


 MOTILAL OSWAL

Motilal Oswal Financial Services

ConCall Summary & Earnings Release

Quarter/Year ended March 2011

2 May 2011

Motilal Oswal Financial Services Limited (MOFSL) posted a QoQ de-growth of 24% in revenues for the quarter ended 31 March 2011 to ₹1.26b. Reported PAT before exceptional and extraordinary items decreased by 42% QoQ to ₹243m while Adjusted PAT declined 29% QoQ to ₹269m. Broking-related revenues decreased by 28% QoQ to ₹877m. Investment banking fees increased by 8% QoQ to ₹54m and asset management fees went up by 27% QoQ to ₹137m. Fund-based income fell 37% QoQ to ₹175m. On a full year basis, revenues decreased 7% to ₹6.0b. Reported PAT was down 20% to ₹1.37b while Adjusted PAT declined 15% to ₹1.34b. Broking-related revenues fell 5% to ₹4.33b. Investment banking fees were down 39% to ₹398m and asset management fees were up 7% to ₹427m. Fund-based income increased by 14% to ₹738m.

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 March 2011. This presentation is available at www.motilaloswal.com.

Corporate Participants

Mr Motilal Oswal

Chairman and Managing Director

Mr Raamdeo Agrawal

Joint Managing Director & Co-founder

Mr Navin Agarwal

Director

Mr Sameer Kamath

Chief Financial Officer

This document includes forward looking statements, including discussions about the management's plans and objectives and about expected changes in revenues and financial conditions. Forward-looking statements about the financial condition, results of operations, plans and business are subject to various risks and uncertainties that could cause actual results to differ materially from those set forth in this document. You should not construe any of these statements as assurances of financial performance or as promises of particular courses of action.

Ladies and gentlemen, good afternoon and welcome to the Q4 FY11 earnings conference call of Motilal Oswal Financial Services Limited. We have with us today Mr. Motilal Oswal, Chairman and Managing Director, Mr. Raamdeo Agarwal, Co-Founder and Joint Managing Director, Mr. Navin Agarwal, Director and Mr. Sameer Kamath, Chief Financial Officer. For the duration of this presentation, all participants' lines will be in the listen-only mode. I will be standing by for the 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 (₹ Mn)

	Q4 FY11	Q3 FY11	CHG. QOQ	Q4 FY11	Q4 FY10	CHG. YOY %	FY11	FY10	CHG. YOY %
Total Revenues	1,260	1,653	24	1,260	1,666	24	6,004	6,453	7
EBIDTA	436	693	37	436	761	43	2,296	2,770	17
PBT (before E & EOI)	394	639	38	394	737	47	2,107	2,532	17
PAT (before E & EOI)	243	421	42	243	502	52	1,371	1,704	20
Adjusted PAT (before E & EOI)	269	376	29	269	447	40	1,344	1,586	15
PAT (after E & EOI)	243	421	42	243	519	53	1,371	1,704	20
EPS - Basic (before EOI)	1.7	2.9		1.7	3.6		9.5	11.9	
EPS - Diluted (before EOI)	1.7	2.9		1.7	3.6		9.5	11.9	
No. of Shares O/s (Mn) - FV ₹1/share	144	144		144	143		144	143	

E & EOI = Exceptional & extraordinary items

Source: MOFSL's presentation on March 2011 earnings

REVENUE COMPOSITION (₹ Mn)

	Q4 FY11	Q3 FY11	CHG. QOQ	Q4 FY11	Q4 FY10	CHG. YOY %	FY11	FY10	CHG. YOY %
Brokerage & Operating Income	877	1,214	-28	877	1,035	-15	4,334	4,551	-5
Investment Banking Fees	54	50	8	54	230	-77	398	649	-39
Fund Based Income	175	276	-37	175	125	40	738	649	14
Asset Management Fees	137	108	27	137	191	-28	427	401	7
Other Income	17	5	242	17	85	-80	107	203	-47
Total Revenues	1,260	1,653	-24	1,260	1,666	-24	6,004	6,453	-7

E & EOI = Exceptional & extraordinary items

Source: MOFSL's presentation on March 2011 earnings

Opening remarks

Good afternoon everybody. It is my pleasure to welcome all of you to the Motilal Oswal Financial Services earnings call for the Fourth Quarter and the Year Ended March 2011.

Industry facts

I will start by giving a brief backdrop of the broad market, the industry segments we operate in, and then run you through our own financial performance for the quarter and year ended March 2011.

Equity markets

The Indian indices had a relatively muted fiscal, with the BSE Sensex gaining 11% YoY. The fourth quarter was a rough ride, as macro issues and volatile FII flows impacted market performance, resulting in the Sensex falling by 5%. Market capitalization at BSE was US\$1.52t in March 2011, down 6% QoQ although up 12% YoY.

The Average daily market turnover (will call this ADTO) of equities in Q4 FY11 was ₹1.55t, up 5% QoQ. Looking at segment-wise growth, ADTO in F&O segment was ₹1.4t in Q4 FY11, up 10% QoQ, boosted by a 20% QoQ growth in options volume. In the cash segment, the ADTO was ₹0.16t in Q4 FY11, down 22% QoQ.

For the full year FY11, ADTO was ₹1.33t, up 40% YoY. The F&O ADTO was ₹1.147t in FY11, up 58% YoY, while the cash ADTO was ₹0.184t in FY11, down 19% YoY.

With the rapid growth in options volumes, the shift from the cash towards the F&O segment continued. Looking at segmental proportions, F&O comprised 90% of the total volumes in Q4 FY11, up from 86% in Q3 FY11. Proportion of options volumes comprised 65% of total volumes in Q4 FY11, as compared to 57% in the previous quarter. Conversely, cash volumes comprised 10% of total volumes in Q4 FY11, down from 14% in the previous quarter.

