Motilal Oswal Financial Services

ConCall Summary & Earnings Release

Quarter and Year ended March 2019

13th May 2019

Motilal Oswal Financial Services Limited (MOFSL) posted consolidated revenues of Rs 7.1 billion for Q4FY19, and Rs 26.8 billion for FY19. Consolidated Adjusted PAT was Rs 3.6 bn, +9% YoY in FY19. Capital Market revenue was Rs 2.8 billion in Q4FY19 and Rs 11.3 bn in FY19. Asset and Wealth management revenue was Rs 1.4 billion in Q4FY19, and Rs 5.8 billion in FY19. Housing finance-related revenue was Rs 1.6 billion in Q4FY19 and Rs 6.4 billion in FY19.

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 Q4 FY19 and FY19 Earnings Conference call for Motilal Oswal Financial Services Limited. We have with us today, Mr. Motilal Oswal - Chairman, Mr. Raamdeo Agrawal - Joint Managing Director, Mr. Navin Agarwal - Managing Director, Mr. Aashish Somaiyaa - CEO MOAMC, Mr. Shalibhadra Shah – CFO and Mr. Rakesh Shinde, Investor Relation. For the duration of the presentation all participant lines will be in listen-only mode. I will be standing by for the question and answer session. I now like to invite Mr. Navin Agarwal to make his opening remarks. Thank you and over to you sir.

MOFSL CONSOLIDATED FINANCIALS (Rs Mn)

Particulars	Q4 FY19	Q4 FY18	CHG. YoY	Q3 FY19	CHG. QoQ	FY19	FY18	CHG. YoY
Total Revenues	**7,112**	**6,344**	**12%**	**6,797**	**5%**	**26,769**	**29,354**	**-9%**
Total Adjusted Revenues (2)	4,480	4,998	-10%	4,131	8%	17,634	17,364	2%
EBITDA	3,347	1,691	98%	1,547	116%	9,367	14,091	-34%
PBT	1,976	214	824%	236	737%	3,959	8,432	-53%
Reported PAT as per Ind AS	**1465**	**139**	**955%**	**397.7**	**269%**	**2943**	**6222**	**-53%**
Adjusted PAT as per Ind AS (ex-Aspire)	**857**	**967**	**-11%**	**731**	**17%**	**3579**	**3294**	**9%**

REVENUE COMPOSITION (Rs Mn)

Particulars	Q4 FY19	Q4 FY18	CHG. YoY	Q3 FY19	CHG. QoQ	FY19	FY18	CHG. YoY
Broking	2,809	3,199	-12%	2,701	4%	11,334	11,209	1%
Investment Banking	146	212	-31%	50	191%	381	1,116	-66%
Asset Management	1,396	1,605	-13%	1,368	2%	5,786	5,198	11%
Wealth Management	258	297	-13%	249	4%	1,088	981	11%
Private Equity	356	216	65%	319	11%	1,104	1,656	-33%
Fund Based	535	-845	163%	565	-5%	591	2,485	-76%
Housing Finance	1,612	1,660	-3%	1,545	4%	6,484	6,708	-3%
Total Revenues	**7,112**	**6,344**	**12%**	**6,797**	**5%**	**26,769**	**29,354**	**-9%**
Total Adjusted Revenues	**4,480**	**4,998**	**-10%**	**4,131**	**8%**	**17,634**	**17,364**	**2%**

Note: *Adjusted revenues and PAT excludes Aspire ,fund based investments, and lumpy profit share on exit of PE fund investments.*

Opening remarks

Good morning everybody. It is my pleasure to welcome all of you once again to the Motilal Oswal Financial Services Earnings Call for the 4th Quarter and the Year-Ended March, 2019. I will start by giving you a financial rundown of the consolidated results.

Consolidated PAT for the fourth quarter was at Rs 1.47 billion and for the full-year was at 2.94 billion. FY19 reported profits have been impacted by the higher provisioning and the write-offs taken in our Home Finance business as well as lower mark to market gains reported under the new Ind-AS guidelines on fund-based investments of the group.

Our consolidated profit excluding the Home Finance business and the gains relating to the fund-based business are up by 9% year-on-year for the full-year at Rs. 3.6 billion. And our Asset and Wealth business has now become the highest contributor to the pool of profits ahead of the capital markets business for the first time. The consolidated net worth for MOFSL stood at Rs 30.5 billion. Our gross borrowing was at Rs 51 billion, net borrowing was at Rs 46 billion in to the Home Finance business. Excluding the Home Finance business the net borrowing is at Rs 11 billion which is less than the market value of the quoted investment at Rs 14 billion as of March, 2019.

So, our overall gearing remains quite conservative at about halftime ex-Aspire and net of the market value of investments effectively we are at net cash balance sheet. The Board has declared a final dividend of Rs. 4.5 a share taking the full year dividend to Rs. 8.5 per share effectively maintaining the dividends for the year despite lower profits and this has resulted in the dividend payout of 50% for the year ending March 2019.

