Motilal Oswal Financial Services

ConCall Summary & Earnings Release

Quarter and Year ended Mar 2018

22nd May 2018

Motilal Oswal Financial Services Limited (MOFSL) posted consolidated revenues of Rs 7.6 billion for Q4FY18, +38% YoY and Rs 27.8 billion for FY18, +44% YoY. PAT was Rs 1.48 billion for Q4FY18, +64% YoY. Capital Market revenue was Rs 2.9 billion in Q4FY18, +36% YoY and Rs 10.7 bn, + 47% YoY. Asset management revenue was Rs 2.2 billion in Q4FY18, +53% YoY and Rs 8.4 billion in FY18, +66% YoY. Housing finance-related revenue was Rs 1.7 billion in Q4FY18 and Rs 6.6 billion, +16% YoY. Fund-based revenue was Rs 2 billion in FY18, +71% YoY.

For a deeper insight into the company's performance and the management's expectations, we present extracts from the post-results conference call. We have edited and rearranged the transcript for greater lucidity. We have also included exhibits from the company's presentation on its performance for the quarter and Year ended Mar 2018. 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 Rakesh Shinde

Investor Relations

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

Welcome to the 4th Quarter of FY18 and FY18 Earnings Conference Call for Motilal Oswal Financial Services Limited. We have with us today Mr. Motilal Oswal-Chairman, Mr. Raamdeo Agrawal-Joined Managing Director, Mr. Navin Agarwal-Managing Director, Mr. Shalibhadra Shah-Chief Financial Officer and Mr. Rakesh Shinde-Investor Relations. For the duration of the presentation all participant lines will be in the listen-only mode. I will be standing by for the question and answer session. I would 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 FY18	Q4 FY17	CHG. YoY	Q3 FY18	CHG. QoQ	FY18	FY17	CHG. YoY
Total Revenues	**7,556**	**5,468**	**38%**	**7,368**	**3%**	**27,838**	**19,332**	**44%**
EBITDA	3,107	2,631	18%	3,579	-13%	13,137	10,182	29%
Exceptional items	0	0	nm	0	nm	0	-279	nm
PBT	1,955	1,375	42%	2,152	-9%	7,807	5,152	52%
PAT	**1,478**	**902**	**64%**	**1,481**	**0%**	**5,413**	**3,600**	**50%**
EPS - Basic	10.2	6.3		10.2		37.4	25.1	
EPS - Diluted	10.1	6.2		10.1		36.8	24.8	
Shares O/S (mn) - FV	14.5	14.4		14.5		14.5	14.4	

REVENUE COMPOSITION (Rs Mn)

Particulars	Q4 FY18	Q4 FY17	CHG. YoY	Q3 FY18	CHG. QoQ	FY18	FY17	CHG. YoY
Brokerage	2,718	1,724	58%	2,663	2%	9,559	6,414	49%
Investment banking	211	423	-50%	444	-52%	1,105	855	29%
Asset management	2,185	1,426	53%	2,216	-1%	8,446	5,098	66%
Fund based income	733	174	320%	491	49%	2,008	1,177	71%
Housing finance	1,688	1,696	0%	1,533	10%	6,625	5,705	16%
Other income	2,718	1,724	58%	2,663	2%	9,559	6,414	49%
Total Revenues	**7,556**	**5,468**	**38%**	**7,368**	**3%**	**27,838**	**19,332**	**44%**

Opening remarks

Good Morning. It is my pleasure to welcome all of you to the Motilal Oswal Financial Services earnings call for the 4th quarter and year ended FY18. The year FY18 marked continuing progress towards the strategic objective outlined a few years ago to achieve a business model offering greater linearity and higher Return on Equity. We remain excited by the overall positioning of each of our businesses to capitalise on the various tailwinds created by financialisation of savings, shift from unorganised to organised due to de-monetisation and GST and several other macro trends. We reported our highest ever annual revenues and profits in FY18. RoE scaled up to 27% and to 31% including unrealised gains. Headroom to grow in each of our businesses remains enormous. Management remains fully committed to staying sharply focused on the existing businesses and scaling them to their potential.

Turning to our consolidated numbers, Revenues in FY18 were Rs 27.8 bn, +44% YoY. Consolidated PBT was up by 52% YoY at Rs 7.80 bn in FY18. Consolidated PAT was Rs 5.41 bn in FY18, +50% YoY despite several factors – Rs 256 mn impact of MAT credit provisioning, Rs 229 mn impact of change in ESOP accounting policy, accelerated provision of Rs 194 mn and write off of Rs 715 mn in AHFCL. All these charges to income statement were at the discretion of the management. The strong FY18 PAT growth was contributed by 60% YoY growth in Asset & Wealth Management business and 64% YoY growth in Capital Market business. Board has declared final dividend of Rs 4.5 per share (FV Re 1 per share) taking total dividend to Rs 8.5 per share. Dividend payout policy remains 25-35% of PAT.

Consolidated net worth stood at Rs 22.5 bn, gross borrowing was Rs 53 bn and net borrowing was Rs 50 bn (including Aspire). Overall gearing remains conservative at 2.4x; ex-Aspire it is at 0.7x and considering market value quoted investments, we are effectively net cash balance sheet. RoE for FY18 was 27% on the reported PAT. However, this does not include unrealized gains in our quoted investments at Rs 5.6 bn as of March-18. Had this been included, RoE in FY18 would have been ~31%. I will now share the performance of each of our businesses.

