Motilal Oswal Financial Services Limited
Regd. Office : Motilal Oswal Tower, Rahimtullah Sayani Road,
Opposite Parel ST Depot, Prabhadevi, Mumbai - 400025.
Board: +91 22 3980 4200 Fax: +91 22 3312 4997
CIN: L67190MH2005PLC153397

4th November, 2017

BSE Limited
P. J. Towers,
Dalal Street, Fort,
Mumbai - 400001
Security code: 532892

National Stock Exchange of India Limited
Exchange Plaza, Plot No. C/1, G Block,
Bandra-Kurla Complex, Bandra (E),
Mumbai - 400051
Symbol: MOTILALOFS

Sub: Press Release

Dear Sir/Madam,

In connection with our earlier letter regarding submission of Unaudited Financial Results (Consolidated and Standalone) of the Company for the quarter and six months ended 30th September, 2017, please find attached the Press Release on financial performance for Q2FY2018.

Kindly take the same on record.

Thanking you,

Yours faithfully,
For Motilal Oswal Financial Services Limited

Shalibhadra Shah
Chief Financial Officer

MOTILAL OSWAL FINANCIAL SERVICES LTD. MUMBAI

Encl: As above

EQUITY EXPERTS FOR 30 YEARS

MOTILAL OSWAL
Financial Services

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INVESTOR UPDATE

Motilal Oswal Financial Services reports Q2FY18 Consolidated Revenues of Rs 7.1 billion, +35% YoY; and PAT of Rs 1.4 billion, +42% YoY

Mumbai, November 04, 2017: Motilal Oswal Financial Services Ltd. announced its results for the quarter ended September 30, 2017 post approval by the Board of Directors at a meeting held in Mumbai on November 04, 2017.

Performance Highlights

Rs Million	Q2FY18	Q2FY17	YoY Chg	Q1FY18	QoQ Chg
Revenues	7,144	5,285	↑35%	5,761	↑24%
PBT	2,314	1,486	↑56%	1,386	↑66%
PAT	1,437	1,016	↑42%	1,016	↑41%
EPS (FV-1)	10	7		7	

Performance for the quarter ended September 30, 2017

- Consolidated revenues were Rs 7.1 billion in Q2FY18, +35% YoY.
- Strong growth in Q2FY18 across businesses. Asset & Wealth Management business top-line was up 62% YoY, Housing finance was +22% YoY, and Capital Market businesses +20% YoY. The revenue mix is seeing healthy diversification, as 61% of the revenue came from linear sources like Asset & Wealth Management and Housing Finance. While the share of Capital Markets reduced in the mix (34% in Q2FY18), it continues to grow strongly in absolute terms. Both, Asset Management and Housing finance businesses, saw strong growth in assets, and improved in profitability despite significant investments in manpower, distribution network and marketing.
- PBT was up by 56% YoY at Rs 2.3 billion. Consolidated PAT was Rs 1.4 billion in Q2FY18, +42% YoY. This incremental PAT growth was contributed by Asset & wealth management business (+52% YoY) and Capital Market business (+38% YoY).
- Significant investments have been made into manpower in Broking (+44% YoY) and Housing Finance (+68% YoY). Ad expenses are +51% YoY in Asset Management business. These up-fronted investments will translate into operating leverage in the coming year. Some of this was visible, with PAT Margin of 20% in Q2FY18. However, the full effect of operating leverage is yet to unfold in our businesses.
- As of September 2017, Net worth was Rs 20 billion, Gross borrowing was Rs 55 billion and Net borrowing was Rs 51 billion (including Aspire). Excluding Aspire, Gross and Net borrowings were Rs 15 billion and Rs 12 billion respectively. Balance sheet has strong liquidity, with ~Rs 13 billion as of September 2017 in near-liquid investments to fund any future investment needs of operating businesses.
- In line with our strategy to deliver sustainable 20%+ RoE in the long term, RoE for Q2FY18 was 29% on reported PAT. However, this does not include unrealised gains in our quoted equity investments (Rs 5.8 billion, as of September 2017). Including this, the RoE in Q2FY18 would have been ~32%.

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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 offer significant headroom for growth and operating leverage as they scale up. Even our traditional businesses also saw decisive uptick during the quarter by registering record revenues. With this strategy, we have achieved highest ever quarterly revenue and profit during Q2FY18 and H1FY18. Our brand is now being recognized in each of our businesses".