Some of the key highlights for the year are the AMC business profits up by 36% year-on-year to Rs 1.5 billion. The Broking business profits are up by 18% year-on-year. Our Wealth Management business AUM was up by 19% year-on-year to Rs 175 billion. Our distribution AUM within our Broking business was up by 27% year-on-year at Rs 96 billion, so effective assets under advice across Wealth and Broking business are at about Rs. 280 billion. Our PE AUM was up by 36% to Rs 64 billion. The Home Finance business is back in black from the fourth quarter with zero delinquency in the new book that was generated in FY19 and also strong improvement in collection efficiency. We are proposing a name change from Aspire to Motilal Oswal Home Finance and we believe that this could yield multiple benefits and finally a dividend payout that I talked about at 50% and a strong and effective net cash balance sheet overall excluding the Home Finance business.

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

Capital market business:

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

Broking and Distribution

Particulars	Q4 FY19	Q4 FY18	CHG. YoY	Q3 FY19	CHG. QoQ	FY19	FY18	CHG. YoY
Total Revenues	2,809	3,199	-12%	2,701	4%	11,334	11,209	1%
EBITDA	882	1,027	-14%	825	7%	3,840	3,594	7%
PBT	571	611	-7%	487	17%	2,488	2,130	17%
PAT	358	433	-17%	336	7%	1,734	1,467	18%

Capital market businesses which comprises of the Retail, Broking, Institutional like with investment banking business. Revenues for this, our business was at Rs. 11.8 billion in FY19 and contributed to 44% of our overall revenues. Profits are at 1.8 billion and accounted for 42% of the total profits.

Our Broking and distribution business profits grew by 18% year-on-year led by strong operating profit margin expansion like 200 basis points 34% led by operating leverage as well as contribution of the annuity distribution revenues. In the retail broking and distribution business our market share in the high yield cash segment has been maintained on a sequential basis and our overall market share ex-prof stood at 2.6% in fourth quarter despite higher F&O volumes. Our strategy to bring in linearity through sale-based distribution business is showing results with distribution AUM of 27% to Rs 96 billion with only 16% of the near million client base tapped our distribution income is now at 14.4% of the retail broking gross revenues. 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:

Rankings with the existing clients improved. Domestic institution contribution was higher and new client additions are encouraging. Every aspect of the business including research, sales, trading and cost prices are being strengthened. The business has been adversely impacted by lower yields although tailwind for the well-managed local firms remains strong

Investment Banking

KEY FINANCIALS: INVESTMENT BANKING (Rs Mn)

Particulars	Q4 FY19	Q4 FY18	CHG. YoY	Q3 FY19	CHG. QoQ	FY19	FY18	CHG. YoY
Total Revenues	146	212	-31%	50	191%	381	1,116	-66%
PBT	70	209	-	-30		109	834	-
PAT	55	149	-	-22	-	81	595	-

Investment banking business was impacted by the headwinds faced by the ECM segment and for deal closures. We completed six ECM transactions in FY19 and this resulted in lower top-line and bottom-lines for the business.

Asset and Wealth management businesses,

KEY FINANCIALS: ASSET MANAGEMENT (Rs Mn)

Particulars	Q4 FY19	Q4 FY18	CHG. YoY	Q3 FY19	CHG. QoQ	FY19	FY18	CHG. YoY
AUM (Rs bn)	389	356	9%	374	4%	389	356	9%
Net inflows (Rs bn)	2	31	-	8	-70%	41	128	-
Total Revenues	1,396	1,605	-13%	1,368	2%	5,786	5,198	11%
EBITDA	532	499	7%	540	-1%	2,311	1,708	35%
PBT	531	497	7%	539	-1%	2,305	1,702	35%
PAT	355	317	12%	344	3%	1,499	1,104	36%

The Asset Management business across mutual funds, the PMS and AIF reached Rs 389 billion AUM mark, up by 9% year-on-year. Our AMC now ranks 11 by total equity assets and PMS ranks 1. Our net sales for the year were at Rs 41 billion; our net yield was at about 0.9%. Our FY19 revenues for this business were up 11% while profits were up by 36% year-on-year. Our equity mutual fund AUM at Rs 200 billion is 2% of the industry equity AUM of Rs 10.2 trillion. Our market share in equity mutual fund, our net sales stood at about 2.2% in FY19. SIP AUM is growing qualitatively and our FY19 exiting annual run rate of SIP is about Rs. 20 million.

Private Equity

KEY FINANCIALS: PRIVATE EQUITY (Rs Mn)

Particulars	Q4 FY19	Q4 FY18	CHG. YoY	Q3 FY19	CHG. QoQ	FY19	FY18	CHG. YoY
Total Revenues	356	216	65%	319	11%	1,104	1,656	-33%
EBITDA	140	75	87%	141	-1%	471	1,059	-56%
PBT	138	70	98%	140	-1%	460	1,039	-56%
PAT	75	20	270%	103	-27%	300	808	-63%

Our private equity business manages an AUM Rs 64 billion and is up strongly by 36% year on year across three growth capital PE funds and four real estate funds. This business has delivered on profitability and scalability front. Strong performance and positioning has also aided the raising of our funds in FY19 where we closed IBEF III with an AUM of Rs 23 billion and a slated to close IREF, the Real Estate Fund IV in FY20 with the target size of Rs. 12 billion.

