

# Earnings Update – Q3 FY12



January 16, 2012

**Motilal Oswal Financial Services Limited**

BSE: 532892 • NSE: MOTILALOFS • Bloomberg:MOFS:IN • Reuters: MOFS.BO

[www.motilaloswal.com](http://www.motilaloswal.com)

Knowledge First

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Financial Services

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## Consolidated Financials

- Revenue in Q3 FY12 was ₹1.1 billion (down 3% QoQ and down 33%YoY)
- Reported PAT in Q3 FY12 was ₹260 million (down 26% QoQ and down 38% YoY)
- Adjusted PAT in Q3 FY12 was ₹261 million (almost flat on a QoQ basis and down 38% YoY)
- EBITDA and Adjusted PAT margins for Q3 FY12 were 37% (35% in Q2 FY12) and 24% (23% in Q2 FY12) respectively
- Declares interim dividend of ₹1 per equity share (Face value of ₹1 per equity share)
- Strong balance sheet with net worth of ₹11.5 billion, net cash of ₹1.4 billion and negligible leverage, as of Dec 31, 2011

## Volumes and Market Share

- Total ADTO in secondary equities was ₹25.6 billion in Q3 FY12 (₹27.6 billion in Q2 FY12 and ₹34.4 billion in Q3 FY11)
- Equity market share was 1.8% in Q3 FY12 (1.9% in Q2 FY12 and 2.3% in Q3 FY11)

## Distribution Reach

- Pan-India retail distribution stood at 1,563 business locations across 555 cities
- Total client base increased to 738,156, which includes 650,272 retail broking and distribution clients

## Assets Managed

- Total assets under management/advice across mutual funds, PMS and private equity businesses was ₹22.3 billion. Within this, our mutual funds AUM was ₹2.8 billion, PMS AUM was ₹12.1 billion and PE AUA/AUM was ₹7.5 billion
- Wealth management business - Purple Client Group, managed assets of ₹12.3 billion
- Depository assets of ₹99.8 billion

## Business Updates

- Motilal Oswal AMC launched its 4th mutual fund product, MOST 10 Year Gilt Fund, which will invest in the 10 Year benchmark Government Bond. The fund saw good response during its NFO and mobilized ₹736 million
- Motilal Oswal Private Equity concluded the first closing of domestic fund - India Business Excellence Fund II (IBEF-II) in Oct, 2011. This will be MOPE's 2<sup>nd</sup> sector-agnostic growth capital fund, for which fund raising is underway

## Accolades Received

- In Oct 2011, Motilal Oswal Securities was felicitated by BSE for being Amongst the Top Five Performers in BSE Star – Mutual Fund and Amongst the Top Ten Performers in Equity segment for the period Nov 2010 - Sept 2011

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Particulars	Q3 FY12	Q2 FY12	Change (%)	Q3 FY12	Q3 FY11	Change (%)	9 Months	9 Months	Change (%)	FY11
	Dec 31, 2011	Sep 30, 2011		Q-o-Q	Dec 31, 2011		Dec 31, 2010	Y-o-Y		Dec 31, 2011
<b>₹million</b>										
Total Revenues	1,106	1,143	-3%	1,106	1,653	-33%	3,369	4,744	-29%	6,004
EBIDTA	411	397	3%	411	693	-41%	1,156	1,860	-38%	2,296
PBT (before E & EOI)	378	362	4%	378	639	-41%	1,053	1,713	-39%	2,107
Reported PAT (after E & EOI)	260	350	-26%	260	421	-38%	822	1,115	-26%	1,371
Adjusted PAT	261	262	0%	261	422	-38%	735	1,079	-32%	1,336
EPS - Basic	1.8	2.4		1.8	2.9		5.7	7.9		9.5
EPS - Diluted	1.8	2.4		1.8	2.9		5.7	7.8		9.5
No. of shares outstanding (million) - FV Rs 1/share	145	145		145	144		145	144		144

E & EOI = Exceptional items & Extraordinary items

## Reported PAT is adjusted for the following items to derive Adjusted PAT:

Particulars	Q3 FY12	Q2 FY12	Change (%)	Q3 FY12	Q3 FY11	Change (%)	9 Months	9 Months	Change (%)	FY11
	Dec 31, 2011	Sep 30, 2011		Q-o-Q	Dec 31, 2011		Dec 31, 2010	Y-o-Y		Dec 31, 2011
<b>₹million</b>										
Reported PAT (after E & EOI)	260	350	-26%	260	421	-38%	822	1,115	-26%	1,371
Adjustments: (Post tax)										
Profit on sale of investments	-	-		-	(1)		-	(14)		(12)
Profit on sale of fixed assets	1	(88)		1	1		(87)	(22)		(22)
Adjusted PAT	261	262	0%	261	422	-38%	735	1,079	-32%	1,336

