Motilal Oswal Financial Services

ConCall Summary & Earnings Release

Quarter ended Dec 2017

25th Jan 2018

Motilal Oswal Financial Services Limited (MOFSL) posted consolidated revenues of Rs 7.4 billion for Q3FY18, +62% YoY. PAT was Rs 1.48 billion for Q3FY18, +42% YoY. Broking-related revenue was Rs 3.1 billion in Q3FY18, +87% YoY. Asset management revenue was Rs 2.2 billion in Q3FY18, +120% YoY.. Housing finance-related revenue was Rs 1.5 billion in Q3FY18, +22% YoY. Fund-based revenue was Rs 0.5 billion in Q2FY18, +36% 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 ended Dec 2017. 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

Welcome to the 3rd Quarter of 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	Q2 FY18	Q2 FY17	CHG. YoY	Q1 FY18	CHG. QoQ	H1 FY18	H1 FY17	CHG. YoY	FY17
Total Revenues	**7,144**	**5,285**	**35%**	**5,761**	**24%**	**12,905**	**9,298**	**39%**	**19,315**
EBITDA	3,713	2,766	34%	2,739	36%	6,452	4,934	31%	10,182
Exceptional items	0	-79	nm	0	nm	0	-279	nm	-279
PBT	2,314	1,486	56%	1,386	67%	3,700	2,549	45%	5,152
PAT	**1,438**	**1016**	**42%**	**1,016**	**42%**	**2,454**	**1807**	**36%**	**3,600**
EPS - Basic	10	7		7		17	13		25
EPS - Diluted	10	7		7		17	13		25
Shares O/S (mn) - FV	145	143		144		145	143		144

REVENUE COMPOSITION (Rs Mn)

Particulars	Q3 FY18	Q3 FY17	CHG. YoY	Q2 FY18	CHG. QoQ	9M FY18	9M FY17	CHG. YoY	FY17
Brokerage	2,674	1,516	76%	2,193	22%	6,843	4,680	46%	6,396
Investment banking	444	148	200%	220	101%	894	432	107%	855
Asset management	2,199	1,000	120%	2,549	-14%	6,247	3,671	70%	5,102
Fund based income	491	351	40%	361	36%	1,274	1,003	27%	1,174
Housing finance	1,533	1,525	0%	1,804	-15%	4,937	4,010	23%	5,705
Other income	22	16	40%	16	41%	72	58	24%	82
Total Revenues	**7,362**	**4,555**	**62%**	**7,144**	**3%**	**20,266**	**13,853**	**46%**	**19,315**

Opening remarks

Good afternoon. It is my pleasure to welcome all of you to the Motilal Oswal Financial Services earnings call for the 3rd quarter of FY18. The quarter and nine month ended Dec-17 marks meaningful progress towards the strategic objective outlined a few years ago to achieve a business model offering greater linearity and higher Return on Equity. We are excited by the overall positioning of each of our 7 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 revenues and profits for a quarter and nine month during this year. Revenues grew 62%, PBT grew 75% and PAT grew 66% YoY. RoE scaled up to 28% and to 40% including unrealised gains despite modest gearing ex-Aspire and very strong liquidity in the balance sheet. Headroom to grow in each of our businesses remains enormous.

Turning to our consolidated numbers, Revenues in Q3FY18 stood at Rs 7.36 bn, +62% YoY. Asset & Wealth Management business topline was +120% YoY, capital markets +87% YoY and Fund based business was +40% YoY. 51% of revenue in Q3FY18 came from linear sources like Asset & Wealth Management and Housing Finance. Capital Markets share in revenue has improved during the quarter to 42% as Broking business clocked its highest ever quarterly revenues, its distribution arm clocked 112% 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 126% YoY.

Consolidated PBT was up by 75% YoY at Rs 2.15 bn.

Consolidated PAT was Rs 1.48 bn in Q3FY18, +66% YoY despite 3 discretionary charges to income statement aggregating to Rs 252 mn – Rs 123 mn impact of MAT credit provisioning, Rs 63 mn impact of change in ESOP accounting policy and Rs 66 mn accelerated provision in AHFCL. The strong Q3 PAT growth was contributed by 277% YoY growth in Asset & Wealth Management business and 92% YoY growth in Capital Market business. Performance of Aspire was disappointing with negligible reported profits in this quarter. All the other 6 businesses representing our Equity Specialist positioning did exceedingly well with profit growth of over 100% and RoE of over 40%. Our dividend payout policy is 25-35% of PAT and the Board has declared an interim dividend of Rs 4 per share (FV Re 1 per share) in line with this policy.