On a full year basis, the proportion of F&O to total volumes has increased from 76% in FY10 to 86% in FY11, while the proportion of options rose from 37% to 57% in the same period. However, within the cash segment itself, the proportion of high-yield delivery volumes to cash volumes has risen from 22% to 27% this year. This is an encouraging feature for the equity industry, and the fact that this coincided with the launch of good public issues in mid-FY11 underscores the importance of the quality IPOs expected to hit Indian markets this fiscal.

The proportion of cash to total volumes continues to remain muted at 11% in April 2011, although it has marginally increased as compared to 10% in Q4 FY11.

Amongst market participants, FII participation within cash volumes went up from 14% to 16%. Retail participation declined from 55% in Q3 FY11 to 53% to Q4 FY11. On a full year basis, FII participation to total volumes went up from 12% in FY10 to 15% in FY11, retail and DII participation remained muted at ~56% and ~7% respectively and proprietary segment participation declined from 26% to 22%.

Institutional activity

High FII net inflows continued in FY11, boosting the markets to near highs in November. FIIs bought equity worth a net ~US\$24.2b in FY11, similar to the ~US\$23.2b seen in FY10. The fourth quarter saw net outflows of ~US\$0.6b, as compared to the ~US\$11.0b net inflows each in the previous two quarters. FII registrations slowed down further in FY11 with just 9 new registrations, as compared to 78 in FY10.

DII saw net outflows of ~US\$4.1b in FY11, as against net inflows of ~US\$5.1b in FY10 and ~US\$13.07b in FY09. While the net outflows this year were in the second and third quarters, the fourth quarter saw net inflows of ~US\$2.4b, corresponding to the sell-off by FIIs in the same period.

Investment banking and private equity

With corporate growth creating opportunities for consolidation, M&A deal activity picked up in CY2010. Led by the outbound transaction segment, M&A deal value increased to ~US\$50b across 662 deals in CY2010, as compared to US\$12b across 330 deals in CY2009. M&A deal value was ~US\$18b across 143 deals in Q1 CY2011, up marginally from ~US\$17.4b across 188 deals in Q1 CY2010.

In terms of fund raising, QIPs have reduced in significance. Q4 FY11 saw a mere US\$0.5b being raised by 2 companies through the QIP route, as against US\$1.4b raised by 14 companies in Q3 FY11. A total of US\$5.2b was raised by 45 companies via QIPs in FY11, much lower than the US\$8.3b raised by 64 companies in the previous fiscal. Fund raising via IPOs also declined in Q4 FY11, with only US\$0.3b raised by 9 companies, much lower than the US\$6.6b raised by 14 companies in Q3 FY11, when a couple of large-sized IPOs had boosted the market. On a full year basis, US\$9b was raised across 57 IPOs in FY11, almost similar to the US\$10b raised by 42 companies in FY10.

Private equity deal value was US\$9.1b across 324 deals in FY11, much higher than the US\$5.5b across 276 deals seen in FY10.

Asset management

With inflows into mutual funds taking a hit this year, assets under management of mutual funds were ₹5.9t as on 31st March 2011, as compared to ₹6.1t a year back. Proportion of equity funds to total AUM was 36% in FY11, a level similar to last year, while the proportion of ETF assets, which is where we have an exposure to, went up from 0.4% to 1.2% in the same period.

MOFSL's Performance

Coming to our financials, consolidated revenue for Q4 FY11 was ₹1.26b, down 24% as compared to Q3 FY11 and Q4 FY10, each. On a full year basis, revenues at ₹6.0b were down 7% as compared to the previous year.

Reported PAT for Q4 FY11 at ₹243m was down 42% as compared to Q3 FY11. Adjusted PAT for Q4 FY11 at ₹269m was down 29% compared to Q3 FY11.

Reported PAT for the full year at ₹1.37b was down 20% YoY while Adjusted PAT at ₹1.34b was down 15% YoY.

To facilitate better comparison of operational performance for Q4 FY11, the following items needs to be considered:

ADJUSTED PAT (₹ Mn)

	Q4 FY11	Q3 FY11	Q4 FY10	FY11	FY10
Reported PAT	243	421	502	1,371	1,704
Less: Unrealised gain of previous quarter booked in this	(2)	(47)	(9)	(15)	(21)
Add: Unrealised gain in arbitrage (post tax)	1	2	15	1	15
Add: Reversal of deferred tax asset	28				
Less: Profit on sale of investments			(61)	(12)	(112)
Adjusted PAT (before E& EOI)	269	376	447	1,344	1,586

E & EOI = Exceptional & extraordinary items

Source: MOFSL's presentation on March 2011 earnings

- ₹28m represents reversal of deferred tax asset in Q4 FY11 which was recognized in the previous quarters of the current financial year
- ₹2m represents unrealized gain (after tax) on arbitrage transactions of Q3 FY11 recognized in Q4 FY11. The comparable amount for Q3 FY11 was ₹47m
- Q4 FY10 included profit on sale of investments amounting to ₹61m

EBITDA and PAT margins for Q4 FY11 were 35% (42% in Q3 FY11) and 19% (25% in Q3 FY11), respectively. Margins in FY11 were in line with the long term trend. EBITDA margin for FY11 was 38% (FY10: 43%, FY09: 39%), while PAT margin for FY11 was 23% (FY10: 26%, FY09: 20%).

Let me now take you through our segment-wise business performance.

- Broking and related revenues were ₹877m in Q4 FY11, down 28% QoQ and down 15% YoY. On a full year basis, broking revenues at ₹4.33b were down 5% as compared to previous year. As mentioned earlier, the disproportionate rise of low-yield options volumes resulted in a drop of our overall equity market share from 2.3% in Q3 FY11 to 2.0% in Q4 FY11 (2.5% in FY11 vs 3.2% in FY10). While our market share in the cash segment remains stable, lower overall cash market volumes (i.e. drop in cash delivery volumes by 27% sequentially and drop in cash intraday volumes by 20% sequentially) impacted our blended yield, which dropped from 5.5 bps in Q3 FY11 to 4.6 bps in Q4 FY11. Our Pan-India expansion is on track with our total customer base increasing to 709,041 and retail distribution at 1,644 outlets across 611 cities.
- Investment banking fees in Q4 FY11 were ₹54m, up 8% QoQ and down 77% YoY. On a full year basis, fees at ₹398m were down 39% as compared to previous year due to delays in closure of several large transactions in advanced stages of execution to the next year. However, the deal pipeline remains robust for the coming year.