Performance of Business Segments for the quarter ended September 30, 2017

- **Capital markets Businesses (Broking & Investment banking)**
  - **Capital Market** revenues in Q2FY18 were Rs 2.4 billion, +20% YoY. Market ADTO grew 65% YoY in Q2FY18, with F&O +68% YoY and cash +21% YoY. Our market share in high-yield cash segment was improved on sequential basis and overall market share improved to 2% in Q2FY18. Blended yield maintained at 2.9% in H1FY18. Some of the operating leverage from the investment in manpower (+44% YoY), brand & technology is visible, as PAT margin is at 17% in Q2FY18. However, the full benefit of operating leverage is yet to unfold.
  - **In retail broking & distribution**, our strategy to bring in linearity through the trail-based distribution business is showing results. Distribution Net Sales were Rs 8.2 billion in Q2FY18, +142% YoY, and AUM was Rs 61 billion, +130% YoY. Distribution income at 15.9% of retail broking net revenues. With only ~9% of our client base and ~18% of the distribution network tapped as of now, we expect a meaningful increase in AUM and fee income as cross-selling increases. Our efforts to improve sales productivity is bearing fruit, with over 60% of leads generated online. Online business continues to grow, reaching 42% of retail volumes in Q2FY18.
  - **In institutional broking,** blocks continued to gain solid traction within our volumes. Our empanelled trend remains strong with 15 new client additions during the quarter. Focus has been on making the most of the market tailwind while building sustained areas of competitive advantage.
  - **Investment banking** continues to have a strong pipeline. IB fee were Rs 465 million in Q2FY18, +59% YoY. Our IB was among the top 10 investment banks in primary market equity deal ranking in H1CY17. It has completed 7 ECM transactions in H1FY18.
  - Capital markets businesses contributed ~34% of revenues in Q2FY18. The contribution of capital markets in the PAT mix was ~29% in Q2FY18.

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- **Asset Management businesses are nearing critical mass**
  - Asset Management business across MF, PMS & AIF reached the mark of Rs 290 billion AUM this year, comprising of Rs 143 billion MF AUM and Rs 134 billion PMS AUM. Our AMC now ranks among the Top-10 players by total equity assets with leadership position in PMS business. Net Sales were Rs 61 billion in H1FY18, +141% YoY and compares with Rs 62 billion in all of FY17. AUM was Rs 290 billion, +92% YoY. Net yield was maintained at ~0.9% in Q2FY18. Revenues were Rs 1.46 billion in Q2FY18, +96% YoY and PAT is Rs 233 million, +154% YoY despite significant investments in brand building. The asset management business offers significant headroom for growth and operating leverage.
  - Our QGLP philosophy continued to deliver on investment performance; our F-35 scheme has delivered absolute returns of 31% and alpha over benchmark of 16%, since inception. Our 3 flagship mutual funds schemes completed their 3-year performance track record, leading to increased participation from distributors.
  - With equity mutual funds focusing on retail outreach, PMS and AIF serve HNIs, family offices and institutions and are able to differentiate with concentrated strategies affording scope for higher alpha.
  - As of Sep 2017, ~15% of Non-MF AUM is performance-fee linked, and our target is to increase this further.
  - Our market share in Equity MF Net Sales has scaled up in Q2FY18 to ~4.3% compared to 3.6% in Q2FY17. Due to our recent vintage, our market share in Equity MF avg AUM is ~1.8%.
  - Ad & marketing spends were Rs 85 mn in Q2FY18, +51% YoY and 85% QoQ, forming 14% of net revenues.
  - Our ongoing ad campaign "Think Equity Think Motilal Oswal" is reiterating our positioning as equity specialist. These branding exercise and strong performance of our products coupled with higher equity inflows in market are helping us to garner higher market share.
  - Significant investments in manpower and advertising have been up-fronted, which could result in a meaningful operating leverage in the future. With increase in financial savings to total savings, the domestic market should continue to benefit from this shift towards financial assets. In offshore, which is 1.7x of institutionally managed equity assets in India, we are seeing initial interest in our offshore products.

- **In private equity,** we manage an AUM of Rs 42 billion across 3 growth capital PE funds and 3 real estate funds. The PE business has demonstrated robust profitability and scalability. The 1st growth fund (IBEF 1) has delivered an XIRR of 29%, and alpha of 10% and is expected to return ~5x MoC (Multiple of Cost). Till date, 2.5x MoC has been return for INR investors and 2.2x for USD investors. Exits across our 6 funds at strong IRRs bring linearity to income stream. Strong performance and positioning is also aiding new fund raise. Fund III (IBEF III) launched during the quarter and received phenomenal response by garnering 10 billion and expected to close FY18 with corpus of Rs 20 billion.

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- **In Wealth Management,** business AUM grew 51% YoY to Rs 129 billion. Highest-ever net sales at Rs 9.1 billion, +91% YoY. We have achieved highest-ever EBITDA margin of 41% for the quarter resulting out of improved RM productivity in line with vintage. Our capacity to hire additional RMs will increase as existing RMs vintage increases which will which will help sustaining growth and driving further operating leverage.
- Asset and Wealth Management revenue were Rs 2.5 billion in Q2FY18, +61% YoY. This now contributes to ~36% of consolidated revenues in Q2FY18 vs 30% back in Q2FY17. Contribution of Asset & Wealth Management in the Profit mix was ~50% in Q2FY18 vs 46% in Q2FY17.