Consolidated net worth stood at Rs 21.6 bn, gross borrowing was Rs 58 bn and net borrowing was Rs 54 bn (including Aspire). Excluding Aspire, gross and net borrowings were Rs 18 bn and Rs 14 bn respectively and this is less than the market value of quoted investments at Rs 15 bn. Overall gearing remains conservative at 2.7x; ex-Aspire it is at 0.9x and considering market value quoted investments, we are effectively a net cash balance sheet. RoE for Q3FY18 was 28% on the reported PAT. However, this does not include unrealized gains in our quoted investments at Rs 7 bn as of Dec-17. Including accretion to unrealized gains, RoE in Q3FY18 is ~40%. I will now share the performance of each of our businesses.

Capital Market Businesses

- Capital markets comprises of Retail Broking, Institutional Equities and Investment Banking business. Revenues were Rs 3.1 bn in Q3FY18, +87% YoY for this segment and contributed ~42% of Cons revenues. Profits grew much faster at 92% YoY and contributed ~38% of PAT.
- **In Retail Broking & Distribution**, our market share in high-yield cash segment continued to rise QoQ and overall market share improved to 2.1% in Q3FY18.
- Our strategy to bring in linearity through the trail-based distribution business is showing results. Distribution Net Sales were Rs 9.6 bn in Q3FY18, +170% YoY, and AUM was Rs 75 billion, +112% YoY. With only 9% of the near million client base tapped, Distribution income is already at 17% 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 108% YoY to Rs 921 mn in 9MFY18 while profits grew much faster. We have completed 11 ECM transactions in 9MFY18. Some significant transactions have been closed in Q3FY18 and the overall transaction pipeline remains quite encouraging.

Asset and Wealth management

- Asset Management business across MF, PMS & AIF reached the mark of Rs 350 bn AUM, +126% YoY this year, comprising of Rs 173 bn MF AUM, Rs 157 bn PMS AUM and Rs 20 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 97 bn in 9MFY18, +156% YoY and compares with Rs 62 bn in all of FY17. Revenues were Rs 1.69 bn in Q3FY18, +93% YoY and PAT is Rs 303 mn, +109% YoY despite significant investments in brand building. The asset management business offers the highest scalability and operating leverage among all our businesses.
- Our mutual funds and PMS products are guided by QGLP philosophy and continued to deliver strong absolute returns and alpha over long periods of time. Our 3 flagship mutual funds schemes completed their 3-year performance track record, leading to increased participation from distributors.
- Our Equity MF AUM of Rs 173 bn is just 1.9% of the Industry Equity AUM of Rs 8 tn. However, our market share in Equity MF Net Sales has scaled up to ~4% in

Q3FY18. 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 71 mn in Q3FY18, +74% YoY, forming 9% of net revenue. Our ongoing ad campaign "Think Equity Think Motilal Oswal" is strongly reiterating our positioning as equity specialist. Separately, our pricing power in MF is improving and the direct net sales contribution is rising – up from 13% in Q3FY17 to 31% in Q3FY18. 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 Dec 2017, ~17% of Alternates AUM is performance-fee linked, and our target is to increase this further.
- **Private Equity Business** 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 27%, and alpha of 10% and is expected to return nearly 5x 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 expecting to close FY18 with corpus of Rs 20 bn.
- **Wealth Management** business AUM grew by 67% YoY at Rs 153 bn with highest-ever Net adds at Rs 10 bn, +141% YoY, revenues grew 65% YoY and PAT grew 71% YoY. The strong growth is notwithstanding higher cost on account of aggressive RM addition and higher bonus provisioning in Q3. EBITDA margins are 36% in 9MFY18 vs 29% in 9MFY17. RM count of this business has reached 106 from 78 in Mar-17, +36% 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.
- **Overall Asset and Wealth Management** revenues were Rs 2.2 bn in Q3FY18, +120% YoY and contributed 30% of consolidated revenues. Profits grew by 277% YoY and this segment now contributes 40% 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 +48% YoY at Rs 49.4 bn. NII of AHFCL grew by 40% YoY. However, NII declined QoQ due to lower disbursements and higher interest reversals led by increase in NPA.

