Motilal Oswal Financial Services

ConCall Summary & Earnings Release

Quarter ended Jun 2016

21 Jul 2016

Motilal Oswal Financial Services Limited (MOFSL) posted consolidated revenues of Rs 3.7b for Q1FY17, up 72% YoY. PAT was Rs 792m for Q1FY17, up 179% YoY. Broking-related revenue was Rs 1.4b in Q1FY17, up 23% YoY. Asset management revenue was Rs 652m in Q1FY17, up 62% YoY. Housing finance-related revenue was Rs 1b in Q1FY17, down 391% YoY. Fund-based revenue was Rs 459m in Q1FY17, up 61% YoY. Investment banking income was up 69% YoY in Q4FY16 to Rs 82m.

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 ended Jun 2016. 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 Sameer Kamath
Chief Financial Officer

Welcome to the Q1 FY17 earnings conference call of Motilal Oswal Financial Services Limited. We have with us Mr. Motilal Oswal, Chairman, Mr Raamdeo Agrawal, Joint Managing Director, Mr Navin Agarwal, Managing Director, and Mr. Sameer Kamath, Chief Financial Officer. For the duration of this presentation, all participants' lines will be in the listen-only mode. I will be standing by for the Q&A 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)

	Q1 FY17	Q4 FY16	CHG. QoQ	Q1 FY17	Q1 FY16	CHG. YoY	FY16
Total Revenues	**3,650**	**3,169**	**15%**	**3,650**	**2,116**	**72%**	**10,937**
EBITDA	1,856	1,424	30%	1,856	697	166%	4,463
Exceptional items	112	0	nm	112	0	nm	-
PBT	1,063	676	57%	1,063	394	170%	2,376
PAT	**792**	**472**	**68%**	**792**	**284**	**179%**	**1,691**
EPS - Basic	5.5	3.3		5.5	2.0		11.9
EPS - Diluted	5.5	3.3		5.5	2.0		11.7
Shares O/S (mn) - FV Rs 1/share	143	142		143	141		142

REVENUE COMPOSITION (Rs Mn)

	Q1 FY17	Q4 FY16	CHG. QoQ	Q1 FY17	Q1 FY16	CHG. YoY	FY16
Brokerage & operating income	1,431	1,265	13%	1,431	1,163	23%	5,091
Investment banking fees	82	84	-2%	82	49	69%	242
Asset management fees	652	653	0%	652	403	62%	2,235
Fund based income	459	247	86%	459	284	61%	1,124
Housing finance related	1,002	908	10%	1,002	204	391%	2,195
Other income	24	12	96%	24	13	86%	50
Total Revenues	**3,650**	**3,169**	**15%**	**3,650**	**2,116**	**72%**	**10,937**

Opening remarks

Good Afternoon. It is my pleasure to welcome all of you to the Motilal Oswal Financial Services Earnings Call for the first quarter ending June 2016. In our earlier concalls, we have shared the strategic realignment of our business and the resulting changes in the value drivers for MOFS to a mix of Capital Market businesses, Asset and Wealth Management businesses, Housing Finance and Fund based business. During this call I will share how we have progressed on each of these fronts.

- Consolidated revenues for the quarter with Rs 3.7 billion, up 72% YoY. All the business lines fired this quarter, led by Housing Finance, Broking and the Asset Management businesses. Housing Finance top line was up by 391% YoY this quarter while the Asset Management revenues were up 62% YoY. The share of Asset Management and Housing Finance businesses within the total revenue has been rising from 29% in the first quarter of last year to 45% in the first quarter of this year. Both these businesses remain in a scaling up mode, given the meaningful headroom to grow; and we expect their market share to rise going forward. The revenue contribution of the Capital Market businesses comprising of the Retail

Institutional Broking businesses and the Investment Banking business continued to reduce within the overall mix to 41% in the first quarter of this fiscal. This quarter also saw exceptional items which included share in profit on sale of investment which is the carry we made on India Business Excellence Fund 1, as well as the impact of the write off on account of doubtful NPS provided due to diminishing in the value of collateral on some bridge loan on a conservative basis.

- Consolidated profit for the quarter was Rs 792 million, up 179% YoY. This is the highest ever quarterly profit for Motilal Oswal Financial Services since FY07. Within the profit mix, the contribution of Capital Market businesses has come down from 71% in FY15 to 35% during the current quarter. The contribution of Asset and Wealth Management business has increased from 14% in FY15 to 26% during the current quarter. Housing Finance contributed to 16% during the current quarter while other Fund-based activities contributed the balance 23%. The impact of operating leverage was visible this quarter in terms of past investments made in both manpower and operation, as profit margin improved from 13% in the first quarter of the last fiscal to 22% in this quarter. We continue to invest meaningfully in the Capital Market businesses. The full throughput of this will flow through going forward. We made large investment in seeding our fund and the unrealized gains on these investments have not recognized in the reported profit for the quarter.
- Consolidated net worth was Rs 15 billion. Gross borrowing including Aspire Home Finance was Rs 36 billion, as of June 2016. Return on Equity for the first quarter was 22% on the reported PAT of Rs 0.8 billion. However, this does not include the mark to market unrealized gain on investments in Motilal Oswal Mutual Funds, which stood at Rs 1.8 billion, as of June 2016.

1. **Starting with the Capital Market businesses**

- **Broking and related revenues** (which includes broking activities and wealth management) were Rs 1.4 billion in the first quarter, up 23% YoY.
- Cash equity ADTO in the market was down by 3%. Retail cash ADTO in the market were up 8% while institutional cash market ADTO was down 15%. While overall cash equity ADTO in the market was down 3%, our volumes grew. As a result, our market share equity market share went up from 1.8% in the first quarter of last year to 2.4% in the first quarter of this year. We have been highlighting on the earlier calls that we have made meaningful investments in manpower. Our manpower base compared to March 2014 is ~2x within the retail broking and distribution business. Some of those investments have borne fruit in the current quarter, but we believe that this business has a long way to go. Our blended yield was 3.1 bps for this business. By way of context, in the last upcycle from 2004 to 2008, the profit of the company increased by 10x entirely led by the Capital Market businesses.
- In the **retail broking and distribution** business, our retail market share also improved with continued efforts on digital. Our online business was about 45% of retail volumes in the first quarter, versus 32% in FY16. Our networks are being leveraged for distribution of financial products. We won the Best Equity Broker - National Award for the 5th time. This is testimony of the quality of our services.
- In the **institutional equity** business, we introduced new research products and added client empanelment. The research, sales trading, sales and corporate access offerings

to the clients have been improved further during the current quarter.