- Fund based income was ₹175m, down 37% as compared to Q3 FY11 and up 40% compared to Q4 FY10. Post adjustments for unrealized gains (mentioned above in Adjusted PAT table), the fund based income for Q4 FY11 was down 17% over Q3 FY11 and up 29% over Q4 FY10. On a full year basis, fund based income at ₹738m, up 14% over previous year. The loan book size increased to ₹2.9b, as of 31st March 2011.
- Asset management fees in Q4 FY11 were ₹137m, up 27% QoQ. The group's assets under management were ~₹23.5b, including assets managed under portfolio management services and mutual fund business and also assets under advice for private equity funds. Our PMS assets grew from ₹9.8b to ₹12.6b this year and our new mutual funds business also saw overwhelming investor response. The M50 and M100 ETFs are ranked 3rd and 4th amongst Indian Equity ETFs, with AUMs of ₹1.9b and ₹1.3b respectively as of 31st March 2011. The NFO of our third ETF, the N100, India's first US equities based ETF, was completed in March 2011. It has an AUM of ₹0.5b as of 31st March 2011.
- Other income of ₹17m in Q4 FY11. On a full year basis, other income was ₹107m, down 47% as compared to previous year as previous year included profit on sale of investments amounting to ₹112m

As of 31st March 2011, net worth was ₹10.6b and net cash was ₹2.7b.

Dividend proposed for FY11 was 140% (₹1.40 per share) up from 120% last year.

MOFSL General Highlights

- Wealth Management business - "Purple Client Group" managed assets of ~₹11b at the end of the year.
- Motilal Oswal won 4 awards at the ET-Now Starmine Analyst Awards 2010-11, placing it amongst the Top 3 award winning brokers
- We were also ranked No. 2 by AsiaMoney Brokers Poll 2010 in the Best Local Brokerage Category
- The M50 ETF bagged the 'Most Innovative Fund of the Year' award at the CNBC TV18 CRISIL Mutual Funds Awards 2011
- The company's private equity arm is working on raising its second growth capital fund, India Business Excellence Fund (IBEF-II)
- During the launch of our Nasdaq N100 ETF in March 2011, we became the 1st Indian AMC to ring the opening bell at the Nasdaq OMX Exchange

Outlook

To conclude, we strongly believe that India is a great growth story and is heading to be a US\$5tn economy by 2020. Backed by strong savings, there would be tremendous growth opportunities for the firms operating in the financial services industry. Motilal Oswal continues to remain a focused player in the capital market space. We continue to invest into all our businesses and believe that we have laid a strong foundation to scale up each of our businesses and grab these opportunities in a meaningful manner. We believe that we will be on the right side of consolidation with all of these initiatives. With these remarks, I would now like to open the floor for Q&A. Thank you.

Broking & Distribution, Wealth Management and Institutional Broking

KEY FINANCIALS: BROKING & DISTRIBUTION, WEALTH MANAGEMENT & INSTITUTIONAL BROKING (₹ Mn)

	Q4 FY11	Q3 FY11	CHG. QOQ	Q4 FY11	Q4 FY10	CHG. YOY %	FY11	FY10	CHG. YOY %
Total Revenues	985	1,328	-26	985	1,335	-26	4,871	5,159	-6
EBIDTA	299	473	-37	299	576	-48	1,667	1,927	-14
PBT (before E & EOI)	258	427	-40	258	537	-52	1,490	1,722	-14
PAT (before E & EOI)	182	283	-36	182	381	-52	1,008	1,191	-15
PAT (after E & EOI)	182	283	-36	182	398	-54	1,008	1,191	-15

E & EOI = Exceptional & extraordinary items

Source: MOFSL's presentation on March 2011 earnings

Is the decline in the broking commission only due to the mix or is there some pressure on the individual segments?

There has been no intra-segment pressure. The change in the blend has happened only due to the decline in the delivery business, which is where we have a higher market share.

There has been a significant increase in the market share of options volumes. Has it happened due to the change in exchange's rules on charging brokerage on options? Also, is there any pattern in terms of composition, for example: is the FII share in options very large?

One of the reasons why option volumes have gone up is definitely the way brokerage rates are charged. Options are one of the lowest yield segments and one can get into an option at as low as 1 bp. STT charges are also very different, as it is charged only on the premium. So, the transaction cost of getting an option exercised is much less than that of futures. That is why the change in mix is happening. In terms of who is doing business, unfortunately market data is not available to give a segmental split. However, the understanding is that there are probably large prop desks and lot of algorithmic and automated trading which might be generating these volumes.

However as market activity and retail participation picks up, more volumes can be expected in individual stocks and in the cash business. This is the opportunity which we seek to capitalize on.

To add another data point for perspective, the global average in the developed countries for cash volumes is in the range of 30-40%. Cash segment is about 40% plus in the US geography, about 30% plus in Europe and about 25% across Asia. In India, it has been in the range of 25-30%. It is only this year that there has been a significant growth in options. However, as market directions become more trended, cash volumes are expected to return back to their historical averages.

Having been a leader in delivery based volumes, has the impact of the change in the market dynamics towards F&O affected your firm more, as compared to the other brokers? What will be the strategy from a long time perspective?

