Motilal Oswal Financial Services

ConCall Summary & Earnings Release

Quarter and Nine months ended December, 2019

23rd January, 2020

Motilal Oswal Financial Services Limited (MOFSL) posted consolidated revenues of Rs 6.96 billion for Q3FY20 and Rs 20.2 bn in 9MFY20. Consolidated PAT was Rs 1.65 bn in Q3FY20 and Rs 4.37 bn in 9MFY20. Asset and Wealth Management revenues were Rs 5.7 bn in 9MFY20. Capital Market revenue was Rs 8.97 bn in 9MFY20. Housing finance-related net revenues were Rs 1.6 bn in 9MFY20.

For a deeper insight into the company's performance and the management's expectations, we present extracts from the post-results conference call. We have edited and rearranged the transcript for greater lucidity. This presentation is available at www.motilaloswalgroup.com

Corporate Participants

Mr Raamdeo Agrawal
Chairman

Mr Motilal Oswal
Managing Director and CEO

Mr Navin Agarwal
Managing Director

Mr Shalibhadra Shah
Chief Financial Officer

Mr Aashish Somaiyaa
Chief Executive Officer - AMC

Mr Rakesh Shinde
Investor Relations

Welcome to the Q3FY20 & 9MFY20 Earnings Conference call for Motilal Oswal Financial Services Limited. We have with us today Mr. Raamdeo Agrawal - Chairman; Mr. Motilal Oswal - MD & CEO; Mr. Navin Agarwal - Managing Director; Mr. Aashish Somaiyaa - CEO-Motilal Oswal AMC; Mr. Shalibhadra Shah - Chief Financial Officer and Mr. Rakesh Shinde - Investor Relations. For the duration of this presentation all participant lines will be in the listen-only mode. I will be standing by for the question-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	Q3 FY20	Q3 FY19	CHG. YoY	Q2 FY20	CHG. QoQ	9MFY20	9MFY19	CHG. YoY
Total Revenues	6,961	6,805	2%	6,732	3%	20,245	19,692	3%
EBITDA	3,234	1,548	109%	2,607	24%	8,963	6,022	49%
PBT	1,955	236	728%	1,262	55%	5,004	1,983	152%
PAT	**1,654**	**396**	**-**	**1,423**	**16%**	**4371**	**1476**	**196%**

REVENUE COMPOSITION (Rs Mn)

Particulars	Q3 FY20	Q3 FY19	CHG. YoY	Q2 FY20	CHG. QoQ	9MFY20	9MFY19	CHG. YoY
Asset Management	1,439	1,368	5%	1,364	5%	4,246	4,390	-3%
Wealth Management	252	249	1%	279	-10%	752	829	-9%
Private Equity	261	326	-20%	255	2%	756	784	-4%
Broking	3,062	2,701	13%	3,019	1%	8,859	8,525	4%
Investment Banking	27	50	-47%	83	-	112	235	-52%
Fund Based	545	565	-4%	270	102%	1,154	56	-
Housing Finance	1,377	1,545	-11%	1,463	-6%	4,367	4,872	-10%
Total Revenues	**6,961**	**6,805**	**2%**	**6,732**	**3%**	**20,245**	**19,692**	**3%**

Opening remarks

Good Morning. It is my pleasure to welcome all of you to the Motilal Oswal Financial Services earnings call for the 3^{rd} quarter and nine month ended FY20. We will first discuss the financial performance and then deep down in individual businesses.

Financial performance

- Consolidated PAT grew by 318% YoY at Rs 1.65 bn in Q3FY20.
- Consolidated PAT grew by 196% YoY at Rs 4.37 bn in 9MFY20.
- Consolidated net worth stood at Rs 35.4 bn, net debt is Rs 42.5 bn. Excluding Home finance, net debt is Rs 13.6 bn and net of investments, we have a net cash balance sheet. RoE for 9M stands at 21%.

Key highlights for the Q3FY20

- AMC AUM up by 7% YoY at Rs 401 bn.
- PE & RE AUM up by 8% YoY at Rs 66bn.
- Wealth AUM up by 15% YoY at Rs 189bn.
- Distribution AUM up by 16% YoY at Rs 104bn.
- Positive net flows in MF for consecutive quarters amid moderate industry flows.
- Accelerated pace of new client addition in broking business.
- Q3FY20 performance remains steady amid substantial slowdown in industry inflows of AMC and PWM, a lacklustre IPO/QIP scenario and multiple changes in regulatory framework for brokers.
- Home Finance business has returned to normalcy in collections with sales ramp and profitable growth being the next agenda.
- Sizeable expansion in AMC and Broking distribution network will drive next leg of growth.

I will now deep dive into individual businesses.

Asset and Wealth management businesses,

KEY FINANCIALS: ASSET MANAGEMENT (Rs Mn)

Particulars	Q3 FY20	Q3 FY19	CHG. YoY	Q2 FY20	CHG. QoQ	9MFY20	9MFY19	CHG. YoY
AUM (Rs bn)	401	374	7%	385	4%	401	374	7%
Total Revenues	1,439	1,368	5%	1,364	5%	4,246	4,390	-3%
EBITDA	568	540	5%	509	12%	1,642	1,779	-8%
PBT	563	539	5%	502	12%	1,626	1,774	-8%
PAT	**410**	**337**	**22%**	**468**	**-12%**	**1,240**	**1,132**	**10%**

Asset Management business across MF, PMS & AIF stood at Rs 401 bn AUM, +7% YoY. Our AMC now ranks 12 by total equity assets; in PMS we maintain leadership position. Revenues and PAT for the quarter stood at Rs 1.44 bn and Rs 410 mn (+22% YoY), respectively. Our Equity MF AUM of Rs 210 bn is 1.9% of the Industry Equity

AUM of Rs 10.8 tn. Our share of Alternate assets, comprising of PMS & AIF, is the highest among AMC's at ~47% and has continued to rise. Several schemes rank top quartile in performance over 1 year and since inception. This has resulted in traction in our gross as well as net flows.