- **Investment banking** fees was Rs 82 million in the first quarter, up 69% YoY. Our ECM business has been gaining momentum. We participated in the IPO of Parag Food and the QIP of Indian Overseas Bank.
- The Capital Market businesses collectively contributed to 41% of revenues this quarter, as compared to 57% of the revenues in the same quarter last year. Within the profit mix, its contribution has come down to 35% in the first quarter compared to 55% in the first quarter of last year and 71% in FY15.

2. Turning now to the **Asset and the Wealth Management businesses**, our total AUM across mutual funds, PMS and private equity were Rs 151 billion as of Jun, up 58% YoY. Our Wealth Management AUM was at Rs 74 billion, up 54% YoY.

- In the **public market asset management** business, we have built our positioning as equity specialists based on our time-tested QGLP philosophy which has consistently delivered superior performance. Our flagship Value PMS has delivered ~25% CAGR over the last 13 years while the NTDOP PMS has delivered ~17% CAGR since 2007. The disclosure related to these performances is mentioned in the earning presentation in the slide on Fund-based activities. Our market share in equity mutual fund AUM was at 1.3% during the first quarter, up from 0.7% in the same quarter last year. So we have nearly doubled our market share. More importantly, our market share in the equity mutual fund net sales was 4% in the first quarter, as compared with 2% market share in the first quarter of last year. This too has doubled on a YoY basis. We believe that the Asset Management business offers considerable headroom for growth. Our products have garnered interest of several large distributors. Despite a slowdown in the overall net inflows of the industry, our net flows continued to remain quite strong. Our rank in equity AUM (mutual funds and PMS put together) improved to #12 as of June compared to #18 as of March 2014. During the last market cycle from FY02 to FY08, the industry equity AUM grew at a compounded 49%. Between FY14 to FY16, we have already seen the equity AUM of the mutual fund industry grow by 42%. Led by increasing financial saving, we expect industry equity AUM to grow by at least 20% if not more, and our market share to rise within this. Currently, our AMC only manages domestic pools of capital. FIIs were two-third of the institutional holding in India. We have no share in that part of the business as of now. But we are building this piece to tap global pools of capital, which should give a further boost to our business.
- In the **private equity** business, we manage Rs 28 billion across two growth capital and three real estate funds. The first growth capital fund has returned 198% of the capital in INR terms from four full exits and four partial exits across three companies. The fund is in an advanced stage for further exits in the next few months which may allow it to return an additional 20% of the capital. It is likely to deliver a gross multiple of over 3.5 times. The second growth capital has committed about 64% across 8 investments. Our first real estate fund has returned 86% of the capital. The second real estate fund has committed 85% of the capital across 8 deals. Our third real estate fund announced its first close raising a commitment of Rs. 6 billion, with a target to raise at least Rs. 10 billion.
- Our Asset Management income (including public market mutual funds, PMS and

private equity put together) were Rs 652 million for the first quarter by 62% on a YoY basis and contributed to 18% of the consolidated revenue for the quarter compared to 19% in the same quarter last year.

- Our **wealth management** business income was Rs 154 million in the first quarter, up 77% YoY. The traction in relationship managers continues with the count increasing from 54 to 75 on a YoY basis, up nearly 50%. Our AUM is up by 54% YoY and the number of clients is up by 28% YoY. Training programs to enhance knowledge and service level helped in delivering higher throughput from relationship managers and deepening the client wallet share and product penetration. We enjoy a yield of 1% in this business due to higher share of equity and alternatives in our product mix, which is by far one of the best in the industry.
- The collective contribution of these three Asset businesses was 26% of our profit in the first quarter compared to14% of our profits in the fiscal year ending March 2014.

3. **Aspire Home Finance** is focused on affordable home loans and has built very strong attraction in assets and liabilities

- **Housing finance** related top line of Rs 1 billion is up about 4x YoY
- On the asset side, our loan book stood at Rs. 25 billion versus Rs. 5.6 billion a year ago. Disbursements for the quarter were Rs. 4.8 billion compared to Rs. 2 billion in the same quarter last year. Aspire currently operates in 4 states across 62 branches of June 2016 and we plan to add 3 more states during the year. Branch count is up from 28 as of June of last year and 51 as of March 2016 to 62 in this quarter. We expect to continue to expand the distribution network at a similar pace to the rest of FY17. On the liability side, Aspire has credit lines from 23 banks and 1 NBFC, as compared to 8 banks in the last year. Ratings of CRISIL A+ Stable and ICRA AA- auger well for future fund raise. Capital infusion made by sponsors is Rs 4 billion till date. Our strategy is to deploy free cash flows in funding the housing finance business should continue in the foreseeable future. As of first quarter of 2017 on an annualized basis, the NIM for this business was at 380 basis points. Return on assets to 3.5%. Return on equity was 16.6%. Gearing was at 5.7 times. Gross NPL was at 0.2%.
- Housing finance business contributed to 27% of the consolidated revenues this quarter compared to 10% in the same quarter last year. Contribution to overall profit was 16% compared to 12% in the same quarter last year and 2% in FY15.
- While we remain optimistic on the prospects for Aspire, the entry of new players will result in enhanced comparative intensity and competition for talent and pricing.