It is not that our firm is not strong in the F&O market. However, the issue is that the margins are so wafer thin that we don't think we really want to go much into a business that does not keep much brokerage for us. Also, being aggressive only in the F&O market might somewhere cannibalize our cash market. So, it is a strategic call which we have taken, that we will not push too much business which is risky and which has just wafer-thin margins. We will, instead, focus on our core strength of research where we

think that investors are actually making more money or losing less money. Nevertheless, we have focused on the F&O segment also and there is some market share there too. During this time when the proportion of cash volumes have contracted to 10% of the total market volumes, the firm has continued to invest in its research products and has won high research rankings consistently. It continues to invest in its distribution network with rising coverage of cities, branches, franchisee and customers. Significant investments have been made in technology, some of which are reflected in our online initiatives. The ₹85m of loss reported in the asset management business in FY11 are largely investments to build the business into the future. So we continue to invest across all business segments - retail broking, institutional equities, investment banking, mutual funds, wealth and private equity. We think the results of these will manifest as and when the strong growth in economy and high savings pan out.

For the coming years, what will be the key focus area on the revenue side?

The firm is trying to build its strength in broking and has not lost sight from that. But the intention was also to garner about one-third of the total revenues from non-broking businesses. This has been very methodically built in, in terms of private equity, wealth management, investment banking, asset management. So, the focus is clearly there too. This strategy has been reasonably successful over the last two or three years, and the effort will be on over the next four to five years as well.

Sundry debtors have gone up from ₹3.1b to ₹4.4b this year. Please explain this increase, especially as broking revenues have actually declined YoY?

The debtors in the balance sheet are largely related to the closing balance and there is no major change in this. These are part of normal operations. That is because the debtors number is 'at a point in time' phenomenon and it is not reflective of any business change or mix. It is the gross position that is booked as debtors. This means the principal plus commission both come to the balance sheet whereas only the commission income comes to the P&L. So the balance sheet debtors and the broking income cannot be directly correlated, per se.

Is the working capital intensity of the broking business going up?

There is no change at all in terms of the working capital intensity of the business. The year-end numbers are not a reflection of the average debtor balances. One could well have seen the debtor number go down by 50% on the 31st of March. We believe that there is absolutely no pressure in terms of trades. As far as the capital deployed in working capital or the exposure to debtors is concerned, this is a just 'a point of time phenomenon on 31st March', and has no bearing on the average debtor balances.

The only working capital required for the broking business is the margin that is kept at the exchange. To give a ballpark number, these margins vary roughly in the range of 20-25% of the average daily turnover. These margins can be kept in the form of shares and bank guarantees. So typically, the option available is to keep 50% of the margins, after haircut, in the form of shares and the remaining 50% in the form of bank guarantee. Normally to get the bank guarantee, 50% of that guarantee amount must be kept with the banks as fixed deposit. So, a large portion of the bank balance reported in the balance sheet is actually fixed deposits against which we get 1:2 leverage for the bank guarantee. Requirements of margins fluctuated as the markets remained volatile, but bank

guarantees are taken from a one year perspective. So from that extent, there has not been any change in the working capital requirements, per se.

Daily volumes are clocking around ₹1.5t now. Where do we see volumes going in the future?

It is difficult to make estimates as to how market direction will move. We continue to remain focused on our core strengths. Once the market up-cycle happens and more retail participation comes in, we hope to move back to the historical averages for cash volumes, which are in line with the global developed markets. From the current abysmal cash volumes, we are almost certain to see strong rate of growth over a period of time. That growth may not come through in Q1 FY12. But, in our view, the cash market can only pick up significantly from these abysmal lows over a slightly longer horizon.

What is your view on the consolidation in the broking business?

In the last 10 to 12 years, the amount of cash volumes handled by the top 50-60 brokers has gone up significantly. Cash-related volumes handled by the top brokers have become almost 80%, up from 40% earlier. So there is a natural consolidation happening. Earlier, when we started in 1987, the capacity was less and the demand was more. But today, execution capacity is unlimited with internet, computers and telecom. So, our sense is that technology, together with good research, execution and network, will force a rapid consolidation in the next 5-7 years. We expect to see eight to ten good, meaningful names over a period of time on a pan-India basis.

Funds Based Income

MOFSL STANDALONE FINANCIALS (₹ Mn)

	Q4 FY11	Q3 FY11	CHG. QOQ %	Q4 FY11	Q4 FY10	CHG. YOY %	FY11	FY10	CHG. YOY %
Total Revenues	102	187	-45	102	111	-8	642	643	0
EBIDTA	81	173	-53	81	95	-14	577	602	-4
PBT (before E & EOI)	81	162	-50	81	113	-28	565	573	-1
PAT (before E & EOI)	53	109	-52	53	77	-32	427	424	1
PAT (after E & EOI)	53	109	-52	53	77	-32	427	424	1

E & EOI = Exceptional & extraordinary items

Source: MOFSL's presentation on March 2011 earnings

Regarding reduction in interest income, you mentioned the loan book was flat QoQ and there was an adjustment for unrealized gains. Please could you explain that?

This adjustment does not relate to interest income on the loan book, but income on arbitrage operations which is also reported as part of funds based income. This portfolio is mark-to-market and accounting standards do not allow us to recognize unrealized gains, however unrealized losses have to be recognized upfront. But this is not reflective of the true performance from a business perspective. These adjustments are done to depict the true performance of the business by showing the impact of unrealized gain if it had been recognized in that respective quarter.

How has the interest income on the fund based business moved QOQ?

On a QOQ basis, it is marginally down. Last quarter, it was about ₹209m net of adjustments, as against ₹276m reported. This quarter, it is about ₹173m, as against ₹175m reported. So, it would be more or less flat, marginally down.

How have the interest rates moved in the loan book business? Is it relatively similar to where it had been in the last quarter?

Interest rates have moved up slightly, but it lags to the borrowing rate. So the current interest rates for margin funding book would be in the range of 15-16%. With the market volumes expected to pick up in the coming few quarters, the loan book and interest rate should also move accordingly.

How has the cost of funding moved up incrementally during this period?

We have zero balance sheet debt. Hence, while the market interest rates have spiked up, there has been no impact on the balance sheet.

