2 bn in CY19 taking total capital infusion to Rs 8.5 bn. Gearing remains conservative at 3.9x. Limited borrowing repayments till March 2020, strong undrawn borrowing lines and ALM place us in comfortable liquidity situation.

Fund-based activities

KEY FINANCIALS: (Rs Mn)

Particulars	Q2 FY20	Q2 FY19	CHG. YoY	Q1 FY20	CHG. QoQ	H1FY20	H1FY19	CHG. YoY
Total Revenues	270	-579	-	339	-20%	609	-510	-
PAT	**495**	**-559**	**-**	**324**	**53%**	**819**	**-483**	**-**

Fund Based activities like commitments to our asset management products, not only helped seed these new businesses by investing in scalable opportunities, but they also represent liquid resources for future opportunities. During H1FY20, we invested Rs 1.1 bn of free cash in our asset management products. Total quoted equity investment including unrealised gains was Rs 15.5 bn as of H1FY20. MTM on these gains are now part of reported earnings under Ind-AS reporting. Cumulative XIRR of these investments is ~17%.

Outlook: Home Finance business legacy issues are now behind, and incremental focus will be on profitable growth. We believe that our portfolio businesses are well positioned to capitalize on the entire positive created by financialization of savings and other macro trends. A brand is very well recognized in each of our businesses and we remain exited of how the headroom to grow and generate free cash flows from each of our existing businesses and are going to be sharply focused on deepening our positioning in each of them. We are now open for Q&A!

Q&A

My question is on the AMC business. It looks that most of the components of the AMC business have stabilized whether it is the AUM or whether it is the yield, so just wanted to check if the major yield compression over? Maybe we were at 1.8% or 2% kind of yield say in March 18 and today we are at around 1.4? So is this 1.4% a number which we is likely to sustain overall for the AMC business?

Yeah this is sustainable.

My first question is very particular to the PMS book, so can you help me with the gross sales number for the PMS at an aggregate level?

So, our total AUM is approximately is just short of Rs 16,000 crores as far as the PMS is concerned. The gross flows for PMS for the quarter were Rs 540 crores.

So, at an annualized basis would I fair to say that it will be a number closer to about Rs 1,500 to 2,000 crores at the current scale of the business?

It all depends on market condition, but I think to look at the performance of most of our schemes is actually fantastic and we must be in top 5 across mutual fund and PMS. So, I think we need to take if you can guess about the market levels and we can tell you the same.

So, it has fluctuated, but I mean what we are seeing right now in the last few years this is more likely close to the lower level actually if you ask me?

I think we remain in top 2 in terms of AUM in PMS category.

When it comes to the incentive model, we currently have for distributors under the PMS work, so are we running an upfront model right now or is it a trail model? how does it currently work?

So, in PMS the system is basically upfront in the first year, second year onwards everything is trail base.

So, would I fair in saying that once that SEBI regulation comes which moves PMS incentives also to all trial model there could be some sort of benefit that we could expect in the multiple affairs once it comes in?

I do not think that will change the annualized yield dramatically. It might change somewhere in terms of the cash flow, but not the annualized yield in a big way.

We have at present 1.9% of market share in equity, so what are the strategies we have to improve market share and mutual fund AUM if market remains stable and

if market goes out?

I think this with the change of two or three major drivers. One is that in the mutual fund business the track record and longevity is very important and as you might notice most of our funds were created in 2014. So, this is actually the year when we have finished five years of track record and track record on a five year basis is quite excellent. So, that increases the acceptance across many distribution and channel partners. So, for example this is the first year when some of the private bankers or the wealth managers or the bank distributors have on boarded or they are in process of on boarding the mutual fund. So, some of the organized distribution considers product for distribution after it finishes a five year period. So that is one thing.

Second thing to keep in mind is that we used to be on an all trail kind of payout structure in our mutual funds since inception and the industry had two or three different practices. Until the regulators stepped in, there was either a heavy amount of up fronting or for that matter there were so many NFOs and close ended funds etc. So, there were multiple practices which in some way restricted the play area. The third thing is that there is a good correlation of performance with the sales as far as at least the mutual fund is concerned. So, I think that lot of these areas are opening up for us as we speak right now. The other thing to keep in mind is that we ourselves are right now in the midst of increasing our number of sales personnel as well as our geographic presence for the mutual fund distribution and our own branches. So, multiple things are being done and at the same time few things in the background as well as the preparedness of the business is going up. So, I would say we are preparing ourselves and over the years I think finishing track record having great performance and increasing distribution reach all of these things will act as tailwinds.