Wealth Management business:

KEY FINANCIALS: PRIVATE WEALTH MANAGEMENT (Rs Mn)

Particulars	Q4 FY19	Q4 FY18	CHG. YoY	Q3 FY19	CHG. QoQ	FY19	FY18	CHG. YoY
Total Revenues	258	297	-13%	249	4%	1,088	981	11%
EBITDA	39	97	-60%	39	0%	210	319	-34%
PBT	43	95	-55%	36	18%	200	310	-36%
PAT	30	66	-55%	25	17%	140	213	-34%

AUM grew by 19% to Rs 175 billion in FY19 and net sales were at Rs 24 billion. RM count of this business reached 126 with average RM count up by 30% year-on-year. This investment in strong RM addition impacted our profitability adversely. However, as a ratio of new ads to opening RMs and the vintage of the current days of Relationship Manager improve the profitability of the business should improve. The yield of this business stood at 75 basis points in FY19 led by favorable equity mix of about 62% in the overall AUM. Our overall Asset and Wealth Management revenues were at Rs 8 billion up by 2% year-on-year and contributed about 29% of the consolidated revenues. Profits were at Rs 1.9 billion and accounted for 44% of the consolidated profits. This business has higher scalability and lower capital employed compared to the portfolio of the other businesses and as I mentioned earlier for the first time this business contributed the most to the overall profit pool ahead of the capital markets business.

Home Finance business:

KEY FINANCIALS: ASPIRE HOME FINANCE (Rs Mn)

Particulars	Q4 FY19	Q4 FY18	CHG. YoY	Q3 FY19	CHG. QoQ	FY19	FY18	CHG. YoY
Net Interest Income	514	567	-9%	523	-2%	2,311	2,383	-3%
Other Income	75	61	23%	33	129%	168	220	-23%
Total Income	589	628	-6%	556	6%	2,479	2,603	-5%
Operating Profit	351	342	3%	282	25%	1,443	1,617	-11%
PBT	93	-309	-	-1,496	-	-2,115	246	-
PAT	81	-234	-	-970	-	-1,369	190	-

The loan book for this business stood at Rs 43.6 billion as of March '19. Disbursements were Rs 800 million for the last quarter and 2.9 billion for the whole year. Aspire returned to profits in the fourth quarter with a profit of Rs. 81 million. During the quarter we repossessed assets under SARFESI of Rs 156 million from the earlier written-off loans, another Rs 185 million out of the NPL accounts. Had the repossessed assets been recognized PAT for the quarter would have been Rs 175 million versus the reported Rs 81 million and gross NPAs would have been lower by about 36 basis points, net NPA would have been lower by about 30 basis points.

Our collection efficiency has improved and net slippages declined in every quarter of FY19. On the new loans under-written in FY19 there was zero NPLs and there was just one case in 30 days past due. Margins during the year fell by about 10 basis points to 4.8% on marginally higher cost of funds. Our yield will improve by about 30 basis points based on the rate revision effective from 1st of April, 2019.

Our asset quality decay in FY19 was on account of seasoning of the legacy portfolio. However proactive clean-up of the legacy book expected positive trends in disbursement in coming quarter along with improved collection efficiency augurs well for future asset quality and profitability outlook. Our provisions stands at Rs 3.6 billion in FY19 and on account of the higher write-offs in 2Q and 3Q we believe that we have lent up the legacy book. There were actually no write-offs in the fourth quarter of the year and provisions coverage has been stepped up to about 70% including write-offs in FY19. Strong support from parent continued the capital infusion of Rs 2 billion in FY19 taking the total capital infusion Rs 8.5 billion. And gearing remains conservative at marginally over 4x.

There are limited repayments till March, 2020. That combined with the equities that we have infused till date, the low gearing, strong undrawn borrowing lines and the asset liability places us in a very comfortable liquidity situation to start growing our loan book in FY20. The name change from Aspire Home Finance to Motilal Oswal Home Finance is underway and is expected to yield multiple benefits.

Fund-based activities

KEY FINANCIALS: (Rs Mn)

Particulars	Q4 FY19	Q4 FY18	CHG. YoY	Q3 FY19	CHG. QoQ	FY19	FY18	CHG. YoY
Total Revenues	535	-845	163%	565	-5%	591	2,485	-76%
PAT	528	-609	187%	563	-6%	612	2,025	-70%

Turning to fund-based activities like commitments to our asset management product this has normally helped us seed these new businesses by investing in scalable opportunities but also represent highly liquid resources for deployment in future. Total quoted equity investments including unrealized gains were at Rs 14.4 billion as of March 2019. Mark to market on these gains are now part of the reported earnings and at Ind-AS reporting. A cumulative XIRR of these investments are about 19% which is the see-through ROE of this business.

Outlook: The Asset Management and Broking business have reported strong growth in profits in FY19. Home Finance business is back in black. AUMs of our businesses have grown strongly. Asset and Wealth businesses are now the largest contributors to our profits and dividend has been maintained despite the challenging year while pay-out has been stepped up to 50%.

We believe that our portfolio of the seven businesses is well positioned to capitalize on the various tailwinds stated by financialization of savings and other micro trends. Our brand is very well recognized in each of our businesses. We remain excited about the headroom to grow and ability to generate free cash by each of our existing businesses and remain focused on strengthening the moats there. We are now open for any questions.

Q&A

I had a couple of questions on the Broking side, so I see that the MTF book has increased in a big way quarter-over-quarter so from about Rs 460 crores to Rs 663 crores. Any particular reason why we are seeing this?