Private Equity

KEY FINANCIALS: PRIVATE EQUITY (Rs Mn)

Particulars	Q3 FY20	Q3 FY19	CHG. YoY	Q2 FY20	CHG. QoQ	9MFY20	9MFY19	CHG. YoY
Total Revenues	261	326	-20%	255	2%	756	784	-4%
EBITDA	101	141	-28%	96	5%	296	331	-11%
PBT	99	140	-29%	90	10%	283	322	-12%
PAT	**68**	**102**	**-33%**	**56**	**21%**	**175**	**224**	**-22%**

Private Equity manages an AUM of Rs 66 bn (+8% YoY) across 3 growth capital PE funds and 4 real estate funds. This business has delivered on profitability and scalability fronts. Strong performance and positioning has also aided new fund raise. We closed IBEF-3 during the year with an AUM of Rs 23 bn and IREF 4 is slated to close in FY20 with a target size of Rs 12 bn.

Wealth Management business:

KEY FINANCIALS: PRIVATE WEALTH MANAGEMENT (Rs Mn)

Particulars	Q3 FY20	Q3 FY19	CHG. YoY	Q2 FY20	CHG. QoQ	9MFY20	9MFY19	CHG. YoY
Total Revenues	252	249	1%	279	-10%	752	829	-9%
EBITDA	46	39	18%	17	166%	74	163	-54%
PBT	43	36	18%	13	220%	64	157	-59%
PAT	**34**	**25**	**36%**	**7**	**385%**	**47**	**111**	**-58%**

Wealth Management business AUM grew by 15% YoY at Rs 189 bn in Q3FY20 with Net adds of Rs 7.4 bn. RM count of this business has reached 134 in 9MFY20. Our trail revenues predominantly cover our fixed costs. Investments in strong RM addition suppressed reported profitability.

Capital market business:

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

Capital markets comprises of Retail Broking, Institutional Equities and Investment Banking business. Revenues for this segment were Rs 8.97 bn in 9MFY20 and contributed ~44% of Cons revenues. Profits were Rs 1.38 bn in 9MFY20 and contributed ~31% of cons PAT. Broking and distribution business profit stood at Rs 1.43 bn in 9MFY20.

Broking and Distribution

Particulars	Q3 FY20	Q3 FY19	CHG. YoY	Q2 FY20	CHG. QoQ	9MFY20	9MFY19	CHG. YoY
Total Revenues	3,062	2,701	13%	3,019	1%	8,859	8,525	4%
EBITDA	1,014	825	23%	1,073	-6%	3,054	2,958	3%
PBT	654	508	29%	653	0%	1,903	1,971	-3%
PAT	**489**	**359**	**36%**	**544**	**-10%**	**1,435**	**1,398**	**3%**

In Retail Broking & Distribution, our Market share in high-yield cash segment continues to rise. Our overall market share improved by 30bps QoQ at 2.6% (ex-prop) in 9MFY20.

Our strategy to bring in linearity through the trail-based distribution business is showing results. Distribution AUM was Rs.104 billion, +16% YoY. With only 16% of 1.3 million client base tapped, we expect continued increase in AUM and fee income as number of clients to whom we have cross sold and number of products per client cross sold rises.

Turning to the Institutional Broking business:

In Institutional Broking, there was substantial improvement in rankings in ASIA MONEY POLL 2019 with 1st Rank - Best Overall Sales, 1st Rank – Best Sales Trading, 1st Rank – Best Corporate Access, 2nd Rank – Best Local Brokerage. This has been the result of focus driven differentiated research products with 250+ companies covering 21 sectors.

Investment Banking

KEY FINANCIALS: INVESTMENT BANKING (Rs Mn)

Particulars	Q3 FY20	Q3 FY19	CHG. YoY	Q2 FY20	CHG. QoQ	9MFY20	9MFY19	CHG. YoY
Total Revenues	27	50	-47%	83	-	112	235	-52%
PBT	-30	-30	-	21		-64	40	-
PAT	-23	-22	-	12	-	-50	27	-

Investment Banking business was impacted by the headwinds faced by ECM segment and poor deal closures. Overall transaction pipeline remains encouraging.

Home Finance business:

KEY FINANCIALS: MOTILAL OSWAL HOME FINANCE (Rs Mn)

Particulars	Q3 FY20	Q3 FY19	CHG. YoY	Q2 FY20	CHG. QoQ	9MFY20	9MFY19	CHG. YoY
Net Interest Income	526	523	1%	545	-3%	1,648	1,798	-8%
Other Income	13	33	-59%	23	-42%	58	92	-37%
Total Income	540	556	-3%	568	-5%	1,707	1,890	-10%
Operating Profit	302	282	7%	319	-5%	982	1,092	-10%
PBT	253	-1,496	-	-172	-	331	-2,208	-
PAT	**161**	**-947**	**-**	**-118**	**-**	**214**	**-1,405**	**-**

The loan book stood at Rs. 38 bn as of December. Disbursements in the nine months' period were Rs. 1.5 bn. The new book source from April 2018 validates the new policy with 11 cases in 90+ out of total 4,500 loan cases. Asset quality remains sequentially stable. Our reported GNPAs have gone up on a QoQ basis. This is because, as of September we have separated a part of the book to the ARC. If you were to include the roll backs in the 90+ on the ARC books, then the overall 90+ is stable on a QoQ basis versus an increase that we have reported for the standalone Motilal Oswal Home Finance.