And is it possible to share the names of the wealth management companies or which have joint hands in this quarter with you?

It will be difficult for me to give specifics, but I can give you few examples. Over the years what has happened is that our PMS has been like a market standard. So, practically each and every bank, wealth manager, private banker offers our products to their clients. Given the fact that they have a good experience of working with us for a number of years and they have witnessed our commitment and the performance on the PMS, this has formed a basis for the on boarding of Mutual Funds. So, instead of giving any specifics, what I can tell you is that there is practically nobody left now who has not empaneled us or has not started carrying our products. What I was specifically referring to was the retail bank distributors. They are the ones who typically look for five years and that is where the on boarding has happened in recent times.

Sir, my question is to Aashish sir, you launched a new NFO on the large and midcap scheme so you know is there a new fund manager which you are going to hire because we have discussed one fund manager kind of approach and secondly what is the criteria on adding more products like I think a small cap fund is missing from your portfolio so more about product strategy?

Rakesh has put in an IR presentation he has put a slide what I think which gives me whole range that is one. On your specific question there is in fact before launching a product we did recruitment. In the month of July, Aditya Khemani joined us from HSBC Asset Management for about 10 to 11 years and before that he was with ICICI Pru Mutual Fund. So, he has experience and track record of approximately 13 to 14 years in investment management he joined us in July. So, yes that commitment stays which is that we will not proliferate products without deepening the talent. I will take the opportunity to clarify what kind of game structure we have. So, for example on the mutual fund side we have Siddharth Bothra, we have Akash Singhania and Niket who work as a team. So, four portfolio managers on the mutual fund side and on the PMS and alternates we have five portfolio managers so there is Manish Sonthalia and he has a co-manager called Atul Mehra, there is Shrey Loonker and there is a co-manager called Susmit Patodia and then there is Rakesh Tarway who manages one of the AIFs for us. So, all in all lot of deepening in the last couple of years. On the research side we have Santosh Singh who joined us in January this year he is our head of research and he has a team of 6 highly experienced analysts which of course are split by sector.

So, lot of investment has gone into building capacity on fund management as well as in deepening the research and that is an ongoing process that will continue so this is one part. As far as the product strategy, we have no game plan right now to come up to the small cap mutual fund. We do have small cap PMS and our own experience while PMS was supposed to be offered to slightly more discerning customers irrespective of who the customer is at least our experience is that in a small cap people come at the wrong time and they do not stick to the time horizons. So, in a retail product like a mutual fund, at least at this point time I perceive it to be a risky strategy. So, we will let the small cap be with the AIF and the PMS and we will revisit the small cap for the mutual fund at some point in time in future, but right now there is no such initiative at our end.

You know more about product strategy value fund, focused fund, etc., so you know how do you think about adding more products to MF scheme?

MF we have gone at a rate of maybe at best one product in a year. So, we are going slow and that is deliberated and that is conscious that is by design because out here for example launching a new product is not something which single handedly, I do, launching a new product is appropriate like a board level decision it is not something practical. So, unless and until I assure the board of capability to manage a proper positioning for the product unless and until I do all of those things there is no way that a product can be launched. So, it is a slow and steady conscious and discerning kind of process. So, mutual fund I do not see us launching anymore products at least something is around the corner. If we have to do anything like you mentioned I mean anything which is slightly more thematic we might try it out on an AIF, but definitely not on the mutual fund.

Sir, I was just referring to this classification than under various mutual funds and referring to the newspaper article wherein it has been mentioned that mutual fund reclassification has taken a toll on small and midcap, so your team take on that and how can this anomaly be corrected wherein the capitalization for midcap, small cap has been articulated in the vicinity of Rs 29,000 crore for a capitalization for a midcap and small cap being Rs 8,000, 9,000 crore so how can this be addressed to SEBI and this anomaly can be corrected?