Starting with the Capital Market businesses:

- Capital markets comprises of Retail Broking, Institutional Equities and Investment Banking business. Revenues for this segment were Rs 2.9 bn in Q4FY18, +36% YoY and Rs 10.7 bn in FY18, +47% YoY and contributed ~38% of Cons revenues in FY18. Profits grew much faster at 64% YoY and contributed ~32% of FY18 PAT.
- In **Retail Broking & Distribution**, our Market share in high-yield cash segment has improved strongly on YoY basis. Overall market share has been maintained at 2% in FY18 despite higher F&O volumes.
- Our strategy to bring in linearity through the trail-based distribution business is showing results. Distribution Net Sales were Rs 35 bn in FY18, +119% YoY, and AUM was Rs 75 billion, +71% YoY. With only 10% of the near million client base tapped, Distribution income is already at 17.5% 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, contribution of domestic institution improved and new client additions were encouraging. Every aspect of the business, research, sales, sales trading and corporate access is being strengthened. Tailwinds for local firms remain strong.
- **Investment Banking** revenues grew strongly by 30% YoY to Rs 1.13 bn in FY18 while profits grew much faster. We have completed 15 ECM transactions in FY18. Some significant transactions have been closed in Q4FY18 and the overall transaction pipeline remains quite encouraging.

Turning to Asset and Wealth Management businesses

- **Asset Management** business across MF, PMS & AIF reached the mark of Rs 356 bn AUM, +76% YoY this year, comprising of Rs 182 bn MF AUM, Rs 150 bn PMS AUM and Rs 24 bn of AIF AUM. Our AMC now ranks among the Top-10 players by total equity assets, PMS ranks #1 while AIF assets continue to grow strongly. Net Sales were Rs 128 bn in FY18, +125% YoY and compare with Rs 57 bn in all of FY17. Net yield was ~0.9% in FY18. Revenues were Rs 2.17 bn in Q4FY18, +80% YoY and Rs 6.68 bn in FY18, +96% YoY. Profits were Rs 546 mn in Q4FY18, +209% YoY and Rs 1.31 bn in FY18, +164% YoY. The asset management business offers the highest scalability and operating leverage among all our businesses.
- Our Equity MF AUM of Rs 182 bn is 2% of the Industry Equity AUM of Rs 8.3 tn. However, our market share in Equity MF Net Sales has scaled up to ~4% in FY18. Our endeavor would be sharpen the QGLP philosophy to sustain alpha generation, to increase our share of Net Sales as funds form part of performance league tables and there is stronger distribution pull. This will aid closing the gap between our share in AUM and Net Sales while improving our share in Net Sales. Ad & marketing spends were Rs 279 mn in FY18, +54% YoY, forming 9% of net revenue. Our ongoing ad campaign "Think Equity Think Motilal Oswal" is reiterating our positioning as equity specialist. Separately, our pricing power in MF is improving and the direct net sales contribution is rising – up from 17% in FY17 to 31% in FY18. This will help improve net yields.
- Our share of Alternate assets, comprising of PMS & AIF, is the highest among AMC's at 49% and continues to grow strongly. Yields and profitability of Alternates is higher. As of March 2018, ~20% of Alternates AUM is performance-fee linked, and our target is to increase this further.
- Financial savings to total savings in India has increased drastically although the share of Financial assets in overall Household assets remain minuscule, making us believe that the shift is structural.
- AUM of FIIs in India is Rs 30 tn, over 1.6x of the size of MF AUM's. Our AMC has zero share of this segment as of now. Our QGLP philosophy is relevant to address this segment well and we are seeing initial interest in our offshore products.
- **Private Equity** manages an AUM of Rs 47 bn across 3 growth capital PE funds & 3 real estate funds. This business has delivered on profitability and scalability fronts. The 1st growth fund (IBEF 1) has delivered an XIRR of 28%, and alpha of 10% and is expected to return nearly 6x MoC (Multiple of Cost). Till date, 3.3x MoC has been returned for INR investors and 2.2x for USD investors. Strong performance and positioning has also aided new fund raise. We launched IBEF-3 this year and received phenomenal response by garnering Rs 15 bn and are expected to achieve targeted size of Rs 20 bn by Jun-18.
- **Wealth Management** business AUM grew by 46% YoY at Rs 147 bn with Net asset addition at Rs 27 bn, +50% YoY. Revenues grew 47% YoY and PAT grew 135% YoY in FY18. EBITDA margins improved to 35% in FY18 vs 31% in FY17. RM count of

this business has reached 118 from 78 in Mar-17, +51% YoY. Investments in strong RM addition suppressed reported profitability of past years. 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. Yield remained robust led by favourable equity mix of ~70% in total AUM. Trail income from this business covers 68% of cost and this will provide cushion to margins in downturn.

- Overall **Asset and Wealth Management** revenues were Rs 8.4 bn in FY18, +66% YoY and contributed 30% of consolidated revenues. Profits grew by 60% YoY and this segment now contributes 37% of consolidated profits, with highest scalability and with least capital employed among our portfolio of businesses.