More importantly the 0-90 DPDs are down meaningfully in this quarter compared to the previous quarter by over 1% of the overall loan book. CRISIL has upgraded the rating of the home finance business to AA- stable outlook from earlier A+ stable which is also helping us in terms of bringing down our cost of funds which are down 20 basis points this quarter and incremental cost of borrowings are about 100 basis points lower than the overall cost of borrowing right now.

Strong support from the parent continues. Our total capital infusion in this business stands at Rs. 8.5 bn. We have limited borrowing repayment for the next one-year strong undrawn borrowing lines and the ALM cases are in a comfortable liquidity position.

Fund-based activities

KEY FINANCIALS: (Rs Mn)

Particulars	Q3 FY20	Q3 FY19	CHG. YoY	Q2 FY20	CHG. QoQ	9MFY20	9MFY19	CHG. YoY
Total Revenues	545	565	-4%	270	102%	1,154	56	-
PAT	**547**	**538**	**2%**	**520**	**5%**	**1392**	**54**	**-**

Fund Based activities like commitments to our asset management products. During 9MFY20, we made additional investments of Rs 1 bn+. Total quoted equity investment including unrealised gains was Rs 16.6 bn as of Q3FY20. Cumulative XIRR of these investments is ~18%.

Outlook: To sum up, Asset and Wealth businesses are now the largest contributor to our profits with robust growth in AUM. Home Finance business legacy issues are behind with incremental focus on profitable growth. We remain excited about the headroom to grow and the ability to generate free cash by each of our existing businesses. We are now open for Q&A!

Q&A

Sir, can you quantify what is the net sales in the AMC in this quarter?

The net sales number is Rs. 80 cr in this quarter.

Sir, and if I look at your mutual fund and PMS AUMs, your mutual fund AUM has grown about 6% quarter-to-quarter and the PMS has grown only 3.5%. So have we seen some redemption in the PMS?

Yes, the net sales in the PMS have been marginally negative and the mutual fund business has been positive, but these are QoQ numbers. In preceding quarter, we had net sales positive in PMS and a net sales negative in the mutual fund business. But the overall net sales both for the second quarter and the third quarter for the AMC as a whole have been positive.

So and we have the new regulations now which increase the ticket size to Rs. 50 lakhs. How do you see this impacting fresh flow in the PMS business?

I think it is a very matter of adjustment. The reason being that, we have been through this in the past. I think even 2012; the Rs. 5 lakhs was made Rs. 25 lakhs. Now the Rs. 25 lakhs is made to Rs. 50 lakhs. On the other hand, we already managed reasonable book of AIFs which is at Rs. 1 cr. So my sense is that it is not a big there might be one or two months of adjustment period but I do not think it is a big disturbance at all. The other thing to keep in mind is that it might lot of times when a new manager comes in then people want to just experiment and starts small.

My perception is that this might be a little bit of a hindrance for somebody who is just starting on day one and trying to source clients. But people who have a huge client base and a huge distribution network or partnerships in place I think they will be able to adjust faster. Long story short, I do not see a disruption because of that.

So my first question was if I look at the SIP books, SIP book was closer to Rs. 170 cr a year ago it is down to Rs. 130 cr. So I just wanted some clarity on to that as to what is happening. That is one. Second is could you give me the net sales number for the wealth management piece and the distribution piece on the Quarter-On-Quarter basis? That is question number two.

And third is all the three businesses today which is wealth management distribution and the AMC are sub-scaled so moving vertically up what is more needed or what are your thoughts in terms of timelines or any broad vision in terms of where do you see these businesses in the next two, three years?

So maybe there will be two components to the SIP decline that you mentioned. One will be related to the fact that there will be a certain pace at which the SIPs which have been registered, they will run out of their actual course for which they were registered. So that is somebody register for three years, four years so there is a natural what you can say closure to the SIP which has been registered and fresh installments. Let us somebody registered for 36 months and 36 months are over so the question is that are you registering fresh SIPs at what pace are you registering fresh SIPs at.

So the first part of your question is answered in the sense that the pace at which new SIPs are registered is slower than the pace at which new SIPs were registered in 2017 but of course a lot of them would have run their course. Second is that, second point which I want to tell you we are transparently reporting what is the accurate number of successful SIPs gone through. Now I do not need to ring alarm bells out here but whatever is reported in the industry is the gross number. If a gross number of Rs. 8,200 cr is reported it does not mean that there is Rs. 8,200 cr worth of successful SIP which is actually gone through in that month.

So there will be two parts to it. One is some SIPs run their course and second is at any point in time I have to keep reporting to you what is the successful collection. If I just say that there are 3,000 SIPs and they had Rs. 2,000 installments and I just keep reporting to you mechanically what is the gross number that may not always be the true picture. So overall some so this is the fact of life and this is the actual number which comes through which we are reporting here.

Net sales on the wealth management side was Rs. 1.56 bn in Q2 which is Rs. 1.3 Billion in Q3 and the net sales on the distribution side of the business was Rs. 2 Billion in Q2 which is Rs. 3.5 Billion in Q3.

On ETFs and Index Funds we have seen a lot of product launches. If I look at say our midcap ETF one nine year old product AUM is Rs. 30 cr so that is not been a very large in terms of size. So what is the rationale of recent ETF and Index launches and is there some kind of AUM we are targeting because all of them seemed to have garnered Rs. 30 cr, Rs. 40 cr each in each scheme. So if you could give us some sense?

If you see the growth of the ETFs, otherwise in the market it is all basically government related. It is either CPSE Bharat 22 or it is this EPFO money which is going into one particular Nifty ETF and another Sales Tax ETF. So bulk of that money according to me 90% of it is related to government business and related to institutions. Fundamentally how many ETFs has retail participation is something which is debatable because generally all these ETFs which are launched people skin the discount and then the number of investors in the corpus starts dwindling.