4. **Fund based activities** focusing on enhancing Return on Equity

- **Fund-based income** was Rs 459 million in the first quarter up by 61% YoY. NBFC loan book was Rs 2.6 billion as of June 2016.
- Our investment in our own mutual fund products (at cost) is Rs 6.1 billion. Our investment in our private equity funds (at cost) is Rs 1.9 billion. The unrealized gain on the mutual fund investments is Rs 1.8 billion. As a template, the portfolio management products have offered between 20% to 25% return over the last decade which serves as a benchmark for these investments as well. These investments have not only helped us seed our highly scalable asset management business by displaying

skin in the game, but also represent highly liquid resources that are available to deploy in investment opportunities, as and when required.

Outlook

To sum up, our business segments delivered healthy growth in top line along with a visible improvement in profitability. This quarter's profits are the highest clocked by the MOFS Group. The impact of operating leverage from the investments we made previously are now partly visible. We have scaled our broking market share as well as our share in assets under management and our share in home finance. We believe that each of these business offer meaningful headroom for growth, going forward. This, in turn, gives us the confidence to increase our return on equity even further.

1. Capital Market Based Businesses

Retail Broking &Distribution, Institutional Broking

KEY FINANCIALS: MOSL (Rs Mn)

	Q1 FY17	Q4 FY16	CHG. QoQ	Q1 FY17	Q1 FY16	CHG. YoY	FY16
Total Revenues	1,505	1,389	8%	1,505	1,309	15%	5,496
EBITDA	497	365	36%	497	361	38%	1,485
PBT	316	147	115%	316	252	25%	794
PAT	241	131	84%	241	198	22%	605

Have the broking yields bottomed out at 3.1 bps? Is it right to infer that the contribution of institution would be increasing at a faster pace because the contribution of FNO in the market is increasing?

The product mix decides the yield. F&O yields are much less than cash intraday and delivery. The overall yield improves when markets are slightly better, as yield in cash delivery is much higher than that of other segments in the overall market. In institutional broking, most clients would have fixed brokerage rates. Retail cash volumes in the market have grown this quarter as compared to the institutional volume. In the last cycle, both segments saw strong growth in volume. So the mix changes from time-to-time and the mix change can improve the overall yield..

How many sub-brokers are there in the retail business Pan India?

About 2000 business locations.

Would these 2000 outlets be leveraged for the home finance and asset management businesses, since those businesses are in scale-up mode?

We are leveraging these outlets mainly for broking and mutual funds, because the clients largely remain the same. There is scope for group synergy there. The throughput from the same outlet is being maximized.

The biggest change that we are planning is to leverage these 2000 outlets for distributing financial products. In the past, the bulk of the broking and distribution revenues were transaction revenues which were linked to the volumes and the yields in the market. Over the last 3-4 quarters, we have achieved to scale up this network to distribute financial products, including mutual funds, PMS, and alternative assets. While transaction commissions contributed to all of the revenues of this business in the past; going forward, we see annuity income from assets under distribution to contribute meaningfully. Our aspiration would be to meaningfully change this mix to annuity revenues over the next 5-6 years.

What investments did you make in FY16 and what are you planning in FY17?

As of now, the investments are mainly in manpower, technology, and processes. The retail broking and distribution manpower is up 2x between Mar 2014 and Jun 2016. Significant investments in manpower, technology, brand and distribution are now in place, and the gain in market share is some payback of those investments.

Investment Banking

KEY FINANCIALS: INVESTMENT BANKING (Rs Mn)

	Q1 FY17	Q4 FY16	CHG. QoQ	Q1 FY17	Q1 FY16	CHG. YoY	FY16
Total Revenues	91	85	6%	91	50	81%	249
EBITDA	39	22	74%	39	(6)	nm	32
PBT	37	19	nm	37	(9)	nm	19
PAT	32	9	nm	32	(6)	nm	8

2. Asset Based Businesses

Asset Management – Public Market Equities

KEY FINANCIALS: ASSET MANAGEMENT (Rs Mn)

	Q1 FY17	Q4 FY16	CHG. QoQ	Q1 FY17	Q1 FY16	CHG. YoY	FY16
AUM	122,683	104,780	17%	122,683	73,201	68%	104,780
Net Inflows	8,724	8,253	6%	8,724	12,053	-28%	51,863
Total Revenues	584	554	5%	584	306	91%	1,852
EBITDA	132	108	21%	132	53	150%	364
PBT	130	108	21%	130	50	162%	354
PAT	84	70	20%	84	50	69%	264

Since the equity AUM in the public AMC business has crossed Rs 120 billion and reached #12 rank, how easy or difficult is it to implement further growth as compared to few years ago?

The strategy of the AMC is to be a preferred manufacturer and distribute to all the distributors, across IFAs, banks, national distributors, wealth managers or brokers. Also within manufacturing, we have remained focused on products. We do not manufacture any debt products. We manufacture only equity products. Within equity too, we have just 3 strategies - mid cap, large cap and multi cap. So it is a focused strategy on the product side. We are seeing good traction amongst our empanelled distributors and we remain hopeful on the growth prospects for this business.

What is the contribution of the Direct Plan in the mutual fund business? How many distributors have we empanelled as on date?

The Direct channel is a focus area for us. We are more or less at par with industry average as far as contribution of the Direct channel is concerned. Direct channel in the market is approximately 15%, in terms of AUM. We are pretty much in line with that, and we get a healthy share from online platforms on the mutual fund side.

What is the vision in terms of the next 3-5 year target in the AMC business, given you are ranked #12?

It is not important what rank we are at. What we need to do is to do our job very well. Our target is to keep growing in a decent fashion while maintaining the P/L profitability. Even if we manage Rs 200 or 400 billion, we should manage it well. That is more important than managing Rs 1 trillion, but with only a 10 bps net yield. In QGLP, both quality is needed as well as growth. Quality is the Board’s responsibility, growth is the responsibility of the operating management, and we should keep our quality under control.