- In Q3FY18, profit of the company declined on account of accelerated provisioning.
- During the quarter, AHFCL made accelerated provisions of Rs 66 mn over the regulatory requirements. PCR increased marginally to 31% from 29% in Q2FY18. We plan to take PCR higher in coming quarters.
- Strong distribution ramp up in FY17 and collection ramp up in FY18 has driven 44% YoY growth in manpower and 39% growth in branches. Collection headcount increased by 68% QoQ to ~130.
- Disbursements in Q3FY18 were Rs 2.9 bn versus Rs 6.3 bn in Q2FY18 and Rs 3.3 bn in Q3FY17. Disbursements are calibrated as asset quality continued to be higher than expected levels.
- GNPA increased from 2.8% in Q2FY18 to 4.6% in Q3FY18 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 organisation yet to be reflected in asset quality.
- Margins stood at 3.85% in 9MFY18 vs 3.35% in 9MFY17. However, sequentially it has impacted on account of decline in yield led by interest reversals.
- Branch expansion is being pursued in the new states where we commenced operations year ago. New branches added in new states in FY17 have contributed 25%+ of total disbursements in 9MFY18.
- Gearing remains conservative, with the Debt/Equity ratio at 5.1x.

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 7.7 bn at cost, while the unrealised gain on these investments as of Dec-17 stood at Rs 7 bn. These gains are not reflected in the reported PAT. The post-tax cumulative XIRR of these investments is ~30%, which is the see-through RoE vs reported RoE of 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 2 bn as of Dec-17, which is now run as a spread business.

Outlook

To sum up, our strategy of diversified business model towards linear sources of earnings is showing definite results with 75% PBT growth and 66% PAT growth during the quarter. All our 7 businesses continue to grow strongly, make significant investments, are building scale and offer meaningful operating leverage. Our brand is now being recognized in each of our businesses. RoE is best in class at 28% and 40% including unrealised gains. We remain excited about the headroom to grow in our existing businesses with several structural tailwinds and remain sharply focused on deepening moats in these businesses. We are now open for Q&A!

1. Capital Market Businesses

Retail Broking & Distribution, Institutional Broking

KEY FINANCIALS: MOSL (Rs Mn)

Particulars	Q3 FY18	Q3 FY17	CHG. YoY	Q2 FY18	CHG. QoQ	9M FY18	9M FY17	CHG. YoY	FY17
Total Revenues	2,889	1,834	58%	2,463	17%	7,761	5,216	49%	7,197
EBITDA	922	747	24%	805	15%	2,453	1,815	35%	2,275
PAT	382	429	-11%	349	9%	1,117	904.1	24%	1,088

Investment Banking

KEY FINANCIALS: INVESTMENT BANKING (Rs Mn)

Particulars	Q3 FY18	Q3 FY17	CHG. YoY	Q2 FY18	CHG. QoQ	9M FY18	9M FY17	CHG. YoY	FY17
Total Revenues	456	151	202%	225	103%	921	444	108%	872
EBITDA	289	131	121%	180	60%	637	252	153%	561
PBT	288	130	123%	179	61%	635	247	157%	554
PAT	177	86.9	104%	128	38%	454	170	167%	372

2. Asset & Wealth Management Businesses

Asset Management

KEY FINANCIALS: ASSET MANAGEMENT (Rs Mn)

Particulars	Q3 FY18	Q3 FY17	CHG. YoY	Q2 FY18	CHG. QoQ	9M FY18	9M FY17	CHG. YoY	FY17
AUM (Rs bn)	350	155	126%	289	21%	350	155	126%	203
Net inflows (Rs bn)	36	16.4	119%	36	1%	97	38	156%	62
Total Revenues	1,695	877	93%	1,466	16%	4,509	2,208	104%	3,413
EBITDA	479	222	116%	359	33%	1,187	493	140%	765
PBT	478	220	117%	358	34%	1,182	489	142%	759
PAT	303	145	109%	233	30%	768	321	139%	498

We have seen the most fantastic ramp-up possible in the AMC and PMS businesses, are you still seeing that new client acquisition or new AUM acquisition is as easy or is it getting more costly, or do you know how is this trend shaping up in the market?

I think it is business as usual. January has been as good as entire Q3 so we do not see any change in that and it is not any more expensive, it is stable. I mean the distribution cost is very stable in Q4 starting as much as Q3. In fact, I would think that it will be somewhat better only because the mix is changing in favor of performance products and direct contribution. So I would think the overall yield will improve in Q4 over Q3. In fact, Digant just to add we have highlighted in our presentation that the share of direct in the overall net sales has gone up, where the yields are higher than the intermediated net sales and also our pricing power with distributors has improved. So, these are the two contributors to improvement in yield like to like for the mutual fund product.