So I have seen that ETF is not something which is fundamentally taken off at all. And there are two reasons for this. One is that we have a very, very big mutual fund base and we have a very, very big stockbroking base. And ETF falls in between because the operating platform is of stock broking but it is basically like a mutual fund where people are used to fill in forms and cutting cheque. So ETF is somewhere fall in between the cracks other than the government business and the institutional business.

Now when we are talking retail this is the reason why if you see recently whatever we have launched we have launched open ended index funds which are tracking the index but they are basically open ended mutual funds where you are transacting with the AMC. So then the operating platform is become easy all these PayTM money and our website, our App or for that matter Querra or whichever grow or whichever platforms are there these index funds are subscribed on those platforms.

Totally our passive corpus is now approximately Rs. 800 odd cr. But what is the interesting is that this Rs. 800 odd cr is in the last three to four months that it has come through. And at the same time it is more than 20,000 investors which have come through in these last few months. So if we want to actually scale the business on the passive side then it needs diversity of products and it needs retail friendliness. Otherwise it will be only institutional so lot of lip service to the passive business, but it is not retail friendly and that is the reason why we are trying to make it retail friendly through these index launches.

The other thing why are we doing actually in previous conference calls we have discussed this we are basically expecting that the market will go to US way where either there are active specialty or alternate strategies on one extreme and on the other extreme there will be passives. Anything which is passive plus index plus which is very closely mimicking the benchmark with minor underweight overweight I think that is something which typically gets cannibalized as the market develops.

So we are basically batting for a polarization that on one side you would have passives and on the other side you would have active specialty or you would have alternates. That is what we are batting for and that is why we have created this business.

That is very helpful, Aashish. And last one, Aashish from my side if I look at the Motilal Oswal Nifty Index Fund the expense ratio is much higher than other schemes. I imagine in the Nifty index fund it should have been lower, so it is having 0.65% compared to 0.39%?

The open ended Nifty Index Fund which we created in November the direct plan a year is now 10 basis points. All the others which are small cap, midcap, bank, Nifty 500 those direct plans are at 35 basis points. Nifty Index there was a revision which was done as soon as the NFO got over it was made 10 basis points.

Okay may be the factsheet is not updated. I thought the earlier factsheet may be I have seen that is why may be?

Yes, I got you, but we have made the revision.

Sir, and there was this upfront commissioning ban in PMS business so how have been this impact us and currently how do we pay our distributor in PMS?

Yes, so the circular which came on January 20th what has been banned is charging the customer a setup fee when we register for the investment. So that is what has got banned. I do not know if there are any further circulars or any further information coming to us but technically speaking upfront commission has not been banned. Upfront collection of setup fee has been banned.

I think that one thing that is a nuance to be kept in mind. Coming to your question, bulk of the distribution the largest of private bankers in the country who are our important partners they all have moved to trail because they do not want uncertainties in their own business plans. So anyway if you ask me out of every Rs. 100 of PMS which comes in it used to be 60%, 70% which had some component of upfront commission being paid I think it is falling down to about 30% where there is some upfront in 30%, 40% where there is some up fronting. But slowly, slowly all our B2B partners prefer to move to trail. So everybody wants that uncertainty that is the point.

How much would we be paying for that?

We on an average pay only the first year running and not even the full first year's running. So it would end up in the range of the average in the first year would end up in the range of 150 basis points.

And sir, we launched this large and midcap scheme so how much should we get in the NFO and what is the current AUM?

We received about Rs. 305 cr and the current would be just under Rs. 400 cr.

And sir, in Q2 our employee cost was around Rs. 143 cr this was 14% higher YoY and in Q3 our employee cost is again Rs. 132 crores. So was there one-off in Q2?

Basically it was on account of some ESOP cost reversal in this quarter because of which it is showing flattish.

So the trend going forward would be Rs. 140 cr, Rs. 145 cr going forward?

Yes, so as we continue to add employees on each of our businesses it should marginally keep on growing essentially in the broking business.

My other question is on the wealth management business. I noticed that our AUM has gone up but our topline has declined in that business. So why is that happening?

So if you look at the share of the trail income in the overall business that is gone up which is a reflection of the AUM but if you look at the net sales they have been quite muted and lower on a QoQ basis also and on a YoY basis. So the upfront income which a net sales generate has come down and that is the reason why the overall revenues have come down.

The share of upfront on a YoY basis would be significantly lower and the share of trail would have been significantly higher and the impact of upfront is reflected in the overall revenues.

Are we still booking upfront fees that we get like in the first year itself on the day we get it or are we amortizing it over a period of over a year or?

So what happens is basically at the standalone level they will be accounted as an upfront whereas if it is a consolidated level and that time inter-group we receive that would be amortized because the AMC would also have amortized the same.

So then in the intra segment it will get cancelled off?

That is right

But then in that case your wealth management should show a higher revenue but it is not showing because the new sales are little lower and the proportion of sale has gone up?

Yes, that is right.

Just on the wealth management part on a QoQ basis I see some dip in terms of net sales in the wealth management part wise?

So basically the gross sales traction has been pretty strong in the asset management business in the distribution business and in the wealth business. The redemption also continues to be growing particularly in the wealth business and because of which the net sales are lower in the third quarter compared to the second quarter. It is in line with how the industry trends are also.

There is so much of negative news flow going around regular changes in the broking segment overall because of this Karvy breakout. What kind of impact I mean how can this impact us given that our margin funding business is huge and there is lot of majority of the income that we have in the broking also comes from the interest income that we are on the float? So will we get affected and in what form?

So I do not think, surely I think we have been impacted negatively because of this. In fact, we see serious consolidation effort which in any case we are now accelerating because the people with brands, people with capital, people with very strong governance I would say will get disproportionate that market share. In fact, a traction of new client acquisition also you have seen the numbers it is growing and as Navin said we are expanding in to new branches and also lot of focus on cross selling. So I think we remain as confident about what the way we are growing our business.