Turning to Housing Finance business:

- **Aspire Home Finance's** loan book grew by +17% YoY at Rs 48.6 bn. We plan to grow loan book at about 15% in FY19.
- Profits declined on account of provisioning of Rs 564 mn and write off of Rs 715 mn. Accelerated provisions over the regulatory requirements resulted in doubling of PCR to 35% from 18% in FY17. We plan to increase PCR further in FY19.
- Strong ramp-up in collection headcount: +60% QoQ to ~215 officers. Average age of collection officers into the system is less than two months. We expect meaningful traction in collections, as their customer touch base increases in-line with their vintage.
- Disbursements were consciously calibrated at Rs 1.8 bn in Q4FY18 and Rs 14.3 bn in FY18 vs Rs 24 bn in FY17. 4 new states launched in FY17 are performing better.
- GNPA stood at 4.5% and NNPA at 3.3% in Q4FY18 vs. 4.6% and 3.6% respectively in Q3FY18. Asset quality deterioration in FY18 was on account of seasoning of book coupled with delay in setting up collection organisation. Further, prolonged impact of external shocks in economy also affected asset quality. Impact of collection and legal organisation is expected to bear positive results.
- We expect NPL's to rise in first half of the year in-line with seasoning of book and seasonal nature of business and stabilize from the second half of FY19.
- We remain confident of the long term outlook of the home finance business. Rs 500 mn equity capital has been infused during the quarter and we are committed to provide further capital as the business scales up.
- Management team has been strengthened with ramp up critical functions like Credit, Technical, Collections, Operations, HR, Business Process & Quality and Compliance. The process of strengthening the team further will continue in the coming quarters.
- Margins stood at 4.1% in FY18 vs 3.6% in FY17. This margin expansion was on account of lower cost of funds.
- Gearing remains conservative, with the Debt/Equity ratio at 4.9x.

Fund based Business focuses on enhancing Return on Equity

- **Fund Based activities** like commitments to our asset management products, not only helped seed these new businesses by investing in highly scalable opportunities, but they also represent liquid resources for future opportunities.
- Investments in quoted equity investments stood at Rs 9.8 bn at cost, while the unrealised gain on these investments as of March-18 stood at Rs 5.6 bn. These gains are not reflected in the reported PAT. The post-tax cumulative XIRR of these investments is ~25%, which is the see-through RoE vs reported RoE of just 12% in fund based business. As per IND-AS, these gains will form a part of reported earnings from FY19.

Outlook

To sum up, our strategy of diversified business model towards linear sources of earnings is showing definite results with 50% PAT growth in FY18. All our businesses continue to grow strongly, make significant investments, are building scale and offer operating leverage. Our brand is now being recognized in each of our businesses. RoE is best in class at 27% and 31% including unrealised gains. We remain excited about the headroom to grow in our businesses and remain sharply focused on them. We are now open to Q&A

Capital Market Businesses

Retail Broking & Distribution, Institutional Broking

KEY FINANCIALS: MOSL (Rs Mn)

Particulars	Q4 FY18	Q4 FY17	CHG. YoY	Q3 FY18	CHG. QoQ	FY18	FY17	CHG. YoY
Total Revenues	3,244	1,988	63%	2,895	12%	11,020	7,214	53%
EBITDA	1,176	460	156%	922	27%	3,629	2,275	60%
PBT	816	244	235%	602	35%	2,435	1,429	70%
PAT	617	184	235%	382	62%	1,734	1,088	59%

What are your plans to scale up the distribution business and how do you see this business like its contribution to retail would be how much?

Retail business is basically is in two parts; one is broking business and the second distribution business, which is distributing all the other products. Distribution business actually has been scaled up for last 2 years and you have seen the numbers its growth year-on-year basis in terms of AUM. Only 10% of the customers are cross sold to brooking customers. Now coming back to booking business, the distribution is all in terms of new client acquisition, our strategy is very different where ours is 2 Tier strategies; one is, advisory based for purely to the delivery customers and second, is for the online channel. And I think with number of points, now we would be within and

about 600 cities with about more than (+) 2500 franchisees plus outlets. So number of customers are increasing, cross selling products have been done and overall cash markets has also seen a good amount of jump in this year. Growth is coming from all across, it is now more or less in all, I would say all district and taluk levels except few States where we don't see much potential.

Currently, in terms of the theme of financialization of savings, what are we seeing beyond say the top 10- 15cities and for our current retail broking business would Maharashtra and Gujarat be 50-60% of our income, how concentrated are we in these two areas?

I would not have the exact number, but it will not be more than 40% of our total revenue in Maharashtra and Gujarat. And as far as financialization of savings, the question that you asked in fact we are seeing very strong traction outside of the top cities as well in terms of participation in equity, participation in formal equity assets and savings and including in alternate assets. So I think the under-allocation is even more chronic in these smaller places and hence growth rates are even higher and the smaller places.

Are we seeing traction in both side – Broking and distribution or we are seeing direct customers and the focus is retain or is it balanced or what are we seeing beyond

I think all the segments, if you look at manufacturing – Asset Management, Private Equity, real estate funds or you look at distribution, which includes the retail distribution that we spoke about as well as the Wealth Management, the growth rates are very robust that we reported for this year.

Investment Banking

KEY FINANCIALS: INVESTMENT BANKING (Rs Mn)

Particulars	Q4 FY18	Q4 FY17	CHG. YoY	Q3 FY18	CHG. QoQ	FY18	FY17	CHG. YoY
Total Revenues	213	429	-50%	456	-53%	1,135	872	30%
EBITDA	210	309	-32%	289	-27%	847	561	51%
PBT	210	307	-32%	288	-27%	845	554	52%
PAT	150	202	-26%	177	-15%	604	372	62%

Asset & Wealth Management Businesses

Asset Management

KEY FINANCIALS: ASSET MANAGEMENT (Rs Mn)

Particulars	Q4 FY18	Q4 FY17	CHG. YoY	Q3 FY18	CHG. QoQ	FY18	FY17	CHG. YoY
AUM (Rs bn)	356	203	76%	350	1%	356	203	76%
Net inflows (Rs bn)	31	19	63%	36	-12%	128	57	125%
Total Revenues	2,175	1,205	80%	1,695	28%	6,684	3,413	96%
EBITDA	728	272	168%	479	52%	1,914	765	150%
PBT	725	270	169%	478	52%	1,908	759	151%
PAT	546	177	209%	303	80%	1,314	498	164%

What is your strategy to scale offshore opportunity?