I remember that last or maybe a call before that we said that we are about to complete three full years and hence we will be empanelled by more banks and much larger distributor. So how is the response from those new channels which have been added over last 9 months been?

So if you look at some of the numbers 9 month share of net sales is 4%. This was 3% in FY17. If you look at overall equity mutual fund inflow is FY17 our share was 3%. On significantly higher net sales in the 9 months for the industry on that bigger base we have a 4% share. We are seeing new names. New entities are taking up PMS as well as mutual funds. I mean they were earlier doing PMS now they are very happy to do all the large institutions, large distributors and some of them are also in negotiations and all. Earlier, there was no, that it is not real, so we will not even talk about it but now I think that thing has melted and it is all question of when and how fast. And some of them have launched also. Some places we are able to do the initial presentations and things like that but it is all happening.

Are you seeing more inflows coming from the same client and what are the kind of expectations that people are coming into markets with because we have seen like best of the flows in last one year. So just wanted to get a sense is this money which will stay for long or is it something which 20% crash and we could not be sure if this money is going to stay?

We have also not seen this kind of flow in the past so we do not have experience of how these guys have behaved. And this is unprecedented time which is kind of unreal that the kind of flow is building up. It looks when I visit Delhi and particular northern part of India, I believe the flow has not even started from there and there they are as rich as or probably richer than any other part of the country. So very real estate loaded and aspirations are running high, ticket sizes are like institutional ticket sizes. So I think there is a lot more flow left out of the old portfolio and incrementally a location is clearly in favor of equity and I think the biggest shock is lack of liquidity in particular real estate portfolio. So I think there is lot of rethinking about allocation itself and wealth managers are doing very good job. And I think if the markets remain warm and there is not major crash or anything like that in the marketplace I would think that these guys have stomach to – I mean we are telling them whatever we can in terms of possibility of correction and everything like that but still the allocations are good and I would bring the bulk of money for a little longer term.

Private Equity

KEY FINANCIALS: PRIVATE EQUITY* (Rs Mn)

Particulars	Q3 FY18	Q3 FY17	CHG. YoY	Q2 FY18	CHG. QoQ	9M FY18	9M FY17	CHG. YoY	FY17
Total Revenues	168	100	69%	879	-81%	1,156	1,136	2%	1,193
EBITDA	55	40	37%	547	-90%	648	601	8%	649
PBT	51	35	45%	543	-91%	635	594	7%	637
PAT	48	22	115%	422	-89%	499	473	6%	502

Wealth Management

KEY FINANCIALS: PRIVATE WEALTH MANAGEMENT (Rs Mn)

Particulars	Q3 FY18	Q3 FY17	CHG. YoY	Q2 FY18	CHG. QoQ	9M FY18	9M FY17	CHG. YoY	FY17
Total Revenues	248	150	65%	267	-7%	694	478.2	45%	720
EBITDA	78	49	58%	111	-29%	248	137	80%	223
PBT	75	48	57%	109	-31%	241	122	98%	205
PAT	53	31	71%	78	-32%	172	81	112%	132

If you could give some color as to where do you see the cost to income ratio or the EBITDA margins of this business to stabilize? That is one line item that we find it little challenging to forecast.

If you look at the numbers I think the margins are increasing but we also are ramping the manpower, largest cost is the manpower cost and it takes time for the people to become productive maybe in couple of years. So it all depends on whether we need aggressive hiring or we do not want to do aggressive hiring. But we are still hiring in that business so I do not see a significant increase in the margin at least for the next couple of years.

Do you have any color or if you can share any kind of analysis in terms of – you know if you kind of set aside the hiring's what would normalized margin at this point of time be?

Actually it will become 50% higher if we stop hiring. Now we have got 100plus RMs and this year we must have hired about 40-45 people and similar numbers will be at least there next year or may be more than that. So we are still on building up phase because the AUM is hardly Rs. 15,000 crores and we think significant kind of – I think 6-7 is already over for us to really more invest into the business for us to really ramp it up fast now. Number of city is more apart from the number of RMs being added.

AUM per RM of around 1.4 billion you think is the right number or is it something that you would say that there should be more scope? Number of client families that you have?

