Motilal Oswal Financial Services

ConCall Summary & Earnings Release

Quarter ended Sep 2014

21 Oct 2014

Motilal Oswal Financial Services Limited (MOFSL) posted consolidated revenues of ₹1.8b for the quarter ended 30 Sep 2014, up 7% QoQ and up 54% YoY. Adjusted PAT at ₹327m was up 2% QoQ and up 74% YoY. Reported PAT at ₹327m was up 2% QoQ and up 481% YoY. Broking-related revenues were ₹1.2b, up 4% QoQ and up 65% YoY. Fund-based income at ₹351m was up 46% QoQ and up 91% on a YoY basis. Asset management fees at ₹214m was up 18% QoQ and up 4% YoY. Investment banking fees at ₹6m was down by 92% on a QoQ basis.

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 Sep 2014. This presentation is available at www.motilaloswal.com

Corporate Participants

Mr Motilal Oswal

Chairman and Managing Director

Mr Navin Agarwal

Director

Mr Sameer Kamath

Chief Financial Officer

Good morning. Welcome to the Q2 FY15 earnings conference call of Motilal Oswal Financial Services Limited. We have with us Mr. Motilal Oswal, Chairman and 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 Q&A session. I would now like to invite Mr. Sameer Kamath to make his opening remarks. Thank you and over to you sir….

MOFSL CONSOLIDATED FINANCIALS (₹Mn)

	Q2 FY15	Q1 FY15	CHG. QOQ	Q2 FY15	Q2 FY14	CHG. YOY	6M FY15	6M FY14	CHG. YOY	FY14
Total Revenues	**1,786**	**1,676**	**7%**	**1,786**	**1,161**	**54%**	**3,462**	**2,269**	**53%**	**4,681**
EBITDA	577	577	0%	577	360	60%	1,155	717	61%	1,422
PBT (before E & EOI)	477	471	1%	477	291	64%	948	581	63%	1,151
Adjusted PAT	**327**	**321**	**2%**	**327**	**188**	**74%**	**647**	**373**	**74%**	**771**
Reported PAT	327	321	2%	327	56	481%	647	241	169%	395
EPS - Basic	2.4	2.4		2.4	0.5		4.8	1.8		3.0
EPS - Diluted	2.4	2.3		2.4	0.5		4.7	1.8		3.0
Shares O/S (mn) - FV Rs 1/share	139	138		139	139		139	139		138

E & EOI = Exceptional & extraordinary items

REVENUE COMPOSITION (₹Mn)

	Q2 FY15	Q1 FY15	CHG. QOQ	Q2 FY15	Q2 FY14	CHG. YOY	6M FY15	6M FY14	CHG. YOY	FY14
Brokerage & operating income	1,203	1,161	4%	1,203	728	65%	2,364	1,410	68%	2,884
Investment banking fees	6	79	-92%	6	35	-82%	86	43	100%	68
Fund based income	351	241	46%	351	184	91%	591	456	30%	929
Asset management fees	214	181	18%	214	205	4%	395	332	19%	758
Other income	12	14	-13%	12	9	30%	26	30	-13%	43
Total Revenues	**1,786**	**1,676**	**7%**	**1,786**	**1,161**	**54%**	**3,462**	**2,269**	**53%**	**4,681**

Opening remarks

Good afternoon everybody. It is my pleasure to welcome all of you to the Motilal Oswal Financial Services earnings call for the Second Quarter ended Sep 2014. I will start by giving a brief backdrop of the broad market, the industry segments, and then run you through our own performance for the quarter ended Sep 2014.

Equity markets

The markets continued their up-move during the quarter. The BSE Sensex was up by 3.5%, on top of a strong 13.5% return seen in the first quarter when the new government got elected. Nevertheless, a positive feature has been that retail investors, who had gone into a cocoon, have shown initial signs of revival. This is reflected in the higher retail volumes in cash equities as well as the recent positive net inflows into equity mutual funds. As the IPO pipeline gains further momentum when the government starts divesting some of the big ticket PSUs, we believe that Retail investor interest should only rise from the current levels.

Average daily market turnover (ADTO) of equities was higher in Q2 FY15, but this was predominately led by a significant uptick in the option volumes. Cash equities volumes moderated slightly in Q2 FY15 to ₹203 billion, as compared to ₹226 billion in Q1 FY15. While this is still well above the last three year average, there has been some moderation on a QoQ basis.

In fact, this has further moderated in the month of October, to ₹181 billion as per figures till 17 Oct. However, the last 2-3 trading sessions saw cash volumes around the ₹200 billion range. Its proportion to total volumes is about 7.1%.

Institutional activity

FII net inflows in Q2 FY15 were ~US$3.5 billion, on top of a ~US$6.3 billion seen in Q1 FY15.

Net outflows by DIIs reduced significantly this quarter. Net outflows were ~US$300 million in Q2 FY15, as compared to ~US$2.7 billion in Q1 FY15 and a much higher ~US$4.8 billion in Q2 FY14. This is predominately because of the positive inflows that the equity mutual funds have seen after a long gap. We are hopeful that the overall DII inflow should turn positive sometime in H2 FY15.

Investment banking and private equity

M&A deal value was ~US$5.5 billion in Q2 FY15, slightly up on a QoQ basis from ~US$4.8 billion in Q1 FY15. But this spike seen in this quarter was largely due to the United Spirits-Diageo transaction.

ECM activity was marginally higher this quarter due to few OFS and IPO issues. While the outlook looks positive given the expectations of continued reforms and corporate earning tractions, the IPO pipeline is yet to take off in a big way.