We have already put in place offshore marketing department. Karun Marwah is there and we have kind of already started testing the water in the Middle East and US and Europe. So these are early days, I mean it has not any great success. We are managing about $ 25 million into our domestic products. We are not launching many products outside the current base. The current strategy is to scale up the domestic products into the international markets. Products are available in India, we want to make it available all over the world, not only to Indians abroad, but all sorts of institutions and everybody abroad, that is the thinking right now. So these are early days, I think it will take some time.

What will be our strategy, when the frequent regulatory cap on pricing on the MF and there are also a post LTCG there is some tax headwinds now?

Yes, nature of relation in India is such that you cannot prepare for long-term in the sense that you have decided to build business for long-term but we have to take on the side as and when it comes. I have seen that relation so far has not hurt the manufacturers directly. Somehow, the whole focus of the realtor has been a lot more on the distribution and making the whole access to be easy or much more educated intimidation, those kind of things are there. So what we are trying to do is that we focus on the total management - customer service, performance of the product, focused products, focused portfolios. So taking care of the clients' money well and we will go along and we will see that we are fairly compensated and then change the mix between domestic and global.

Is there any plan to acquire any mutual funds?

No there is no plan and I don't think that in that mindset at this juncture.

Current global situation and concerns, and rupee-crude, upcoming political election, what are we seeing from investors specifically on the mutual fund side and what are we communicating to them to play this volatility or near-term concern, if any on India?

We do a monthly call and it is like changing profile every time, but I mean for this year they are not very good at predicting very short-term trends, so at least for the year we expect the market to be in a plus minus 10% kind of situation. So if market goes to about 9000-9500, we are fine, market goes to 1000-11500 that is also okay. But the customer expectations that we have built is don't expect a fantastic return this year, if it comes very good. But also, this is not the time to quit the market so because markets cap to GDP is well below one-time and by the end of the year, if it stays here it will be more like 0.75. So that gives a long-term tailwind, because corporate profits are not very robust right now. So on the whole, this is the time to stay put in whatever you have and build your portfolio slowly. And if you're coming for long-term, don't time the market because we are not going to get anything right in the sense that if you are thinking market will not go down, it will go down, and if you're thinking market will go up, it will not go up. So this is the treacherous nature of the market, but if you cut it 5-10 years out, then you will see every 10 years you see the scale change, of the players, of the markets, and market cap of the companies. The companies which are successful, look at #1 company almost every 5 years, it is doubling its size. Today, we are almost at Rs. 6 lakh crores as the largest company, 10 years back it was barely Rs. 2.5- 3 lakh crores, so opportunity size in India is growing, so that is the opportunity for longer-term investors and I think it is not a short-term opportunity in India right now. That is how we are positioned with the investors and we are seeing not as robust a flow as what we saw in last 12 months. But on 2 months we have seen a little down, maybe 20%-30% down, but not that significant decline.

Mutual fund sector has the outflow started from the domestic investor due to the liquidity coming down and what impact would have on the financialization theme and on our AMC and other businesses?

There is a little reduction in the flow between April and May, May is yet to be over actually May is a bit better than April as far as we're concerned. So, you don't know how the clients behave, April must have been the first month in CY18, which have been slow. So May is looking to be a little better than April. So still I see a lot of positivity among the investors whom we are contacting but I don't think there is any headwinds per se, the tailwind might have reduced but there is no headwind right now.

As you mentioned also in your opening remarks with regard to the return expectation from the equity is comparatively lower as compared to last year because of crude oil- INR and all other things and recently the market has also witnessed lot of FMP product, they started coming into the market. So in our AMC business also do we have any such kind of debt products to come in?

Right now, there is no plan in our AMC business for any kind of debt products, just focusing on equities, at least for the next couple of years. So even if equity goes out of favor and the equity as a class remains little low line I think we are pretty fine with that. I don't think we're going to hedge the bets with starting up of debt products, that is what the strategy.

Private Equity

KEY FINANCIALS: PRIVATE EQUITY* (Rs Mn)

Particulars	Q4 FY18	Q4 FY17	CHG. YoY	Q3 FY18	CHG. QoQ	FY18	FY17	CHG. YoY
Total Revenues	167	153	9%	168	-1%	1,323	1,193	11%
EBITDA	77	47	63%	55	42%	726	649	12%
PBT	73	42	71%	51	42%	708	637	11%
PAT	57	29	96%	48	20%	556	502	11%

Wealth Management

KEY FINANCIALS: PRIVATE WEALTH MANAGEMENT (Rs Mn)

Particulars	Q4 FY18	Q4 FY17	CHG. YoY	Q3 FY18	CHG. QoQ	FY18	FY17	CHG. YoY
Total Revenues	364	242	50%	248	47%	1,059	720	47%
EBITDA	170	85	100%	78	118%	418	223	88%
PBT	168	83	102%	75	123%	409	205	99%
PAT	138	51	170%	53	161%	310	132	134%

What is the plan to scale up the business and what makes us different from the competition?