Asset Management - Private Equity

KEY FINANCIALS: PRIVATE EQUITY* (Rs Mn)

	Q1 FY17	Q4 FY16	CHG. QoQ	Q1 FY17	Q1 FY16	CHG. YoY	FY16
Total Revenues	87	148	-41%	87	107	-18%	466
EBITDA	29	31	-6%	29	31	-4%	152
Exceptional Item	103	0	nm	103	0	nm	0
PBT	131	30	343%	131	27	378%	143
PAT	121	12	884%	121	23	438%	104

** Includes consolidated results of the PE-related entities, which may differ from the MOPE Standalone results declared previously. Exceptional Item above includes revenue from share in profit on sale of investments (carry share) made in the 1st PE growth fund*

Private Wealth Management

KEY FINANCIALS: PRIVATE WEALTH MANAGEMENT (Rs Mn)

	Q1 FY17	Q4 FY16	CHG. QoQ	Q1 FY17	Q1 FY16	CHG. YoY	FY16
AUM	73,990	64,430	15%	73,990	48,080	54%	64,430
Net Inflows	5,074	4,230	20%	5,074	5,041	1%	15,662
Total Revenues	154	144	7%	154	87	77%	444
EBITDA	36	47	-25%	36	22	63%	139
PBT	28	39	-28%	28	20	38%	109
PAT	19	26	-27%	19	13	45%	71

3. Housing Finance Business

Aspire Home Finance

KEY FINANCIALS: ASPIRE HOME FINANCE (Rs Mn)

	Q1 FY17	Q4 FY16	CHG. QoQ	Q1 FY17	Q1 FY16	CHG. YoY	FY16
Sanctions	6,300	9,291	-32%	6,300	2,735	130%	23,599
Disbursements	4,800	7,324	-34%	4,800	2,035	136%	18,183
Loan Book	24,900	20,940	19%	24,900	5,559	348%	20,940
Gross NPL%	0.2%	0.2%	0.0%	0.2%	0.0%	nm	0.2%
Net Interest Income (NII)	217	204	7%	217	53	310%	476
Other Income	175	260	-32%	175	62	184%	644
Total Income	393	464	-15%	393	115	242%	1,120
Operating Profit (Pre- Provisioning)	225	298	-24%	225	56	301%	688
PAT	134	177	-24%	134	34	298%	400

What does Other Income comprise of? What is the processing fee charged to customers? Is that part of Other Operating Income in the Consolidated numbers?

Aspire operates in the affordable home finance segment, mainly in the Tier 2/3 markets. The processing fee is about 1.5%. Since the disbursements form a significant percentage of the loan book and given the fast growth of the disbursements, this number looks high. Other Income also includes any cross-sell of third-party insurance products. We also park some money as liquidity buffer in liquid funds for our future disbursements, which earns us income in the interim. This also comes under Other Income.

In our Quarterly earnings, Housing Finance is a combination of all the three items. But in the Exchange format, it gets classified as Other Operating Income. Interest income gross is reported on the top line.

What is the reason for the decrease in Other Income on a sequential basis in the quarter?

The movement in the quarter will be explained by the movement in the disbursements. Disbursements were over Rs 7.5 billion in the fourth quarter and were less than Rs 5 billion in the first quarter, a 35-40% fall on a QoQ basis. Hence, processing fees on those disbursements are down accordingly. However, the other two elements (i.e. the cross-sell of insurance and the interest income on liquid funds) would not be down by the same proportion.

What are the year-end targets for the loan book, branches and employees?

We have refrained from giving any guidance on this business. All we have mentioned is that the distribution network has grown by 20-25% QoQ. We have added about 10-12 branches during this quarter alone. We expect this run-rate to sustain, going forward. We are currently operating in four states and are looking to expand to another three states. So we are looking at a meaning expansion in the distribution reach. But we have not given any outlook in terms of the loan book or disbursements, going forward.

Assuming Rs 18 billion in disbursement like the previous year, we may need about Rs 3 billion additional capital infusion going ahead. What is the possibility of these funds being generated internally?

It will be fully-funded internally in the current year. Over the next 2-3 years, we will see how the growth plays out. We have mentioned in the opening remarks that we have meaningful liquid resources in the parent company and the cash flows of the parent company are also strong. Given both of these, we should be able to continue investing in Aspire beyond this year as well.

What is the current net worth of Aspire?

About Rs 4.6 billion.

What is the ROA expected by FY18, or in the foreseeable future?

We are only guiding for a ROA of about 2.5%. The current number is higher.

Is there any plan to get into LAP, or any other segment, in the immediate future?

We are not moving beyond affordable housing for the foreseeable future.

What can possibly go wrong with the assumption of disbursements of Rs 18 billion or so every year for the next couple of years?

The competition is rising quite meaningfully, so that remains a risk. The overall real estate market itself is a risk. We think that these risks may be a bit less in the affordable housing space. But we remain very watchful of the new licensees and the heightened competitive intensity.

Assuming the external environment of good demand, is there any internal constraint in terms of funds, etc?

We do not see any internal constraint; neither in manpower or technology nor in network or people. The potential constraints will mostly be competitive intensity or regulatory reasons. In terms of funding, we have mentioned there are significant internal resources available first to use. Given our positive outlook on this business, we would rather put our own capital to work first.

What led you to start this housing finance business? Did you acquire company or you started on your own? What is your expertise in the lending business, since you have historically been in the capital market business?

We were only in the Agency business which was generating a lot of cash. Apart from Broking, even the other agency businesses like AMC had strong cash flows. We could either payout the whole thing or invest it elsewhere? For investing, we invested in our own products. But there was another opportunity to invest in housing finance, since that consumed capital and was relatively lower risk if executed well. Being research analysts ourselves, we thought this was a safest form of lending in India. The initial thought was to buy a housing finance company at an initial stage. But we decided to build this ourselves. We took a conscious decision of hiring a team, giving them Rs 1 billion of initial capital and start learning the ropes as we didn’t have any competence in lending per se. The lending team brought in was very experienced, almost like hundred years of cumulative experience. In terms of execution capability, this team can do Rs 30 billion per month of lending. Right now, they’re doing just about Rs 3 billion. So that is the kind of capacity we started out with. Of course, everything has to be built step by step over a period of time. The industry opportunity is very large. But one has to build execution step by step since it is a learning process. When we started the AMC in 2008, we thought ETF will be a great way to go. For four years we had to bite the dust and then return to our strength of active strategy. In HFC, we got a good traction right from Day 1 because of the good team we got. So we have committed more capital.

