# Motilal Oswal Financial Services

# ConCall Summary & Earnings Release

## Quarter ended June 2019

1st August 2019

Motilal Oswal Financial Services Limited (MOFSL) posted consolidated revenues of Rs 6.5 billion for Q1FY20. Consolidated PAT was Rs 1.29 bn, +25% YoY in Q1FY20. Asset and Wealth management revenue was Rs 1.6 billion in Q1FY20. Capital Market revenue was Rs 2.8 billion in Q1FY20. Housing finance-related revenue was Rs 1.5 billion in Q1FY20.

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 Q1 FY20 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 | Q1 FY20 | Q1 FY19 | CHG. YoY | Q4 FY19 | CHG. QoQ |
|---|---|---|---|---|---|
| **Total Revenues** | **6,551** | **6,645** | **-1%** | **7,077** | **-7%** |
| EBITDA | 3,122 | 2,820 | 11% | 3,347 | -7% |
| PBT | 1,787 | 1,455 | 23% | 1,976 | -10% |
| **PAT** | **1,294** | **1,038** | **25%** | **1,462** | **-11%** |

**REVENUE COMPOSITION (Rs Mn)**

| Particulars | Q1 FY20 | Q1 FY19 | CHG. YoY | Q4 FY19 | CHG. QoQ |
|---|---|---|---|---|---|
| Asset Management | 1,443 | 1,482 | -3% | 1,396 | 3% |
| Wealth Management | 221 | 261 | -15% | 258 | -14% |
| Private Equity | 240 | 193 | 24% | 320 | -25% |
| Broking | 2,778 | 2,885 | -4% | 2,809 | -1% |
| Investment Banking | 3 | 151 | -98% | 146 | -98% |
| Fund Based | 339 | 69 | 389% | 535 | -37% |
| Housing Finance | 1,527 | 1,603 | -5% | 1,612 | -5% |
| **Total Revenues** | **6,551** | **6,645** | **-1%** | **7,077** | **-7%** |

## Opening remarks

Good Morning. It is my pleasure to welcome all of you to the Motilal Oswal Financial Services earnings call for the 1st quarter ended FY20. I will start by giving you a financial rundown of the consolidated results.

Consolidated PAT grew by 25% YoY at Rs 1.29 bn in Q1FY20. Asset & Wealth management business contributed to 32% of the profit for the quarter, followed by Capital market business at 28%, fund based investment 27% and Housing finance at 13%. Asset and wealth business was highest contributor to profit, ahead of capital market business.

Consolidated net worth stood at Rs 32.3 bn, gross borrowing was Rs 47 bn and net borrowing was Rs 42 bn (including Home finance). Excluding Home finance, gross and net borrowings were Rs 14 bn and Rs 9 bn respectively and this is less than the market value of quoted investments at Rs 16 bn. Overall gearing remains conservative at 1.5x; ex-Aspire it is at 0.4x and considering market value quoted investments, we are effectively net cash balance sheet.

**Some of the key highlights for the quarter are:** PE AUM up by 25% YoY at Rs 64bn.Wealth AUM up by 18% YoY at Rs 180bn. Distribution AUM up by 17% YoY at Rs 97 bn. AMC AUM up by 3% YoY at Rs 388 bn. Name change of home finance business to “Motilal Oswal Home Finance” (MOHFL) with improvement in profitability and ROE along with minimal credit costs. CRISIL has also upgraded long term rating of MOHFL to AA- (Stable) from A+ earlier. New book performance is encouraging with only 3 cases in NPA out of 3000 loan cases.

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

**Asset and Wealth management businesses**,

**KEY FINANCIALS: ASSET MANAGEMENT (Rs Mn)**

| Particulars | Q1 FY20 | Q1 FY19 | CHG. YoY | Q4 FY19 | CHG. QoQ |
|---|---|---|---|---|---|
| AUM (Rs bn) | 388 | 376 | 3% | 389 | 0% |
| Total Revenues | 1,443 | 1,479 | -2% | 1,396 | 3% |
| EBITDA | 565 | 624 | -10% | 532 | 6% |
| PBT | 561 | 623 | -10% | 531 | 6% |
| PAT | 360 | 404 | -11% | 355 | 1% |

Asset Management business across MF, PMS & AIF stood at Rs 388 bn AUM, +3% YoY. Our AMC now ranks 12 by total equity assets and PMS ranks #1. Revenues and PAT for the quarter stood at Rs 1.4 bn and Rs 360 mn, respectively. Asset management business offers highest scalability and operating leverage among all businesses. We have been able to maintain our net yields at 0.9% despite challenging regulatory environment. Our Equity MF AUM of Rs 199 bn is just 1.9% of the Industry Equity AUM of Rs 10.4 tn. SIP AUM is growing qualitatively and profitably. Our share of Alternate assets, comprising of PMS & AIF, is the highest among AMC's at ~49% and continues to rise.