Towards consolidation of office premises at the soon to be commissioned Corporate Headquarters at Prabhadevi, some of the existing office premises in South Mumbai area was sold during Q2 FY12 for a profit of ₹130 million (pre-tax)

# Revenue composition

Particulars	Q3 FY12	Q2 FY12	Change	Q3 FY12	Q3 FY11	Change	9 Months	9 Months	Change	FY11
₹million	Dec 31, 2011	Sep 30, 2011	(%) Q-o-Q	Dec 31, 2011	Dec 31, 2010	(%) Y-o-Y	Dec 31, 2011	Dec 31, 2010	(%) Y-o-Y	Mar 31, 2011
Brokerage & operating income	715	813	-12%	715	1,214	-41%	2,302	3,456	-33%	4,334
Investment banking fees	13	14	-10%	13	50	-74%	49	344	-86%	398
Fund based income	190	198	-4%	190	276	-31%	597	563	6%	738
Asset management fees	170	100	70%	170	108	58%	374	290	29%	427
Other income	18	18	2%	18	5	268%	48	90	-47%	107
<b>Total Revenues</b>	<b>1,106</b>	<b>1,143</b>	<b>-3%</b>	<b>1,106</b>	<b>1,653</b>	<b>-33%</b>	<b>3,369</b>	<b>4,744</b>	<b>-29%</b>	<b>6,004</b>

- Broking and related revenues were ₹715 million this quarter, down 12% from Q2 FY12 and down 41% from Q3 FY11. This segment contributed 65% of total group revenues
- Fund based income was ₹190 million, down 4% from Q2 FY12 and down 31% from Q3 FY11. It contributed 17% of total group revenues. The loan book was ₹2.4 billion as of Dec 31, 2011
- Asset Management fees were ₹170 million for Q3 FY12, up 70% QoQ and 58% YoY. This segment contributed 15% of total group revenues. The sequential growth in revenues is attributable to the first close of the domestic leg of the new IBEF-II fund.
- Investment banking fees were ₹13 million for Q3 FY12, down 10% from Q2 FY12
- Other income was ₹18 million in Q3 FY12

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performance**

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## Broking & Distribution, Institutional Equities & Wealth Management

Particulars ₹million	Q3 FY12	Q2 FY12	Change (%) Q-o-Q	Q3 FY12	Q3 FY11	Change (%) Y-o-Y	9 Months	9 Months	Change (%) Y-o-Y	FY11
	Dec 31, 2011	Sep 30, 2011		Dec 31, 2011	Dec 31, 2010		Dec 31, 2011	Dec 31, 2010		Mar 31, 2011
Total Revenues	831	868	-4%	831	1,328	-37%	2,562	3,886	-34%	4,871
EBIDTA	295	281	5%	295	473	-38%	836	1,368	-39%	1,667
PBT (before E & EOI)	263	248	6%	263	427	-38%	737	1,231	-40%	1,490
Reported PAT (after E & EOI)	181	270	-33%	181	283	-36%	606	826	-27%	1,008
Adjusted PAT	181	183	-1%	181	284	-36%	519	790	-34%	972

E & EOI = Exceptional items & Extraordinary items; PAT is adjusted for profit from sale from fixed assets and investments