Sir, it is very heartening to see the ADTO of ours has been growing substantially and I assume that has to do more with the midcap and the small cap rally that we are having and the consolidation of small brokers that is going through. But however sir, the revenue on QoQ basis of us has been at Rs. 300 cr from these somewhat over there. So what is the reason for the yields to drop over there? Could you just give some light over there?

Actually that is on account of the lower revenues in the funding book basically. That is one of the reasons. So broking revenues are actually grown whereas the funding book the average book size has been lower. That is one of the reason on a quarter-to-quarter basis.

The second thing is that the business mix also keeps on changing. Like in this kind of volatile market your delivery volumes also keep on kind of I think shifting from delivery to auctions because the markets are volatile and the small caps really I think not doing so well. So I think the volume shift happened from delivery transactions to auctions.

Couple of questions on the broking side. So you have not shared the cash market share this time?

Historically and so far we have really not shared because there is cash within cash intraday, within cash delivery, institutional cash, retail cash, PCG broking cash etc. So I think that amounts to lot of complications in terms of data.

And sir, broadly you have QoQ gained good increase in ADTO. It appears from that market share of 2.6%. So what is the reason anything specific there and what will be your share of sub-broker channel in overall volume?

So in terms of branch and sub-brokers if you look at two, three years back it was a completely sub-broking centric model. Now the branch in terms of revenue I would say net revenue branch is much higher than the franchise channel although we are growing on both sides. It is quite balance in that sense today between the franchisees and the branches although our number of branches are 22 which we are ramping up to about 60 branches and my confidence is much more that the branch channels, direct channels is going to grow faster not only in terms of broking revenue but also in terms of cross selling opportunities.

And what is the impact that you see because of this intraday cash margin being introduced? Is there anything specific that you see because of this?

Yes, I think working capital will slightly increase and in the short term the volumes may come down but markets always keep on kind of I would say reflecting for some time pausing and then getting take it to the next level. Because any kind of practices and regulative always be I think has helped for the medium to long term growth for the business.

But is there a scope of getting sized because it has not taken well by both brokers and investor community?

I think we have been consulting with the regulators and I think somewhere we have got some kind of reprieve in the short-term reprieve in our interim margins.

It is still under discussion stage with the regulator because effectively this implemented from 1 April. Today only reporting has started but the effective implementation is from April 1 of this year.

If I look at the broking and distribution side where seems to be large part of our client base. In the opening remark you did mentioned about room for expansion so any specific geographies we are looking at or rest will remain pretty high in the broking and distribution side given the equity culture it is more here?

See Maharashtra, Gujarat becoming the dominant players in the market also they are the highest markets in terms of states. But we have now across the country from Maharashtra to Assam everywhere or to North or the East part of the country. So we are present in now about 550 cities. Where we are seeing the opportunity I think we keep on adding more and more account distribution.

So the specific geographies if you can give some color is there room for higher growth say in East because of?

Southern part we were slightly weaker, I think East we have the highest market share; West we have also highest market share. I think may be on the Southern part and slightly another side from UP, Bihar on the other side where now we are trying to increase our distribution. So basically you see the active client breakdown North and South are roughly 15% each and there is a lot of headroom to grow in both of them.

In West that contributes 60% of the active client base. So while there is headroom there as well I would say the growth rates would be much higher for all our businesses in terms of clients, in terms of AUM whether it is broking, whether it is wealth, whether it is asset management both in the Northern and the Southern part of the country.

So on the AMC also this kind of an approach will continue where West would dominate as of now but there is room to grow in other of these geographies also?

Then our presence in B30 is zero and so if you see the doubling of the distribution footprint we will be entering in a lot of the B30 cities also. So that is one. And secondly more presence in the larger metros the top 4, top 5 from one location to two or three. So both of these will guide our overall growth.

Sir, one technical question on the borrowing front. The consolidated borrowings that we reported is around Rs. 4,600 cr and ex of that housing finance borrowing that still stands around Rs. 1,500 cr. So in which divisions are these borrowings deployed?

This is deployed in our broking business. So it is a part of our working capital and margin requirements in the broking business.

And what is the cost of debt that we have in broking?

The average Cost of debt is 8.25%.

Just wanted to ask about the not so great growth in topline. Why is it incipit and how does the future look like? Coming to the capital market division how do we compete with the Zerodha and flat brokerages being offered? And is the worst over for the home finance business?

This is Raamdeo Agrawal. Actually in broking we are quite aware that the business model from earlier became dematted and from there now this is shifting to completely online kind of a situation. But even in the developed markets there are two types of brokerages, one is complete discount broking and second is the full service brokerage where research and advice has been given. And that has been our strength and so we are not seeing any stress and in our client base in terms of migration to the newer style of brokerages. But almost 60% of our transaction is also are online.

So I think we firmly believe that very significant portion of total broking will remain advice driven and result driven and that is where we want to dominate. And that is what the strategy is and you will see that our cash segment market share is continuously rising. So we are seeing good traction, in fact we are seeing aggressive growth possibility in the years to come in our model of business and will watch out how the industry evolves. So that remains about the brokerage.

As far as the asset management is concerned I think we are in a right now my AUM is at all-time high at about Rs. 40,000 crores but that is more because the mark-to-market. The actual inflow is negative Rs 240 cr for the year. So we are preparing we are creating much more robust infrastructure so that next round of growth we can participate when the inflow starts becoming bigger and the inflow moves away from SIP only to SIP and bulk kind of an inflow because our inflows have been a lot more allocated by larger tickets than SIP.

As far as housing finance, it clearly has a turn around and the earlier concerns of cleaning the book are now over. In last quarter again, we transferred some amount of bad assets into ARC but in December quarter if you see I think there is the cleanest possible result we have ever had.