DCM activity saw a spike in the domestic bond segment this quarter, while the foreign loan segment tapered on a QoQ basis. Overall, DCM volume levels remained largely constant on a QoQ basis

Private equity deal value was ~US$2.4 billion in Q2 FY15, as compared to ~US$2.0 billion in Q1 FY15. Average deal values spiked sharply from ~US$22 million to ~US$26 million. But this was essentially due to the ~US$1 billion Flipkart deal. If this deal is excluded, then PE deal values were lower on a QoQ basis.

Asset management

AUM of mutual funds were ₹9.6 trillion as on Sep 30, 2014, as compared ₹9.7 trillion as on Jun 30, 2014. Overall AUM dipped QoQ due to the drop in AUMs of liquid, income and gold fund segments. However, equity mutual fund AUM saw asset expansion on the back of both market movement and positive net inflows into mutual funds. Equity mutual fund net inflows were positive for the second successive quarter, after nine successive quarters of net outflows.

MOFSL's Performance

- Revenues in Q2 FY15 were ₹1.8 billion (up 7% QoQ and up 54% YoY).
- Adjusted PAT in Q2 FY15 was ₹327 million (up 2% QoQ and up 74% YoY).
- Reported PAT in Q2 FY15 was ₹327 million (up 2% QoQ and up 481% YoY).
- EBITDA and Adjusted PAT margins for Q2 FY15 were 32% (34% in Q1 FY15) and 18% (19% in Q1 FY15) respectively.
- The balance sheet had net worth of ₹12.4 billion and borrowings of ₹2.9 billion as of Sep 30, 2014.
- Our investment in Motilal Oswal's mutual fund products stands at ₹3.42 billion, as of Sep 30, 2014. The unrealized gain on these investments is ₹462 million, as of Sep 30, 2014. Likewise our investment in Motilal Oswal's alternative investment products (private equity and real estate funds) stands at ₹883 million, as of Sep 30, 2014.

Segment-wise business performance:

- Broking and related revenues were ₹1.2 billion in Q2 FY15, up 4% QoQ and up 65% YoY. Our market share decreased from 1.8% to 1.5% QoQ owing to the disproportionate rise in option volumes in the market. However, our market share in the high-yield cash segment increased slightly this quarter, which is a higher-yielding segment. The significant change in market volume mix towards options segment resulted in blended yield decreasing from 4.3 bps to 3.7 bps QoQ. As on Sep 30, 2014, total client base increased to 820,025 which includes 719,997 retail broking and distribution clients. Our distribution reach stood at 1,657 business locations across 517 cities.
- Fund based income was ₹351 million, up 46% from Q1 FY15 and up 91% from Q2 FY14. This includes interest earned on LAS book, Housing Finance business and income on investments. The NBFC loan book was ₹4.7 billion. Following commencement of operations in May 2014, Aspire Home Finance has already sanctioned 818 applications amounting to ~ ₹873.2 million, and disbursed 558 applications amounting to ~ ₹507.1 million. From the long term investments made in Motilal Oswal's mutual fund products during the quarter some re-allocation was done from passive to active strategies which resulted in capital gains of ₹147.9 million and is booked under Fund-based income.
- Asset Management fee were ₹214 million for Q2 FY15, up 18% QoQ and up 4% YoY. Total assets under management/advice across mutual funds, PMS and private equity businesses was ₹54.4 billion. Within this, our mutual funds AUM was ₹12.8 billion, PE AUA was ₹20.0 billion, while PMS AUM was ₹21.6 billion.
- Investment banking fees at ₹6 million was down 92% on a QoQ basis. We continue to focus on building capabilities in identified sectors and product lines

and have built a strong team to tap opportunities in the equity capital markets space. The Deal pipeline remains healthy with transaction execution at various stages of completion.

- Other income was ₹12 million in Q2 FY15, down 13% QoQ.

MOFSL General Highlights

- Wealth management business managed assets of about ₹31.2 billion. Asset mobilization has seen traction since the last couple of quarters, following a revival of equity investor interest and the business has turned profitable in the current financial year.
- Motilal Oswal Securities won the ‘Best Research as Research Showcase Partner’ at Research Bytes IC Awards 2014
- Institutional Equities conducted the 10th Annual Global Investor Conference in Mumbai where 110 participating companies interacted with over 700 global investors resulting in 3600+ meetings
- During this year, Motilal Oswal Capital Markets (Hong Kong) Private Ltd received Type-4 License from SFC, Hong Kong

Outlook

To conclude, the sharp fall in global commodity prices, renewed government thrust on reforms and the traction in corporate earnings, all collectively auger very well for the capital markets activity. Being a focused financial services player, we have continued to make sustained investments in people, processes, products and technology to significantly strengthen our value offering of each of our businesses keeping the long term growth plans in mind.

With these remarks, I would now like to open the floor for Q&A. Thank you.

Broking & Distribution and Institutional Broking

KEY FINANCIALS: BROKING & DISTRIBUTION & INSTITUTIONAL BROKING (₹Mn)

	Q2 FY15	Q1 FY15	CHG. QOQ	Q2 FY15	Q2 FY14	CHG. YOY	6M FY15	6M FY14	CHG. YOY	FY14
Total Revenues	1,410	1,248	13%	1,410	773	82%	2,658	1,548	72%	3,216
EBITDA	524	420	25%	524	212	147%	944	445	112%	902
PBT (before E & EOI)	455	353	29%	455	169	168%	808	364	122%	737
Adjusted PAT	321	246	31%	321	122	162%	567	246	130%	507
Reported PAT	321	246	31%	321	4	7137%	567	128	342%	171

E & EOI = Exceptional & extraordinary items

Key operating metrics like locations, broking clients, analysts, stocks under coverage are at an all-time high from the last 5-6 years, but broking revenues at ~₹5 billion on an annualized basis is lower than the ~₹5.6 billion seen in 2008. Can we sustain the current momentum in broking, in the near to long term?