Have the arbitrage spreads come down sharply?

Arbitrage spreads have come down from the previous year and also from this quarter's perspective. But they remain higher than the alternate opportunities. So from that extent, we still earn a positive spread on the business.

Could you give an indication on what the gross spread on arbitrage would be?

It will be just about in the double digits.

The loans and advances in the balance sheet have gone up this year. Please can you explain this increase?

We closed loans and advances at ₹4.9b last year and at ₹6.2b this year. Within individual components, the loan book was ₹1.6b last year, which has moved up to ₹2.9b this year. This is the main reason for the change in loans and advances. In terms of the other line items under this, it would include only advance tax and certain deposits for the premises that we have on rent. So the main reason for the change is the increase in the margin funding book from ₹1.6b last year to ₹2.9b as of March 2011.

The change in the cash balances from last year to this year is the cash that has gone into the loan business and another ~₹500m into fixed assets?

That is correct.

Investment Banking

KEY FINANCIALS: INVESTMENT BANKING (₹ Mn)

	Q4 FY11	Q3 FY11	CHG. QOQ %	Q4 FY11	Q4 FY10	CHG. YOY %	FY11	FY10	CHG. YOY %
Total Revenues	56	52	7	56	233	-76	418	655	-36
EBIDTA	28	20	39	28	102	-72	197	328	-40
PBT (before E & EOI)	28	20	40	28	102	-72	196	326	-40
PAT (before E & EOI)	19	14	39	19	67	-72	130	217	-40
PAT (after E & EOI)	19	14	39	19	67	-72	130	217	-40

E & EOI = Exceptional & extraordinary items

Source: MOFSL's presentation on March 2011 earnings

What is the outlook on the investment banking business for the coming year?

FY11 started on a very strong pipeline. However, certain transaction closures were delayed due to the market conditions; both in the ECM side, and also in the M&A side. Some of these are fairly large multi-\$100 million transactions and are already in the public domain. We are confident that these will close in the current year. Like the previous year, the opening pipeline now also looks extremely strong and encouraging. We are hopeful that the transaction closure this time around will be a lot better than the experience of FY11.

Asset Management

KEY FINANCIALS: ASSET MANAGEMENT (₹ Mn)

	Q4 FY11	Q3 FY11	CHG. QOQ %	Q4 FY11	Q4 FY10	CHG. YOY %	FY11	FY10	CHG. YOY %
Total Revenues	113	76	48	113	1	9754	195	5	4041
EBIDTA	10	2	550	10	(25)	-139	(84)	(59)	43
PBT (before E & EOI)	9	1	765	9	(25)	-137	(85)	(59)	45
PAT (before E & EOI)	(20)	1	-2316	(20)	(18)	14	(85)	(41)	108
PAT (after E & EOI)	(20)	1	-2316	(20)	(18)	14	(85)	(41)	108

E & EOI = Exceptional & extraordinary items

Source: MOFSL's presentation on March 2011 earnings

Private Equity

KEY FINANCIALS: PRIVATE EQUITY (₹ Mn)

	Q4 FY11	Q3 FY11	CHG. QOQ %	Q4 FY11	Q4 FY10	CHG. YOY %	FY11	FY10	CHG. YOY %
Total Revenues	27	31	-12	27	43	-37	128	154	-17
EBIDTA	1	9	-91	1	11	-92	34	39	-11
PBT (before E & EOI)	1	9	-93	1	11	-94	33	37	-11
PAT (before E & EOI)	0	6	-92	0	7	-93	23	25	-9
PAT (after E & EOI)	0	6	-92	0	7	-93	23	25	-9

E & EOI = Exceptional & extraordinary items

Source: MOFSL's presentation on March 2011 earnings

Overall

If PAT generated is ₹1.37b, ideally how should the cash balances change? Should they go up by an equivalent amount? How does one forecast the next year's cash balance from next year's PAT?

Regarding forecasting the cash balances, the most important driver would be the net income for the next year. But, FY11 and FY12 are also unusual in a few aspects. First, there is a large investment the firm is making in building a new office premise and a lot of the cash flows have been invested into it in FY11. This will continue in FY12 as well. Second, an additional source of cash flow in FY12 would be the disposal of the current business premise, as we largely operate out of our own business premises and not out of leased premises. So, the cash and bank balance for FY11 reflects the net income for the year and also significant investments made in this new premise. Similarly, FY12 will reflect cash flows from the sale proceeds of the existing premises.

When will the shifting to the new office premises happen, i.e. when will the savings in rentals come in?

The firm operates out of its own premises now. But these are fragmented operations at various locations. So the new business premise will help to consolidate all these business operations into one place and we expect the resulting synergies to come through. We hope to shift into the new premises sometime in September of this year. While there will be no reduction in the rentals, there will be two things that will change post this transition. First, we expect material cash inflows as we will be sell the existing owned premises. So the cash balance in the balance sheet will go up to the tune of the inflows. Second, we will not be occupying the entire new office premise. There will be an income that is expected will start from later this fiscal year as the excess premise is lease out. However, we hope to take this back as the business grows so that the business continues to remain consolidated at one place.

In terms of employee cost, has the provision for variable been done? What would be the variable component in terms of percentage this year?

All provisions for variable employee cost for the fiscal year FY 2011 have been fully accounted for in the results. The bonus provisions are booked on a quarterly basis. So each quarter is fully accounted for in terms of the bonus provisions for each respective business and aggregated at the overall level. The proportion of variable cost to the total employee cost would be materially very different from business to business.



INVESTOR UPDATE

Motilal Oswal Financial Services reports Q4 FY11 topline of ₹1,260 million (₹6,004 million in FY11), and reported PAT of ₹243 million (₹1,371 million in FY11); proposes 140% dividend for FY11

Mumbai, Apr 30, 2011: Motilal Oswal Financial Services (MOFSL), a leading financial services company, announced its audited results for the quarter ended March 31, 2011 post approval by the Board of Directors at a meeting held in Mumbai on April 30, 2011.