Actually, that impact is because of the year end event so there is an ETF funding which has happened on account of which you see the marginal spike.

We have funded ETF that was a Bharat ETF on account of which you will see the year end margin funding. It is only a 10-day funding which has come off in April '19.

The IB business also performed very well this quarter so what will be kind of missed out there and what was the big deal threat that we?

We have announced an M&A transaction in our quarterly presentation if you have a chance to look at it. Usually M&A related revenues are lumpy and reflect in some quarters. But when there is no such lump, the impact of full employee cost and other overheads start showing up. So on a quarter-on-quarter basis when ECM is not doing well you will see possibility within the quarterly numbers of IB and there was a backlog looking at that for the year as a whole. But yes you are right this particular transaction the M&A revenues that we talked about came in the fourth quarter. We have given you the details of that acquirer and the acquiree company in the presentation as well.

On the FII side we have talked about potential, any specific visibility of roadmap for scaling AMC business because I think few quarters ago we had mentioned there is lot of opportunity and potential, so any roadmap or specific traction on the FII side for the AMC business?

This is Aashish here from MOAMC. I presume your question is about developing offshore business for the AMC, so yes there is progress there. Once we are through this year I mean FY20 as you start seeing our quarterly reporting maybe by the first half of this year we will be able to show you concrete numbers. The reason why we haven't published any concrete numbers right now is because we can say confidently that we have won certain mandates but they are being operationalized and the money is not under management or it's not activated at this point in time. But I can say with confidence that there are some early wins that we have under our belt and they will start reflecting in the asset growth. My sense is by the first half of this FY20 we will have something to report to you.

On the domestic PMS side, we have had a long track record of beating the benchmark. So what are we doing to gather further AUM in terms of times where small and mid-cap have been battered, how much of distribution room empanelment is there to grow? What are the current number of distributors if you could give some color on the local side that will help would help?

On the local distribution practically be there are barely any—if you see—the banks where we have referral tie-ups. So all the leading private sector banks in India we have tie-ups with all of them for the PMS. On the foreign banks also tactically every bank, Wealth Managers, a large family office or multifamily offices like you have locally IIFL, Kotak or a Julius Bar or a Deutsche Bank or foreign banks you have like Citi, Standard Chartered or Deutsche Bank or DBS, domestic private banks like ICICI, HDFC, Axis, so we have all those arrangements in place. Not only now it's been there on an average since the last 2-3 years plus. In terms of the room for growth, clearly all these relationships they have huge potential to be deepened and I think that is something which is regular activity for us. So my sense is that it can only pick up pace as we penetrate more and more.

You are saying in terms of number of empanelment's maybe we will not add but in terms of potential clients these distributions itself there is enough of opportunity?

Yes, there is no doubt about it. And every once in a while there are new ones which come up like for example in the last couple of years IDFC Bank or a Yes Bank, so there are new potentials which gets added. But yes you are right in your statement that more potential is from penetration and not so much from just empanelling new counters.

If you could share any number in terms of empanelment's of all of these leading domestic and foreign banks which you have..?

The organized segment which I spoke to you will be in the range of 40 to 50 large counters where we are already empanelled and active.

So, if you look at FY18 our market share on the net inflow side was roughly 4%. Now it's come out to 2.2% as mentioned by Navin sir, so would like to hear some more commentary on the market share on the net inflow side?

I think couples of things have played out in this financial year. One is that if you see the overall playfield or the overall volume in the industry has gone down dramatically. Just to give you an example if you take the previous financial year Rs 45,000 crores worth of gross flow was the rough average per month and the net average was about Rs 20,000 crores of net flow per month for the FY18. If you see FY19 the gross flow was dropped in my sense to about Rs 25,000 crores on an average and the net flow has dropped to more like Rs 8000-7000 kind of numbers. So, one important point to keep in mind is that we have never been aggressive on launching multiple new funds or in launching series of closed-ended funds or for that matter doing upfronting of commissions etc. So, for last 5 years our commission practice remained absolutely the same. So as a result, what happens is that when the playfield the actually shrinks dramatically then the ability for you to participate also shrinks at a certain point in time. I want to clarify that this is not so much to with any kind of huge spike in redemption etc. in FY19, it's got more to do with the lower gross flow which actually translates into lower share and the lower share is coming from a lower participating field according to me.

Also, you can split the net flows into two parts, SIP and Discretionary flows. Our SIP, our overall market share now is appearing to be similar to the SIP share of ours because the market is only seeing SIP flows. Our share in discretionary flows were much higher which have become near zero and so the overall market share that you are seeing is a sum total of both of this-discretionary flows and SIP flows.

The market share was 2.9% and not 4% in FY18. The 4% which we had reported was excluding balance and now whatever the numbers we are reporting is including balance. So comparable will be 2.9% for FY18 and FY19 it is 2.2%.

Earlier, we were not participating in the balance category that's why the base has changed and we created our balance fund only somewhere in FY19. September 18 is where we created the funds.

On the PMS side now that we have started reporting net yields for PMS, so on the PMS side also on the alternate side we have seen the on traction in the yields, so if you take the gross revenue of the alternatives and divided by the average AUM of the alternates, FY19 numbers have been lower as companies and to FY18. So anything going on there?