Work is still going on and the results will get visible in coming quarters of FY21. So all in all I think, operating conditions are very stable, the stressed portion which was there is removed.

Just coming to the housing finance business, I understand that there is a technical reason for the GNPAs going up. But last quarter we had mentioned that we had cleaned up the entire book and our focus shifts from collections to growth. And if I look at the employee cost in this quarter there is a QoQ dip. So just wanted to understand that whether our focus is back on growth and how this cost structures will move going forward?

There would not be any substantial de-growth in the employee cost. In fact, the numbers of sales people we have increased hiring so may be some kind of I think branches, three or four branches may have come down. May be few operations guys who are extra have kind of I think have been rationalized. And of course we have centralized credit for that salary document and salary created also. Also I think that is what has happened in this quarter.

And actually on the housing finance business the shoot up in the gross NPAs is a little troubling and when do we see this coming under control I mean what is our strategy over there why is this still happening after actually moving a big portion out of the books?

So as I explained in the opening remarks if you were to consider the ARC book plus the book that we have in the home finance then the (+90) increase is zero in this quarter because the roll back from (+90) in the ARC book are no longer accounted in this book, that is a separate entity.

However, if you look at the 0-90 during the current quarter that is down by more than

1% of the loan book. So that is more than 2x of the (+90) increase. So, overall 1+ has actually declined by over Rs. 20 cr. The 90+ is increased by just over Rs. 20 cr and the 0-90 is down by more than Rs. 40 cr.

And as far as the 90+ increase in the standalone home finance business is concerned we think that the incremental roll forward in 90+ should be negligible in the coming quarter.

I think another thing is every single NBFC or HFCs' denominator keeps growing at 20% or something which has not happened here. So that distorts the ratio further but your point is well taken, and I told you in my remarks also that we still so I think Q4 let us see I mean operating guys are keep giving you guidance. So we hope that Q4 will be better number.

This is on Aspire. Just trying to understand what would be the stage 2 basically 30 DPD?

We have not gone down to all those details as yet but I think our investor relation can quickly share that with you.

I am just trying to understand just like your GNPLs have kind of increased and I think you may have mentioned that Day-1 is kind of gown down. Just trying to understand where day-

Yes, so our stage 2 is at Rs. 240 crores.

And how is that moved Quarter-On-Quarter?

So QoQ, actually that came down by about Rs. 25 cr.

On the incremental kind of growth in this business now if you could give some guidance in terms of what are you really doing over here is there any what is the difference and how do you see the growth trajectory moving out here? I think many of your peers out there are kind of slowing down in this business. So just trying to get some views from your side?

We are slowly building the sales engine. If you look at quarterly numbers, it is about Rs. 60 cr disbursement. I think historically our target is to keep on moving up cautiously looking at the competitive scenario we have no problem about the capital as you know that, but I think the quality comes first and then the growth.

But have you seen any stress in the sector because some of your peers have kind of gradually moderated their growth rates? So just trying to understand have you seen any kind of challenges for good business?

We have not seen any kind of stress. I think only problem what we have seen is that the interest BT happening across because we have been running at 13% to 14% now there are some banks specifically public sector banks who are actually aggressive on acquiring book, high quality book because most of the low quality book has shifted now to ARC. So we see some concern there but customer engagement we have started the talk up program where all the customers are being engaged.

But sales as I said that slowly-slowly we don't see any concern on the ramping up the sale. It is our own internal kind of cautious approach which we are right now following. Most of the sales had at state level have been hired; sales manager is also in place. We sort of focus on quality specific to mobile apps each and every meeting we track and every login is tracked. So, I think building a very strong cognizant for much higher level of expected growth in the future.

And for now you are looking may be next one or two quarters you would be looking at a similar run rate and then this kind of takes off from here, is that I mean based on whatever the current plan is?

We have already grown on a modest base QoQ for the second quarter and the third. We are hoping that that ramp up should continue in the coming quarters also.

Sir, so I wanted to ask on our housing finance business. So if we look at our gearing so it is at 3.6x so at what levels are we comfortable?

So I think at least in the next I mean going up to 5x also is not something that should be a concern may be even little higher than that. As of now we are quite comfortable in terms of the disbursement plan for the next year will still not be taking us to that levels.

Sir, can you quantify that disbursement plan for the next year?

As we said if you see the QoQ numbers Q2 was higher than Q1 and Q3 is higher than Q2. We expect that momentum to continue however we have not put down target that we have to disburse any ways.

So next year we would not be seeing an equity infusion in the housing finance business also, right?

I do not think it is required for the next couple of years actually.

And sir, what are our plans for this business going forward any listing of strategic investors?

As of now there are no such plans.

One more question on the tax rate. I noticed that your housing finance tax rate is shot up in this quarter and your overall ex housing tax rate is down to about 13%. So just wanted to understand that?

So actually housing finance we continue at the tax rate of 35% option because there considering the impact of the earlier portfolio loss we are adjusting that. So still that is beneficial for us. But on all the other businesses we have moved to the 25% tax regime and there were benefits on account of the fund based profits which are now not taxed under the MAT.

So if you see because of these three impacts our average tax rate has gone down. On normalized there is also what has happened is that average tax rate would be continuing in around about 20% to 21% only because of the fund based profits which do not have now a MAT impact.

So our fund based income and the treasury has shot up substantially in this quarter. What are the key investments that have performed in this quarter?

Yes, so actually if you see the treasury that is predominantly invested in our own equity mutual funds and PMS which have actually performed during the quarter. So that size because of that and if you see the OCI incurring also which is our investment in the AU Small Finance which we have done which is also performed during the quarter. So these are the main investments which have gone up.

Okay see the PMF and the AU Small Finance that should not come in the PAT right because they are equity shares so you are saying it is part of OCI?

Yes, that is a part of OCI that is right.

What is that component what is the so the entire OCI is because of this or?