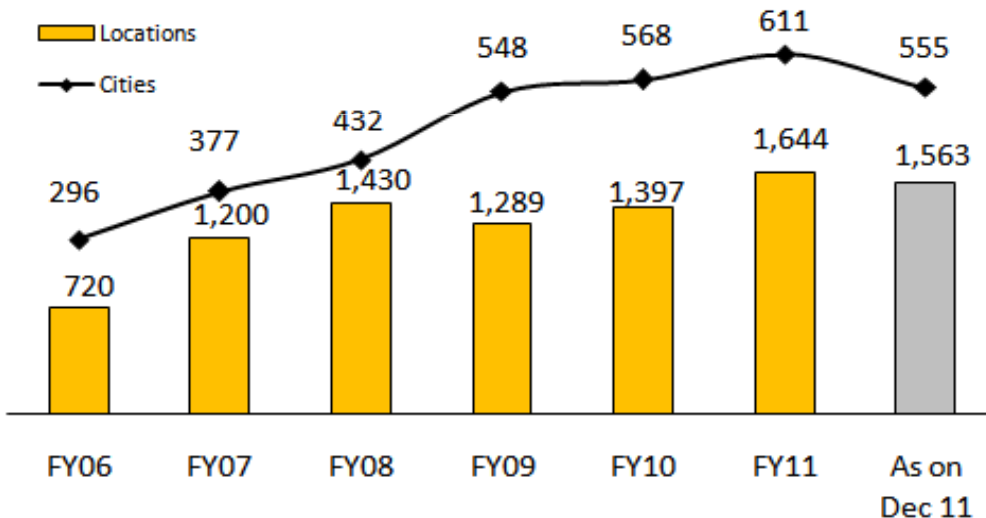
- Revenues were ₹831 million for Q3 FY12, down 4% from Q2 FY12 and down 37% from Q3 FY11
- PAT was ₹181 million for Q3 FY12, down 33% from Q2 FY12 and down 36% from Q3 FY11
- Adjusted PAT was ₹181 million in Q3 FY12, down 1% QoQ and down 36% YoY
- MOSL ADTO was ~₹25.6 billion in Q3 FY12 (₹27.6 billion in Q2 FY12 and ₹34.4 billion in Q3 FY11). Although market volumes dipped this quarter across all segments owing to weak sentiments, the proportion of options within the mix continued to increase. Equity market share declined from 1.9% in Q2 FY12 to 1.8% in Q3 FY12. However, blended yield has held firm at 4.7 bps over the same period, indicating that MOSL continues to maintain its strong market share in the high-yield cash segment
- As on Dec 31, 2011, total client base has increased to 738,156 while Pan-India distribution reach stood at 1,563 business locations across 555 cities
- Reported PAT for Q2 FY12 includes profit on sale of office premises ₹88 million (post-tax)

- Offers customized investment services to its retail customers
- ‘Customer first’ philosophy is executed through strategic focus on:
  - Increasing distribution reach to build a pan-India network
  - Customer segmentation based on individual needs
  - Wide bouquet of offerings (equity, PMS, MFs, commodities)
  - Develop in-house technology for better customer experience
  - Intensify customer connect through seminars and feedback

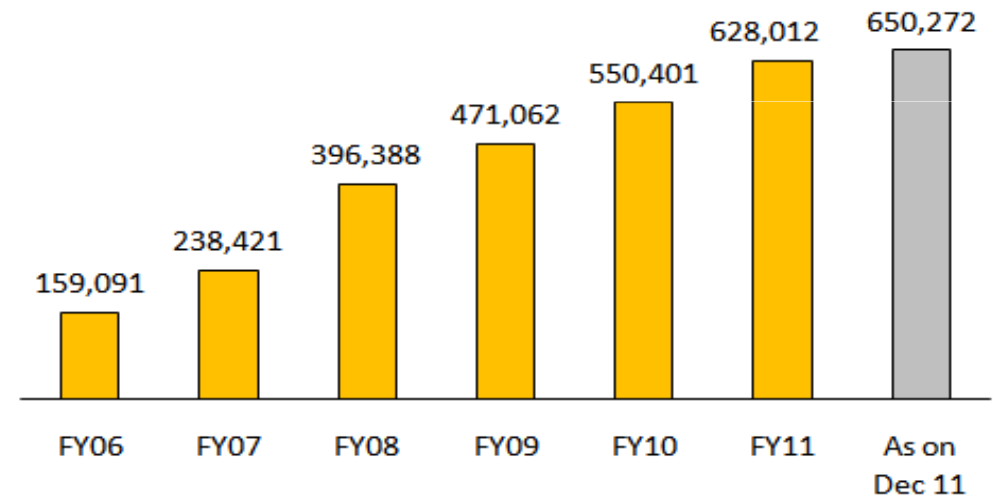


MOSL was felicitated by BSE for being Amongst the Top Five Performers in BSE Star – Mutual Fund and Amongst the Top Ten Performers in Equity Segment for the period Nov 2010 – Sept 2011

**Pan-India distribution footprint**



**Retail equity broking clients**



# Institutional equities – Research services



- Cash and derivatives broking to institutional clients, along with a strong research and corporate access group
- Client base of 509 institutions including 343 FIIs, as of Dec 31, 2011

## Recent Research Reports

**India Strategy**  
January 2012

**Get on track please!**  
- for a happy 2012

**Sep-11 Review**

- ✓ FY12 GDP estimates lowered to 7.2%
- ✓ 10FY12 Results in-line, Aggregate PAT up 13%, Sensex PAT up 17%
- ✓ FY12 Sensex EPS downgrade of 1%