Wealth Management business is only about the quality of relationship managers. So that is the more differentiating factor in terms of knowledge, in terms of skill and of course the customer centric approach. And if you see in the last 2 years, now our number of relationships are about (+) 120 and we are present in 9 cities across the country. So, whole focus is on getting a quality relationship manager and a very deep customer relationship, and if you look at the client base, which is huge in terms of retail broking business, but our focus is only on HNIs which gives us more than more than 2.5 crores worth of assets with us. Focus is on equity and growth assets and not income and debt

assets. So, our positioning is more as the go to wealth manager for growth and equity assets and that is why the dominant mix for us unlike other wealth manager is equity and growth products and that is also the reason why the yields are much higher. Unlike last year where, our RM count was flattish on a year-on-year basis. This year our RM count has gone up by over 50% on a year-on-year basis. So we continue to see strong tailwinds for this business, particularly for the local firms given that a lot of the foreign banks have vacated the segment and more increasingly we are seeing the mainstream banks having more restrictions and the lesser focus. So, clearly this business again offers enormous headwinds to grow and our positioning is very clear differentiate from many of the other asset managers.

You mentioned in one of the slides that large part of sales come from captive funds. So just wanted to understand which kind of funds are these and what is the share of these funds in the overall flows?

This is the open architecture and all sorts of funds are distributed. But when it comes to alternate assets, the choices of offering are relatively limited unlike mutual funds where the choice of offerings are wide. So, if you look at mutual fund the share of our own mutual fund sales would be quite low compared to the alternate assets, where given our leadership position in the PMS business and the substantial ramp up in the AIF business, we are seeing much higher share of captive product there because of lack of opportunities in the overall market.

There is a decline in spite of net additions during the quarter and that implied negative market return appears to be somewhere close to 20% so just wanted to get some sense and what is share of own funds?

You can get in touch with our Investor Relations Team, your computation is definitely incorrect meaningfully. So maybe you may want to reconcile these numbers separately, but it is quite incorrect. It is nowhere close to 20% that is flattish. So, I think there may be some meaningful error in the calculation. According to us, negative market impact is at 5%

Custody assets are shown as distribution assets in Wealth AUM?

We don't include custody assets in any of our AUMs, except that DP asset that are separately disclosed. Distribution assets are separate which is the cross-sell done to broking clients. So, Rs. 7,500 crores is different from Rs. 15,000 crores.

Housing Finance Business

Aspire Home Finance

KEY FINANCIALS: ASPIRE HOME FINANCE (Rs Mn)

Particulars	Q4 FY18	Q4 FY17	CHG. YoY	Q3 FY18	CHG. QoQ	FY18	FY17	CHG. YoY
Loan Book (Bn)	49	41	17%	49	-1%	49	41	17%
Disbursements (Bn)	2	9	-80%	3	-53%	14	24	-40%
Gross NPL%	4.5%	0.6%		4.6%		4.5%	0.6%	
Net Interest Income	885	417	112%	423	-25%	2,297	1,259	82%
Other Income	94	334	-72%	78	-65%	551	951	-42%
Total Income	980	751	30%	501	-36%	2,848	2,209	29%
Operating Profit	710	481	48%	303	-35%	1,766	1,379	28%
PBT	-83	436	NA	10	-97%	486	1,257	-61%
PAT	-56	286	NA	6	-97%	315	821	-62%

What has changed for us and what are the specific 2 or 3 key attributes, which gives us the confidence of the credit quality and asset this thing is now nearing the fag-end and from hereon, the GNPA and NPA would improve over a period of time and there do you see it settling over the next 2-3 years or so?

Team has been really geared up very strongly. Second thing, there is a structure change, where credit is now completely independent, earlier structure credit was under the Branch Manager. Branch manager was taking care of both sales and credit and of course collections. Now all the verticalization of the structure has happened, new people have joined, all this 3 or 4 new States the initial signs are much better in terms of the quality of collections and practically zero NPA from these 3 or 4 states. The collection team is absolutely as you heard, that is just a 2 months old vintage and we have got more than 215 collection officers plus about 20-30 senior leaders who have joined there. So, of course, it takes time to build an organization and to get the results. We are very confident that may be second half onwards things will stabilize and will be far better.

What is the sense of the credit cost that we still need to provide going forward to overcome the challenges that we have seen in the business? Headline GNPA number do you see stabilization?

We are not giving out any specific credit cost guidance, but as we have mentioned to you, that we have doubled our provision coverage ratio and we will continue to take that up. So, this will be a slightly discretionary line item where our aspiration is to bring down the net NPAs through all means basically bringing down your gross NPAs eventually, writing-off wherever there is an impairment of asset and upping your provision coverage ratio. So, this is a year when the credit costs may continue to be high

mainly driven by the fact that our provision coverage ratio will also increase. As far as GNPA is concern, we are guiding that the impact of the seasonality seasoning in the first half. But we definitely expect stabilization in the second half of the year.

When do we expect disbursement run rate improvement?

We are looking at a 15%-odd growth in the loan book. So we are looking at maintaining the disbursement run rate in this year at similar levels as last year before we can look at a step up may be closer to the second half of the year.

Any idea to sell this business and give more focus on our other activities where we are leaders?

Whenever you build any new business, when we built AMC, between 2008-2013, even within the house there was a disbelief that we can build it. So, every business requires a painful transition in the beginning. In fact, I was personally between me and Navin and Moti, I was surprised that in the very first 2 years you can go at 100% and we can have a flying colors, crazy well-wishers and things like that. So that was sense of disbelief. I did not want to kind of experience this kind of a wobble, but it is very natural that whenever you build you will see some difficulties and we are facing our share of difficulties and that is the way you learn, you learn for the next 30 years, 40 years, 50 years. So, it is a painful process and you all have to be a little more patient on this. We have decided to build not for 1 or 2 years or next quarter or something like that, it is a very well thought out aspiration to deploy our free cash flow into this and build something is a huge opportunity into the future. So, these are very serious effort and we will try our best before so have little patience.

