

INVESTOR UPDATE

Motilal Oswal reports 9MFY19 revenue of Rs 19.7 bn and PAT of Rs 1.48 bn ; 9MFY19 Adjusted PAT of Rs 3.7 bn ; Declares Interim dividend of Rs 4 per share.

Mumbai, January 16, 2019: Motilal Oswal Financial Services Ltd. announced its results for the quarter and nine month ended December 31, 2018 post approval by the Board of Directors at a meeting held in Mumbai on January 16, 2019.

Performance for the quarter and nine month ended December 31, 2018

- Consolidated Adjusted revenues (excluding MTM gains in fund based and lumpy gain on PE exits) were Rs 6.5 bn in Q3FY19 and Rs 19.2 bn, +3% YoY in 9MFY19. Consolidated revenues stood at Rs 6.8 bn in Q3FY19 and Rs 19.7 bn in 9MFY19. Consolidated PAT was Rs 399 mn in Q3FY19 due to impact higher provisioning/ write offs taken in Aspire. Consolidated Adjusted PAT (excluding MTM gains in fund based, lumpy gain on PE exits and Aspire) was Rs 1.43 bn in Q3FY19, +2% YoY and Rs 3.7 bn, +15% YoY in 9MFY19.
- Consolidated net worth stood at Rs 30 bn, gross borrowing was Rs 49 bn and net borrowing was Rs 45 bn (including Aspire). Excluding Aspire, gross and net borrowings were Rs 12 bn and Rs 10 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 0.4x and considering market value quoted investments, we are effectively net cash balance sheet.
- Board has declared interim dividend of Rs 4 per share (FV Re 1/share).
- Besides financial performance, the last few quarters have been very eventful in terms of our successes in brand building, advertising and several other fronts. **MOPE-IBEF II** awarded as “**PE exit performance of the year 2017**” at the IVCA conclave 2018. **MOPWM** won the prestigious ‘**Best Boutique Wealth Manager India**’ at the Asset Triple A Award 2018. **MOAMC** won ‘**Best Portfolio Management Service Product**’ at India Wealth Awards 2018. **MORE** won ‘**Best Real Estate Product**’ at India Wealth Awards 2018. **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. Each of these businesses offers significant headroom for growth and operating leverage as they scale up. Even our traditional businesses also saw strong uptick during the quarter by registering record revenues. Prestigious awards like Best broking business of the year, Top-15 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 ended December 31, 2018

- **Capital markets Businesses (Broking & Investment banking)**
 - Capital markets comprises of Retail Broking, Institutional Equities and Investment Banking business. Revenues for this segment were Rs 8.8 bn in 9MFY19 and contributed ~45% of consolidated revenues. Profits were Rs 1.4 bn in 9MFY19 and contributed ~47% of consolidated PAT. Broking and distribution business profit grew by 32% YoY in 9MFY19 led by strong operating margin expansion 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 1.7% in Q3FY19 despite higher F&O volumes.

- Our strategy to bring in linearity through the trail-based distribution business is showing results. Distribution AUM was Rs 89.6 billion, +20% YoY and Net Sales were Rs 15 bn in 9MFY19. With only 11.5% of the near million client base tapped, Distribution income is already at 16% of retail broking gross revenues. We expect a meaningful increase in AUM and fee income as number of clients to whom we have cross sold and number of products per client cross sold rises.
 - In **Institutional Broking**, rankings with existing clients improved, domestic institutions contribution improved and new client additions were encouraging. Every aspect of the business, research, sales, sales trading and corporate access is being strengthened. Tailwinds for local firms remain strong.
 - **Investment Banking** business has continued to engage and conclude some significant transactions in this period. We have completed 5 ECM transactions in 9MFY19. Overall transaction pipeline remains encouraging.
- **Asset Management businesses are nearing critical mass**
 - **Asset Management** business across MF, PMS & AIF reached the mark of Rs 374 bn AUM, +7% YoY this year. Our AMC now ranks among the Top-10 players by total equity assets, PMS ranks #1 while AIF assets are growing rapidly. Net Sales is Rs 39 bn in 9MFY19. Revenues are Rs 1.4 bn (+1% YoY) and Rs 4.4 bn (+22% YoY) in Q3FY19 and 9MFY19 respectively. PAT is Rs 345 mn (+8% YoY) and Rs 1.1 bn (+45% YoY) in Q3FY19 and 9MFY19 respectively. Asset management business offers highest scalability and operating leverage among all businesses.
 - Our Equity MF AUM of Rs 191 bn is just 2% of the Industry Equity AUM of Rs 9.66 tn. Our market share in Equity MF Net Sales (including balance) stood at ~2.4% in 9MFY19. 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 December 2018, ~20% of Alternates AUM is performance-fee linked, and our target is to increase this further.
 - **Private Equity** manages an AUM of Rs 60 bn (+30% YoY) across 3 growth capital PE funds and 4 real estate funds. This business has delivered on profitability and scalability fronts. In 9MFY19, PAT excluding lumpy share of profit on exits was Rs 149 mn, +200% YoY. The 1st growth fund (IBEF 1) has delivered an XIRR of 28%, and alpha of 10% and is expected to return nearly 6x MoC (Multiple of Cost). Strong performance and positioning has also aided new fund raise. We have launched IBEF-3 in FY18 and received phenomenal response by garnering Rs 23 bn. We have launched IREF IV in FY19 with a target size of Rs. 15 bn has achieved 1st close at ~Rs. 5.6 bn.
 - **Wealth Management** business AUM grew by 7% YoY at Rs 164 bn in 9MFY19 with net sales of Rs 21 bn. In 9MFY19, revenues grew 21% YoY at Rs 829 mn and PAT excluding impact of ESOP cost under Ind-AS and intergroup transfer pricing was Rs 165 mn, +12% YoY despite higher RM addition during the period. RM count of this business has reached 135 in Q3FY19, +27% YoY. 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 6 bn in 9MFY19, +4% YoY and contributed 30% of consolidated revenues. Profits were Rs 1.47 bn and contribute 50% of consolidated profits, with highest scalability and with least capital employed among our portfolio of businesses.
 - **Housing finance business**
 - Loan book stood at Rs 44 bn. NII remain flat in 9MFY19 on YoY basis, despite reduction in loan book led by higher write offs and lower disbursements.
 - Margins stood at 4.85% in 9MFY19 on YoY basis. This was on account of lower borrowings and higher equity infusion during the period.
 - Asset quality deterioration in 9MFY19 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 from Dec-18 augur well for future asset quality and profitability outlook.

- Provisions of Rs 1.78 bn on account of higher write offs in Q3FY19 to clean up the legacy book. Provisions including write offs stands at 69% as of Q3FY19. Strong support from parent continues with capital infusion of Rs 2 bn in Q3FY19. Gearing remains conservative at 4.5x.
- Limited borrowing repayments till March 2019, equity infusion, strong undrawn borrowing lines, calibrated pace of growth, places us in comfortable liquidity situation.
- **Fund based business** includes sponsor commitments to our AMC & PE funds and strategic equity investments.
 - **Fund Based** activities like commitments to our asset management products, not only helped seed these new businesses by investing in highly scalable opportunities, but they also represent liquid resources for future opportunities.
 - Total quoted equity investment including unrealised gains was Rs 14 bn as of Q3FY19. MTM on these gains are now part of reported earnings under Ind-AS reporting. Cumulative XIRR of these investments is ~17%, 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.

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