Research Team (Rajal@MotilalOswal.com)

**India Strategy**  
September 2011

**INDIA STRATEGY: Sep-11 Results Review**

- Aggregate performance in line with estimates
- MODL Universe vs-BSEI 20P12 down 2% (vs 2%); BSEI20A (2% vs 2%), and PAT (2% vs 1%). Sensex aggregate performance was above estimates as BSEI20A rose 1%, and PAT grew 1% (vs 0% est) of 8.5%.
- Index composite outperform while broader market disappointed
- While Sensex earnings grew 17%, MODL Universe vs Sensex grew only 5% (vs est of 2%) showing relatively stable earnings and higher interest costs. Moderate aggregate POC growth.
- Large-cap which delivered above estimates are COAL, L&F, CHOC, Coal India, Tata Motors, ITC and IFFCO. Major disappointments in earnings were from Tata Steel, Varun, Dabur, Asian Paints, Ultratech, Cash India and Steris India.
- Composite volume reported average was in-line, but concerning margin outlook has some generation were OIL, L&F TCO, BHEL, IFFCO.
- Capital discipline and divergence in estimates of MODL Universe. Sensex FY12 EPS saw a downgrade of 1% to 1.31 (growth of 10.9%).

November 2011

**Metals**  
Thematic Report | October 2011

**Work in progress**

**RoIC v/s RoCE: The Return Roulette**

November 2011

**Tata Motors (JLR)**  
28 November 2011  
Deliver Report | Sector: Automobile

**Wider reach**  
**New launches**  
**Niche presence**

**On the right track**

Jinesh Gandhi (Jinesh@MotilalOswal.com) | 91 22 3952 5416  
Manish Varma (Manish@MotilalOswal.com) | 91 22 3952 5418

**Technology**  
Update | October 2011

**The bright spots**

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**ICPA Laboratories**  
1 November 2011  
Initiating Coverage | Sector: Healthcare

**Smoother road ahead**

Amal Shah (Amal@MotilalOswal.com) | 91 22 3952 5422  
Nehesh Desai (Nehesh@MotilalOswal.com) | 91 22 3952 5420

**The PolicyMaker**  
Insights from bureaucrats

**Delhi Drive: Core sectors in action mode**  
Government seems committed to 9%+ GDP growth in 12th Plan

November 2011

**Ground Reality**  
23 December 2011  
REAL ESTATE

**Bangalore Realty: Expect near-term outperformance**

Sanjivan Patel (Sanjivan@MotilalOswal.com) | 91 22 3952 5423

**TALK TIME**  
December 2011  
Indian telecom monthly

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**Speed Dial**

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**Utilities**  
Sector Update | October 2011

**FY10 SEB finances provide comfort (PFC report)**

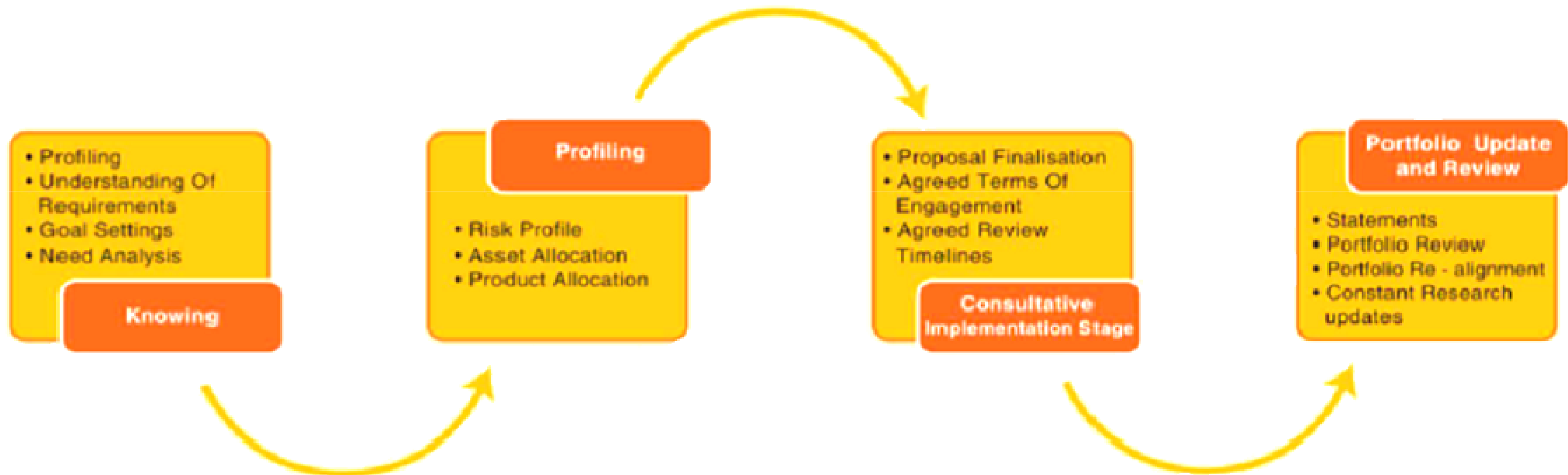
Manish Prasad (Manish@MotilalOswal.com) | 91 22 3952 5426