The entire OCI because of the equity shares which is PMF and AU Small Bank Finance stock.

Question is about any plans of encashing our proprietary investments and investment banking because we are sitting on good profits over there?

Yes, out of our net-worth of Rs. 3,500 cr, Rs. 2,200 crores is invested. The biggest strength of the company is to invest in equities. In form whether it is private equities, major stock, mutual funds so what all opportunities come in the future and where we allocate that but 100% of the free cash flow will go into equities that is for sure. Now in what form it is finds the way that only time will tell.

I was just saying you have to move upwards, right I mean you have great investments all the businesses are subscale today you are in an investment mode, is that investment over or do you need more investments in terms of scaling these businesses? You have to move vertically upwards, right that is what your objective would be right?

Yes, so as we discussed earlier basically we are not in an investment mode in most of our businesses because the free cash flows from all of these businesses are actually quite strong. But having said that we have completed five years in most of our mutual fund schemes and we are doubling the distribution network in terms of the city count as far as the asset management business is concerned from about 25 to about 50.

And as far as the broking and distribution business is concerned we have about 22 branches right now and we are looking at tripling that number to about 65 over the course of the next six months' time. So there are substantial investments that we make all the times because we believe that the headroom to grow in each of these business is large. And I also alluded to in the opening remarks the wealth management business has seen a very strong RM growth to about 135 numbers and these RMs are not really profitable in the first three years of their existence in the firm and so as they become more vintage they will turn profitable as well.

Fourthly, as far as the home finance business is concerned that is over 111 branches and as you saw the last quarter disbursement which is about Rs. 60 cr so the run rate or a viable branch is a much higher disbursement per month so as we achieve that over the course of the next 12 to 18 months that business should also see the benefits of operating leverage. So significant investments have been made in multiple businesses more investments and I articulated are being made over the next six months and we think that because of whatever is happening to the overall market place the opportunity to gain scale and change ranks is quite a good for anybody who is a strong brand with a strong balance sheet.

Sir, coming to the deployment of free cash flow I understand there is a regular need for each of the businesses for investment as you detailed out for the broking and AMC business but overall the cash requirement or capital requirement that we had in the housing finance division is over now. So going forward how do we intend to deploy that surplus cash will we be putting it into treasury as we have been doing earlier or is there any plan of some just something like on the sort of buyback or are on those lines?

Yes, so we have a dividend policy. There almost 25% to 30% will be paid out clearly. Last year we paid out actually 50% because we want to have a steadily growing dividend amounts. So dividend will definitely be one of the core thing. Second is that since we know we have confidence in equity and we know how to invest in equities so we will keep building up our treasury in our all the products whether it is private equity or public equity AIS everywhere we will keep investing and then we will keep looking at strategic opportunity in terms of may be some kind of acquisition can come on the way or so if you have the large balance sheet liquid balance sheet there will be lot of opportunities going forward and we keep examining.

So, because this growth is funded through the P&L itself of the year. That actually does not consume any of the free cash flows. The actual free cash flow will be consumed when we actually buy something significant. So I mean our balance sheet size still not that big it is just about Rs. 3,500 cr. So maybe we have to put up another building or something. So those kind of strategic investments will be made otherwise it could go to treasury.

PRESS RELEASE

Motilal Oswal Financial Services reports Q3FY20 PAT of Rs 1.65 bn and 9MFY20 PAT of Rs 4.37 bn, +196% YoY.

Mumbai, January 22, 2020: Motilal Oswal Financial Services Ltd. announced its results for the quarter ended and nine month ended December 31, 2019 post approval by the Board of Directors at a meeting held in Mumbai on January 22, 2020.

Performance for the quarter and nine month ended December 31, 2019

- Consolidated revenues stood at Rs 6.96 bn, +2% YoY in Q3FY20. Consolidated PAT was at Rs 1.65 bn in Q3FY20 vs Rs 396 mn in last year same period. Consolidated revenues for 9MFY20 was at 20.2 bn, +3% YoY and consolidated PAT for 9MFY20 was at Rs 4.37 bn, +196% YoY. Further, Total comprehensive income for 9MFY20 stood at Rs 5 bn, +240% YoY
- **Some of the key highlights** for the 9MFY20 include 7% YoY growth in AMC AUM, 8% YoY growth in PE & RE AUM, 15% YoY growth in Wealth AUM, 16% YoY growth in Distribution business AUM, Positive net flows in MF for consecutive quarters amid moderate industry flows, Accelerated pace of new client addition in broking business, Superior quality of new book underwritten, Lower incremental credit cost, higher margins, Rating upgrade from CRISIL for MOHFL to AA- (Stable) from A+ earlier and MOHFL's NPA pool sale to ARC.
- Board has declared interim dividend of Rs 4 per share (FV Re 1/share).
- Consolidated net worth stood at Rs 35.4 bn, net debt is Rs 42.5 bn. Excluding Home finance, net debt is Rs 13.6 bn and net of investments, we have a net cash balance sheet. RoE for 9M stands at 21%.
- Besides financial performance, the last nine month has been very eventful in terms of our successes in brand building, advertising and several other fronts. In 9MFY20, MOFSL got inducted in **"Hall of Fame"** at 10th Financial Advisory Awards 2019. MOFSL rank 2nd "**Best Local Brokerage"** in Asia Money broker's poll 2019. MOFSL won **"Best Data Analytics of the year Award"** at the India NBFC excellence Awards 2019 by Synnex. These, and several other awards, are recognition of Motilal Oswal as a preferred consumer and employee brand in financial services space.