As of now we have committed Rs 5 billion of capital. Of this, Rs 4 billion has already been given and another Rs 1 billion will be invested in the next 1-2 quarters. The idea was to deploy the excess free cash flow from the agency businesses to build a meaningful HFC business. The highest gross NPA possible in HFC in the last decade has not been more than 3% and 3.5%. That’s our basic downside theory.

We have kept the equity contribution very strong. The debt equity ratio is only about 5-6 right now. As we evolve, we will use all the available levers to enhance the ROE. But at even 8:1, we can think of an ROE upwards of 20%, which is a cutoff point for us. If we don’t make 20%, that business is not worth doing.

Since you have recently started, the seasoning of the book will take another 3-4 years. Till then, it is difficult to assess in terms of risk management. What is the model you are following in home finance business in terms of risk management?

The affordable housing finance companies are a new generation of companies. The rule in any lending business is 90% is the quality of the underwriting, 9% is sales-marketing, and 1% is everything else. The quality of underwriting is non-compromisable. Quality of underwriting has to be pristine. It is too early to say; but maybe after a year or two, we will realize where we stand. But the maximum gross NPA in the industry has been about 3-3.5%. In fact, it has been much lower. We are more than adequately prepared to face the challenges in this business.

What are the new states that would be added in this business?

We are present in Maharashtra, Gujarat, MP, and Telangana right now. The plan is to add the contiguous states. We will share more details in the course of the coming year.

How much of the loans are sourced from direct sales staff and how much from the DSA structure?

2/3rd of the sourcing is from direct sales force. Around 9% to 10% are direct walk-in customers. The balance 23% is from DSAs.

How much of the loan book is refinanced from NHB?

As of now, we have not availed of any funds from NHB.

Do you have any aspiration or vision in terms of target for the next 3-5 years?

The business opportunity is so large that you can have Rs 100 billion of mortgage assets but not yet reach anywhere in the standing because there are so many big players. The opportunity size is so big that it needs several HDFCs to meet the Prime Minister's requirement of "Housing for All". We need to do our job well. It is not important what rank we are at. Whether we manage Rs 200 or 400 billion, we need to do it well.

More important is the quality of underwriting. We have to keep an eye on our own P&L profitability while excelling the customer service. So we will give the best possible service so that the person who takes his first house from us should not feel that we are short changing him in any way. Their appreciation and the word of mouth is what we want to build on.

4. Fund-based activities – MOFSL Standalone

KEY FINANCIALS: MOFSL Standalone (Rs Mn)

	Q1 FY17	Q4 FY16	CHG. QoQ	Q1 FY17	Q1 FY16	CHG. YoY	FY16
Total Revenues	370	167	121%	370	194	91%	1,109
EBITDA	314	132	138%	314	150	110%	910
Exceptional Item	8	0	nm	8	0	nm	0
PBT	203	30	572%	203	43	376%	535
PAT	179	25	604%	179	16	1022%	465

What is the change in the ROE strategy? Since historically, you have not made much ROE in your businesses.

About 2-3 years back, we realized our own balance sheet didn't have more than 12% to 13% ROE, although the business itself actually had a very high ROE. The issue was that 2/3rd of the balance sheet was not used in productive businesses, and we were using the equity against debt opportunities. This was 2/3rd of the balance sheet which yielded about 8-9% pre-tax and about 5-6% post-tax. Two years back, we decided to match debt for debt and equity for equity. Now what were the forms of equity available? We had equity into our own Agency businesses like broking, AMC, private equity, wealth management, etc. Then there was our own building, which is about Rs 3 billion. After that, from the money that was left, we parked about Rs 6 billion into our own mutual fund products and about Rs 2 billion in our own private equity products. So we have about Rs 8 billion there parked in pure equity-style opportunities. We have given another Rs 4 billion to the housing finance entity, which is another equity opportunity. So we mapped out a equity-to-equity strategy. Whatever little we have in terms of debt for the margin funding activity, is leverage in the balance sheet.

5. Others

What is the employee count?

About 3000 employees.

Regarding employee turnover, are you seeing your people moving a lot as the market are quite strong?

Turnover differs from business to business. In most of our businesses, we have not seen much turnover. At the mid-senior level, we have a very stable team. We're also in the process net adding people in the retail broking in the sales and advisory areas. There is normal churn there, at par with the industry. Aspire is in a built mode, so one will have to see how things pan out given the competitive intensity in that space.

Have you evaluated other sectors or do you want to consolidate the home finance?

Our current line-up of businesses is too many right now. We don't have any plans to get into any new business now. But times may change in the future.

What is the Rs 200 million doubtful NPA in the Exceptional item about?

These were some old loans on our balance sheet. These were bridge loans and the collateral value has fallen. So on a conservative basis, we have decided to proactively write this off. In the annual report of last year, we have declared them as NPA.

INVESTOR UPDATE

Motilal Oswal Financial Services reports Q1FY17 Consolidated Revenues of Rs 3.7 billion, up 72% YoY; and PAT of Rs 792 million, up 179% YoY

Mumbai, Jul 21, 2016: Motilal Oswal Financial Services Ltd., a leading financial services company, announced its results for the quarter ended Jun 30, 2016 post approval by the Board of Directors at a meeting held in Mumbai on Jul 21, 2016.