Wealth Management  
from Motilal Oswal

## The purple process

- Focus on advisory and product mix that leads to Client Profitability
- Diversified solution management to cater to unique needs of clients
- Advises on in-house products like PMS, PE, ETFs and third party products like debt, mutual funds, insurance etc
- AUM of ₹12.3 billion, as of Dec 31, 2011
- 66 employees in wealth management business, as of Dec 31, 2011
- Present in Mumbai, Delhi, Kolkata, Pune and Ahmedabad

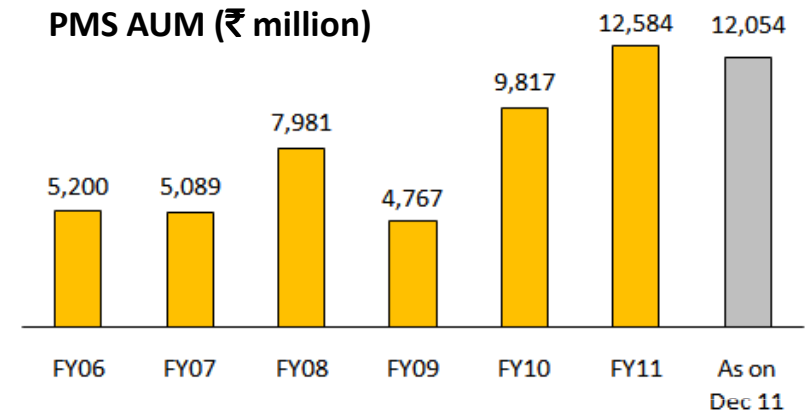


Particulars ₹million	Q3 FY12	Q2 FY12	Change (%) Q-o-Q	Q3 FY12	Q3 FY11	Change (%) Y-o-Y	9 Months	9 Months	Change (%) Y-o-Y	FY11
	Dec 31, 2011	Sep 30, 2011		Dec 31, 2011	Dec 31, 2010		Dec 31, 2011	Dec 31, 2010		Mar 31, 2011
Total Revenues	76	76	0%	76	76	-1%	228	83	176%	195
EBIDTA	4	0	NM	4	2	141%	0	(94)	-100%	(84)
PBT (before E & EOI)	3	(0)	NM	3	1	189%	(1)	(95)	-99%	(85)
PAT (before E & EOI)	3	(0)	NM	3	1	245%	(1)	(65)	-98%	(85)
PAT (after E & EOI)	3	(0)	NM	3	1	245%	(1)	(65)	-98%	(85)

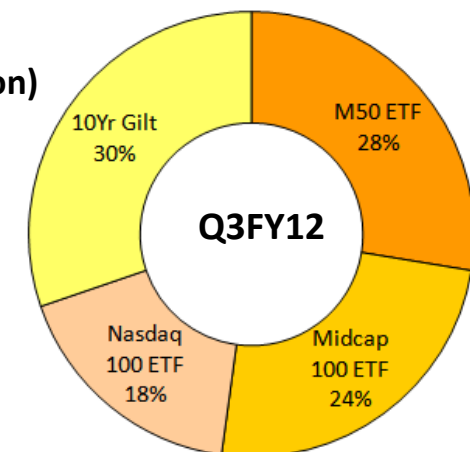
E & EOI = Exceptional items & Extraordinary items

- As on Dec 31, 2011, PMS AUM was ₹12.1 billion with a customer base of 5,608
- Launched its 4<sup>th</sup> mutual fund- MOST 10 Year Gilt Fund which will invest in the 10 Year Benchmark Government Bond
- The fund saw good response in its NFO and mobilized ₹736 million
- Mutual funds AUM across the 4 funds was ₹2.8 billion
- Of this, M50 comprised 28% of total MF AUM, Midcap 100 and Nasdaq 100 comprised 25% and 18% respectively

PMS AUM (₹ million)