The broking business is cyclical, and the cycle lasts anywhere between 5 to 8 years. We are seeing a sharp uptick in the cash equity volumes now after about 3 to 4 years of de-growth. Broking revenues are also up. We feel this is just the beginning in terms of the volume uptick. Hopefully, the new government will push new reforms which should also add a lot of activity amongst the corporates. More and more IPOs should bode well for the broking business, since IPOs add a lot of new customers. While our business is dependent on the overall market volumes, a few indicators are looking better now. Cash market volumes, which had dipped to a low, are coming back now. We fairly remain confident about the momentum being sustained from here.

You said IPOs help get back retail investors. But the issue is that most IPOs in India have not made money over a period of time, which deters further retail participation. Moreover, FIIs now own over 20% of the Top 200 companies. So which segment will drive the broking business from here – FIIs, DIIs or Retail?

We are very well positioned in every segment - be it in retail or institutional business, be it in cash or derivative volume, be it in branch or franchisee model. We have a presence across all segments and are well poised to capture the upcoming trends. While FII investments in India have been quite strong in recent years, it is really the withdrawal of retail investors which has been substantial over the last 2-3 years. So, the comeback of the retail investors is obviously a bigger delta change in terms of margins, as compared to the FIIs inflows. We would expect strong inflows from the institutional investors, both foreign and domestic, as well as from retail investors. The recent investments made into our business have been quite significant and we are well positioned to capture any upside across segments.

There has been a decent traction in the volumes, and the participation in the cash segment is increasing. But the blended yield is down to 3.7 bps this quarter. Why is the incremental growth in the blended yield not yet visible?

It is a combination of multiple factors in this quarter. The cash volumes in the market are down but our cash market share has gone up. Our participation is decent in future too, and our market share in futures is also up slightly. However, we have not really participated in options, as it is not a focus area for us. Just to give a perspective, the average daily volumes of options in the market were ~₹1.8 trillion in Q1 FY15 and ~₹1.7 trillion in Q2 FY14. In this quarter, this was ~₹2.8 trillion, i.e. an increase of ₹1 trillion within one quarter itself. Hence on a blended basis, the disproportionate gains in cash and future market share have been negated because of this disproportionate rise in options volumes in market level. That is why the results are not showing in the blended yield, due to the combination of the segments and market mix. If the growth in options in the market were to moderate, our blended yield would also pick up.

What is the quantum of retail participation that you expect in the next quarter?

We feel that the growth in the brokerage volumes and number of clients coming in when the markets are rising is very fast. We have not seen any bigger issues in the IPO market as yet. We should see more participation from retail. This was the first quarter in a long time where we have seen the domestic mutual funds net buying. We think it is a fairly good beginning and the excitement is just building up. It all depends on how the reforms, policy measures, corporate profitability and interest rate cycle takes course. Overall, we remain quite optimistic.

There have some articles in newspapers about broking entities which are offering trading platform for a fixed monthly brokerage. What impact will such models have on the market in the long term?

In terms of business model, we are seeing two kinds. One is the discounted broking business which provides only execution. The other is the value-added advisory based business. Our focus is to add value to our customers through research, advisory, product range etc. That is our positioning, and we are not concerned about per trade pricing or zero pricing models. While that segment will also grow within the overall broking business, that will be low margin and may not be highly profitable business.

Asset Management

KEY FINANCIALS: ASSET MANAGEMENT (₹Mn)

	Q2 FY15	Q1 FY15	CHG. QOQ	Q2 FY15	Q2 FY14	CHG. YOY	6M FY15	6M FY14	CHG. YOY	FY14
Total Revenues	132	94	40%	132	69	90%	226	141	60%	354
EBITDA	(8)	(26)	nm	(8)	(8)	nm	(34)	(19)	nm	(2)
PBT (before E & EOI)	(9)	(27)	nm	(9)	(9)	nm	(37)	(22)	nm	(6)
Adjusted PAT	(9)	(27)	nm	(9)	(9)	nm	(37)	(22)	nm	(6)
Reported PAT	132	94	40%	132	69	90%	226	141	60%	354

E & EOI = Exceptional & extraordinary items

What kind of revenues and profitability are we expecting in the AMC business by this year-end? Are you looking for any acquiring any AMC to achieve scale?

We are rightly positioned on the equity side and are well accepted by both clients as well as the distribution fraternity. The focus right now is to gather as much sticky assets as possible. The business is still in marginal losses but the losses should come down over the coming quarters. In the AMC business, one pays a lot of distribution costs as one gathers assets, which impacts profitability initially. As we build reasonable size and scale, the profitability will also come in. Also, in the PMS business, there is a chunky element of performance fee which comes at the end of financial year in the fourth quarter, which is only known in that time.

The cost of acquisition of AMC assets have been on the higher side historically. We would like to build this business in an organic way, rather than in an inorganic way. Our focus is to create a strong franchise and performance track-record. We intend to leverage on that to build scale, as of now.

Is there any cap in terms of percent of AUM on our investments in our mutual fund entities?

There is a single party-single entity cap of about 25% in a single fund, so one cannot invest more than 25% as a single investor. We have multiple schemes/funds in which we are currently invested, and we are well within the cap which is currently there.