Performance Highlights

Rs Million	Q1FY17	Q1FY16	Comparison (YoY)	Q4FY16	Comparison (QoQ)
Revenues	3,650	2,116	↑72%	3,169	↑15%
PBT	1,063	394	↑170%	676	↑57%
PAT	792	284	↑179%	472	↑68%
Diluted EPS - Rs (FV-Rs 1)	5.5	2.0		3.3	

Performance for the Quarter ended Jun 30, 2016

- Consolidated revenues were Rs 3.7 billion in Q1FY17, up 72% YoY
- Q1FY17 included exceptional items, which comprised of share in profit on sale of investments (carry share) made in the 1st PE growth fund, as well as the impact of write-off on account of doubtful NPA
- Consolidated PAT was Rs 792 million in Q1FY17, up 179% YoY
- Some impact of operating leverage from the strategic investments made in manpower, technology and reach during FY16 was visible in this quarter, as the PAT margin improved to 22% in Q1FY17 from 13% back in Q1FY16
- Balance sheet had net worth of Rs 15 billion and gross borrowings of Rs 36 billion (including Aspire), as of Jun 2016.
- ROE for Q1FY17 was 22% on reported PAT vs 12.4% in FY16. However, this does not include unrealized gains on investments in Motilal Oswal's mutual fund products (Rs 1.8 billion, as of Jun 2016)\

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

"Our business segments have delivered healthy growth as our investments into critical resources to build these businesses over the last couple of years are now showing positive results. While we have increased our business volumes, asset mobilization and client addition, we also improved our market share in some of our businesses. Contribution of Capital Markets businesses (Broking and Investment Banking) to overall profits was at 35% in Q1FY17 versus 71% in FY15. Contribution of Asset & Wealth Management was up

from 14% in FY15 to 26% in Q1FY17. Housing Finance and Fund based businesses contributed the balance 39% in Q1FY17. This trend is expected to continue. We have established strong competitive positioning in each of these businesses and we believe that they have the potential to build tremendous scale and offer high operating leverage. We remain on course in creating a fair mix of capital market based, asset based and fund based businesses, which would help us deliver a sustainable 20%+ RoE. Strong liquidity on balance sheet allows us to fund investments in new initiatives including Housing Finance, Private Equity, etc. Several initiatives for boosting reforms will driver higher economic growth and augurs extremely well for our businesses which are well poised to tap the opportunities that would arise."

Performance of Business Segments for the Quarter ended Jun 30, 2016

- **Capital markets businesses** are delivering results following investments in people, technology and processes
  - **Broking and related revenues** (which includes broking and wealth management) were Rs 1.4 billion in Q1FY17, up 23% YoY. Cash ADTO in the market was Rs 202 billion in Q1FY17, down 3% YoY. Retail cash volumes in the market were up 8% YoY this quarter. Institution cash volumes in the market were down 15% YoY. Proactive investments have driven a meaningful traction in our overall equity market share from 1.8% in Q1FY16 to 2.4% in Q1FY17. Both cash and F&O market share have picked up.
  - In **retail broking and distribution**, average retail clients added per month in Q1FY17 was 1.3X that during Q1FY16. Our retail market share improved this quarter. Online business comprised ~45% of total volumes in Q1FY17 vs ~32% in FY16. The distribution business has gained traction. We won the "Best Equity Broker-National" award for the 5th time; along with the Grand Jury award for "Best Institution for Financial Education and Inclusion" at the CNBC TV18 Financial Advisory Awards.
  - In **institutional broking**, we continued to empanel new clients and introduce new research products. We added several high-conviction ideas under our research. We ramped up corporate access outreach. Blocks comprise a healthy share of volumes currently; and have steadily increased since recent years.
  - **Investment banking** fees were Rs 82 million in Q1FY17, up 69% YoY. Our ECM business has gained momentum, and we completed the Rs 7.5 billion Parag Milk Foods IPO and the Rs 2.6 billion Indian Overseas Bank QIP
  - Capital markets businesses contributed ~41% of revenues this quarter, as compared to ~57% in Q1FY16
- **Our asset and wealth management businesses have seen strong business traction**
  - Total AUM/AUA across MF, PMS and PE businesses was Rs 151 billion, up 58% YoY. Wealth Management AUM was Rs 74 billion, up 54% YoY.
  - In **public market equity**, we crossed the milestone of Rs 120 billion in AUM across equity mutual funds and PMS. Despite a slowdown in net flows in the industry this quarter, our net inflows in Q1FY17 remained strong in absolute terms. These show the growing acceptance of our QGLP investing process amongst the distributor fraternity. Our rank in equity AUM improved to 12, up from 18 in FY14. Our market share in Equity MF AUM was 1.3% in Q1FY17 and in Equity MF Net Sales was 4.0%. These reflect considerable headroom for growth.
  - In **private equity**, the 1st Growth Capital Fund - IBEF I has returned ~198% capital (in INR terms) from 4 full-exits and 4 partial exits in 3 companies till-date. The fund is in advanced stages for 3 exits in the next few months, which may allow it to return an additional ~20% capital. The fund is likely to deliver a gross

multiple of over 3.5 times. The 1st Real Estate Fund - IREF I has returned ~86% capital from full/partial exits from 6 projects. The 2nd Growth Capital Fund - IBEF II has committed ~64% across 8 investments. The 2nd Real Estate Fund - IREF II has committed ~85% across 8 deals. The 3rd Real estate Fund - IREF III announced its 1st close, raising commitments of ~ Rs 6 billion.

  - Asset Management fee (public market equities and private equity together) were Rs 652 million in Q1FY17, up 62% YoY. This contributed ~18% of consolidated revenues this quarter, as compared to ~19% in Q1FY16.
  - In **Wealth management**, the traction in RMs from 54 to 75 YoY has led to a 54% YoY growth in AUM and a 28% YoY rise in clients. Training programs to enhance knowledge and service levels helped in delivering higher throughput from RMs and deepening of client wallet-share and product penetration. We enjoy a high yield of ~1% in this business, due to the higher share of equity and alternatives in our product mix
- **Housing finance**, the recent-most business in our portfolio, is showing traction in disbursements and reach
  - **Housing finance** related income was Rs 1 billion in Q1FY17, up 391% YoY.
  - HFC loan book stood at Rs 25 billion vs Rs 5.6 billion a year ago. It has funded ~25,000 families till-date.
  - Aspire disbursed Rs 4.8 billion in Q1FY17, up from Rs 2 billion in Q1FY16.
  - It currently operates in 4 states, and the branch count has increased from 28 to 62 YoY
  - It has credit lines from 23 banks and 1 NBFC, up from 8 a year ago.
  - Crisil and ICRA have awarded long term rating CRISIL A+/Stable and [ICRA]AA- (Stable)) respectively
  - As of Q1FY17 (on an annualized basis), NIM was ~380 bp, RoA was 3.5%, RoE was 16.6% and D/E was 5.7X. Gross NPL was 0.2% as of Jun 2016
  - Capital infusion made by the Sponsor is Rs 4 billion till-date.
  - Housing Finance contributed ~27% of consolidated revenues this quarter, as compared to ~10% in Q1FY16.
- **Fund based activities** include strategic allocation of capital to long term RoE enhancing opportunities like sponsor commitments to mutual fund and private equity funds of MOFSL and the NBFC loan book.
  - **Fund based** income was Rs 459 million in Q1FY17, up 61% YoY. This includes share in profit on sale of sponsor investments made in the 1st PE growth fund.
  - Our investment in our own mutual fund products is Rs 6.1 billion (at cost) and Rs 1.9 billion (at cost) in our own private equity products. The unrealized gain on MF investments was Rs 1.8 billion as of Jun 2016.
  - NBFC loan book, which is now being run as a spread business using borrowed funds, was Rs 2.6 billion.
- **Other income** was Rs 24 million in Q1FY17.