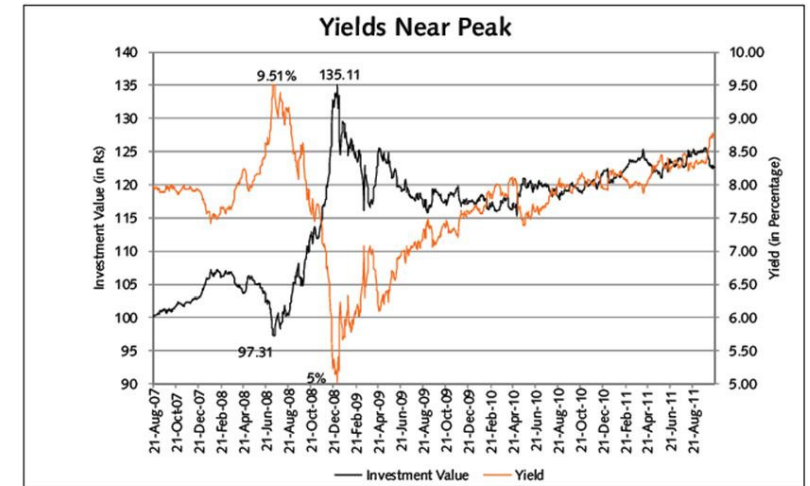


Mutual Funds AUM (₹ million)

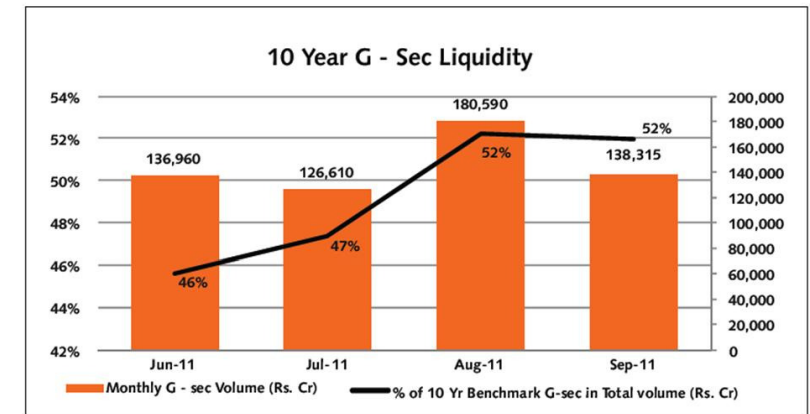


# About MOST 10 Year Gilt Fund

- MOST 10 Year Gilt Fund is an Open Ended Gilt scheme, India's 1<sup>st</sup> fund giving easy access to the 10 Year Benchmark Government Bond, which otherwise has an unaffordable ticket size of ₹50 mn
- It will invest 90-100% of its corpus in 10 Year Govt Bond, and the remainder in Other G-Secs (7-12 yrs, T-Bills, etc)
- It provides an opportunity to play the interest rate cycle with long duration bonds
- Dated Government of India Securities (G-Sec)
  - Provides access to liquid and credit-risk free investment
  - Low risk premium - sovereign guarantee
  - Low illiquidity premium – G-Secs are highly liquid part of bond market
- Product Features
  - Two Plans : Dividend and Growth
  - Total Expenses : 0.99%
  - Exit Load : 0.5% if redeemed within 3 months



Source: RBI NDS OM data as on 31.10.2011 Investment value calculated using clean price & paid coupon



Source RBI on 31.10.2011 Total Outstanding Government of India Securities Rs.2,387,333.47 Cr

*MOST 10 Year Gilt Fund is a new scheme and does not have a performance track record. Past Performance, as indicated above, may or may not be achieved in future. The above illustration is meant to help have an understanding of the fund in any manner whatsoever. In particular the Scheme does not offer capital protection or assured returns. Investment methodology is as mentioned in the Scheme Information Document*

Particulars ₹million	Q3 FY12	Q2 FY12	Change (%) Q-o-Q	Q3 FY12	Q3 FY11	Change (%) Y-o-Y	9 Months	9 Months	Change (%) Y-o-Y	FY11
	Dec 31, 2011	Sep 30, 2011		Dec 31, 2011	Dec 31, 2010		Dec 31, 2011	Dec 31, 2010		Mar 31, 2011
Total Revenues	16	23	-30%	16	52	-69%	76	362	-79%	418
EBIDTA	(17)	(8)	NM	(17)	20	-185%	(26)	168	NM	197
PBT (before E & EOI)	(18)	(9)	NM	(18)	20	-187%	(27)	167	NM	196
PAT (before E & EOI)	(12)	(6)	NM	(12)	14	-186%	(17)	111	NM	130
PAT (after E & EOI)	(12)	(6)	NM	(12)	14	-186%	(17)	111	NM	130