- **Housing finance has shown traction in loan book, while maintaining risk and operational parameters**
  - Housing finance loan book grew by 57% YoY at Rs 48 billion.
  - NII grew 75% YoY to Rs 564 million, as interest expenses declined, driven by lower borrowings and lower cost of funds. PAT remained stable YoY at Rs 223 million.
  - Strong ramp up in last year has driven 70% YoY growth in manpower and 62% growth in branches. However, YTD growth in manpower is 19% with no additions to branches.
  - We have maintained steady operating metrics. The average ticket-size was Rs 0.90 million, LTV of ~58% and FOIR of ~46% as of September 2017.
  - Disbursements in Q2FY18 were Rs 6.3 billion versus Rs 3.3 billion in Q1FY18 and Rs 6.7 billion in Q2FY17. Calibration in the pace of disbursements in H1FY18 was partly led by external factors in the economy, causing postponement of customer decisions. Investments have been made in building a collection and legal organisation while calibrating growth. This will create a strong foundation for sustainable growth.
  - GNPA increased from 1.6% in Q1FY18 to 2.8% in Q2FY18 on account of seasoning of the book coupled with external shocks such as demonetization, RERA and GST. Also, in the first three years, absence of independent collection and legal organization, resulted in higher slippages. The collection and legal engine is now in place.
  - Average yield held firm at ~13.4% on a YoY basis despite competition.
  - In liabilities, ~53% borrowings were from NCDs and ~47% from bank loans. As of September 2017, 26 Banks/NBFC had extended lines, apart from 24 institutions to whom NCDs were allotted.
  - Our credit ratings are CRISIL A+ Stable and ICRA AA-. We have kept gearing conservative, with the Debt/Equity ratio at 5.1x.
  - Strong traction in margin at 4.5% in Q2FY18 on account of lower incremental borrowings and sequentially lower cost of funds. Equity infusion in Q1FY18 also aided margin expansion.
  - Average cost of borrowings declined from 10% in Q2FY17 to ~9.8% in Q2FY18, despite negligible CP contribution in funding mix. Incremental borrowings from CP will bring down cost of borrowings in H2FY18.
  - ROA for Q2FY18 was 1.7%, while RoE was 11.6%.
  - Cumulative capital infusion from sponsor is Rs 6 billion and net worth is Rs 7.7 billion, as of September 2017.
  - We have been investing in technology to strengthen our database, analytics and risk framework. We are also investing in digital initiatives to reduce operating costs and turnaround time, and to improve customer experience. Our digital initiatives include new apps for sales, credit, collection, clients and vendors.
  - Aspire has been awarded the second prize for "Best Performing PLI (prime lending institution) under PMAY by MHUPA (Ministry of Housing and Urban Poverty Alleviation)".

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- **Fund based business** includes sponsor commitments to our AMC & PE funds, equity investments and NBFC LAS book.
  - Fund based business income grew +324% to Rs 957 million in Q2FY18, largely driven by dividend of Rs 458 million from PE on account of carry income of Rs 539 million.
  - Unrealized gain on quoted equity investments (equity MF/Shares) as of September 2017 is Rs 5.8 billion (equity MF: Rs 4.1 billion against Rs 6.7 billion investment at cost; AU Small Finance Bank: Rs 1.7 billion). This is not reflected in the reported PAT; had this been included, RoE would have been ~32% against the reported 29%.
  - Reported RoE of 4% in fund based business; however, post-tax cumulative XIRR of ~29% (since inception) on equity investments, validating the long-term performance track record of our QGLP investment philosophy.
  - These investments have helped "seed" our new businesses, which are scalable, high-RoE opportunities. They also serve as highly liquid "resources" available for future investments in business, if required.
  - Our investments in Motilal Oswal's alternative investment funds stood at Rs 2.9 billion.
  - NBFC LAS lending book was Rs 2.24 billion as of September 2017, which is run as a spread business.

- In line with the goal to achieve a sustainable 20%+ RoE, consolidated RoE for the Group for 21FY18 was 29% (without including unrealized gains on quoted equity investments of Rs 5.8 billion). Within this, Asset and Wealth Management RoE was 308%, Capital Markets RoE was 86% and Housing Finance 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.

For further details contact:

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For Motilal Oswal Financial Services Ltd

MOTILAL OSWAL FINANCIAL SERVICES LTD. MUMBAI

Mr. Motilal Oswal
Chairman & Managing Director