About Motilal Oswal Financial Services Limited

Motilal Oswal Financial Services Ltd. (NSE: MOTILALOFS, BSE: 532892, BLOOMBERG: MOFS IN) is a well-diversified, financial services company focused on wealth creation for all its customers, such as institutional, corporate, HNI and retail. Its offerings include traditional capital markets businesses (retail and institutional broking, wealth management and investment banking), asset management (public market equities and private equity), housing finance and fund based business. MOFSL has strong research capabilities, which enables them to identify market trends and stocks with high growth potential, facilitating clients to take well- informed and timely decisions. Motilal Oswal Securities won the 'Best Performing National Financial Advisor Equity Broker' award at the CNBC TV18 Financial Advisor Awards for the 5th time. It was ranked the Best in Events/Conferences, ranked amongst Top-2 for Overall Sales Services and Best Roadshows/Company Visits and amongst the Top-3 in Best Local Brokerage, Best Execution and Sales Trading Visits at the AsiaMoney Awards 2015. It has also won three research awards at Zee India Best Market Analyst Awards, 'Best Research as Research Showcase Partner' award at Research Bytes IC Awards 2014, and 'Best Broking House - Institutional Segment and Cash Segment' at the Dun & Bradstreet Equity Broking Awards 2015. Motilal Oswal Private Equity 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 and Valuable Housing Finance Company' at India Leadership Conclave 2015, 'Financial Services Institution of the Year' by ASSOCHAM at ICT 4 Development Awards 2015, and 'Agency Innovation of the Year (BFSI Sector)' at the Brand Excellence Awards 2015.

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CONSOLIDATED UNAUDITED FINANCIAL RESULTS FOR THE QUARTER ENDED 30TH JUNE, 2016

(Rs. in Lakhs)

Particulars	Quarter Ended (Unaudited)			Year Ended (Audited)
	30-Jun-16	31-Mar-16	30-Jun-15	31-Mar-16
1. Income from Operations				
(a) Income from Operations	30,831	25,768	18,977	93,052
(b) Other Operating Income	4,260	4,614	1,854	12,542
Total Income from Opertaions	**35,091**	**30,382**	**20,831**	**105,594**
2. Expenditure				
(a) Operating expense	7,107	5,890	4,743	23,250
(b) Employees' benefit expense	6,867	7,144	5,825	25,095
(c) Depreciation and amortisation expenses	732	940	765	3,494
(d) Other expenditure	3,963	4,409	3,626	16,393
Total expenses	**18,669**	**18,383**	**14,959**	**68,232**
3. Profit from Operations before Other Income, finance cost & Exceptional Items (1-2)	**16,422**	**11,999**	**5,872**	**37,362**
4. Other Income	1,088	849	71	2,470
5. Profit from Ordinary Activities before finance cost & Exceptional Items (3+4)	**17,510**	**12,848**	**5,943**	**39,832**
6. Finance Cost	8,318	6,541	2,264	17,377
7. Profit from ordinary activities after finance cost but before Exceptional Items (5-6)	**9,192**	**6,307**	**3,679**	**22,455**
8. Exceptional Items - (Expense)/Income (Refer Note 7)	1,116	-	-	-
9. Profit from Ordinary Activities before tax (7-8)	**10,308**	**6,307**	**3,679**	**22,455**
10. Tax expense	2,363	1,810	955	6,123
11. Net Profit from Ordinary Activities after tax but before Share of Profit from Associate and Minority Interests (9-10)	**7,945**	**4,497**	**2,724**	**16,332**
12. Share of Profit of Associate	206	291	165	832
13. Share of minority interests in (profits)/ loss	(234)	(71)	(51)	(255)
14. Net Profit after tax and Share of Profit from Associate and Minority Interests (11+12-13)	**7,917**	**4,717**	**2,838**	**16,909**
15. Paid-up equity share capital	1,429	1,422	1,414	1,422
(Face Value of Re. 1/- Per Share)				
16. Reserves excluding Revaluation Reserves as per balance sheet of previous accounting year	-	-	-	142,229
17. Earnings Per Share (EPS) (before/after Extraordinary items) (of Re. 1/- each) (Not Annualised)				
c) Basic EPS	5.54	3.32	2.01	11.94
d) Diluted EPS	5.48	3.27	1.96	11.74

Notes:

1) The above results were reviewed by the Audit Committee and taken on record by the Board of Directors of the Company at its Meeting held on Thursday 21st July, 2016. The results for the quarter ended 30th June, 2016 have been reviewed by the Statutory auditors of the Company.

2) Pursuant to the exercise of Employee Stock Option Scheme, the company has allotted 7,32,850 equity shares to the employees during the quarter ended 30th June, 2016.