AUM per RM is average, right. See as the vintage act of our RM base increases the AUMs will keep raising and that is how the operating leverage really pays out and also this year while there has been a substantial ramp-up in the RM base to a number of 106 which is up 36% YoY, still the EBITDA margins are up by 7 basis points. They were 29% in the nine months of last year, they are 36% this year. So there is a point in time where large RM addition on an enlarged base is a smaller drag and the vintage of the RMs hired in FY15-16-17 as they increase their AUM increase, their yield increases. So there is a double impact there. The first is that the vintage of your old RMs is improving. Second the drag because of new addition on the denominator as a percentage goes on falling. So those two things were at work in the nine months and should definitely continue to be at work in the next year and the following year. We have 3,000 familes as on December 17.

3. Housing Finance Business

Aspire Home Finance

KEY FINANCIALS: ASPIRE HOME FINANCE (Rs Mn)

Particulars	Q3 FY18	Q3 FY17	CHG. YoY	Q2 FY18	CHG. QoQ	9M FY18	9M FY17	CHG. YoY	FY17
Loan Book (Bn)	49.4	33.3	48%	48.2	3%	49.37	33.3	48%	41.41
Disbursements (Bn)	2.94	3.32	-11%	6.31	-53%	12.53	14.79	-15%	24.04
Gross NPL%	4.6%	0.6%		2.9%		4.6%	0.6%		0.6%
Net Interest Income	423	302	40%	563	-25%	1,412	842	68%	1,259
Other Income	77.5	162	-52%	224	-65%	457	617	-26%	951
Total Income	501	464	8%	788	-36%	1,869	1,458	28%	2,209
Operating Profit	303	299	1%	468	-35%	1,055	899	17%	1,379
PBT	10	269	-96%	345	-97%	568	821	-31%	1,257
PAT	6	174	-97%	223	-97%	371	535	-31%	821

Initially, we were targeting 20% ROEs from this business but now with NPAs on a higher side and also given that we need to invest more in terms of collection, our credit cost as well as operating cost would be perhaps higher than what we had initially expected. So keeping this in perspective, what would our revised budget for ROEs be in this business?

Right now, the focus is clearly when we said about 20%, so that target still remains eventually but of course it is just postponed for the time being and right now the challenge is to put the ship in order and do the healthy underwriting and get the business metrics right. We think the ROE trajectory is not overnight. It builds up slowly. It will be first 5% then 10% and then 15%. It depends on what kind of success we get. Right now, there is no question of giving any guidance when and how much will be the ROE but if you ask us then our long-term aspirations that does not change. It is the business which is in build up phase. In business building, 5-10 years goes in building up. Most of the companies does not survive 10 years. There is no point giving timeline. I think the easiest would be that next month also you keep it zero, so your model will be perfect, nothing wrong in that.

Which business model did you consider before venturing into a new business. I just want to understand what was the thought process and how do you see it going forward?

We have done full research. We have a model in our mind and we are very clear in mind and it is more around kind of doing almost in the trajectory of Gruh Finance. Clearly, we had a business plan in mind and we knew our challenges and that is why we architected the whole thing knowing our strength and weaknesses. We have built a team which was having more than 150 years of total mortgage experience, knowing the fact, that in the core team between Navin, Motilal and Raamdeo, there is a very little knowledge of mortgage. Logic of doing this was that we are in asset-light model in broking and it is very volatile and cyclical, so how do we make the entire business model solid in terms of counter cyclical businesses. So one of the businesses, we thought was of course AMC. AMC was core to us and passion for us. So, there also we failed for the first four years. We got the AMC license in 2008 and till 2013 we were nowhere, and it is not that we did not know what the investment management is. The team remained same. Just that we did not get the tailwind, we did not get the right product, I mean everything went wrong you can say. And then in 2013, then we did the second attempt, then you can see what has happened in four years. So first 4-5 years, most of the companies you go and see takes time to build up. Even Gruh, I do not know very clearly it got incorporated sometime in 1988 and till 2002-03 there was nothing. I remember in 2005-06, we started buying when it was Rs. 100 crores market cap. So it is not that every company takes up from day one. In fact, to my surprise we took off from day one, in first 2-3 years, which was kind of a very pleasant surprise to me and I used to pinch myself, ask Navin, can the life be so easy. And of course, it was not so easy. And now we realize that it takes a lot to build a business. And we are committed to it. We have given our premises, we have given our name, we have given our capital, everything and so it is a very serious effort and very clear thought out process is there. We know what the cost of entry is, we know what the cost of exit is and what operations we had, everything is laid out. And it is the nature of the business. We are not investors for 1 or 2 years. We are entrepreneurs. We are building it for long-term. We know what the downside is and we have taken all the risks on our side and that is why we are not hesitating in providing to the extent of saying, it is zero. We can show Rs. 20 crores profit or Rs. 15 crores profit if we want to keep it as per the regulatory norms in terms of provisioning but no, we are saying that let us go as high as we can in terms of providing so that the books are very clean, and it gives comfort to the investors as well as us. So it is a build up place, everything takes time and nobody can predict. Success builds success. Right now, we have not hit the success. We have some challenges, which is not that insurmountable. It is dealt as a tailwind in the business and the best time to build any new business is when there is a tailwind and you cannot doubt the kind of tailwind which is there, and which is building up in this segment. Can we build competencies to really harness that tailwind, that is the key challenge and that is what we are building, and we are putting our best foot forward. And I cannot give you a timeline that in 6, 8 or 9 months we will be through and we will have a Taj Mahal at our doorstep.