Speaking on the performance of the company, Mr. Motilal Oswal, MD & CEO said *"Our strategy to diversify our business model towards linear sources of earnings continues to show results. Our Asset Management business is likely to gain from strong product performance. Our Housing finance business is set for new beginning as all legacy issues are behind with incremental focus on profitable growth. Each of our 7 businesses offers headroom for growth. Prestigious awards like "Hall of fame", Best Local Brokerage of the year and several others have made all associated with the group immensely proud".*

Performance of Business Segments for the quarter and nine month ended December 31, 2019

- **Asset Management businesses (AMC, PE and PWM)**
  - **Asset Management** business AUM across MF, PMS & AIF stood at Rs 401 bn, +7% YoY. Our AMC ranks 12 by total equity assets; in PMS we maintain leadership position. Revenues and PAT for the quarter stood at Rs 1.44 bn (+5% YoY) and Rs 410 mn (+22% YoY), respectively.
  - Our Equity MF AUM of Rs 210 bn is just 1.9% of the Industry Equity AUM of Rs 10.8 tn. We have seen improvement in performance of several products. Several schemes rank top quartile in performance over 1 year and since inception. This has resulted in traction in our gross as well as net flows.
  - Further, MOAMC has also launched Large & Mid-Cap fund under active category and also launched 4 index funds under passive category.

- Our share of Alternate assets, comprising of PMS & AIF, is the highest among AMC's at ~47%.
- **Private Equity** manages an AUM of Rs 66 bn (+8% YoY) across 3 growth capital PE funds and 4 real estate funds. In 9MFY20, revenues grew by 9% YoY (ex-carry) at Rs 756 mn and PAT stood at Rs 176 mn. The 1st growth fund (IBEF 1) has delivered an XIRR of ~27%. Strong performance and positioning has also aided new fund raise. We have launched IREF IV in FY19 and have achieved 3rd close at ~Rs. 11.1 bn.
- **Wealth Management** business AUM grew by 15% YoY at Rs 189 bn in 9MFY20 with net sales of Rs 7.4 bn. RM count of this business has reached 134. Our trail revenues predominantly cover our fixed costs. Investments in strong RM addition suppressed reported profitability. New MD & CEO has joined us with over 17 years of experience in Wealth Management Industry.
- Overall **Asset and Wealth Management** revenues were Rs 5.7 bn in 9MFY20 and contributed 28% of consolidated revenues. Profits were Rs 1.46 bn and contributed 33% of consolidated profits.

- **Capital markets Businesses (Broking & Investment banking)**
  - Capital markets comprises of Retail Broking, Institutional Equities and Investment Banking business. Revenues for this segment were Rs 8.97 bn in 9MFY20 and contributed ~44% of consolidated revenues. Profits were Rs 1.38 bn in 9MFY20 and contributed ~31% of consolidated PAT. Broking and distribution business profit stood at Rs 1.43 bn in 9MFY20 led by healthy volume growth and better operating leverage on the higher and linear revenues.
  - In **Retail Broking & Distribution**, our Market share in high-yield cash segment has been improved. Overall market share improved to 2.6% (ex-prop) in Q3FY20.
  - Our strategy to bring in linearity through the trail-based distribution business is showing results. Distribution AUM was Rs 104 bn, +16% YoY in Q3FY20. With only 16% of the 1.3 million client base tapped, we expect a continued increase in AUM and fee income as number of clients to whom we have cross sold and number of products per client cross sold rises.
  - In **Institutional Broking**, there was substantial improvement in rankings in ASIA MONEY POLL 2019 with 2nd Rank – Best Local Brokerage, 1st Rank - Best Overall Sales, 1st Rank – Best Sales Trading, 1st Rank – Best Corporate Access. This has been the result of focus driven differentiated research products with 250+ companies covering 21 sectors.
  - **Investment Banking** business ccontinues to engage on a wide cross-section of mandated transactions across capital markets and advisory.

- **Housing finance business**
  - Motilal Oswal Home Finance (MOHFL) reported profit of Rs 214 mn in 9MFY20 and Rs 161 mn in Q3FY20.
  - Margins have improved to 5.2% in 9MFY20, on account of improvement in yield and lower cost of funds.
  - Loan book stood at Rs 38 bn as of 9MFY20. Disbursements in 9MFY20 were Rs 1.46 bn. New book sourced from April'18 validates the new credit policy with 11 cases in NPA out of ~4500 loan cases.
  - CRISIL has upgraded MOHFL's rating to AA- (stable outlook) from earlier A+ (stable). This will further benefit MOHFL in bringing down cost of funds and improve spreads.
  - Strong support from parent continues with total capital infusion to Rs 8.5 bn. Net Gearing stands at 3.4x.
  - Limited borrowing repayment for next 1 year, strong undrawn borrowing lines and ALM places us in comfortable liquidity situation.

- **Fund based investments** includes sponsor commitments to our AMC & PE funds and strategic equity investments.
    - **Fund based** investments like commitments to our asset management products. During 9MFY20 we have invested ~Rs 1 bn+ in quoted equity investments.
    - Total quoted equity investment including unrealised gains was Rs 16.6 bn as of Q3FY20. Cumulative XIRR of these investments is ~18%.

About Motilal Oswal Financial Services Limited

Motilal Oswal Financial Services Ltd. (MOFSL) is a diversified 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.

MOFSL's core purpose is to be well respected and preferred global financial services organization enabling wealth creation for customers. Research is the solid foundation and the investment advisory at Motilal Oswal Financial Services is based on the research. MOFSL's research has received wide media coverage and consistently won awards, showcasing company's strong research capabilities. This includes being awarded ''Best Performing National Financial Advisor - Equity Broker'''' for six years at the UTI-CNBC TV18 Financial Advisor Awards, Moneycontrol Wealth Creator Award –Best Broking Business Of The Year -2018. MOFSL won "Broking House of the year" at MCX awards2019.

The company has diversified client base of ~1.3 million. MOFSL's core purpose is to be a respected and preferred global financial services organization enabling wealth creation for its customers.