**Private Equity**

**KEY FINANCIALS: PRIVATE EQUITY (Rs Mn)**

| Particulars | Q1 FY20 | Q1 FY19 | CHG. YoY | Q4 FY19 | CHG. QoQ |
|---|---|---|---|---|---|
| Total Revenues | 240 | 193 | 24% | 320 | -25% |
| EBITDA | 99 | 73 | 34% | 140 | -30% |
| PBT | 94 | 70 | 34% | 138 | -32% |
| PAT | 49 | 43 | 13% | 75 | -35% |

Private Equity manages an AUM of Rs 64 bn (+25% 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 bn.

**Wealth Management business:**

**KEY FINANCIALS: PRIVATE WEALTH MANAGEMENT (Rs Mn)**

| Particulars | Q1 FY20 | Q1 FY19 | CHG. YoY | Q4 FY19 | CHG. QoQ |
|---|---|---|---|---|---|
| Total Revenues | 221 | 261 | -15% | 258 | -14% |
| EBITDA | 10 | 41 | -75% | 47 | -78% |
| PBT | 7 | 39 | -81% | 43 | -83% |
| PAT | 5 | 25 | -80% | 30 | -83% |

Wealth Management business AUM grew by 18% YoY at Rs 180 bn in Q1FY20 with Net adds of Rs 5 bn. RM count of this business has reached 130 with average RM count up by 5% YoY in Q1FY20. 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.

Overall Asset and Wealth Management revenues were Rs 1.9 bn in Q1FY20 and contributed 29% of consolidated revenues. Profits were Rs 403 mn and contributed 32% of consolidated profits, with highest scalability and with least capital employed among our portfolio of businesses. Asset and wealth business was highest contributor to profit, ahead of capital market business.

**Capital market business**:

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

**Broking and Distribution**

| Particulars | Q1 FY20 | Q1 FY19 | CHG. YoY | Q4 FY19 | CHG. QoQ |
|---|---|---|---|---|---|
| Total Revenues | 2,778 | 2,885 | -4% | 2,809 | -1% |
| EBITDA | 967 | 1,079 | -10% | 882 | 10% |
| PBT | 596 | 743 | -20% | 601 | -1% |
| PAT | 392 | 511 | -23% | 405 | -3% |

Capital markets comprises of Retail Broking, Institutional Equities and Investment Banking business. Revenues for this segment were Rs 2.8 bn in Q1FY20 and contributed ~42% of Cons revenues. Profits were Rs 351 mn and contributed ~28% of cons PAT. Broking and distribution business profit stood at Rs 392 mn in Q1FY20.

In Retail Broking & Distribution, our Market share in high-yield cash segment has been improved. Overall market share stood at 2.2% (ex-prop) in Q1FY20 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.97 billion, +17% YoY. With only 16% 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 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.

Business has been adversely impacted by lower yields although tailwinds for well managed local firms remain strong.

### Investment Banking

**KEY FINANCIALS: INVESTMENT BANKING (Rs Mn)**

| Particulars | Q1 FY20 | Q1 FY19 | CHG. YoY | Q4 FY19 | CHG. QoQ |
|---|---|---|---|---|---|
| Total Revenues | 3 | 151 | -98% | 146 | -98% |
| PBT | -56 | 92 | - | 70 | - |
| PAT | -41 | 65 | - | 55 | - |

Investment Banking business was impacted by the headwinds faced by ECM segment and poor deal closures. However, business has continued to engage some market transactions in this period. Overall transaction pipeline remains encouraging.

### Home Finance business:

**KEY FINANCIALS: ASPIRE HOME FINANCE (Rs Mn)**

| Particulars | Q1 FY20 | Q1 FY19 | CHG. YoY | Q4 FY19 | CHG. QoQ |
|---|---|---|---|---|---|
| Net Interest Income | 578 | 576 | 0% | 513 | 13% |
| Other Income | 22 | 33 | -34% | 39 | -45% |
| Total Income | 599 | 609 | -2% | 553 | 8% |
| Operating Profit | 360 | 342 | 5% | 315 | 14% |
| PBT | 250 | -172 | 246% | 92 | 170% |
| PAT | 170 | -108 | 257% | 81 | 111% |