Private Equity

KEY FINANCIALS: PRIVATE EQUITY (₹Mn)

	Q2 FY15	Q1 FY15	CHG. QOQ	Q2 FY15	Q2 FY14	CHG. YOY	6M FY15	6M FY14	CHG. YOY	FY14
Total Revenues	67	55	22%	67	143	-53%	122	203	-40%	400
EBITDA	36	27	34%	36	83	-57%	62	105	-41%	205
PBT (before E & EOI)	34	25	40%	34	82	-58%	59	103	-43%	201
Adjusted PAT	27	16	68%	27	54	-51%	42	68	-38%	134
Reported PAT	67	55	22%	67	143	-53%	122	203	-40%	400

E & EOI = Exceptional & extraordinary items

Private Wealth Management

KEY FINANCIALS: PRIVATE WEALTH MANAGEMENT (₹Mn)

	Q2 FY15	Q1 FY15	CHG. QOQ	Q2 FY15	Q2 FY14	CHG. YOY	6M FY15	6M FY14	CHG. YOY	FY14
Total Revenues	57	48	18%	57	32	77%	105	62	68%	137
EBITDA	2	1	52%	2	2	-27%	3	3	-23%	6
PBT (before E & EOI)	24	28	-12%	24	21	17%	52	46	15%	80
Adjusted PAT	8	8	0%	8	7	16%	17	13	26%	27
Reported PAT	34	37	-8%	34	30	14%	71	62	15%	113

E & EOI = Exceptional & extraordinary items

What is the blended yield earned on the AUM in the Wealth Management business? Is the yield on gross or net basis? Is there any sharing in this business?

The blended yield in our wealth business is ~0.9%, which includes upfront plus trail. This is the gross yield, and people costs, etc come after this. This is a 100% direct business done only by our employees. We do not have any franchisee model here.

What is the nature of the assets in the Wealth Management business? Are the PMS assets of ~₹22 billion different from the ~₹31 billion in Wealth assets? How do you distribute the fee income between the AMC and Wealth business in this context? How do you expect the Wealth business to grow in the next few years?

It is a blend in terms of assets, although most of it is equities. As a Wealth Management firm, we offer all products under the advisory model (both in-house and open architecture) and there is a fair mix of equities, debt and alternate assets.

PMS is a product of our AMC which is sold by our Wealth Management. The distribution to the clients is done by the wealth firm on an independent basis. Some portion of the ~₹22 billion of PMS assets would have been raised by the wealth business, and that portion would also be part of the ~₹31 billion of PMS assets. The PMS AUM is reporting the manufacturing AUM, while the wealth AUM is reporting the distribution AUM. Our AMC has empanelled a lot of banks, private banks, wealth platforms and Motilal Oswal Wealth Management happens to be one such platform.

Whatever fee the AMC charges the client as a percentage of AUM, a certain percentage is shared with the distribution fraternity. That appears as a cost line item for that particular AMC entity. This cost line item becomes the revenue line item of all the distributor entities, one of which is Motilal Oswal Wealth Management. That is the industry practice. All the products of our AMC pay a distribution to either our Wealth Management or a third party Wealth Management or a bank.

We have seriously built our Wealth business only over the last 2.5-3 years. We think the platform is ready now. We have a huge distribution size from broking perspective, but we have not fully focused on the captive customers from the wealth management perspective. Since this business has become profitable now, we will put more focus to see that it grows at a faster pace.

Investment Banking

KEY FINANCIALS: INVESTMENT BANKING (₹Mn)

	Q2 FY15	Q1 FY15	CHG. QOQ	Q2 FY15	Q2 FY14	CHG. YOY	6M FY15	6M FY14	CHG. YOY	FY14
Total Revenues	7	82	-91%	7	45	-84%	89	54	66%	85
EBITDA	(47)	47	nm	(47)	16	nm	0	(6)	nm	(36)
PBT (before E & EOI)	(50)	44	nm	(50)	12	nm	(6)	(13)	nm	(51)
Adjusted PAT	(34)	30	nm	(34)	8	nm	(4)	(9)	nm	(37)
Reported PAT	7	82	-91%	7	45	-84%	89	54	66%	85

E & EOI = Exceptional & extraordinary items

Fund-Based Business:

A) NBFC Income

MOFSL STANDALONE FINANCIALS (₹Mn)

	Q2 FY15	Q1 FY15	CHG. QOQ	Q2 FY15	Q2 FY14	CHG. YOY	6M FY15	6M FY14	CHG. YOY	FY14
Total Revenues	593	192	210%	593	313	90%	785	489	61%	977
EBITDA	519	153	238%	519	247	110%	672	380	77%	735
PBT (before E & EOI)	440	67	554%	440	178	147%	507	256	98%	462
Adjusted PAT	431	45	855%	431	163	165%	477	216	120%	402
Reported PAT	431	45	855%	431	160	170%	477	213	123%	393

E & EOI = Exceptional & extraordinary items

In reference to the recent RBI guideline for LAS wherein the LTV for Group-1 securities is 50%, please could you give a sense of how much of your loan book is Group-1, Group-2 etc? Is it implemented?

Our loan book itself is very small and it has been more of a business enabler as against a main focus area. In fact, our list of stocks against which we lend was even less than the Group-1 list. So we are compliant as far as the Group-1 list is concerned, and this regulation does not significantly impact us, per se. We are largely in line with the regulation already. In terms of LTV, some large stocks were given at a higher LTV across the industry. Further clarifications are awaited from RBI in terms of how one transits and the RBI is likely to come out with its FAQs on this.

Regarding the RBI's restrictions in the LAS business, will smaller brokers with a loan book of less than ₹1 billion get any competitive advantages vs larger brokers because they can do margin funding which the large ones cannot?

The RBI has also put a single party limit of 15% on the capital while lending. When one puts a cap of ₹1 billion on the loan book, the equity base may be much lower than that. Of that, 15% means that the average ticket size that can be offered by such firms will be very less. So from the perspective of market impact, we do not think that it will significantly benefit smaller NBFCs.