Performance Highlights

₹Million	Q4 FY11	Comparison (Q3 FY11)	Comparison (Q4 FY10)	FY11	Comparison (FY10)
Total Revenues	1,260	↓ 24%	↓ 24%	6,004	↓ 7%
EBIDTA	436	↓ 37%	↓ 43%	2,296	↓ 17%
PAT (before E & EOI[^])	243	↓ 42%	↓ 52%	1,371	↓ 20%
Adjusted PAT (before E & EOI[^])	269	↓ 29%	↓ 40%	1,344	↓ 15%
EPS- ₹(FV of ₹1)	1.7			9.5	

[^] E & EOI = Exceptional items & Extraordinary items

Performance for the Quarter and full year ended March 31, 2011

- Revenues for the quarter at ₹1,260 million is down 24% as compared to Q3 FY11 and Q4 FY10, each. On a full year basis, revenues at ₹6,004 million were down 7% as compared to previous year.
- Reported PAT for Q4 FY11 at ₹243 million is down 42% as compared to Q3 FY11 and down 52% from Q4 FY10. Reported PAT for the full year at ₹1,371 million is down 20% as compared to previous year.
- To facilitate better comparison of operational performance for Q4 FY11, the following items needs to be considered:

₹Million	Q4 FY11	Q3 FY11	Q4 FY10	FY11	FY10
PAT (before E & EOI) – Reported	243	421	502	1,371	1,704
Less : Unrealised gain of previous quarter booked in this quarter (post tax)	(2)	(47)	(9)	(15)	(21)
Add : Unrealised gain in arbitrage (post tax)	1	2	15	1	15
Add : Reversal of deferred tax asset	28				
Less: Profit on sale of investments			(61)	(12)	(112)
Adjusted PAT (before E & EOI)	269	376	447	1,344	1,586

Adjusted PAT for Q4 FY11 at ₹269 million is down 29% compared to Q3 FY11 and down 40% compared to Q4 FY10.

On a full year basis, adjusted PAT at ₹1,344 million is down 15% as compared to previous year.

- Proposed dividend for FY11 - 140% (₹1.40 per share).
- Strong balance sheet as on December 31 2011, with net worth of ₹10.6 billion, net cash of ₹2.7 billion.

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

“The Indian markets witnessed a challenging fourth quarter with slow down in FII inflows, muted retail participation in equities, growing shift towards the low-yield options volumes and slowing down of ECM as well as M&A deals. However, we strongly believe that India is a great growth story and is heading to be a US\$5 trillion economy by the year 2020. Backed by strong domestic savings, there would be tremendous growth opportunities for the firms operating in the financial services space. Our foray into mutual funds saw success this year. All the 3 Exchange Traded Funds (ETFs) launched were ground-breakers in the AMC industry and saw overwhelming investor interest during their NFOs. Our constant endeavour to provide quality services was recognized this quarter too, when we won awards for our broking and asset management businesses. During the current year, we have laid a strong foundation for each of our businesses to scale up and grab a meaningful share of the opportunities, and we remain committed towards this goal.”

Segment results for Q4 FY 2011 and FY2011

- Broking and related revenues were ₹877 million this quarter, down 28% from Q3 FY11 and down 15% from Q4 FY10. On a full year basis, broking revenues at ₹4,334 million were down 5% as compared to previous year. The disproportionate rise of low-yield options segment within market volumes resulted in a drop of our revenues and overall equity market share in Q4 FY11 to 2.0% from 2.3% in previous quarter. However, our market share in the high-yield cash segment remains largely stable.
- Fund based income was ₹175 million, down 37% as compared to Q3 FY11 and up 40% compared to Q4 FY10. Post adjustments for unrealized gains (*mentioned above*), fund based income for Q4 FY11 was down 17% over Q3 FY11 and up 29% over Q4 FY10. On a full year basis, fund based income at ₹738 million was up 14% over previous year.
- Asset Management fees were ₹137 million, up 27% as compared to Q3 FY11 and down 28% from Q4 FY10. On a full year basis, asset management fees at ₹427 million were up 7% as compared to previous year.
- Investment banking fees were ₹54 million, up 8% as compared to Q3 FY11 and down 77% from Q4 FY10. On a full year basis, fees at ₹398 million were down 39% as compared to previous year due to delays in closure of several large transactions.
- Other income was ₹17 million, as compared to ₹5 million in Q3 FY11. On full year basis, other income was ₹107 million down 47% as compared to previous year.

Business highlights for Q4 FY 2011

- Broking and Distribution business increased its total customer base to 709,041, as of 31st March 2011, and distribution expanded to 1,644 outlets across 611 cities.
- Total Assets under Management for the Group were ~₹23.5 billion as of 31st March 2011, which includes assets under portfolio management, mutual fund and also assets under advice in private equity business.
- Wealth Management business - “Purple Client Group” managed assets of ~₹11 billion, as of 31st March 2011.
- Motilal Oswal won 4 awards at the ET-Now Starmine Analyst Awards 2010-11, placing it amongst the Top 3 award winning brokers.
- We were also ranked No. 2 by AsiaMoney Brokers Poll 2010 in the Best Local Brokerage Category.
- The products launched under our mutual funds business, M50 and M100 ETFs, had AUMs of ₹1.9 billion and ₹1.3 billion respectively, as of 31st March 2011. They are ranked 3rd and 4th amongst Indian Equity ETFs in terms of AUM.
- M50 ETF won the ‘Most Innovative Fund of the Year’ award at CNBC TV18 CRISIL Mutual Funds Awards 2011.
- We launched our third mutual fund - MOST Shares Nasdaq 100 ETF in March 2011, based on the Nasdaq 100 Index. This is India's 1st US equities based ETF and it had an AUM of ₹0.5 billion, as of 31st March 2011. During the launch of this fund, Motilal Oswal became the 1st Indian AMC to ring the opening bell at Nasdaq.
- Our company's private equity arm is working on raising its second growth capital fund, IBEF-II.