I just want to clarify that alternates consists of PMS as well as AIF. There is absolutely no change in the PMS business at all. Only thing what happens is that AIF tends to have in this year, couple of AIFs draw downs and increase in AIF AUM that result in some kind of ups and downs in this number. The simple reason being that in AIFs the month on month accrual PE is lower than the carry potential in future because all our AIFs are a combination of a low fixed fee and then a reasonable carry to come over a period of 3-4-5 years. So when AIF gets added into PMS, the total alternate bucket might show some fluctuation. But there is no change in the PMS yield.

On the PMS side I see that our AUMs have increased just very marginally, so from Rs 154 billion to Rs 160 billion, are there any outflows or is it because of lower performance? Can you give a little bit of split on that?

The net flow is positive for the full-year. There is no impact on the AUM as a result of anything to flows at all.

Even for the quarter we are net positive. For the full year we are net positive on PMS even for the quarter we have a positive on PMS. The only thing which I would like to point out is that we are reasonably small and mid-cap heavy in terms of the PMS. So if I were to make an approximation out of Rs 16,000 crores, my sense is that well near Rs 8000 or 8500 crores will fall in the small and mid-cap bucket because the very essence of this is stock taking and holding for a 4-5 year kind of time period. If I just have to give you an idea you should imagine that in FY19 let us say that our small and mid-cap portfolio is down 14%-15% that itself will give you significant headwind.

Given that if I look at PMS performance in general over the last 2-3 years it's been a very tough performance and especially the last 2 years I would say and that's just bringing the performance down. now given this scenario are we seeing some resistance from HNIs to pay a 2.5% or people renegotiating on the fees?

Not really, if I just have to give you a simple idea, if you look at 2 years, 3 years I don't think the numbers are that bad. In fact if you look at 3 years everything is coming as double-digit after paying for last financial year 14%-15% negative, after paying for that also on a 3 year basis everything is double digit CAGR, number one. Number two, my sense is that what uplifts any PMS I think it's pretty much uplifting any active manager right now because of the challenges to do with outperformance and the whole market behavior itself. The third point is that I will be the average TER on the PMS is not way of the average TER on a mutual fund because in PMS is what happens is that there is a scope to calibrate depending on size of application. So I don't think that the large PMS client that we deal with I don't think that they should end up feeling that they are paying much more than what a mutual fund is paying or they should be paying anywhere else. I think the pricing is totally fair and square and it's pretty transparent actually.

What is your view on SEBI's regulation in terms of the reducing TER we should see for higher sized schemes. How would that impact you and your competitive positioning versus a larger Asset Managers?

Couple of things, one is that on your second question first I think the competitive position for us improves for multiple reasons. First is, somewhere on one of the previous questions I was sharing that there were aggressive practices of multiple types. By aggressive practices what I mean is that willy-nilly there was some kind of upfronting which was happening or multiple types of close ended funds or too many schemes being repeatedly launched and at any given point in time in the last 2 years I have seen that out of the net flow in the industry depending on which month you look at anywhere between 10% to 40% of the net flow has been by there of NFOs. So, the first thing that helps us is that the tendency of the industry to repeatedly keep coming with NFOs goes out of the window. Second thing is that these closed ended funds and upfronting because as you might be aware that there is some calibrated scale for open-ended funds which has been amounts. But as far as TER of closed ended funds is concerned, it is just given the hard knock-off and brought it down to 125 bps per year. So multiple product launchings, close ended funds, upfronting, we launched our funds in 2013 and now it is nearly 6 years, we have never done any upfronting. So, we are probably the first ones to offer and all trail model and we used to think that the distributor should earn 60% or 65% and we should earn 35% or 40%. We used to arrive at these kinds of equations and that's how we've created this whole issue of pricing. So, my sense is that the competitive landscape opens up for us. Yes, it's slightly unfortunate that exactly when this is happening the markets have taken an unfortunate turn so I think that is part of the cycle. I would not worry too much about that. But it opens the distribution stakes for us quite significantly. Second thing, what is the impact on the product? My sense is that in our case the largest fund we have Multi-cap 35 which is Rs 12,000 to 13,000 crores in size and that's the only fund which has some amount of impact of SEBI's decision to recalibrate the TERs. The total impact on a gross basis, the impact on the TER is 20 basis points. We are not doing anything which is out of our pricing policy. In the past also whatever was available to us we have shared in a certain percentage with the distributors. We continue with the same practice. If we are going to earn 20 basis points lower on a gross basis and the distributor was always earning 60%-65% and we were always earning 30-35, so if there is a knock of 20 the distributor takes a knock of 15 and we take a knock of 5. So according to us that is our fair and square way of settling this and I don't think that we should make a big deal out of penalizing distributors out of this or penalizing ourselves out of this. After a lot of thinking we feel that it should just be shared as per what was always being shared. Long answer to your short question but net impact is 5 basis points.

Just wanted to understand how are distributors reacting to such cuts to their

commissions? Obviously different Asset Managers given the size of their schemes must have passed these cuts at a different quantum to distributors. How is the distributor behavior evolving?