How is the growth expected in the next 18-24 months in the NBFC loan book?

This loan book has always been a support to our agency businesses, in case certain clients require leverage. It has never been a focus area, in terms of independently growing this book to a target level. The incremental growth in this book will be driven by the way the cash volumes in the market and sentiments pan out, while keeping in mind the new regulations. From a capital allocation perspective, a lot of money will now be invested into Housing Finance business as seed capital. So the NBFC loan book will grow in a moderated fashion depending on the business demands, rather than disproportionately with any specific target in mind.

B) Aspire Home Finance

The disbursement in the Housing Finance business has been ~₹500 million as of Q2 FY15. How do you expect the loan book to pick up in the next 2-3 years?

It is just been four months of operations. The first year for us is about building strong systems, processes and building the proof of concept. The team is focused on building a solid franchise right now. Post this, we will decide about how much to lever. So it is a little early to comment on the growth over the next 2-3 years. In the coming quarters, we will be able to share more color about the scale of the book that we want to build up. But we are confident of making this a sizeable business in our group.

What is the breakup of the funds invested in the Housing Finance business? What is the duration of the loans? How do you see the geographical spread over the forthcoming quarters? By when do you expect to break-even?

Our equity commitment to Housing Finance for the year is ₹1 billion, out of which we have already infused capital worth ₹0.6 billion. Of this, ~₹500 million is disbursed (i.e. the HFC loan book), and ~₹0.9 billion has been sanctioned.

It is early days for us, but the typical tenure of loans is about 20 years. However, the average tenure works out to be lesser at about 8-10 years, due to pre-payments, etc.

We have identified about 13-14 locations across Maharashtra, Gujarat and MP, and are in the process of ramping up the teams here. There is enough potential to go even deeper into each of these geographies, and that itself should give us our targeted book size for this year. We will be able to share more details in the next couple of quarters.

We expect to achieve break-even in the first year itself.

The average lending rate in the home loan business is ~13.25%. What is the average yields for salaried vs self-employed? How is the yield so high despite operating a major chunk of the book in a geography like Mumbai?

The difference in yield will be about 60-75 bps between salaried and self-employed.

Self-employed will be higher by about 75 bps. Also, when one mentions Mumbai geography in our case, it is actually the outskirts of Mumbai like Ambarnath, Kalyan, Panvel etc. These are the locations for affordable housing. While it is called Mumbai, it is actually the peripherals of Mumbai. Moreover, these are not actually very high yield products as these are areas where require a lot of operational understanding of the place. So 13.25% is doable and we are not seeing any kind of exits because of that. The competing loans in that segment are also going at similar rates.

Overall

There is a sharp increase in debt in the company. Generally, we used to be a debt free company. Was there a specific reason for this spike in the debt this quarter? What is the Board policy on debt?

At the Board level, we are looking at how to optimize the return on investments and return on net worth. One of the things we realized is that we were in the lending businesses out of equity capital. So what we are trying to do is to fund, at least a part, of our lending book through borrowings and run it like a spread business rather than fund it entirely out of net worth. That is a fundamental change in approach because of which you see some borrowings against the lending done. The overall cap on debt equity for us is 1:1.But we are well below that as of now, and we will not exceed the risk tolerance levels of debt on the balance sheet.

Can you throw some light on the one-time amount of ~₹148 million, which relates to the reallocation from passive to active strategies within our own funds?

We have been increasing our commitments to our own Asset Management products since the first quarter of this fiscal. As markets panned out following the elections and our own fund performance, we thought a way to optimize it is to move from our passive strategies to our active strategies within our own funds. It was more of an internal allocation. But since the reallocation requires us to sell one unit and buy the other, it resulted in gains of ~₹148 million. We intend to stay invested in these investments from a long-term perspective, and not churn this portfolio. So this was just a one-time correction to reallocate from passive to active within our own funds.

INVESTOR UPDATE

Motilal Oswal Financial Services reports Q2 FY15 Consolidated Revenues of ₹1.8 billion, up 54% YoY; Adjusted PAT of ₹327 million, up 74% YoY

Mumbai, Oct 20, 2014: Motilal Oswal Financial Services (MOFSL), a leading financial services company, announced its results for the quarter ended Sep 30, 2014 post approval by the Board of Directors at a meeting held in Mumbai on Oct 20, 2014

Performance Highlights

₹Million	Q2 FY15	Q1 FY15	Comparison (Q1 FY15)	Q2 FY14	Comparison (Q2 FY14)
Total Revenues	1,786	1,676	↑7%	1,161	↑54%
EBITDA	577	577	0%	360	↑60%
Reported PAT	327	321	↑2%	56	↑481%
Adjusted PAT	327	321	↑2%	188	↑74%
Diluted EPS - ₹(FV of ₹1)	2.4	2.3		0.5	

Performance for the Quarter ended Sep 30, 2014

- Revenues in Q2 FY15 were ₹1.8 billion (up 7% QoQ and up 54% YoY)
- Adjusted PAT in Q2 FY15 was ₹327 million (up 2% QoQ and up 74% YoY)
- Reported PAT in Q2 FY15 was ₹327 million (up 2% QoQ and up 481% YoY)
- EBITDA and Adjusted PAT margins for Q2 FY15 were 32% (34% in Q1 FY15) and 18% (19% in Q1 FY15) respectively
- The balance sheet had net worth of ₹12.4 billion and borrowings of ₹2.9 billion as of Sep 30, 2014

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

"The gains in the benchmark index tapered this quarter. The BSE Sensex was up only 4.8% QoQ, as compared to the stellar 13.5% seen in the previous quarter. But despite a dip in cash equity volumes this quarter from the highs of May and June, the activity levels are still significantly higher than the historical levels seen in the last three fiscal years. Retail participation has seen traction this year as compared to recent years, which is encouraging. As the IPO pipeline gains further momentum, it should ideally bring in more retail participants into the markets as they seek to benefit from the opportunities. We have remained committed to investing in our technology, people and infrastructure through this period. Our new venture – Aspire Home Finance, within a very short period of commencing business, has already helped over 500 Indian families realize their dreams of owning a house while building an efficient and effective operating model."