Is there a very different accounting policy that you all are using to accrue interest, cash accounting versus accrual accounting, and if you were to do it in normal times or the normal way would there be a big difference? And secondly, what is the size of the entire written-off loan book in Aspire since inception and from a collection point of view is there any opportunity there. As you think about it for the next 12 to 18 months?

There wouldn't be any difference in the accounting based on the two variables that you mentioned, cash versus accrual all of the accounting is based on cash. So EMIs that are not collected, are not accounted for. I don't know about the other Home Finance companies, but some of them do may follow accrual, but at least we are following the cash method. So that is point number one. Point number two; the total write-offs that we have done are around the magnitude of about Rs. 70 crores and as you may be aware every lender has a separate division, whose performance appraisal is based on the

amount recouped from the write-offs. So we also have a team like this whose job is to maximize their recovery from the write-offs but then at least these ceased to be the focus of the regular collection team.

How long will the pain continue and any lessons we have learned from it, especially collection, refurbishing and other things?

We think that second-half onwards things will be better from the collection perspective and we feel that now book is also more or less seasoned. So maybe I think 2019-2020 should be a better year for us. 2018-2019 looks to be another year of stabilization when few more lessons to be learned will be learned in collection, stabilizing collection team, getting our new team and place so may be, we are in for some surprises. But I think next 12 months will be able to douse the fire and in fact this itself we are opening up the books for little growth but much more confident growth will come in 2019-2020.

We have seen a lot of management changes at the middle level and expansion in team and all, but just wanted to understand our basic values of the business remains the same in terms of our customer focus, geographies, average ticket size, or are we also looking at kind of tweaking our business model as well?

There is a substantial change in terms of the segments that we are willing to take exposure to under construction projects and land loans which is something that we are averse, economically weaker section is what we are relatively averse to compare to low-income group, LIG segment. So, there are lots of, I would say, granular changes in segments, geographies, ticket sizes that we are now averse to, given the learnings that we have of the last 4 years. We have a lot of learning of these businesses and they are all put to work in the business rule, in the 402k, in the credit, in the risk, in the analytics part of the business. So it is what we are on boarding we think would be much higher quality compared to the past based on the experience that we have.

Would it be fair to assume that we gradually keep moving upwards in terms of the average ticket size and probably move into more middle-income kind of a segment but again that is going to be kind of a little more competitive for us right?

No, we are not looking at that. I'm saying that within the affordable housing segment you have EWS versus LIG. So move away from EWS so there are many cuts within the affordable housing business within the sub-25 lakh cap on loan that you can make changes, which is what we are making.

NPAs they are broadly from retail loans or they are from builder loans? And second, related question is it that you would be increasing the provisioning cover typically in Home Loans LGDs are fairly low, although time to recoveries may be 12-18 months because the profits itself takes time so if you can give me broad data point on time to recovery and LGDs that you expect in home loans?

Time to recovery that you mentioned is correct, it will take 12 months to 18 months to recover some of these chunks of money that you spoke about because the legal process drives you to the timeline if you look at the notices to be given, the orders to be issued, summons etc. whole process. So 12-18 months, is a good time frame for recovery and as far as the sources of NPAs are concerned there entirely 100%, retail customers that are driving this.

Why would you do write-offs when all this is yet to be established at Rs. 70 crores? What would be the rationale for the same?

Wherever we have seen any cases of multiple funding, any cases of technical overvaluation, so basically there is also an NHB guidance about looking at all your overdue accounts and anywhere that you see overvaluation impair those and factor adding to your capital adequacy. So either fall in property prices or example of overvaluation or an example of fraud; internal or external or an example of multiple funds anything that creates a doubt about how much I can recover we have been proactive and conservative in making this.

Would it be reasonable to assume that you have looked at your stock of NPLs and whatever needs to be provided for these abnormalities is already taken care of and incremental LGDs would be lower?

We have already given the guidance on NPLs for the next year. So I think how that translates into trade cost, which was another question that was asked earlier and is something that we will wait and watch. But we are also going to increase our provision coverage, which will keep the trade cost elevated at least for this year.

Fund-based Business

KEY FINANCIALS: MOFSL Standalone (Rs Mn)

Particulars	Q4 FY18	Q4 FY17	CHG. YoY	Q3 FY18	CHG. QoQ	FY18	FY17	CHG. YoY
Total Revenues	271	205	32%	780	-65%	2,234	1,763	27%
EBITDA	207	155	34%	723	-71%	2,012	1,569	28%
PBT	123	60	106%	633	-81%	1,625	857	90%
PAT	114	58	96%	509	-78%	1,297	863	50%

INVESTOR UPDATE

Motilal Oswal Financial Services reports Q4FY18 PAT of Rs 1.48 billion, +64% YoY and FY18 PAT of Rs 5.41 billion, +50% YoY.

Mumbai, May 21, 2018: Motilal Oswal Financial Services Ltd. announced its results for the quarter ended and year ended March 31, 2018 post approval by the Board of Directors at a meeting held in Mumbai on May 21, 2018.