Motilal Oswal Home Finance (MOHFL) profit growth (+257% YoY) for the quarter was led by lower credit cost, lowers operating cost and improvement in yields during the quarter. 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. 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. Loan book stood at Rs 43 bn as of Q1FY20. Disbursements in Q1FY20 were Rs 330 mn. New book sourced from April'18 has encouraging performance, with only 3 cases in NPA out of 3000 loan cases. Margins improved by 60 bps YoY at 5.2% in Q1FY20, on account of improvement in yield coupled with recent equity infusion. Our spreads have remained stable in an environment of higher cost of funds. Annualised credit cost in Q1FY20 was at 1%, lower than last 4 quarters. This was on account of comparatively lower slippages and no write offs during the quarter. Further, provision coverage remained robust at 68% including write-offs in Q1FY20. Strong traction in legal recourse coupled with improvement in collection efficiency will result into faster resolution of delinquent cases. Legacy loan book is now seasoned for over 27 months. Moreover, proactive clean-up of the legacy book, expected positive trends in disbursements in coming quarters along with improvement in collection efficiency, augur well for future asset quality and profitability outlook. Strong support from parent continues with capital infusion of Rs 2 bn in FY19 taking total capital infusion to Rs 8.5 bn. Gearing remains conservative at 4.0x. 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 | Q1 FY20 | Q1 FY19 | CHG. YoY | Q4 FY19 | CHG. QoQ |
|---|---|---|---|---|---|
| Total Revenues | 339 | 69 | 389% | 535 | -37% |
| PAT | 350 | 89 | 292% | 491 | -29% |

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. Company continues to invest its free cash flow for the quarter, during the quarter we have invested Rs 1.1 bn in quoted equity investments. Total quoted equity investment including unrealised gains was Rs 16 bn as of Q1FY20. MTM on these gains are now part of reported earnings under Ind-AS reporting. Cumulative XIRR of these investments is ~18.5%, which is the see-through RoE.

**As per the provisions of the SEBI Listing Regulations, the chairman of the board of top 500 listed companies in India must be a non-executive director and should not be related to the managing director or the CEO with effect from April 1, 2020. In view of the aforesaid provision, Mr. Raamdeo Agrawal has been appointed as the non-executive chairman of MOFSL effective 14th of October 2019 as his term as joint managing director is expiring on 13th of October 2019.**

**Outlook:** To sum up, Asset and Wealth businesses are now the largest contributor to our profits with robust growth in AUM. Home Finance business started showing improvement in profitability and ROE. We believe that our portfolios of business are well-positioned to capitalise on the various tailwinds created by financialisation of savings and other macro trends. Our brand is very well-recognized in each of our businesses. We remain excited about the headroom to grow and the ability to generate free cash by each of our existing businesses and remain sharply focused on deepening moats in them. We are now open for Q&A!

**Q&A**

**I had a couple of questions. If I look at slide #7, if I add current quarter profit segment-wise, there is some 2 crore difference. I get 1.27 billion instead of 1.29 billion.**

That is on account of the intercompany adjustements. The profits that are reported in the slide #7 are post intercompany. If you see what we have published on the stock exchanges, the difference of the PAT there and between this is the PAT that is after inter-company in our slides.

**If I look at our performance of large and midcap funds, despite having alpha over the benchmark, we have not seen substantial scale in AUM in the large and midcap funds. Anything if you would want to highlight or share?**

If you look at the midcap, in fact, performance is quite good and we have got some money although the market conditions remained quite unfavorable for the whole industry. In midcap, we have got some money but overall definitely, the market also remained quite challenging.

**Aashish, I was trying to understand, despite in a long period of 5 years since the scheme launch of large cap and midcap (MF), there has been an alpha to the benchmark. Looking at a longer period of time, despite the alpha, the AUM seems lower than the potential.**

I think that in the industry, the biggest categories or the categories which get maximum AUM are generally a combination of large plus midcap or multicap. If you see across the industry, yes, there are 1 or 2 midcap funds which are pretty large, but generally irrespective of their history or track record, for every asset management company, the larger categories are actually what we call diversified or what we call multicap. In the same line, whether you see our PMS or our own mutual fund also, for us like in PMS large plus midcap, NTDOP is the largest and in mutual funds, F35 which is the multicap is the largest.

One is that it is a bit of an industry trend where the AUM lies in these categories and the second important point - I do take your feedback - considering our reputation, we can definitely scale up a lot more on the mutual fund in the midcap category, I think two things explain the slow start. One very clearly is that this categorization change which happened last year for the industry, in our case, it was a constraint much longer. I am sorry I have to get into some details, but last year the regulator said that 65% of the portfolio should be 101 to 250 by market cap rank. This happened for the industry last year. Our fund started in 2014 and you will be surprised to know that for our fund, right from 2014, the rule was stock No.101 to 200 has to be 75% of the portfolio. So, one is that we had a great start in 2014 to 2016-17 and then what was a laissez-faire for the industry used to be a case of fighting with hands tied as far as we were concerned. The leveling of the playfield has happened only last year. As a result of that, you will see that our relative ranks are improving because all constraints for us have been removed whereas the same constraints which were tied for us have been placed on the industry.