I mean that is kind of regulatory framework which is set by the regulator and I think it is done for now I do not think that there is any rethinking or any discussion about reworking on this particular framework. Well yes what it has done is that as far as mutual funds are concerned you are seeing the press articles which say that some 57% of the entire mutual fund AUM is in the top 50 stocks for equities. So, for people like you and me it will only end up creating opportunities because as far as our mutual funds were concerned we are about 70% away from index because we identify ourselves as very active managers and obviously large part of our other business is PMS and AIF where all these restrictions actually do not apply. So, I think if this constraint become overbearing it will do two things. One it will make the mutual funds pace a little bit commoditized standardized, straight jacketed and it might and it will only show up the active managers in better light actually people whose portfolio deviate from the index they will have that much more scope to play and people like us who manage AIFs and PMS they will also have that much more scope to play because we will be able to attract more clients. So, definitely I can see what kind of opportunities this is creating for me and my company, but on your specific question I do not think that there is any reconsideration going to happen by the regulator really.

Okay sir just a very small point the existing funds schemes from various fund houses they need to realign it completely with the same?

The deadline was last year. It was already done and everybody has complied with it. There is no way not to comply with it because it is a highly regulated business.

So, now any fund coming up having an investment idea in companies having this over going through this what new classification what has been done to invest in that for that in new way we have to launch that is what should?

The existing funds have been realigned and different categories have been cast and also let me tell you that the category is not so straight jacketed. For example, it says that a midcap fund should have 65% of the portfolio from stock number 101 to 250, but the other 35% is a kind of a play area where they can calibrate their exposure. So, two things are there one is that all existing funds have been realigned last year already. I think by April, May last year everybody had taken approvals and realigned and all the categories are created if you want to launch any fund in a category which we are absent that we are free to do it and also the categories are not as straight jacketed as it appears there is enough levy which has been left.

Couple of follow up questions from my side so firstly specific to the wealth AUM of Rs 18,000 odd crore that we have at this point of time, so how much of this is under the RIA model as opposed to the ARN model?

Presently, we do not have any specifics under the RIA model. All of which we have is basically receipt of commission from the manufacturers of the product only. So, this is basically under the PMS which we manage in the wealth that is about three million but excluding that all of the AUM is basically the commission from the manufacturer.

So, are you getting any sort of a pushback from income and customers to move to the RIA model so little bit of light on that would definitely help us?

We are not taking any such position.

Question is on the broking part you know we just heard that maybe angel broking has started discount broking and stuff, so do you feel any pressure from your client to change the business model or this discount broking thing is a little more over blown because of zero than anything else, any comments on this would be better?

So, we are focusing on our way of doing business which is a very strong advisory research and relationship based. We have not seen any competition from any disruptive players or discount brokers. We feel that we are in a very unique position to basically engage with the customer based on very strong research and advisory capability. The markets are becoming very complex and volatile and customer see tremendous value the way we do business. So, I think with competition and many players going the other way round our confidence think our model is even further strengthen.

You know if you look at the global developments in the past quarter some of the

large brokers in the US have move to a zero commission on brokerage model so you know does that have any implications for the way Indian brokers work?

But we are unlikely to show that line and we have differentiated our position as a full service advised-based broker, and we are seeing a more and more of the players really transitioning to that positioning. So, we are unlikely to go that way as far as our viewpoint on this is concerned.

It is very interesting situation where the model changes which have happened in US, it will change here also, I am sure, consolidation will happen. If the market goes from say zero brokerage from say current 10% to say 80%, there will be scope for this full service broker. So, it will be a shrinking pie of a growing market and it will be also hugely consolidated. We are seeing very clearly particularly in last two years that the massive consolidation has happened. We are not reducing our research expenditure or development expenditure. So, the entry barrier in this whole style is coming down and hence the market share gains should be very sharp. We are seeing some market share gain in last six months and I think in next two, three years the surviving and well-managed broking houses will see a massive gain in the market share.

Question I had is on the distribution AUM that we currently have, so could you help me with the top three products by AUM within this distribution AUM?

The top three products are PMS, mutual fund and private equity fund.

So, my second question once again is staying in back to my earlier question on the distribution so what we see over the years is that your cross-sell framework seems to be working pretty well from a 10% penetration we are currently at a 17% penetration, but let us see if we were to target a number of 40% or 50% over the next say four years or five years what kind of investments would actually be required to be made into making that happen on the ground?