The other question is in terms of, you know there are two ways, one is looking back and other is course correction. So I mean I am sure you would have done the looking back part. So we just want to understand what is your analysis so far? Is it like the underwriting which went wrong or is it like the collection part which you did not have and probably you did not realize that it would be too soon to have that kind of thing? So what is that looking back have you kind of assessed so far?

Umesh you have been a regular participant in the conference calls and you may have heard what we spoke in the last two conference calls that we were obviously wrong in not having put up the collection infrastructure from day one. That mistake got exaggerated by the external headwind of demonetization particularly in the cash salaried or the self-employed segment and housing in gram panchayat which has been worst impacted by RERA, not so much in the municipal location. So I would say that that is something to do with that. Also this has been compounded by the underwriting related issues that we may have taken up in the first three years and we have corrected that. So there are changes that we have made as far as, course correction we have made as far as the credit head and some of the level staff as far as credit is concerned both at the local level as well as management level. So course correction is no in terms of increasing the collection strength, you may have read that we have increased this by 68% from quarter making the necessary changes in trait underwriting and bringing about the change in the organization structure. So quite a lot has changed underneath the surface and we will wait for time to pass to show you whether we can do this business sensibly or not.

How much was the interest reversal in this quarter or in this year, 9 months total for the NPA?

Rs. 60 million in this quarter and around Rs 160 – 170 mn for 9 months.

Gross NPA is 4.6% but what is the net NPA?

3.6%.

What is the overdue greater than 30 days in Aspire and less than 90 days?

Right since the inception, we have been sharing with you the 90 DPD number. As of now we have not shared any other cuts as far as the overdues are concerned. We had highlighted earlier that our bounce rates are double-digit right from the beginning, so that is something that we guide you to that.

Do we see some stress still building up or we are seeing the impact of our collection team being in place

The ramp up has been quite meaningful and so we are seeing the effectiveness of the collection engine in place.

From 30th September till 31st December greater than 0 days DPD has fallen or it is still at a similar percentage? Just to assess the impact of collection efficiency. You do not need to give me number. If you tell me the trend that is also fine.

I think it will be more or less similar numbers. If you look at quarterly from 2.7 to now 4.6, the impact is quite high delta. I think the visibility on the collection part is quite visible now. So we are seeing some kind of traction. I think it will take some time for us to come back to the normal level.

Is there any chunkiness in the stress which you are seeing say a particular or major 2-3 projects which has fallen into a problem, that is why we are seeing a significant rise or there it is all across granularity?

Mumbai and Bhopal two areas are giving stress. Vizag is doing well

Is it place wise or project wise there are 2-3 projects which are relatively higher exposure which we have on the borrower of those projects which is seeing an issue?

In terms of projects they are not very large projects. May be a maximum 100 or 120 launches to a developer, thats it.

Will we go a little down before coming up or maybe we are at probably the bottom and we will come up?

We are at the bottom for sure so when we will come up – I mean it is an effort. We are putting our best effort to give any kind of guidance is not right for me. Situation is completely under control. We are putting our best foot forward and that is what in any business effort you can do

With plans of taking the provision coverage ratio higher from the current 31%, would you be looking to infuse more equity into the Aspire Home Finance Company and also what will be the current capacity of Aspire?

So we are at one of the lowest gearings in the industry at 5 times and there is no debts of availability of capital to infuse but there is no need to infuse capital at least at this point in time given the gearing that we have reported as of 31st December, 2017.