Second thing is that if you overall see our mutual fund business, I think this is the year which is going to be interesting for us because of 3 reasons. One I already explained that categorization has got into a level-playing field. Second if you see, the pricing has got into a level-playing field only now because we started in 2013, we were not doing any upfronting, we were on a trial basis for all through, whereas the first time industry got on a trail-base model is only in the last 3 to 4 months. Third thing is that the industry has been relying totally on doing NFOs and out of so many NFOs, we just have some 5 to 6 products.

So, for multiple reasons, the playfield is getting leveled only now and that will open up a lot of doors for us. I have tried to explain where the hindrance was till now and now, I am quite excited that the regulator has leveled the playing field and it is going to be open for us.

**You said we have never done upfronting. From an accounting perspective, if you have to compare PAT and the change in TER because of the regulation, there is no change in our margins because of this accounting, right?**

For us, it was just more of the same. For example, in the past, I was collecting a particular TER. For example, let us say the gravy is 100 and my board mandate is that I should be at somewhere around say 60:40 sharing where the distributor gets average 60 and I get average 40. So, we were operating with that arithmetic and even now we are operating with that arithmetic itself. For us, there is no change, but yes, for the industry, a lot of realignment. Also keep in mind that in our case, mutual fund is half our AUM. The other half is alternates where there is no change at all.

**Aashish, any new updates on new products in the mutual fund and the AMC?**

There are no new updates. On the active side, we are not doing anything new, but yes, we are looking to expand the product basket in a different category altogether. For the first time in the industry, what we are doing is that we are creating a series of open-ended index funds. The reason being we are obviously identified as equity player and my understanding is that if you see globally, there is a clear-cut balance between active and passive, and my sense is that in our industry also because of 4 or 5 reasons, passives are kind of taking off. What are these 4 or 5 reasons? The first is obviously the regulatory changes. The regulator expects the intermediaries to function as an advisor and collect fees from the customer rather than relying on embedded commission in the product; that is one change. The second change is obviously the regulator is working in a direction which kind of standardizes and kind of retailizes the mutual fund products. The third is that if you see our investor base, a lot of it is becoming direct, DIY, which demand simplicity and it demands standardization as well as ease of product section.

So, for most of these reasons, and till now whatever passive efforts have been made by our industry, my personal opinion is that they are kind of half-hearted attempts because we are doing ETFs and we are going after institutions, and bulk of the industry's passive AUM is basically the EPFO money and some of these institutional monies.

For the first time in the industry, we are making an attempt to retailize the passive concept. So, what are we doing? We are straightforward creating open-ended index funds. Everybody is aware of the issues with ETFs. Basically, execution is a challenge, liquidity is a challenge, and distribution is a challenge. So, there are multiple reasons why ETFs haven't taken off.

In fact, in 2010 also, we had attempted in the past to create innovative products. This time what we are doing is that somewhere is August, we will be creating a bouquet of open-ended index funds, and if you see from Motilal Oswal AMC's perspective, the entire equity bouquet, I break it into 4 parts. For me, the absolute basic product is the beta. One level above the beta comes the funds which I call bulge bracket products which are actually running with a limited tracking error from the index. The third are guys like us which are agnostic to the index and we run very, very aggressive and active strategies. Our tracking errors from the index are extremely high. And the fourth basket would be what I call alternates.

If you see from Motilal Oswal AMC's perspective, our mutual funds are in the alpha-seeking basket which is the third one which I said. Our AIF and PMS is in the alternate fourth basket. The first basket is where we are reviving our attempts. We started in 2010. We put it on the back burner, and now we are kind of coming back into that basket in order to retailise and simplify equity participation.

In our industry, a lot of investors are coming for the first time. The best way to get them in is to give them very, very basic open-ended index funds, and as they graduate and as they look for higher-risk higher-return combinations, maybe they can go for alpha-seeking options or they can go for alternative options.

So, that is the background. We have got all our regulatory approvals in place, but somewhere in August, we will be opening this bouquet.

**I would like to understand now it has been 1 year and both the major regulatory impacts on the mutual fund industry are now in action in the P&L, we would love to understand from you as to what our margin profile is on the mutual fund product right now versus what it was 1 year ago. If you could help me understand at the gross level what the distribution share and what is the net impact on our yield, only for the pure mutual fund product.**

I will come to our numbers but first I will just give you very quickly in 2 minutes where I think the business will settle as far as the industry on an average is concerned. After taking all the different sizes and the AUM slabs and the combinations that the regulator has put out and after taking the AUM profile of the industry for a moment, I would say that the total gravy which is available to be shared between distributor and investor, my sense is that it will settle somewhere in the range of 140 basis points on an average. Small fund, big fund, leave that aside. I am telling you an average number.