So, basically the investment is in terms of hiring more people and training the people on the advisory side. So, there is no lumpy one time effort that we have to put in this and it is the gradual process to increase the number of customers to whom we cross-sold and the number of products that we cross-sold for customer. So, we think that we have been on the right track for the last three to four years and as time passes over the next three, four years we should see this number inching up.

Okay would that mean that you are kind of following the wealth management model for example if I look at some of the what the other companies are doing so they have this concept of say an advisor who gets stack to every single franchise to every single branch that you have, are you following that kind of a model or are

you talking of a model where let us say a potential customer is identified by a franchise and he in turn let us say gets serviced and prospected by the wealth management team?

So, there is no transition of model. Basically, this is hybrid where there are franchises who directly service their client and is a large part of the business as well. And then we have our own branches which cater to customer and that drive to cross-sell high quality products seen by our own product team across both the channel is something that is an ongoing effort. So, there is no change in the model where there is a whole separate battery of people created as advisors to now start cross-selling the product and the broking coverage are different person. There is no multiplicity of coverage. Basically we are training our own existing staff as well as our franchises in terms of understanding of these products and merits of these products, etc., to offer these as additional products to our existing client base which is pretty large over a million in number.

So, in that case would I right be in summarizing saying that whatever distribution AUM you garner incrementally from here on it would be very profit accretive because as you said the investment just comes in terms of let us say making the right higher and maybe rescaling the existing would I be right in looking at it let us say?

Look at the last three years and a first half of this year our EBITDA margins of broking business would give you that answer. They have been moving up because the incremental profitability of this initiative is quite high.

Second question is largely pertaining to the housing finance business that you know I heard Navin's comments that only six cases after April 18 have been not performing well, but just because the environment has deteriorated so much in the last 12 months the loans which are before April 18 like is there anything more to come in terms of some large chunky accounts or any that sort of thing we are mostly done with the NPAs even in the old book?

As far as the old books are concerned, we had taken a write off in FY19 till December of 2018. After that there has been no write off. Now we have done this ARC transaction more from a comfort of rating agencies and lenders. Our own comfort with this stress book is also pretty high and we continue to be responsible for the collection. The book is extremely granular the average ticket size is Rs 8.5 lakh, the average duration for which the customer has paid on book non delinquent, non-bound would be quite significant the average duration of the customer on the book would be more than three years now. So, this book is extremely granular, no lumpy exposure, no multiple loans to a single customer etcetera. So, we are very comfortable with this Rs 3,850 crores truncated book that we have with us right now.

So, Navin on this book we can expect you know like a steady state guidance kind of a thing that we will have 1% credit cost going ahead because now you know most of the legacy things are over in these Rs 3800 crores of AUM?

Absolutely. So, we have not put out any guidance ever, but we think that all the characteristics of this book should be as good as the best in class.

I just had one data question on the housing finance business that right from the inception we have put Rs 850 crores into that business, so what would be the current net worth because I just could not find that number absolute amount in terms of crores?

Yeah the current net worth is Rs 833 crore**.**

So, wherever we started till today the net loss in this business is maybe Rs 17 crores through the last five years put together?

Besides the time value of money we do not.

I just have a couple of questions with Raamdeo Agrawal moving to a non-executive role what kind of involvement will he or what kind of role will be play when the company is going ahead?

There is not much of a change in terms of the roles and responsibilities. The company was always managed by Moti and he is managing it, he will keep managing it. There is regulatory requirement that Chairman and MD portion has to be separate. So, I think Moti requested me to sit as a chairman this is what is the change. Otherwise my own responsibility of taking care of the strategy or research or investment part of it or really much closer to the AMC part continues. So, we are a still young and energetic and nothing changes actually, it is a business as usual.

So, this ideally should not affect any of the flows that come into the PMS?

Nothing should change. I mean the flow should not come in my name. It should come for the product, for the managers and philosophy we have. I think I am most proud of my philosophy we have engrained so far and what we are working even further deepening the philosophy.

Okay so we do not see any sort of dip because of you moving to non-executive role yes?

I do not think so. I mean that is my feeling, but from outside what people see, perceive, they talk that is a matter of time.

PRESS RELEASE

Motilal Oswal Financial Services reports Q2FY20 PAT of Rs 1.42 bn and H1FY20 PAT of Rs 2.72 bn, +152% YoY.