Performance Highlights

Rs Million	Q4FY18	Q4FY17	YoY Chg	FY18	FY17	YoY Chg
Revenues	7,556	5,462	↑38%	27,838	19,332	↑44%
PBT	1,955	1,375	↑42%	7,807	5,152	↑52%
PAT	1,478	902	↑64%	5,413	3,600	↑50%
EPS (FV-1)	10	6.1		37	25	

Final dividend declared of Rs 4.5 per share

Performance for the quarter and year ended March 31, 2018

- Consolidated revenues were 27.8 billion in FY18, +44% YoY and Rs 7.56 billion in Q4FY18, +38% YoY.
- In FY18, Asset & Wealth Management business top-line was +66% YOY, Capital Market business was +47%YoY and Fund based business was +71% YoY. In FY18, 54% of revenue came from linear sources like Asset & Wealth Management and Housing Finance. Capital Markets share in revenue during the year was 38% led by market tailwinds coupled with operating leverage. Broking business has clocked its highest ever yearly revenues, its distribution arm clocked 71% YoY growth in AUM and Investment banking profits and pipeline continued to grow strongly. Notwithstanding this strong performance in Capital Markets, the share of annuity revenue streams went up, led by AMC's AUM growth of 76% YoY and Housing Finance business reporting a loan book growth of 17% YoY.
- Consolidated PBT was up by 52% YoY at Rs 7.8 billion in FY18. Consolidated PAT was Rs 5.41 billion in FY18, +50% YoY, despite 3 factors – Rs 256 mn impact of MAT credit provisioning, Rs 229 mn impact of change in ESOP accounting policy and accelerated provision of Rs 194 mn and write off of Rs 715 mn in AHFCL. All these 3 charges to income statement were at the discretion of the management. This incremental PAT growth was contributed by Asset & wealth management business, +60% YoY and Capital Market business, +64% YoY. PAT ex-Aspire is up 81% YoY.
- Significant investments have been made in manpower. Ad expenses are +54% YoY in Asset Management. The full impact of operating leverage from these sizeable investments is yet to unfold in our businesses.
- Consolidated net worth stood at Rs 22.5 bn, gross borrowing was Rs 53 bn and net borrowing was Rs 50 bn (including Aspire). Excluding Aspire, gross and net borrowings were Rs 14 bn and Rs 11 bn respectively and this is less than the market value of quoted investments at Rs 15 bn. Overall gearing remains conservative at 2.4x; ex-Aspire it is at 0.7x and considering market value quoted investments, we are effectively net cash balance sheet.
- RoE for FY18 was 27% on the reported PAT. However, this does not include unrealized gains in our quoted investments at Rs 5.6 bn as of March-18. Had this been included, RoE in FY18 would have been ~31%.
- Board has declared final dividend of Rs 4.5 per share (FV Re 1/share) taking total dividend to Rs 8.5 per share. Dividend payout policy is 25%-35% of PAT.

Speaking on the performance of the company, Mr. Motilal Oswal, CMD said

"Our strategy to diversify our business model towards linear sources of earnings like Asset Management and Housing Finance continues to show results, with bulk of the revenue pie now coming from these new businesses. Each of these businesses offers significant headroom for growth and operating leverage as they scale up. Even our traditional businesses also saw strong uptick during the quarter by registering record revenues. With this strategy, we have achieved highest ever annual revenue and profit during FY18. Our brand is now being recognized in each of our businesses".

Performance of Business Segments for the quarter and year ended March 31, 2018

- **Capital markets Businesses (Broking & Investment banking)**
  - Capital markets comprises of Retail Broking, Institutional Equities and Investment Banking business. Revenues were Rs 10.7 bn in FY18, +47% YoY for this segment and contributed ~38% of Cons revenues. Profits grew much faster at 64% YoY and contributed ~32% of Cons PAT.
  - In **Retail Broking & Distribution**, our Market share in high-yield cash segment has improved strongly on YoY basis. Overall market share has been maintained at 2% in FY18 despite higher F&O volumes.
  - Our strategy to bring in linearity through the trail-based distribution business is showing results. Distribution Net Sales were Rs 35 bn in FY18, +119% YoY, and AUM was Rs 75 billion, +71% YoY. With only 10% of the near million client base tapped, Distribution income is already at 17.5% of retail broking gross revenues. We expect a meaningful increase in AUM and fee income as number of clients to whom we have cross sold and number of products per client cross sold rises.
  - In **Institutional Broking**, rankings with existing clients improved, domestic institutions contribution improved and new client additions were encouraging. Every aspect of the business, research, sales, sales trading and corporate access is being strengthened. Tailwinds for local firms remain strong.
  - **Investment Banking** revenues grew strongly by 29% YoY to Rs 1.13 bn in FY18 while profits grew much faster at 62% at Rs 603 mn. We have completed 15 ECM transactions in FY18. Some significant transactions have been closed in Q4FY18 and the overall transaction pipeline remains quite encouraging.