E & EOI = Exceptional items & Extraordinary items

- Strong management team with substantial experience in investment banking, corporate banking and advisory
- 28 employees in investment banking, as of Dec 31, 2011
- Motilal Oswal Investment Banking was the Lead Sponsor for the Latin America India Investors Forum held in Nov, 2011.
- The Forum was designed to connect corporates with institutions, HNIs, PE funds and AMCs, and to start the process towards deals, investments and business relationships between India and Latin America. Panel discussions were conducted focusing on IT, agri-business, pharma, healthcare, BFSI, metals, energy sectors



Latin America India Investors Forum 2011, Mumbai

Particulars	Q3 FY12	Q2 FY12	Change	Q3 FY12	Q3 FY11	Change	9 Months	9 Months	Change	FY11
₹million	Dec 31, 2011	Sep 30, 2011	(%) Q-o-Q	Dec 31, 2011	Dec 31, 2010	(%) Y-o-Y	Dec 31, 2011	Dec 31, 2010	(%) Y-o-Y	Mar 31, 2011
Total Revenues	97	27	265%	97	31	209%	152	100	52%	128
EBIDTA	16	1	1737%	16	9	74%	20	33	-39%	34
PBT (before E & EOI)	16	0	5316%	16	9	73%	19	33	-41%	33
PAT (before E & EOI)	11	0	2533%	11	6	73%	13	22	-41%	23
PAT (after E & EOI)	11	0	2533%	11	6	73%	13	22	-41%	23

E & EOI = Exceptional items & Extraordinary items;

- MOPE is an investment manager and advisor to two private equity funds, acts as an advisor and mentor to the investee companies and leverages the relationships of the Motilal Oswal group for the benefit of these companies
- India Business Excellence Fund (IBEF) is a SME focused growth capital fund with AUM of US\$ 125 million (~₹5.5 billion). It has invested in 13 companies, and committed ~85% of funds under management, as of Dec 31, 2011
- India Realty Excellence Fund (IREF) is a domestic real estate fund with total AuA at ₹2 billion. IREF has made investments across 6 deals, committing about 74% of its funds under management, as of Dec 31, 2011
- MOPE concluded the first closing of domestic fund - India Business Excellence Fund II (IBEF-II) in October, 2011. This will be MOPE's second sector-agnostic growth capital fund, for which fund raising is currently underway



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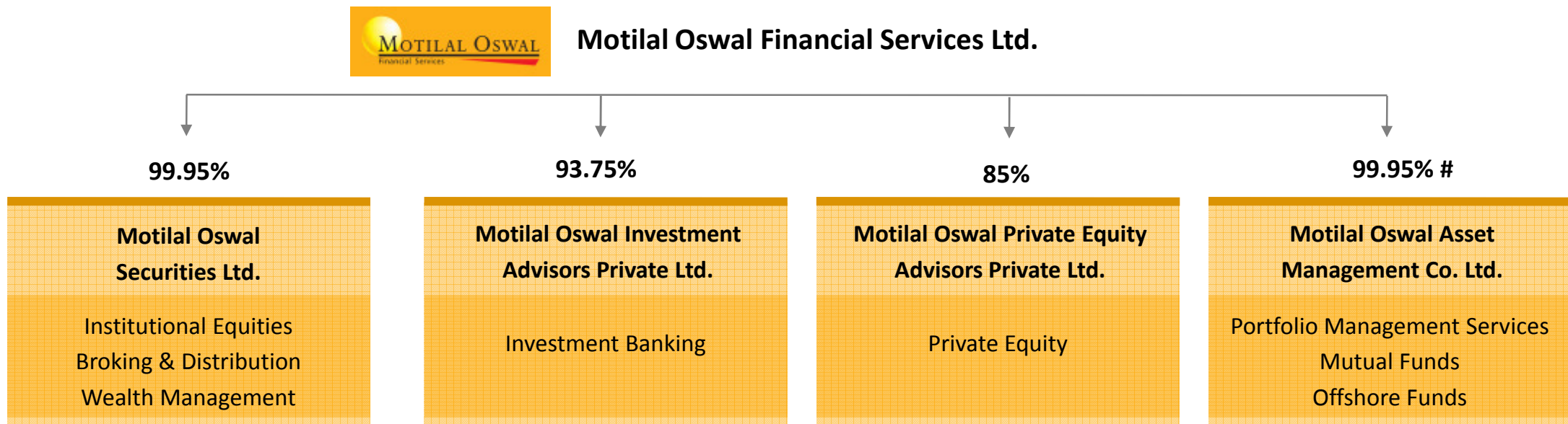
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# Group profile and structure