Mumbai, October 24, 2019: Motilal Oswal Financial Services Ltd. announced its results for the quarter ended and half year ended September 30, 2019 post approval by the Board of Directors at a meeting held in Mumbai on October 24, 2019.

Performance for the quarter and half year ended September 30, 2019

- Consolidated revenues stood at Rs 6.7 bn, +8% YoY in Q2FY20. Consolidated PAT was at Rs 1.42 bn in Q2FY20 vs Rs 42 mn in last year same period. Consolidated revenues for H1FY20 was at 13.3 bn, +3% YoY and consolidated PAT for H1FY20 was at Rs 2.7 bn, +152% YoY.
- **Some of the key highlights** for the H1FY20 include 17% YoY growth in Wealth AUM, 16% YoY growth in Distribution business AUM, 8% YoY growth in PE & RE AUM, 6% YoY growth in AMC AUM, significant improvement in product performance leads to positive MF net flows in Q2FY20, name change of home finance business to "Motilal Oswal Home Finance" (MOHFL), CRISIL has upgraded long term rating of MOHFL to AA- (Stable) from A+ earlier and MOHFL's NPA pool sale to ARC for upfront cash realization (with minimal impact to P&L) resulting in net NPA of 1.8%.
- Consolidated net worth stood at Rs 33.1 bn, gross borrowing was Rs 47.2 bn and net borrowing was Rs 41.7 bn (including MOHFL). Excluding MOHFL, gross and net borrowings were at Rs 15 bn and Rs 12.6 bn respectively and considering market value of quoted investments, we are effectively net cash balance sheet. Overall gearing remains conservative at 1.4x; ex-MOHFL gearing is at 0.4x. ROE stands at 18%.
- Besides financial performance, the last quarter has been very eventful in terms of our successes in brand building, advertising and several other fronts. In H1FY20, MOFSL got inducted in **"Hall of Fame"** at 10th Financial Advisory Awards 2019. MOFSL won "**Broking House of the year**" at MCX awards 2019. MOPWM won **"Best Boutique Wealth Manager India"** 2nd consecutive year by the Asset Triple A Awards 2019. MOFSL won **"Best Data Analytics of the year Award"** at the India NBFC excellence Awards 2019 by Synnex. These, and several other awards, are recognition of Motilal Oswal as a preferred consumer and employee brand in financial services space.

Speaking on the performance of the company, Mr. Motilal Oswal, MD & CEO said *"Our strategy to diversify our business model towards linear sources of earnings continues to show results. Our Housing finance business is set for new beginning as all legacy issues are behind with incremental focus on profitable growth. Each of our 7 businesses offer headroom for growth. Prestigious awards like "Hall of fame", Broking House of the year and several others have made all associated with the group immensely proud".*

Performance of Business Segments for the quarter and half year ended September 30, 2019

- **Asset Management businesses (AMC, PE and PWM)**
  - **Asset Management** business AUM across MF, PMS & AIF stood at Rs 385 bn, +6% YoY. Our AMC ranks 12 by total equity assets, PMS ranks #1 while AIF assets are growing rapidly. Revenues and PAT for the quarter stood at Rs 1.36 bn and Rs 478 mn (+22% YoY), respectively. Asset management business offers highest scalability among all businesses.
  - Our Equity MF AUM of Rs 199 bn is just 1.9% of the Industry Equity AUM of Rs 10.3 tn. We have seen significant improvement in performance of all of our flagship schemes in MF as well as in alternate funds. Most of our schemes are in top 5 amongst their peer set category in 1 year period. This has resulted in traction in our gross as well as net flows.