I think that after a while everybody would be in a similar range. I will tell you why because if somebody says that I have passed on a lot more. Let us say for example, if somebody says that our passed on the entire impact to the distributor, example theoretically. What it means is that in the past they have done heavy upfronting. So let us say your gravy was 180, now you have already done 1.1 or 1.2 or 1.5 upfronting and your trail was at 40-50 and you are thinking that your upfronting is down that will be amortized over the life of the revenue. Now the revenue itself has been cut so what is left to amortize? So how do I recover what I have already paid so I am going to pass on the entire impact on the trail so that the impact of the previous upfronting is kind of covered. So I think that different people will do their repricing based on their past practices and where they stand in terms of their equations but net-net people will arrive at a particular ratio and that ratio will always end up being either 70% cut to the distributor or 60% cut to distributor or some such number. Your question on how are distributors reacting? That is something which is predictable now but I am not able to figure out how much of distributor's reaction is because of past performance and how much of distributor's reaction is because of just re-pricing. Also keep in mind is that this is an adjustment process. By adjustment process what I mean is people have to get used to because a lot of people haven't even yet given clarity in terms of what the pricing will be. On the new sales and on the existing book there is still lack of clarity. We released our pricing in April itself but generally in the industry there is still lack of clarity. I think it's an adjustment period. Reaction from distributors it's too early to comment.

Because what we see is that the gap between the larger schemes and the smaller schemes in terms of distributor pay out can be as high as around 20 bps. So, are we seeing some distributors actually being more favorable to sell smaller schemes versus a larger scheme?

You are right because clearly, so to some extent that plays in our favor but let's also make clear we are not running any schemes so that it remains small. So, it's a limited time arbitrage, let us say we have some schemes which are Rs 1500 crores, Rs 2000 crores and that applies to a lot of Fund Houses in the industry. But I think the whole equation is not just about how the AMCs dealt with and how the distributor is dealt with. It's also about does we see that the product more attractive for the investor or not, number one and number two what is the underlying performance because 90% rule of the business is ultimately 3 year-5-year whatever cycle you look at ultimately you need to deliver. The key focus has to be on communicating about the philosophies and the products and the way we manage it. What is happening in the industry in the long term is good for the investor, it's just the adjustment process for may be a quarter or couple of quarters.

What is the distribution channel for PMS in that case, what is the mix there?

The distribution for PMS is bit more on the organized channels like private bankers and multi-family offices and Wealth Management firms. I think in response to previous question I named some of these entities. So they are all typically the Banks and the private bankers and wealth firms whereas in the Mutual Fund similar channels will be there in the Mutual Funds also but by that part in the Mutual Funds we have these broker-dealers or organized are distributors like NJ India, my parent company which is MOFSL then of course IFAs and of course the digital channels. So, the mutual funds it is slightly more diverse whereas for PMS and alternates it's more focused on the one huge deal with high net worth investors.

What would be the net new money expectation in FY20 for PMS separately and the MS business separately?

Not possible to share that and also even more important will be very difficult to forecast also.

If you look at the net yields or the PAT yields of the Wealth business or even if you look at the revenue yields of the Wealth business, they seem to have come-off in comparison to FY18 so what would this be a result of?

There are 2-3 factors very clearly, the first is that whenever the mix of new sales to the opening AUM will fall the yields will appear lower. This year the new sales to opening AUM was dramatically lower compared to the preceding year and second is as you see any marginal uptick in the share of debt in the overall AUM like you will see as the maturity of the Wealth business increases you will see maybe some contraction in the yield on that account as well. Add to that the overall regulatory framework where the distributor has seen contraction in margins in the second half has also played out in terms of, so these are the three factors that have got decked into this lower number FY19 compared to FY18.

One question about your Wealth Management business. The cost to income ratio seems to be on a higher side as compared to other Wealth managers so how do we look at this cost income ratio going forward in FY20 and also what is the vintage of your Relationship Managers in the Wealth Management Business, average vintage?

The EBITDA margin of the business is a function of how much we choose to invest and we have mentioned that the average number of RMs in FY19 over FY18 is up by 30% and at the time where net sales have contracted your new sales, part of revenue itself has gone down which is reflected in the overall yield drop also. So the combination of contraction in new sales as well as significant addition in RMs which will become productive typically in year 3, profitable typically in the year 3 is the reason why you are seeing the cost to income ratio being higher, EBITDA margin being lower for that business and in the coming years as we see the vintage of these RMs improving, every year should see an addition to the reduction in the drag due to the mix of new RMs and increase in the EBITDA margin of the business.

Any number you would like to allude to in terms of cost of income in FY20?

We are not making any such specific statement.

What is the average vintage of RMs right now and with this addition what would be the average vintage?

Once again we haven't shared that but we have given you the RM base every year. So, I think that will be illustrative in calculating the approximate vintage.

Also wanted to get some more guidance from Navin on the Asset Quality pains are behind in the Home Finance business, that should be the growth kicking back in terms of disbursement, AUM etc.?

We are looking at low double-digit growth in the AUM of the Home Finance business in the current year.

Can you tell me what part of the Aspire's book is in Stage-2; ECL Stage-2 because you give a combined number of stage 1 and 2, so if you can split that up will be great?

As of now, we have not split that up so we will come back to you as and when we start sharing this information.