Segment results for Q2 FY15:

- **Broking and related revenues** were ₹1.2 billion in Q2 FY15, up 4% QoQ and up 65% YoY. Equity market ADTO peaked this quarter, driven by a sharp QoQ off-take in option volumes. Cash volumes moderated slightly in Q2 FY15 to ₹203 billion, as compared to ₹226 billion in Q1 FY15. But this is still well above the last three year average. Retail participation in the cash markets continued to remain stable through Q2 FY15. Our market share decreased from 1.8% to 1.5% QoQ owing to the disproportionate rise in option volumes in the market. However, our market share in the high-yield cash segment increased slightly this quarter, which is encouraging. The significant change in market volume mix towards options segment resulted in blended yield decreasing from 4.3 bps to 3.7 bps QoQ
- **Fund based income** was ₹351 million, up 46% from Q1 FY15 and up 91% from Q2 FY14. NBFC loan book was ₹4.7 billion and Housing Finance disbursements ₹507.1 million as of Sep 2014. Re-allocation of investments in Motilal Oswal's mutual fund products from passive to active strategies resulted in capital gains of ₹147.9 million and is booked under Fund-based income
- **Asset Management fee** were ₹214 million for Q2 FY15, up 18% QoQ and up 4% YoY
- **Investment banking fees** at ₹6 million was down 92% on a QoQ basis
- **Other income** was ₹12 million in Q2 FY15, down 13% QoQ

Highlights for Q2 FY15

- Total client base increased to 820,025 which includes 719,997 retail broking and distribution clients
- Pan-India retail distribution reach stood at 1,657 business locations across 517 cities
- Total assets under management/advice across mutual funds, PMS and private equity businesses was ₹54.4 billion. Within this, our mutual funds AUM was ₹12.8 billion, PE AUA was ₹20.0 billion, while PMS AUM was ₹21.6 billion
- Wealth management business managed assets of about ₹31.2 billion
- Depository assets were ₹185.4 billion
- Motilal Oswal Securities won the 'Best Research as Research Showcase Partner' at Research Bytes IC Awards 2014
- Institutional Equities conducted the 10th Annual Global Investor Conference in Mumbai where 110 participating companies interacted with over 700 global investors resulting in 3600+ meetings
- Following commencement of operations in May 2014, Aspire Home Finance has already sanctioned 818 applications amounting to ~₹873.2 million, and disbursed 558 applications amounting to ~₹507.1 million
- During this year, Motilal Oswal Capital Markets (Hong Kong) Private Ltd received Type-4 License from SFC, Hong Kong
- Our investment in Motilal Oswal's mutual fund products stands at ₹3.42 billion, as of Sep 30, 2014. The unrealized gain on these investments is ₹462 million, as of Sep 30, 2014
- Our investment in Motilal Oswal's alternative investment products (private equity and real estate funds) stands at ₹883 million, as of Sep 30, 2014

About Motilal Oswal Financial Services Limited

Motilal Oswal Financial Services Ltd. (NSE: MOTILALOFS, 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 1,657 business locations spread across 517 cities and the online channel to over 820,025 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 Asia Money Brokerage Polls for India. MOSL won 4 awards in the ET-Now Starmine Analyst Awards 2010-11, placing it amongst the Top-3 award winning brokers, was ranked No. 2 by AsiaMoney Brokers Poll 2010 in the Best Local Brokerage Category and won the 'Best Market Analyst' Award for 2 sectors at the India's Best Market Analyst Awards 2011. MOFSL won the 'Best Capital Markets and Related NBFC' award at the CNBC TV18 Best Banks and Financial Institutions Awards 2011. MOSL also won the 'Best Equity Broking House' award for FY11 at the Dun & Bradstreet Equity Broking Awards 2011. MOSL won the 'Best Performing National Financial Advisor Equity Broker' award at the CNBC TV18 Financial Advisor Awards 2012, for the 4th year in a row. MOSL won 'Best Equity Broker' award at Bloomberg UTV Financial Leadership Awards 2012, 'Retailer of the Year (Banking & Financial Services) award at Retail Excellence Awards 2012, and was ranked 2nd in the "Best Overall Brokerage" category by Asia Money in 2011. Motilal Oswal Private Equity won 'Best Growth Capital Investor-2012' award at the Awards for Private Equity Excellence 2013. MOSL was adjudged amongst the Top 20 innovators in BFSI for 'Leveraging on technology in enhancing customer experience' at the Banking Frontiers Finnovity Awards 2012, and won the 'Quality Excellence for Best Customer Service Result' award at National Quality Excellence Awards 2013

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CONSOLIDATED UNAUDITED FINANCIAL RESULTS FOR THE QUARTER AND HALF YEAR ENDED 30TH SEPTEMBER 2014

(Rs. in Lacs)