Is it localized in some particular geography or is it spread across how many number of accounts? Can you give some granular details as to where this stress is emanating from? What will be the provision coverage ratio you will be handling with at FY18 Q4

This is a retail loan book as you are aware, right, 57,000 accounts so there are certain geographical concentrations as Mr. Oswal just pointed out which is the Mumbai region and parts of MP. So that is what we have just guided our question ago. It is fairly broad based I mean a little bit of concentration but that will always be there. We have not given you any guidance on Provision coverage ratio. We have articulated our intent to take this up from the 31% number that we are at currently.

What is your incremental cost of borrowing in Aspire?

That is below 8%.

4. Fund-based Business

KEY FINANCIALS: MOFSL Standalone (Rs Mn)

Particulars	Q3 FY18	Q3 FY17	CHG. YoY	Q2 FY18	CHG. QoQ	9M FY18	9M FY17	CHG. YoY	FY17
Total Revenues	780	192	306%	957	-18%	1,963	1,559	26%	1,763
EBITDA	723	149	385%	906	-20%	1,805	1,414	28%	1,569
PBT	633	45	1310%	798	-21%	1,501	797	88%	857
PAT	503	56	792%	625	-19%	1,177	805	46%	863

We have a gross debt ex-Aspire of Rs. 18 billion. So what is this debt used for? I believe there is a LAS business and then there is a margin funding. That total amount is around Rs. 8-9 billion. What is this debt for?

This debt is actually used for the Broking Business. So in Broking Business, working capital needs for meeting the T+5 exposures and also the margin funding side of the business.

INVESTOR UPDATE

Motilal Oswal Financial Services reports Q3FY18 PAT of Rs 1.48 billion, +66% YoY

Mumbai, January 24, 2018: Motilal Oswal Financial Services Ltd. announced its results for the quarter ended December 31, 2017 post approval by the Board of Directors at a meeting held in Mumbai on January 24, 2018.

Performance Highlights

Rs Million	Q3FY18	Q3FY17	YoY Chg	Q2FY18	QoQ Chg
Revenues	7,362	4,555	↑62%	7,144	↑3%
PBT	2,152	1,228	↑75%	2,314	↓7%
PAT	1,481	891	↑66%	1,437	↑3%
EPS (FV-1)	10	6		10	

Interim dividend declared of Rs.4 per share

Performance for the quarter ended December 31, 2017

- Consolidated revenues were Rs 7.4 billion in Q3FY18, +62% YoY.
- Asset & Wealth Management business top-line was +120% YoY, Capital Market business was +87% YoY and Fund based business was +40% YoY. In Q3FY18, 51% of revenue came from linear sources like Asset & Wealth Management and Housing Finance. Capital Markets share in revenue has improved during the quarter to 42% led by market tailwinds coupled with operating leverage. Broking business has clocked its highest ever quarterly revenues, its distribution arm clocked 112% 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 126% YoY and Housing Finance business reporting a loan book growth of 48% YoY.
- Consolidated PBT was up by 75% YoY at Rs 2.15 billion. Consolidated PAT was Rs 1.48 billion in Q3FY18, +66% YoY, despite 3 factors – Rs 123 mn impact of MAT credit provisioning, Rs 63 mn impact of change in ESOP accounting policy and accelerated provision 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, +277% YoY and Capital Market business, +92% YoY. PAT ex-Aspire is up 101%.
- Significant investments have been made in manpower. Ad expenses are +74% YoY in Asset Management. In case of Housing Finance, branches are up by 39% YoY. The full impact of operating leverage from these sizeable investments is yet to unfold in our businesses
- Consolidated net worth stood at Rs 21.6 bn, gross borrowing was Rs 58 bn and net borrowing was Rs 54 bn (including Aspire). Excluding Aspire, gross and net borrowings were Rs 18 bn and Rs 14 bn respectively and this is less than the market value of quoted investments at Rs 15 bn. Overall gearing remains conservative at 2.7x; ex-Aspire it is at 0.9x and considering market value quoted investments, we are effectively net cash balance sheet
- RoE for Q3FY18 was 28% on the reported PAT. However, this does not include unrealized gains in our quoted investments at Rs 7 bn as of Dec-17. Had this been included, RoE in Q3FY18 would have been ~40%.
- Board has declared interim dividend of Rs 4 per share (FV Re 1/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 over half 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 quarterly revenue and profit during Q3FY18 and 9MFY18. Our brand is now being recognized in each of our businesses".