3) The consolidated results of the Company include the results of the subsidiaries – Motilal Oswal Securities Limited (100%), Motilal Oswal Investment Advisors Private Limited (100%), MOPE Investment Advisors Private Limited (85%), Motilal Oswal Commodities Broker Private Limited (100%), Motilal Oswal Capital Markets Private Limited (100%), Motilal Oswal Wealth Management Limited (100%) , Motilal Oswal Insurance Brokers Private Limited (100%), Motilal Oswal Asset Management Company Limited (100%), Motilal Oswal Trustee Company Limited (100%), Motilal Oswal Securities International Private Limited (100%), Motilal Oswal Capital Markets (Singapore) Pte. Ltd (100%), Motilal Oswal Capital Markets (Hongkong) Private Limited (100%), Motilal Oswal Real Estate Investment Advisors Private Limited (76.50%) , Motilal Oswal Real Estate Investment Advisors II Private Limited (68.85%), Aspire Home Finance Corporation Limited (96.22%), India Business Excellence Management Co (85.00%), 'Motilal Oswal Asset Management (Mauritius) Pvt. Ltd (100%) and an Associate India Realty Excellance Fund II - (i.e. IREF II).

4) During the quarter, one of the subsidiary, Aspire Housing Finance Corporation Ltd has issued 89,142,699 Equity Shares Of Rs.11.41 each aggregating to Rs.10,171 lakhs by way of right issue.

5) During the quarter, CRISIL Limited reaffirmed the Credit Rating of “CRISIL A1+”to the Commercial Programme of Rs. 25,000 lakhs of Motilal Oswal Financial Services Limited. CRISIL Limited also reaffirmed the Credit Rating of “CRISIL A1+”to the Commercial Programme of Rs. 70,000 lakhs of Motilal Oswal Securities Limited, a subsidiary of the Company. ICRA has re-affirmed the rating of ICRA AA rating with stable outlook (pronounced ICRA double A rating with Stable Outlook) to the Long Term Debt Programme of the Motilal Oswal Financial Services Limited for Rs. 15,000 lakhs. The ratings indicate a very strong degree of safety regarding timely servicing of financial obligations.

6) The group long term investments in Motilal Oswal’s mutual fund products stands at Rs. 78,860 lakhs as of 30th June, 2016 as against Rs. 60,404 lakhs as of 31st March, 2016. The unrealized gain on these investments is Rs. 18,194 lakhs as of 30th June, 2016 as against Rs. 11,698 lakhs as of 31st March, 2016. The long term investments are valued at cost and hence it is not reflected in the profit and loss account for the quarter 30th June 2016 and year ended 31st March, 2016 respectively.

7) The total Exceptional Items during the quarter ended 30th June, 2016 is Rs. 1,116 Lakhs comprising of Share in Profit on sale of investments made in India Business Excellence Funds of Rs. 3,116 Lakhs and Write-off on account of Doubtful Non-performing assets of Rs 2,000 Lakhs.

8) The figures for three months ended March 31,2016 represent the balancing amounts between the amounts as per the audited accounts for the Year ended March 31,2016 and amounts as per the published unaudited results for nine months ended December 31,2015, which were subjected to limited review by auditors.

9) Consolidated segment results for the quarter ended 30th June, 2016

(Rs. in Lakhs)

Particulars	Quarter Ended (Unaudited)			Year Ended (Audited)
	30-Jun-16	31-Mar-16	30-Jun-15	31-Mar-16
1. Segment Revenue				
(a) Broking & Other related activities	15,597	14,520	12,931	56,959
(b) Fund Based activities	5,086	3,092	3,384	15,219
(c) Fund Based activities (Exceptional items)	2,083	-	-	-
(d) Asset Management & Advisory	6,857	7,208	4,402	23,999
(e) Asset Management & Advisory (Exceptional items)	1,758	-	-	-
(f) Investment Banking	840	847	501	2,483
(g) Home Finance	10,028	9,105	2,068	22,051
(h) Unallocated	395	245	85	774
Total	**42,644**	**35,017**	**23,371**	**121,485**
Less: Inter Segment Revenue	2,519	3,329	2,211	12,115
Income From Operations, Other Operating income & Other Income	**40,125**	**31,688**	**21,160**	**109,370**
2. Segment Results Profit / (Loss) before tax and interest from Each segment				
(a) Broking & Other related activities	3,556	2,227	2,361	10,045
(b) Fund Based activities	3,021	1,436	1,433	8,276
(c) Fund Based activities (Exceptional items)	83	-	-	-
(d) Asset Management & Advisory	1,511	1,258	789	4,769
(e) Asset Management & Advisory (Exceptional items)	1,033	-	-	-
(f) Investment Banking	310	204	(71)	253
(g) Home Finance	2,956	2,689	492	6,157
(h) Unallocated	(690)	206	(661)	(2,313)
Total	**11,780**	**8,020**	**4,343**	**27,187**
Less: Interest	1,149	1,256	405	3,428
Profit/(Loss) from Ordinary Activities before Tax	**10,631**	**6,764**	**3,938**	**23,759**
3. Capital Employed				
(Segment assets – Segment Liabilities)				
(a) Broking & Other related activities	67,058	46,197	38,798	46,197
(b) Fund Based activities	84,529	82,548	93,725	82,548
(c) Asset Management & Advisory	14,331	12,511	9,435	12,511
(d) Investment Banking	771	277	624	277
(e) Home Finance	45,390	34,748	17,988	34,748
(f) Unallocated	(59,556)	(32,630)	(26,479)	(32,630)
Total	**152,523**	**143,651**	**134,090**	**143,651**

Notes:

The above Segment information is presented on the basis of the reviewed consolidated financial statements. The company's operations predominantly relate to Broking and other related activities, Fund Based activities, Asset Management & Advisory , Investment banking and Housing Finance. In accordance with Accounting Standard - 17 on Segment reporting, Broking and other related activities, Fund Based activities, Asset Management & Advisory ,Investment banking and Housing Finance are classified as reportable segments. The balance is shown as unallocated items.

10) The previous financial quarter / year figures have been regrouped/rearranged wherever necessary to make them comparable.

On behalf of the Board of Directors
Motilal Oswal Financial Services Limited

Mumbai, 21st July, 2016
shareholders@motilaloswal.com

Motilal Oswal
Chairman & Managing Director