About Motilal Oswal Financial Services Limited

Motilal Oswal Financial Services Ltd. (NSE :MOTILALOFSL, BSE :532892, BLOOMBERG : MOFS IN) is a well-diversified, financial services company focused on wealth creation for all its customers, such as institutional, corporate, HNI and retail. Its services and product offerings include wealth management, retail broking and distribution, institutional broking, asset management, investment banking, private equity, commodity broking and principal strategies. The company distributes these products through 1,644 business locations spread across 611 cities and the online channel to over 709,041 registered customers. MOFSL has strong research capabilities, which enables them to identify market trends and stocks with high growth potential, facilitating clients to take well- informed and timely decisions. MOFSL has been ranked by various polls such as the Best Local Brokerage 2005, Most Independent Research - Local Brokerage 2006 and Best Overall Country Research - Local Brokerage 2007 in the Asia Money Brokerage Polls for India. In the StarMine India Broker Rankings 2009 from Thomson Reuters, we won awards in 3 out of 4 categories and also bagged the No. 1 Broker Award in the ET Now – StarMine Analyst Awards 2009. We were adjudged as the ‘Best Performing Equity Broker (National)’ at the CNBC TV18 Financial Advisors Awards – 2010. MOSL won 4 awards in the ET-Now Starmine Analyst Awards 2010-11, placing it amongst the Top-3 award winning brokers, and was ranked No. 2 by AsiaMoney Brokers Poll 2010 in the Best Local Brokerage Category. Our mutual fund product, M-50 ETF bagged the ‘Most Innovative Fund of the Year’ award at the CNBC TV18 CRISIL Mutual Funds Awards 2011.

For further details contact:

Mr. Hari Krishnan Motilal Oswal Financial Services Ph - +91-22-39825500 Mob- +91-9820520392	Mr. Sameer Kamath Motilal Oswal Financial Services Ph - +91-22-39825554 Mob- +91-9820130810	Mr. Anirudh Rajan / Alpesh Nakrani Paradigm Shift Public Relations Mob +91-9892343828/ +91-9869121167 Tel- +91-22 22813797 / 98
--	--	--

MOTILAL OSWAL FINANCIAL SERVICES LTD

Registered Office: Palm Spring Centre, Palm Court Complex, 2nd Floor, Link Road, Malad (W), Mumbai - 400 064

Tel: +91-22-30801000, Fax: +91-22-28449044 Email:investors@motilaloswal.com

CONSOLIDATED AUDITED FINANCIAL RESULTS FOR THE QUARTER & YEAR ENDED 31ST MARCH 2011

(₹ in Lakhs)

Particulars	Quarter Ended		Year Ended	
	31.03.2011	31.03.2010	31.03.2011	31.03.2010
1. (a) Income from Operations	12,140	15,417	57,669	60,731
(b) Other Operating Income	302	392	1,316	1,772
Total	12,442	15,809	58,985	62,503
2. Expenditure				
a. Operating Cost	3,180	3,732	14,551	16,296
b. Employees cost	3,101	3,595	14,219	13,666
c. Depreciation	325	359	1,313	1,419
d. Other expenditure	1,964	1,723	8,311	6,872
e. Total	8,570	9,409	38,394	38,253
3. Profit from Operations before Other Income, Interest & Exceptional Items (1-2)	3,872	6,400	20,591	24,250
4. Other Income	159	852	1,052	2,029
5. Profit before Interest & Exceptional Items (3+4)	4,031	7,252	21,643	26,279
6. Interest	91	(115)	569	962
7. Profit after Interest but before Exceptional Items (5-6)	3,940	7,367	21,074	25,317
8. Exceptional Items - Expense/(Income)	-	(172)	-	(6)
9. Profit / (Loss) from Ordinary Activities before tax (7-8)	3,940	7,539	21,074	25,323
10. Tax expense	1,487	2,211	7,124	7,881
11. Net Profit / (Loss) from Ordinary Activities after tax but before minority interests (9-10)	2,453	5,328	13,950	17,442
12. Share of minority interests in (profits)/ loss	(27)	(139)	(244)	(397)
13. Net Profit from Ordinary Activities after tax and Minority Interests (11-12)	2,426	5,189	13,706	17,045
14. Paid-up equity share capital (Face Value of Re. 1/- Per Share)	1,444	1,432	1,444	1,432
15. Reserves excluding Revaluation Reserves			104,499	93,161
16. Earnings Per Share (EPS)				
a) Basic EPS	1.68	3.63	9.52	11.91
b) Diluted EPS	1.68	3.62	9.52	11.90
17. Dividend Per Share (Face Value Re. 1 each)			1.40	1.20
18. Public shareholding				
- Number of shares	44,531,979	43,268,016	44,531,979	43,268,016
- Percentage of shareholding	30.84%	30.22%	30.84%	30.22%
19. Promoters and promoter group Shareholding				
a) Pledged/Encumbered				
- Number of shares	8,500,000	8,500,000	8,500,000	8,500,000
- Percentage of shares (as a % of the total shareholding of promoter and promoter group)	8.51%	8.51%	8.51%	8.51%
- Percentage of shares (as a % of the total share capital of the company)	5.89%	5.94%	5.89%	5.94%
b) Non-encumbered				
- Number of shares	91,387,250	91,404,200	91,387,250	91,404,200
- Percentage of shares (as a % of the total shareholding of promoter and promoter group)	91.49%	91.49%	91.49%	91.49%
- Percentage of shares (as a % of the total share capital of the company)	63.28%	63.84%	63.28%	63.84%