**My question to Mr. Aashish was to explain the margin structure for the mutual fund product right now versus what it was 1 year back and where we lost Mr. Aashish was when we said that the total pool for the industry on an average is 140 bps.**

Yes, correct. That was the average number I was telling you. As far as our numbers are concerned, for us obviously, there is only one large fund. All the others are not in the largest bracket. So, I would say that our average would be about 155 basis points kind of gravy. The distributor would be getting somewhere in the range of 90 to 95 basis points and we are earning somewhere in the range of 65 basis points as we speak. One year back, it would have been more about 70+ for us in the range of 72 or 73 basis points, somewhere in that range, and the distributor would have been in the range of 110 to 115 basis points.

**So, basically, Aashish, if I understand you correctly, what you are trying to say is that whatever has been the reduction because of the TER cut, it has been passed in the 60:40 ratio as well.**

Yes, I clarified that. That's the right policy.

**On the asset management side, I think you have not disclosed the net flows in this quarter, net addition number.**

Our net flows is negative by Rs 400 crores for the quarter.

**Where is it more? On the MF or the PMS?**

Madhukar, the PMS is net positive. Some of the decline what Shali is sharing with you is related to the mutual fund. For example, in the mutual fund, it is contextual to the industry. Just by way of data points, December 2017 was the highest point of net flow in the industry which was Rs 27,000 crores. If you see April and May this year, it has been in the range of Rs 2200 crore net. June was better definitely, more like 5000 net. April and May were more like Rs 2000 cr net if you add up all the equity, balanced, everything. So, when the industry goes down to Rs 2000 crore net, it means that there will be a couple of points which will be slightly positive and a couple of points which will be slightly negative. That is why, our negative number is on the mutual fund side on your question and the alternates are on the positive side.

**When I look at the numbers, you still have pretty high distribution costs. These obviously are from PMS and AIF and I believe that these will be the amortization of whatever you have paid earlier because right now the money raising is not that strong. How do we see this going forward and what will be the amortization schedule roughly just to be able to model the numbers more correctly?**

You are right, it is nothing to do with the mutual funds, it is only to do with the alternate side where up to a year of upfronting does happen. The outstanding balance would be in the vicinity of about Rs 79 crores right now and that Rs 79 crores, just the way you said, theoretically if I assume that there is no gross inflow right now and I am just left with Rs 79 crores, my sense is it will get whittle down in about 18 months.

**So, the amortization period for this is higher because normally we are also paying up to 3 years upfront.**

No, the average upfront will be 12 to 18 months. Three years is not actually the norm. So, marginally on the AIF, it could be slightly higher. Also, that has pulled up the average a little bit.

**There are certain PMSs in the market that are paying 3% upfront on the AUM, right?**

In our case, the upfront is only on the gross inflow. For the PMS, it is typically 12 to 18 months. With the AIF, yes, you are right; it could be in a 3-year basis and that could drag up the average a little bit, but the Rs 79 crores that I am referring to will get whittle down in about 18 months.

**For last quarter, you had disclosed the MF and alternative revenues separately which you have not done in this quarter. Can you share the numbers or maybe offline?**

We can give you that separately.

**I think we have been discussing this that some regulatory clampdown may also come on PMS fees and just a couple of days back, there was a big article regarding that. Any comments on that? You probably have a better idea of what may come.**

I will get you my friends. I am not on any of those committees. There are some peers of mine or my friends from the industry who are on the committee. I am not on the committee, so I don't know all the details but I can tell you what is my understanding through a series of meetings and interactions with the regulator and the thought process. The thought process is that one should not have misaligned products, in the sense that whatever they are doing for mutual funds. So, what have they done for mutual funds? Basically, the idea is to remove mis-selling. They are saying that these entry loads and upfronts and stuff should be done away with and everything should be on a trial basis. So, in the PMS also, there is no discussion on expenses. As you will appreciate in a PMS, if you do a PMS, it is your agreement with me. So, there is no discussion on the expenses right now. The discussion is only that even in the PMS, we should ensure that distributors earn on a trial basis and not by charging setup fees or upfronting. I think that is good. I don't think it will change anything for us. It is a good thing. In fact, what happens is that when there is a lot of flow and markets are booming, you see a lot of new players coming in and being very, very aggressive. I think if these sales practices are also disciplined a little bit, it is good for us because we are a pretty old longstanding player and when new people come when the market is booming, it actually hurts us on the sales practices. So, this is better actually if it gets disciplined.

**Just one final suggestion if I may. Every time in the asset management section, we see the performance and the performance is given since inception. Can we have a little bit more detailed performance where we have like last 1 year, 3 years, 5 years, and maybe the AUMs on each of the schemes if that is possible? That would be more helpful just to see every 3 months what is happening.**

From a reference perspective, no harm in giving but frankly all of it is in the public domain. Our website has all the details but we can put it in one place.

**Sir, I want to understand how much AMC and PMS contribute to the broking revenues?**

Negligible, very low.