- Further, MOAMC has also launched Large & Mid-Cap fund under active category and also launched 4 index funds under passive category.
- Our share of Alternate assets, comprising of PMS & AIF, is the highest among AMC's at ~48% and continues to rise.
- **Private Equity** manages an AUM of Rs 66 bn (+8% YoY) across 3 growth capital PE funds and 4 real estate funds. In H1FY20, revenues grew by 8% YoY at Rs 495 mn and PAT stood at Rs 107 mn. The 1st growth fund (IBEF 1) has delivered an XIRR of ~27%. Strong performance and positioning has also aided new fund raise. We have launched IREF IV in FY19 with a target size of Rs. 12 bn and have achieved 3rd close at ~Rs. 10.6 bn.
- **Wealth Management** business AUM grew by 17% YoY at Rs 181 bn in H1FY20 with net sales of Rs 6 bn. RM count of this business has reached 129. Our trail revenues predominantly cover our fixed costs. As ratio of new adds to opening RM falls and the vintage of RM improves, both productivity and profitability of the business will scale up. New MD & CEO has joined us with over 17 years of experience in Wealth Management Industry.
- Overall **Asset and Wealth Management** revenues were Rs 3.8 bn in H1FY20 and contributed 29% of consolidated revenues. Profits were Rs 960 mn and contributed 35% of consolidated profits.

- **Capital markets Businesses (Broking & Investment banking)**
  - Capital markets comprises of Retail Broking, Institutional Equities and Investment Banking business. Revenues for this segment were Rs 5.9 bn in H1FY20 and contributed ~44% of consolidated revenues. Profits were Rs 933 mn in H1FY20 and contributed ~34% of consolidated PAT. Broking and distribution business profit stood at Rs 962 mn in H1FY20 led by strong margins on account of better operating leverage on the higher and linear revenues.
  - In **Retail Broking & Distribution**, our Market share in high-yield cash segment has been improved. Overall market share stood at 2.3% (ex-prop) in H1FY20 in rising F&O volumes in market.
  - Our strategy to bring in linearity through the trail-based distribution business is showing results. Distribution AUM was Rs 99 bn, +16% YoY in Q2FY20. With only 17% of the near million client base tapped, we expect a continued 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**, there was improvement in rankings with encouraging domestic institutions' contribution and new client additions. Every aspect of the business, research, sales, sales trading and corporate access is being strengthened.
  - **Investment Banking** business reported improvement in 2Q performance and the overall transaction pipeline remains encouraging.

- **Housing finance business**
  - Motilal Oswal Home Finance (MOHFL) reported profit of Rs 53 mn in H1FY20 against loss in a same period last year.
  - During the quarter, MOHFL has sold pool of NPA's of Rs 5.4 bn (having Net Outstanding book value of Rs 3.45bn) to Phoenix ARC Private Ltd and realised full cash consideration of Rs 2.6 bn. This has resulted in significant reduction of the GNPA & NNPA ratios to 2.39% and 1.82% respectively. This lower NPL will help us in further adding to lenders' confidence and bringing down incremental cost of funds
  - MOHFL has received credit rating upgrade amid challenging environment based on several positive changes undertaken including name change. CRISIL has upgraded MOHFL's rating to AA- (stable outlook) from earlier A+ (stable). This will further benefit MOHFL in bringing down cost of funds and improve spreads.
  - Name change to "Motilal Oswal Home Finance" to yield multiple benefits like reduction in cost of funds, leveraging on brand, group level synergy across functions, locations and business associates.
  - Loan book stood at Rs 38.5 bn as of H1FY20. Disbursements in H1FY20 were Rs 850 mn.

- New book sourced from April'18 has encouraging performance, with only 6 cases in NPA out of ~4000 loan cases.
- Margins remained stable at 5.1% in H1FY20, on account of improvement in yield coupled with equity infusion in CY19. Our spreads have remained stable in an environment of higher cost of funds.
- Strong traction in legal recourse coupled with improvement in collection efficiency will result in faster resolution of delinquent cases.
- With likely pick-up in disbursements coupled with improved collection efficiency, augur well for future asset quality and profitability outlook.
- Strong support from parent continues with capital infusion of Rs 2 bn in CY19 taking total capital infusion to Rs 8.5 bn. Gearing remains conservative at 3.9x.
- Limited borrowing repayments till March 2020, strong undrawn borrowing lines and ALM place us in comfortable liquidity situation.

- **Fund based investments** includes sponsor commitments to our AMC & PE funds and strategic equity investments.
  - **Fund based** investments 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.
  - Company continues to invest its free cash flow; during H1FY20 we have invested Rs 1.1 bn in quoted equity investments.
  - Total quoted equity investment including MTM gains was Rs 15.5 bn as of Q2FY20. MTM on these gains are now part of reported earnings under Ind-AS reporting. Cumulative XIRR of these investments is ~17%.

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.