



MOTILAL OSWAL
Financial Services

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

January 24, 2018

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

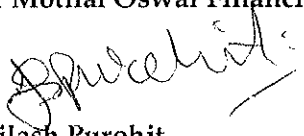
Dear Sir/Madam,

In connection with our earlier letter regarding submission of Unaudited Financial Results (Consolidated and Standalone) of the Company for the quarter and nine months ended December 31, 2017, please find enclosed herewith the Press Release on financial performance for Q3FY2018.

Kindly take the same on record.

Thanking you,

Yours faithfully,
For Motilal Oswal Financial Services Limited


Kailash Purohit
Company Secretary & Compliance officer

Encl: As above



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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



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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



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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.



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- 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.

For further details contact:

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