Notes: -

- 1) The audited financial statements were reviewed by the Audit Committee and taken on record by the Board of Directors of the Company at its Meeting held on Saturday, 30th April, 2011. There are no qualifications in the auditors report for these periods. The information presented above is extracted from the audited financial statements as stated.
- 2) The Board of Directors recommended dividend of Rs. 1.40 per equity share of face value of Rs. 1 each. The payment is subject to the approval of the shareholders in the ensuing Annual General Meeting of the Company.
- 3) The consolidated results of the Company include the results of the subsidiaries – Motilal Oswal Securities Limited (99.95%), Motilal Oswal Investment Advisors Private Limited (87.50%), Motilal Oswal Private Equity Advisors Private Limited (85%), Motilal Oswal Commodities Broker Private Limited (97.55%), Motilal Oswal Capital Markets Private Limited (99.95%), Antop Traders Private Limited (99.95%), Motilal Oswal Insurance Brokers Private Limited (99%), Motilal Oswal Asset Management Company Limited (99.95%) and Motilal Oswal Trustee Company Limited (99.95%)
- 4) During the current quarter 'ESOP Committee' of the Board of Directors of the Company at its meeting held on 10th January, 2011 & 21st March 2011 has allotted 1,02,550 equity shares of the face value of Re. 1 each fully paid-up to the Employees on exercise of the Stock Options granted in accordance with the provisions of the 'Motilal Oswal Financial Services Limited - Employees' Stock option Scheme - III, V & VI.
- 5) The previous financial quarter /year figures have been regrouped/rearranged wherever necessary to make them comparable.
- 6) Standalone financial results are summarised below and also available on the Company's website: www.motilaloswal.com.

Particulars	Quarter Ended		Year Ended	
	31.03.2011	31.03.2010	31.03.2011	31.03.2011
Gross Revenue	1,023	1,112	6,425	6,426
Profit Before Tax	812	1,125	5,654	5,731
Profit After Tax	527	774	4,266	4,240

7) Information on investor complaints pursuant to Clause 41 of the Listing Agreement for the quarter ended 31st March 2011

	Opening balance	Additions	Disposal	Closing balance
Number of complaints	1	NIL	1	NIL

8) CONSOLIDATED AUDITED SEGMENT RESULTS FOR THE QUARTER AND YEAR ENDED 31ST MARCH 2011

(₹ in Lakhs)

Particulars	Quarter Ended		Year Ended	
	31.03.2011	31.03.2010	31.03.2011	31.03.2010
1. Segment Revenue				
(a) Equity Broking & Other related activities	9,781	12,614	48,299	50,130
(b) Financing & Other activities	1,023	1,112	5,084	5,590
(c) Investment Banking	537	2,310	4,052	6,503
(d) Unallocated	1,763	1,388	4,893	3,796
Total	13,104	17,424	62,328	66,019
Less: Inter Segment Revenue	503	763	2,291	1,487
Income From Operations, Other Operating income & Other Income	12,601	16,661	60,037	64,532
2. Segment Results Profit / (Loss) before tax and interest from Each segment)				
(a) Equity Broking & Other related activities	2,613	4,678	14,955	16,450
(b) Financing & Other activities	812	1,125	4,314	4,895
(c) Investment Banking	258	1,000	1,832	3,217
(d) Unallocated	354	632	524	1,472
Total	4,037	7,435	21,625	26,034
Less: Interest	97	68	551	717
Profit/(Loss) from Ordinary Activities before Exceptional Items & Tax	3,940	7,367	21,074	25,317
3. Capital Employed				
(Segment assets – Segment Liabilities)				
(a) Equity Broking & Other related activities	51,842	47,857	51,842	47,857
(b) Financing & Other activities	54,149	49,417	54,149	49,417
(c) Investment Banking	1,050	500	1,050	500
(d) Unallocated	(1,090)	(3,176)	(1,090)	(3,176)
Total	105,951	94,598	105,951	94,598

Notes:

1. The above Segment information is presented on the basis of the unaudited consolidated financial statements. The company's operations predominantly relate to Equity broking and other related activities, financing and other activities, Investment banking, Private Equity, Asset Management & Commodities broking. In accordance with Accounting Standard -17 on segment reporting and Company (Accounting Standards) Rules,2006, the Company has Equity broking and other related activities, Financing and other activities & Investment banking as reportable segments. The balance is shown as unallocated items.

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

9) STATEMENT OF ASSETS & LIABILITIES (CONSOLIDATED)

(₹ in Lakhs)

Particulars	Year Ended	
	31.03.2011	31.03.2010
1. Shareholder's Fund		
a) Share Capital	1,444	1,432
b) ESOP Outstanding	7	5
c) Reserves & Surplus	104,499	93,161
	105,951	94,598
2. Loan Fund		
a) Secured Loan	-	2,500
b) Unsecured Loan	-	8,332
	-	10,832
3. Minority Interest	518	410
Deferred Tax Liability (Net)	15	-
TOTAL	106,484	105,839
4. Fixed Assets	28,943	23,997
5. Investments	5,884	5,141
6. Deferred Tax Assets (Net)	-	315
7. Current Assets, Loans & Advances		
a) Inventories	18,750	30,548
b) Sundry Debtors	43,622	30,591
c) Cash & Bank balances	26,651	43,335
d) Loans & Advances	61,608	49,333
e) Other current Assets	411	549
	151,041	154,356
8. Less: Current Liabilities & Provisions		
a) Current Liabilities	56,077	53,961
b) Provisions	23,308	24,009
	79,385	77,969
Net Current Assets	71,656	76,387
TOTAL	106,484	105,839

Notes:

1. The above Segment information is presented on the basis of the unaudited consolidated financial statements. The company's operations predominantly relate to Equity broking and other related activities, financing and other activities, Investment banking, Private Equity, Asset Management & Commodities broking. In accordance with Accounting Standard -17 on segment reporting and Company (Accounting Standards) Rules,2006, the Company has Equity broking and other related activities, Financing and other activities & Investment banking as reportable segments. The balance is shown as unallocated items.

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

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

Motilal Oswal
Chairman & Managing Director

Mumbai, 30th April, 2011
investors@motilaloswal.com.