- **Asset Management businesses are nearing critical mass**
  - **Asset Management** business across MF, PMS & AIF reached the mark of Rs 356 bn AUM, +76% YoY this year, comprising of Rs 182 bn MF AUM, Rs 150 bn PMS AUM and Rs 24 bn of AIF AUM. Our AMC now ranks among the Top-10 players by total equity assets, PMS ranks #1 while AIF is growing rapidly. Net Sales were Rs 128 bn in FY18, +125% YoY and compares with Rs 57 bn in all of FY17. Net yield was ~0.9% in Q4FY18 and 0.92% for FY18. Revenues were Rs 6.7 bn in FY18, +96% YoY and PAT is Rs 1.31 bn, +164% YoY. The asset management business offers the highest scalability and operating leverage among all our businesses.
  - Our Equity MF AUM of Rs 182 bn is just 2% of the Industry Equity AUM of Rs 8.3 tn. However, our market share in Equity MF Net Sales has scaled up to ~4% in FY18. Our endeavor would be sharpen the QGLP philosophy to sustain alpha generation, to increase our share of Net Sales as funds form part of performance league tables and there is stronger distribution pull. This will aid closing the gap between our share in AUM and Net Sales while improving our share in Net Sales. Ad & marketing spends were Rs 279 mn in FY18, +54% YoY, forming 9% of net revenue. Our ongoing ad campaign "Think Equity Think Motilal Oswal" is reiterating our positioning as equity

specialist. Separately, our pricing power in MF is improving and the direct net sales contribution is rising – up from 17% in Q4FY17 to 31% in Q4FY18. This will help improve net yields.

- Our share of Alternate assets, comprising of PMS & AIF, is the highest among AMC's at ~50% and continues to grow very strongly. Yields and profitability of Alternates is higher. As of March 2018, ~20% of Alternates AUM is performance-fee linked, and our target is to increase this further.
- **Private Equity** manages an AUM of Rs 47 bn across 3 growth capital PE funds & 3 real estate funds. This business has delivered on profitability and scalability fronts. The 1st growth fund (IBEF 1) has delivered an XIRR of 28%, and alpha of 10% and is expected to return nearly 5.4x MoC (Multiple of Cost). Till date, 3.3x MoC has been returned for INR investors and 2.2x for USD investors. Strong performance and positioning has also aided new fund raise. We launched IBEF-3 this year and received phenomenal response by garnering Rs 15 bn and expected to achieve targeted size of Rs 20 bn by June 2018.
- **Wealth Management** business AUM grew by 46% YoY at Rs 147 bn with highest-ever Net adds in FY18 at Rs 27 bn, +50% YoY, revenues grew 47% YoY and PAT grew 134% YoY. EBITDA margins improved to 35% in FY18 vs 31% in FY17. RM count of this business has reached 118 in FY18 from 78 in FY17, +51% YoY. Investments in strong RM addition suppressed reported profitability of past years. As 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 8.44 bn in FY18, +66% YoY and contributed 30% of consolidated revenues. Profits grew by 60% YoY and this segment now contributes 37% of consolidated profits, with highest scalability and with least capital employed among our portfolio of businesses.

- **Housing finance business**
  - **Aspire Home Finance's** loan book grew by +17% YoY at Rs 48.6 bn. We plan to grow loan book at about 15% in FY19.
  - In FY18, profits of the company declined on account of provisioning of Rs 564 mn and write off of Rs 715 mn.
  - In FY18, AHFCL has accelerated provisions of Rs 194 mn over the regulatory requirements resulting into substantial increase in PCR to 35% from 18% in FY17. We plan to increase PCR further in coming quarters.
  - Strong ramp-up in collection headcount, +60% QoQ to ~215 officers. Average age of collection officers into the system is ~35-40 days. We expect meaningful traction in collection as their customer touch base increases in-line with their vintage. Cost to Income ratio stood at 38% in FY18
  - Disbursements in Q4FY18 were Rs 1.8 bn versus Rs 9 bn in Q4FY17. Overall, disbursements in FY18 were Rs 14.3 bn versus Rs 24 bn in FY17.
  - NNPA stood at 3.3% in Q4FY18 from 3.6% in Q3FY18. In FY18, overall rise in NPA was on account of seasoning of book coupled with delay in setting up collection organisation. Further, prolonged impact of external shocks in economy also affected asset quality. Impact of collection organization has now started showing positive results.
  - We remain confident of the long term outlook of the home finance business. Rs 500 million equity capital has been infused during the quarter and we are committed to provide further capital as the business scales up.
  - Management team has been strengthened with additions and changes in Heads of Credit, Technical, Collections, Operations, HR, Business Process & Quality and Compliance. The process of strengthening the team further will continue in the coming quarters.
  - Margins stood at 4.1% in FY18 versus 3.6% in FY17. This margin expansion, despite interest reversals, was on account of lower cost of funds.
  - Branch expansion is being pursued in the new states where we commenced operations year ago. 4 new states launched in FY17 are performing better.
  - Gearing remains conservative, with the Debt/Equity ratio at 4.9x.

- **Fund based business** includes sponsor commitments to our AMC & PE funds, equity investments and NBFC LAS book.
    - **Fund Based** activities like commitments to our asset management products, not only helped seed these new businesses by investing in highly scalable opportunities, but they also represent liquid resources for future opportunities.
    - Investments in quoted equity investments stood at Rs 9.8 bn at cost, while the unrealised gain on these investments as of March-18 stood at Rs 5.6 bn. These gains are not reflected in the reported PAT. The post-tax cumulative XIRR of these investments is ~25%, which is the see-through RoE vs reported RoE of tis business just 12%. As per IND-AS, these gains will form a part of reported earnings from FY19.
    - Investment in seeding our PE funds is Rs 2.7 bn at cost. IBEF-1 is expected to deliver a 5x MoC. NBFC LAS book is Rs 1.8 bn as of March-18, which is now run as a spread business.
    - In line with the goal to achieve a sustainable 20%+ RoE, consolidated RoE for the Group for FY18 was 27% (without including unrealized gains on quoted equity investments of Rs 5.6 billion). Within this, Asset and Wealth Management RoE was 200%, Capital Markets RoE was 156% and Fund based RoE was 12%.

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.

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