**Sir, my second question is, just to extend the previous question where you talked about the regulation on PMS, can you also help us on the AIF front?**

Basically, the regulator's priority would be to align the selling practices and hence whether it is PMS or AIF, I won't be surprised if they say that you share on a sale basis or you do like a pay-as-you-go kind of thing rather than giving the commission upfront. I won't be surprised if that gets applied to alternates. That doesn't change anything for us. It is done more for curbing mis-selling or incentivizing the PE.

**Sir, what is the current TER for our PMS and AIF business right now? And for modeling purpose, what is the net? How should we look at the net yield?**

When you look at a PMS, the beauty of a PMS is that it is an agreement between me and the customer. So, obviously the large customers would pay slightly lesser and the smaller customers would pay more in terms of basis points. From your perspective, you should assume that somewhere in the vicinity of 200 basis points is the gross which might come to us. We might end up staring on an average about 50% of that. Our retention in a PMS would be in the vicinity of 100+ basis points and the distributor would be making say about 100 basis points. That is how you should assume it. As far as the AIF is concerned, there is no straight answer because first of all, earning in an AIF is expected to be back-ended and linked to performance. There is no way to actually put that as a concrete number. They will be typically 1.5:15 kind of structures. In that 1.5, we might be earning in the range of 50-60 basis points. That is how you should look at it.

**Just as a follow-up on the discussions around the PMS AIF SEBI capping of charges, etc., I just wanted to understand have there been any kind of discussions that you guys have heard of with relation to SEBI trying to enforce a direct kind of a model on PMS AIF similar to mutual funds where you have a direct scheme and a regular scheme? Are there any talks of trying to do something similar on PMSs?**

I understand that the regulator wants to drive a business model which is not just intermediation and commission oriented but the regulator is very keen to evolve a model which is advisory and fee based. From that perspective, I understand, in our conversations, that they will be happy if PMSs and AIFs also enable direct, but it doesn't need any regulatory intervention in that because an AIF is allowed to have any kind of share class that it would like to have and in a PMS, any which way, it is my agreement with the customer, and what fee we agree to, we can put it out there in the agreement. Yes, I know that they are positively inclined to having direct share classes in PMSs and AIFs and they would like to have a fee-based arrangement there also, but I don't think it needs regulatory intervention because as a manufacturer, we have all the share classes that we need to put in.

**Can you talk about the wealth management business? In this quarter, the earnings are down and other revenues have also declined. On the other side, we have continued to see addition of the RM. So, what is happening over there?**

We continue to build the business and some of the gaps that we are looking to fill in this financial year but both in North and South India, we have not been able to penetrate further. The fall in distribution yield like Aashish talked to you the split between manufacturer and distributor, so the fall in the yield combined with lower net sales, all of that has contributed to the performance of the wealth management business for the elevated cost, employee cost, lower yield, and lower net sales. We believe that as the share of RMs which is increases, the profitability of the business too should improve strongly.

**The question is on the wealth business. We have really seen kind of revenue yields come down quite sharply but this is not really matched by decline in RM salaries. So, just wanted to kind of understand from a slightly longer-term basis, are we seeing a structural shift in the longer term profitability of this business and do we have any thoughts of shifting to a pure advisory model?**

Not as of now, to answer the second part of the question, but yes, as far as the RM costs are concerned, the variable part of the RM incentives does get impacted during these times. At the same time, the productivity of the new RMs takes longer to scale up in head-winded markets like this and even the vintage, highly contributing RM's contribution gets adversely impacted. As of now, we have not seen any reason to review our expansion strategy or the individual salary costs per RM, we would rather see how these trends play out but we remain optimistic about the longer term prospects of this business notwithstanding the yield decline that you alluded to.

**What are the broking yields during the quarter and we have seen a PAT fall in the capital market. Is it mix change or some yield fall?**

On the broking yield, one is on account of the industry volume mix change because there if we see year-on-year, once again the shift towards F&O at the industry level has been 97% of the volumes are from the F&O side. That is why, one is on account of the mix change, there is a marginal fall in the lead. Secondly, even the other operating revenues in the broking business, in terms of the interest and all, there is a lower average utilization of the funding book. On account of that, there is a fall in the overall brokering yield that we have reported.

Just to add, also the overall capital market businesses include the investment banking business which had a poor performance for the current quarter.

**A couple of data-keeping questions. In the distribution and broking segments, what will be the interest income and the distribution income? Can you give us those numbers?**

Madhukar, we can provide you the exact breakup separately but on year-on-year basis, as I stated earlier, our loan book on the margin funding side including the working capital of the broking business, that is the average, lower by about Rs 150 crores. So, our average loan book stands at about Rs 1300 crores which is the working capital for the broking business. So, on account of that, there is a net reduction in our interest income and in terms of our distribution business, there is a lower net sales on a year-on-year basis. Still, our AUM has grown by 17%. So, there is a lower amount of the upfront revenues on account of which there is lower distribution income on a year-on-year basis.