Particulars	Quarter Ended (Unaudited)			Half Year Ended (Unaudited)		Year Ended (Audited)
	30.09.2014	30.06.2014	30.09.2013	30.09.2014	30.09.2013	31.03.2014
1. Income from Operations						
(a) Income from Operations	16,286	15,453	10,879	31,740	21,026	43,748
(b) Other Operating Income	1,454	1,166	635	2,620	1,372	2,637
Total Income	**17,740**	**16,619**	**11,514**	**34,360**	**22,398**	**46,385**
2. Expenditure						
a. Operating Expense	4,605	4,613	2,265	9,218	4,617	10,534
b. Employees' Benefit Expense	3,837	3,744	3,292	7,581	6,267	12,732
c. Depreciation and Amortisation Expenses	707	674	604	1,380	1,193	2,426
d. Other Expenditure	3,647	2,625	2,452	6,273	4,638	9,326
Total Expenses	**12,796**	**11,656**	**8,613**	**24,452**	**16,715**	**35,018**
3. Profit from Operations before Other Income, Finance Cost & Exceptional Items (1-2)	**4,944**	**4,963**	**2,901**	**9,908**	**5,683**	**11,367**
4. Other Income	120	138	93	258	296	427
5. Profit from Ordinary Activities before Finance Cost & Exceptional Items (3+4)	5,064	5,101	2,994	10,166	5,979	11,794
6. Finance Cost	293	389	81	682	167	286
7. Profit from Ordinary Activities after Finance Cost but before Exceptional Items (5-6)	4,771	4,712	2,913	9,484	5,812	11,508
8. Exceptional Items - (Expense)/Income	-	-	(1,948)	-	(1,948)	(5,559)
9. Profit from Ordinary Activities before Tax (7-8)	**4,771**	**4,712**	**966**	**9,484**	**3,864**	**5,948**
10. Tax Expense	1,434	1,463	325	2,897	1,346	1,792
11. Net Profit from Ordinary Activities after Tax but before Minority Interests (9-10)	3,337	3,249	640	6,587	2,518	4,156
12. Share of Minority Interests in (Profits)/Loss	(72)	(41)	(79)	(113)	(107)	(205)
13. Net Profit after Tax and Minority Interests (11-12)	**3,265**	**3,208**	**562**	**6,474**	**2,411**	**3,951**
14. Paid-up Equity Share Capital (Face Value of Re. 1/- Per Share)	1,387	1,382	1,389	1,387	1,389	1,382
15. Reserves excluding Revaluation Reserves	-	-	-	-	-	115,648
16. i. Earnings Per Share (EPS) (before Extraordinary Items) (of Re. 1/- each)						
a) Basic EPS	2.41	2.35	0.45	4.76	1.76	2.95
b) Diluted EPS	2.38	2.34	0.45	4.71	1.76	2.95
16. ii. Earnings Per Share (EPS) (after Extraordinary Items) (of Re. 1/- each)						
c) Basic EPS	2.41	2.35	0.45	4.76	1.76	2.95
d) Diluted EPS	2.38	2.34	0.45	4.71	1.76	2.95
Particulars of Shareholding						
17. Public Shareholding						
- Number of shares	3,64,09,939	3,57,50,839	3,64,61,059	3,64,09,939	3,64,61,059	3,57,35,139
- Percentage of shareholding	26.24%	25.88%	26.25%	26.24%	26.25%	25.86%
18. Promoters' and Promoter Group Shareholding						
a) Pledged/Encumbered						
- Number of shares	NIL	NIL	NIL	NIL	NIL	NIL
- Percentage of shares (as a % of the total shareholding of promoter and promoter group)	NIL	NIL	NIL	NIL	NIL	NIL
- Percentage of shares (as a % of the total share capital of the company)	NIL	NIL	NIL	NIL	NIL	NIL
b) Non-Encumbered						
- Number of shares	10,23,28,236	10,24,12,236	10,24,30,692	10,23,28,236	10,24,30,692	10,24,30,692
- Percentage of shares (as a % of the total shareholding of promoter and promoter group)	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
- Percentage of shares (as a % of the total share capital of the company)	73.76%	74.12%	73.75%	73.76%	73.75%	74.14%
19. Investors' Complaints						
Pending at the beginning of the period	NIL	NIL	NIL	NIL	NIL	NIL
Received during the period	3	2	11	5	11	15
Disposed off during the period	3	2	11	5	11	15
Remaining unresolved at the end of the period	NIL	NIL	NIL	NIL	NIL	NIL

Notes:-

1) The above results were reviewed by the Audit Committee and taken on record by the Board of Directors of the Company at its Meeting held on Monday, 20th october, 2014. The results for the quarter and half year ended 30th September, 2014 have been reviewed by the Statutory auditors of the Company.

2) Pursuant to the exercise of Employee Stock Option, the company has allotted 5,75,100 equity shares to the employees during the quarter and half year ended 30th September 2014.

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 (100%), MOPE Investment Advisors Private Limited (formally known as Motilal Oswal Private Equity Advisors Private Limited) (85%), Motilal Oswal Commodities Broker Private Limited (97.55%), Motilal Oswal Capital Markets Private Limited (99.95%), Motilal Oswal Wealth Management Limited (99.95%) (Formerly known as Motilal Oswal Wealth Management Private Limited), Motilal Oswal Insurance Brokers Private Limited (99.67%), Motilal Oswal Asset Management Company Limited (99.95%), Motilal Oswal Trustee Company Limited (99.95%), Motilal Oswal Securities International Private Limited (99.95%), Motilal Oswal Capital Markets (Singapore) Pte Ltd (99.95%), Motilal Oswal Capital Markets (Hong Kong) Private Limited (99.95%), Motilal Oswal Real Estate Investment Advisors Private Limited (76.5%) , Motilal Oswal Real Estate Investment Advisors II Private Limited (68.85%), Aspire Home Finance Corporation Limtied (99.95%) and India Business Excellence Management Co (85.00 %).