Performance of Business Segments for the quarter ended December 31, 2017

- **Capital markets Businesses (Broking & Investment banking)**
  - Capital markets comprises of Retail Broking, Institutional Equities and Investment Banking business. Revenues were Rs 3.1 bn in Q3FY18, +87% YoY for this segment and contributed ~42% of Cons revenues. Profits grew much faster at 92% YoY and contributed ~38% of Cons PAT.
  - In **Retail Broking & Distribution**, our market share in high-yield cash segment continued to rise QoQ and overall market share improved to 2.1% in Q3FY18.
  - Our strategy to bring in linearity through the trail-based distribution business is showing results. Distribution Net Sales were Rs 9.6 bn in Q3FY18, +170% YoY, and AUM was Rs 75 billion, +112% YoY. With only 9% of the near million client base tapped, Distribution income is already at 17% 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 108% YoY to Rs 921 mn in 9MFY18 while profits grew much faster. We have completed 11 ECM transactions in 9MFY18. Some significant transactions have been closed in Q3FY18 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 350 bn AUM, +126% YoY this year, comprising of Rs 173 bn MF AUM, Rs 157 bn PMS AUM and Rs 20 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 97 bn in 9MFY18, +156% YoY and compares with Rs 62 bn in all of FY17. Net yield was ~0.9% in Q3FY18. Revenues were Rs 1.69 bn in Q3FY18, +93% YoY and PAT is Rs 303 mn, +109% YoY despite significant investments in brand building. The asset management business offers the highest scalability and operating leverage among all our businesses.
  - Our Equity MF AUM of Rs 173 bn is just 1.9% of the Industry Equity AUM of Rs 8 tn. However, our market share in Equity MF Net Sales has scaled up to ~4% in Q3FY18. 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 71 mn in Q3FY18, +74% 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 13% in Q3FY17 to 31% in Q3FY18. 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 Dec 2017, ~17% 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 27%, and alpha of 10% and is expected to return nearly 5x 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 expecting to close FY18 with corpus of Rs 20 bn.
- **Wealth Management** business AUM grew by 67% YoY at Rs 153 bn with highest-ever Net adds at Rs 10 bn, +141% YoY, revenues grew 65% YoY and PAT grew 71% YoY. The strong growth is notwithstanding higher cost on account of aggressive RM addition and higher bonus provisioning in Q3FY18. EBITDA margins are 36% in 9MFY18 vs 29% in 9MFY17. RM count of this business has reached 106 from 78 in FY17, +36% 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 2.2 bn in Q3FY18, +120% YoY and contributed 30% of consolidated revenues. Profits grew by 277% YoY and this segment now contributes 40% 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 +48% YoY at Rs 49.4 bn. NII of AHFCL grew by 40% YoY. However, NII declined QoQ due to lower disbursements and higher interest reversals led by increase in NPA.
  - In Q3FY18, profit of the company declined on account of accelerated provisioning.
  - During the quarter, AHFCL made accelerated provisions of Rs 66 mn over the regulatory requirements. PCR increased marginally to 31% from 29% in Q2FY18. We plan to take PCR higher in coming quarters.
  - Strong distribution ramp up in FY17 & collection ramp up in FY18 has driven 44% YoY growth in manpower and 39% growth in branches. Collection headcount increased by 68% QoQ to ~130.
  - Disbursements in Q3FY18 were Rs 2.9 bn versus Rs 6.3 bn in Q2FY18 and Rs 3.3 bn in Q3FY17. Disbursements are calibrated as asset quality continued to be higher than expected levels.
  - GNPA increased from 2.8% in Q2FY18 to 4.6% in Q3FY18 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 organisation yet to be reflected in asset quality.
  - Margins stood at 3.85% in 9MFY18 vs 3.35% in 9MFY17. However, sequentially it has impacted on account of decline in yield led by interest reversals.
  - Branch expansion is being pursued in the new states where we commenced operations year ago. New branches added in new states in FY17 have contributed 25%+ of total disbursements in 9MFY18.
  - Gearing remains conservative, with the Debt/Equity ratio at 5.1x.

- **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 7.7 bn at cost, while the unrealised gain on these investments as of Dec-17 stood at Rs 7 bn. These gains are not reflected in the reported PAT. The post-tax cumulative XIRR of these investments is ~30%, which is the see-through RoE vs reported RoE of 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 2 bn as of Dec-17, 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 Q3FY18 was 28% (without including unrealized gains on quoted equity investments of Rs 7 billion). Within this, Asset and Wealth Management RoE was 214%, Capital Markets RoE was 111% 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 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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