**Motilal Oswal Home Finance has again seen a CEO change. It has been, I think, around a year or so. What are the challenges or issues if any? Is it a culture mismatch where an outsider has found it difficult? Because Vijay is now the CEO as per the PPT, because this is the third CEO.**

Vijay is the third CEO. In 6 years of history, I think the first CEO lasted for 4 years, and the next CEO Sanjay was there with us since 9 months. He is becoming a consultant or he is becoming an entrepreneur in his own right. There is a cultural mismatch but I would look at it as an opportunity that our existing time-tested people who have I think very strong culture, very strong I would say DNA and values of the firm, and I think as part of the grooming, Vijay earlier was heading Wealth, then he was the CEO for broking business, and now he would be the CEO for the home finance business. As far as wealth management is concerned, we have already shortlisted and issued the appointment letter for the new CEO. So, we feel it is a great opportunity for us truly I think this also has happened. Earlier the name was different, the culture was different because all the senior people have come from outside. So, we thought it is a great opportunity for us to bring the organization culture, values, ethics, and practices in the home finance business also.

**One of the first questions is a data-keeping question. What is the net worth in the home loan business?**

Rs 845 crore.

**Sir, I just had one question on the HFC bit. I saw that your provisioning cost has come off quite significantly from the last quarter despite our GNPA going up and I think even net NPAs have gone up. So, what is the rationale of the lower provisioning?**

If you see our total provisioning, that stands at 68% on the total book including the write-off which is the total 90-day plus book. That provisioning number was 70% in the March quarter and that has marginally come down to 68%. Basically, on the incremental NPAs that have happened during the quarter, our provisioning is based on the LGD that we are using at 22% and our provisioning continues at 22% on all the incremental NPAs. So, the blended pool has come down marginally to 68%.

**The first question is with regards to your collection infrastructure that you have built for the housing finance business. If you can explain that and give a little more flavor as to what was it earlier and how has it panned out over a period of the last 1 year, sir?**

This is an entirely captive structure. We have our own tele calling team that takes care of the current bucket bounces and the ex-bucket collections. Then we have a soft bucket team, 0 to 90 DPD; a separate 90 to 180 DPD team; and a large part of the 180+ team is now dedicated, supported by a legal team as well. So, all of this adds up to about 400 to 450 people staff which is all captive, not outsourced. And the collection efficiencies across the board are improving and given the maturity of the legal action on which we have given color in our presentation as well, we think that the recoveries should continue to accelerate going forward. The 1st quarter increase in GNPL despite all these comments that I made shows a rise because of the usual seasonality associated with April and May months and we are seeing the same, but we think that the trends in the future quarters will be very different from the trend in the 1st quarter.

**You have given the PCR with write-off at 62% and then you are giving without the write-off also, but then you are mentioning that there is no write-off in the quarter. So, what am I missing there?**

That is the cumulative write-off's impact. There is no write-off in the quarter.

# PRESS RELEASE

## Motilal Oswal Financial Services reports Q1FY20 PAT of Rs 1.29 bn, +25% YoY.

**Mumbai, July 31, 2019:** Motilal Oswal Financial Services Ltd. announced its results for the quarter ended June 30, 2019 post approval by the Board of Directors at a meeting held in Mumbai on July 31, 2019.

**Performance for the quarter ended June 30, 2019**

- Consolidated revenues stood at Rs 6.5 bn in Q1FY20. Consolidated PAT was at Rs 1.29 bn, +25% YoY in Q1FY20. Asset & Wealth management business contributed to 32% of the profit for the quarter, followed by Capital market business at 28%, fund based investment 27% and Housing finance at 13%.
- **Some of the key highlights** for the quarter include 25% YoY growth in PE AUM, 18% YoY growth in Wealth AUM, 17% YoY growth in Distribution business AUM, 3% YoY growth in AMC AUM, name change of home finance business to "Motilal Oswal Home Finance" (MOHFL) with improvement in profitability and ROE along with minimal credit costs. CRISIL has also upgraded long term rating of MOHFL to AA- (Stable) from A+ earlier.
- Consolidated net worth stood at Rs 32.3 bn, gross borrowing was Rs 47.8 bn and net borrowing was Rs 40.9 bn (including MOHFL). Excluding MOHFL, gross and net borrowings were Rs 14 bn and Rs 8 bn respectively and this is less than the market value of quoted investments at Rs 16 bn. Overall gearing remains conservative at 1.5x; ex-MOHFL it is at 0.43x and considering market value quoted investments, we are effectively net cash balance sheet.
- Asset and wealth business was highest contributor to profit.
- Besides financial performance, the last quarter has been very eventful in terms of our successes in brand building, advertising and several other fronts. In Q1FY20, MOFSL gets inducted in **"Hall of Fame"** at 10th financial Advisory Awards 2019. MOFSL wins "**Broking House of the year**" at MCX awards 2019. MOFSL wins **"Best 360 Degree Marketing Campaign"** at Masters of Modern Marketing Conference and 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. Asset & Wealth businesses are now the largest contributor to profits and ahead of the Capital market businesses. Our Housing finance business also started contributing to consolidated profits and likely to scale up further in near future under the new leadership team. Each of our 7 businesses offers significant headroom for growth and operating leverage as they scale up. 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 ended June 30, 2019**