We see that we have reduced our provisioning's and at the same time gross NPAs, they have gone up marginally. So how should we interpret this, should be interpreted that whatever net NPAs we have we should be in a position to recover it eventually or maybe just a pause we have taken to last 2-3 quarters of heavy write-off we have taken?

In fact, the provisions have gone up during the quarter. We can share with you all the details but actual absolute provisions and in fact even the expected credit loss assumption has been made even more conservative by about 400 basis points during the current quarter. So, the absolute number has gone up, the expected credit loss percentage has gone up, the overall coverage has gone up so all the three numbers are tracking up. Rakesh will share all those metrics for the fourth quarter and the full year compared to last.

But still the net NPA number remains on a higher side. We haven't seen, it might just be 20-20 bps increase so obviously our assets are coming down marginally but then what the net NPAs still remains high at around Rs 300 crores? What could be our estimate of recoverability of this Rs 300 crores?

We are optimistic. Bear in mind that when you look at these numbers the 100% write-off pool is a separate and in the presentation as well as in my remarks I had mentioned that we have had substantial repossessions on that account also. So, there is possibly a lot of over-provisioning there on the assets. So, if you look at it on an aggregate basis, coverages arguably well in excess of the losses that we expect. That was a design for FY19 and also this is one last point is that we separately given to you the repossessed the assets out of the write-off book and the NPL which have neither been knocked off from GNPL and NPL nor has been added to other income statements. So it is conservative.

Just to add one more point, we also have a standard provisioning which is pretty high so that is also about Rs 80 crores which is outstanding apart from what you said the net NPA of Rs 300 crores.

What is the net worth of Home Finance business?

It is Rs 830 crores

What will be the current cost of funds for this business? And 6 months down the line?

Current cost of funds is 10.2%. Quarter-on-quarter in fact they have been flat. As you are aware there is a name change process that is underway and the parent rating is too not just higher than the Home Finance business rating so we will wait for the next few weeks till this whole process is formally completed and we are hopeful of lower cost of funds for the year.

How do we look at the Home Finance business going forward? What kind of spreads and AUM growth are we looking at there?

We have mentioned that the effective percentage when the yields are higher by 30 basis points, we are hopeful that the cost of funds should be lower. We are expecting this percentage to be higher. We have not had any write-offs and we think they are reasonably well provisioned. So, these are the things that we will have to base into how the year should look like.

What are the employees as on date versus last year?

Its approximately 5200 in FY19 versus 4700 in FY18.

INVESTOR UPDATE

Motilal Oswal Financial Services reports Q4FY19 PAT of Rs 1.47 bn. Full year dividend maintained at Rs 8.5 per share (50% payout).

Mumbai, May 11, 2019: Motilal Oswal Financial Services Ltd. announced its results for the quarter and year ended March 31, 2019 post approval by the Board of Directors at a meeting held in Mumbai on May 11, 2019.

Performance for the quarter and year ended March 31, 2019

- Consolidated revenues stood at Rs 7.1 bn in Q4FY19 and Rs 26.8 bn in FY19. Consolidated PAT was Rs 1.47 bn in Q4FY19 and Rs 2.94 bn in FY19. FY19 profit was lower on account of higher provisioning/ write offs taken in Aspire Home Finance and lower MTM on fund based investments. Consolidated adjusted PAT was up 9% YoY to Rs 3.6 bn. (*Adjusted PAT excludes Aspire Home Finance, fund based investments and lumpy share of profits on the exit of PE investments).*
- **Some of the key highlights** include 36% growth in FY19 PAT of Asset Management business, 18% growth in FY19 PAT of Broking business, 27% growth in Distribution business AUM, no write offs and return to profit in Q4FY19 in Aspire Home Finance, name change of home finance business to "Motilal Oswal Home Finance", dividend maintained and payout increased to 50% of profits despite lower PAT.
- Consolidated net worth stood at Rs 30.5 bn, gross borrowing was Rs 51 bn and net borrowing was Rs 46 bn (including Aspire). Excluding Aspire, gross and net borrowings were Rs 15 bn and Rs 11 bn respectively and this is less than the market value of quoted investments at Rs 14 bn. Overall gearing remains conservative at 1.7x; ex-Aspire it is at 0.5x and considering market value quoted investments, we are effectively net cash balance sheet.
- Asset and wealth business was highest contributor to profit, ahead of capital market business for the 1st time.
- Besides financial performance, the last few quarters have been very eventful in terms of our successes in brand building, advertising and several other fronts. In FY19, MOFSL, yet again listed in top 20 BFSI companies as a **'Great Place to Work'** for 3rd consecutive year. Aspire Home Finance won the '**Digital Excellence in Urban Finance**' award at the Digital Customer Excellence Awards, 2019. **MOPWM** won the prestigious **'Best Boutique Wealth Manager India'** at the Asset Triple A Award 2018. **MORE** won **'Best Real Estate Product'** at India Wealth Awards 2018. **MOFSL** awarded as **"Best Broking Business of the Year"** at the Moneycontrol Awards 2018. 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 for the first time. Each of our 7 businesses offers significant headroom for growth and operating leverage as they scale up. Prestigious awards like Best broking business of the year, Top-20 Best Places to Work, Best boutique wealth manager and several others have made all associated with the group immensely proud".*