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

5) Standalone financial results are summarised below and also available on the Company's website: www.motilaloswal.com.

(Rs. In Lacs)

Particulars	Quarter Ended (Unaudited)			Half Year Ended (Unaudited)		Year Ended (Audited)
	30.09.2014	30.06.2014	30.09.2013	30.09.2014	30.09.2013	31.03.2014
Gross Revenue	5,933	1,916	3,128	7,849	4,887	9,773
Profit Before Tax	4,402	672	1,739	5,074	2,514	4,490
Profit After Tax	4,316	451	1,600	4,766	2,134	3,931

6) CONSOLIDATED UNAUDITED SEGMENT RESULTS FOR THE QUARTER AND HALF YEAR ENDED 30TH SEPTEMBER 2014

(Rs. in Lacs)

Particulars	Quarter Ended (Unaudited)			Half Year Ended (Unaudited)		Year Ended (Audited)
	30.09.2014	30.06.2014	30.09.2013	30.09.2014	30.09.2013	31.03.2014
1. Segment Revenue						
(a) Broking & Other related activities	12,365	11,538	7,262	23,903	14,445	29,274
(b) Fund Based activities	4,059	3,234	2,541	7,292	5,560	11,597
(c) Asset Management & Advisory	3,160	2,545	2,410	5,705	4,008	9,109
(d) Investment Banking	74	817	448	890	534	843
(e) Unallocated	4	33	35	36	49	324
Total	**19,661**	**18,166**	**12,696**	**37,827**	**24,597**	**51,147**
Less: Inter Segment Revenue	1,800	1,409	1,089	3,209	1,903	4,335
Income From Operations, Other Operating income & Other Income	**17,860**	**16,757**	**11,607**	**34,618**	**22,694**	**46,812**
2. Segment Results Profit / (Loss) before Tax and Interest from each segment						
(a) Broking & Other related activities	2,588	2,432	952	5,020	2,271	1,921
(b) Fund Based activities	2,125	1,741	1,138	3,866	2,995	7,916
(c) Fund Based activities (exceptional item)	-	-	(1,948)	-	(1,948)	(5,559)
(d) Asset Management & Advisory	624	(45)	705	579	741	1,862
(e) Investment Banking	(483)	461	146	(22)	(87)	(409)
(f) Unallocated	98	249	80	347	(42)	510
Total	**4,952**	**4,837**	**1,074**	**9,789**	**3,930**	**6,242**
Less: (i) Interest	181	125	108	305	66	294
(ii) Other Un-allocable Expenditure net off						
(iii) Un-allocable income						
Profit/(Loss) from Ordinary Activities before Tax	**4,771**	**4,712**	**966**	**9,484**	**3,864**	**5,948**
3. Capital Employed						
(Segment Assets – Segment Liabilities)						
(a) Broking & Other related activities	33,175	20,421	30,359	33,175	30,359	19,943
(b) Fund Based activities	111,220	93,699	91,473	111,220	91,473	88,279
(c) Asset Management & Advisory	7,606	7,928	2,507	7,606	2,507	2,296
(d) Investment Banking	381	640	844	381	844	432
(e) Unallocated	(27,901)	(2,764)	(5,671)	(27,901)	(5,671)	6,079
Total	**124,481**	**119,925**	**119,511**	**124,481**	**119,511**	**117,029**

Notes:

7. The above Segment information is presented on the basis of the unaudited consolidated financial statements. The company's operations predominantly relate to Broking and other related activities, Fund Based activities, Asset Management & Advisory and Investment Banking. In accordance with Accounting Standard -17 on Segment reporting, Broking and other related activities, Fund Based activities, Asset Management & Advisory and Investment Banking are classified as reportable segments. The balance is shown as unallocated items.

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

9) STATEMENT OF ASSETS & LIABILITIES (CONSOLIDATED)

(Rs in Lacs)

Particulars	As on Unaudited 30.09.2014	Audited 31.03.2014
A. EQUITY AND LIABILITIES		
1. Shareholder's Fund		
a) Share Capital	1,387	1,382
b) Reserves & Surplus	123,093	115,648
Sub-total - Shareholders' Funds	124,481	117,029
2. Share Application Money	7	-
3. Minority Interest	643	508
4. Non-Current Liabilities		
a) Deferred Tax Liabilities (net)	1,153	1,167
b) Other Long Term Liabilities	255	212
c) Long-Term Provisions	485	438
Sub-total - Non-Current Liabilities	1,893	1,817
5. Current Liabilities		
a) Short Term Borrowings	28,539	8
b) Trade Payables	58,436	56,469
c) Other Current Liabilities	6,828	3,356
d) Short-Term Provisions	4,780	5,135
Sub-total - Current Liabilities	98,584	64,967
TOTAL - EQUITY AND LIABILITIES	**225,607**	**184,321**
B. ASSETS		
1. Non-Current Assets		
a) Fixed Assets	29,658	30,723
b) Non-Current Investments	52,036	22,259
c) Long-Term Loans and Advances	7,073	2,779
d) Other Non-Current Assets	126	242
Sub-total - Non-Current Assets	88,894	56,003
2. Current Assets		
a) Current Investments	6,315	7,044
b) Inventories	0	6,063
c) Trade Receivables	53,996	48,136
d) Cash and Bank Balances	24,740	16,778
e) Short-Term Loans and Advances	51,316	50,010
f) Other Current Assets	345	287
Sub-total - Current Assets	136,713	128,318
TOTAL - ASSETS	**225,607**	**184,321**

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

Motilal Oswal
Chairman & Managing Director

Mumbai, 20th October, 2014
shareholders@motilaloswal.com.