- **Asset Management businesses**
  - **Asset Management** business across MF, PMS & AIF stood at Rs 388 bn AUM, +3% 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 1.4 bn and Rs 360 mn, respectively. Asset management business offers highest scalability and operating leverage among all businesses.
  - Our Equity MF AUM of Rs 199 bn is just 1.9% of the Industry Equity AUM of Rs 10.4 tn.
  - Our share of Alternate assets, comprising of PMS & AIF, is the highest among AMC's at ~49% and continues to rise. Yields and profitability of Alternates is higher. As of June 2019, ~19% of

Alternates AUM is performance-fee linked and our endeavor is to increase this further. We have been able to maintain our net yields despite challenging regulatory environment.

- **Private Equity** manages an AUM of Rs 64 bn (+25% YoY) across 3 growth capital PE funds and 4 real estate funds. This business has delivered on profitability and scalability fronts. In Q1FY20, revenues grew by 24% YoY at Rs 240 mn and PAT grew by 10% YoY at Rs 49 mn. The 1st growth fund (IBEF 1) has delivered an XIRR of 27%, 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 IREF IV in FY19 with a target size of Rs. 12 bn has achieved 2nd close at ~Rs. 8.5 bn.
- **Wealth Management** business AUM grew by 18% YoY at Rs 180 bn in Q1FY20 with net sales of Rs 5 bn. RM count of this business has reached 130 with average RM addition up +5% YoY in Q1FY20. 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.
- Overall **Asset and Wealth Management** revenues were Rs 1.9 bn in Q1FY20 and contributed 29% of consolidated revenues. Profits were Rs 403 mn and contribute 32% of consolidated profits, with highest scalability and with least capital employed among our portfolio of businesses.

- **Capital markets Businesses (Broking & Investment banking)**
  - Capital markets comprises of Retail Broking, Institutional Equities and Investment Banking business. Revenues for this segment were Rs 2.8 bn in Q1FY20 and contributed ~42% of consolidated revenues. Profits were Rs 351 mn in Q1FY20 and contributed ~28% of consolidated PAT. Broking and distribution business profit stood at Rs 392 mn in Q1FY20 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 2.2% (ex-prop) in Q1FY20 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 97 bn, +17% YoY in Q1FY20. With only 16% 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 has continued to engage some market transactions in this period. Overall transaction pipeline remains encouraging.

- **Housing finance business**
  - Motilal Oswal Home Finance (MOHFL) profit growth (+257% YoY) for the quarter was led by lower credit cost, lowers operating cost and improvement in yields during the quarter.
  - 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.
  - 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.
  - Loan book stood at Rs 43 bn as of Q1FY20. Disbursements in Q1FY20 were Rs 330 mn.
  - New book sourced from April'18 has encouraging performance, with only 3 cases in NPA out of 3000 loan cases.
  - Margins improved by 60 bps YoY at 5.2% in Q1FY20, on account of improvement in yield coupled with recent equity infusion. Our spreads have remained stable in an environment of higher cost of funds.

- Annualised credit cost in Q1FY20 was at 1%, lower than last 4 quarters. This was on account of comparatively lower slippages and no write offs during the quarter. Further, provision coverage remained robust at 68% including write-offs in Q1FY20.
- Strong traction in legal recourse coupled with improvement in collection efficiency will result into faster resolution of delinquent cases.
- Legacy loan book is now seasoned for over 27 months. Moreover, proactive clean-up of the legacy book, expected positive trends in disbursements in coming quarters along with improvement in collection efficiency, augur well for future asset quality and profitability outlook.
- Strong support from parent continues with capital infusion of Rs 2 bn in FY19 taking total capital infusion to Rs 8.5 bn. Gearing remains conservative at 4.0x.
- 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 for the quarter, during the quarter we have invested Rs 1.1 bn in quoted equity investments.
  - Total quoted equity investment including MTM gains was Rs 16 bn as of Q1FY20. MTM on these gains are now part of reported earnings under Ind-AS reporting. Cumulative XIRR of these investments is ~18.5%, which is the see-through RoE.

**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. Motilal Oswal Housing Finance was awarded ‘India’s Most Admired & Valuable Housing Finance Company’ at India Leadership Conclave 2015.