Performance of Business Segments for the quarter and year ended March 31, 2019

- **Capital markets Businesses (Broking & Investment banking)**

- Capital markets comprises of Retail Broking, Institutional Equities and Investment Banking business. Revenues for this segment were Rs 11.8 bn in FY19 and contributed ~44% of consolidated revenues. Profits were Rs 1.8 bn in FY19 and contributed ~42% of consolidated PAT. Broking and distribution business profit grew by 18% YoY at Rs 1.7 bn in FY19 led by strong operating margin expansion by 200bps to 34% 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 maintained on sequential basis. Overall market share stood at 2.6% (ex-prop) in Q4FY19 despite higher F&O volumes.
- Our strategy to bring in linearity through the trail-based distribution business is showing results. Distribution AUM was Rs 96 bn, +27% YoY in FY19. With only 16% of the near million client base tapped, Distribution income is already at 14.4% of retail broking gross revenues. We expect a meaningful increase in AUM and fee income as number of clients to whom we have cross sold and number of products per client cross sold rises.
- In **Institutional Broking**, rankings with existing clients improved, domestic institutions contribution improved and new client additions were encouraging. Every aspect of the business, research, sales, sales trading and corporate access is being strengthened.
- **Investment Banking** business has continued to engage and conclude some significant transactions in this period. We have completed 6 ECM transactions in FY19. Overall transaction pipeline remains encouraging.

- **Asset Management businesses are nearing critical mass**
  - **Asset Management** business across MF, PMS & AIF reached the mark of Rs 389 bn AUM, +9% YoY this year. Our AMC now ranks 11 by total equity assets, PMS ranks #1 while AIF assets are growing rapidly. Net Sales is Rs 41 bn in FY19. Revenues are Rs 1.4 bn and Rs 5.8 bn (+11% YoY) in Q4FY19 and FY19 respectively. PAT is Rs 355 mn (+12% YoY) and Rs 1.5 bn (+36% YoY) in Q4FY19 and FY19 respectively. Asset management business offers highest scalability and operating leverage among all businesses.
  - Our Equity MF AUM of Rs 200 bn is just 2% of the Industry Equity AUM of Rs 10.2 tn. Our market share in Equity MF Net Sales (including balance) stood at ~2.2% in FY19. The direct AUM is now 35% of total MF AUM.
  - Our share of Alternate assets, comprising of PMS & AIF, is the highest among AMC's at ~49% and continues to grow very strongly. Yields and profitability of Alternates is higher. As of March 2019, ~20% of Alternates AUM is performance-fee linked, and our target is to increase this further.
  - **Private Equity** manages an AUM of Rs 64 bn (+36% YoY) across 3 growth capital PE funds and 4 real estate funds. This business has delivered on profitability and scalability fronts. In FY19, PAT excluding lumpy share of profit on exits was Rs 224 mn, +133% YoY. 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 IBEF-3 in FY18 and received phenomenal response by garnering Rs 23 bn. We have launched IREF IV in FY19 with a target size of Rs. 12 bn has achieved 2nd close at ~Rs. 8.5 bn.

  - **Wealth Management** business AUM grew by 19% YoY at Rs 175 bn in FY19 with net sales of Rs 24 bn. In FY19, revenues grew 11% YoY at Rs 1.1 bn and PAT excluding impact of intergroup transfer pricing was Rs 189 mn. RM count of this business has reached 126 with average RM addition was up +30% YoY in FY19. As ratio of new adds to opening RM falls and the vintage of RM improve, both productivity and profitability of the business will scale up.

- Overall **Asset and Wealth Management** revenues were Rs 8 bn in FY19, +2% YoY and contributed 29% of consolidated revenues. Profits were Rs 1.9 bn and contribute 44% of consolidated profits, with highest scalability and with least capital employed among our portfolio of businesses.

- **Housing finance business**
  - Loan book stood at Rs 43.6 bn as of FY19. NII remained stable at Rs 2.3 bn in FY19.
  - Disbursements in Q4FY19 were Rs 800 mn and in FY19 was Rs 2.9 bn.
  - Zero delinquencies in new book generated in FY19. Strong improvement in collection efficiency
  - Name change to "Motilal Oswal Home Finance" to yield multiple benefits.
  - Asset quality deterioration in FY19 was on account of seasoning of legacy portfolio. However, proactive clean-up of the legacy book, expected positive trends in disbursements in coming quarters along with improvement in collection efficiency in FY19, augur well for future asset quality and profitability outlook.
  - Provisions stood at Rs 3.6 bn in FY19, on account of higher write offs in Q2 and Q3 of FY19 to clean up the legacy book. There were no write-offs in Q4FY19. Further provision coverage has been stepped up to 70% including write-offs in FY19.
  - 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 4.3x.
  - Limited borrowing repayments till March 2020, equity infusion, 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** activities like commitments to our asset management products, not only helped seed these new businesses by investing in highly scalable opportunities, but they also represent liquid resources for future opportunities.
  - Total quoted equity investment including unrealised gains was Rs 14.4 bn as of Q4FY19. MTM on these gains are now part of reported earnings under Ind-AS reporting. Cumulative XIRR of these investments is ~19%, 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. Aspire Housing Finance was awarded 'India's Most Admired & Valuable Housing Finance Company' at India Leadership Conclave 2015.