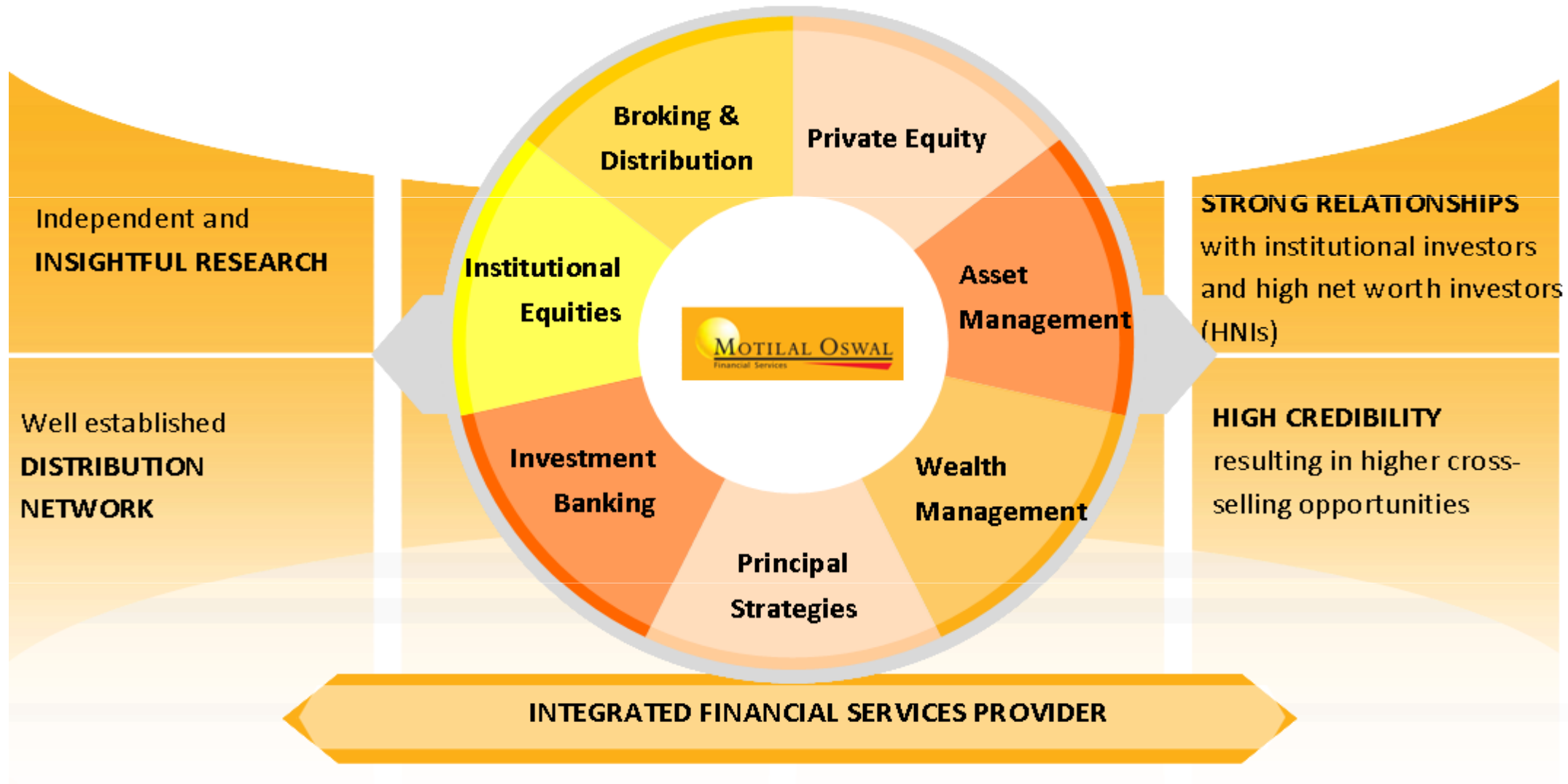


- Well-diversified, financial services company offering a range of financial products and services
- Focused on wealth creation for all its customers, such as institutional clients, HNWI and retail customers
- Network spread over 555 cities comprising 1,563 business locations operated by our business partners and us with 738,156 total registered customers
- Shares listed on the Bombay Stock Exchange and National Stock Exchange in Mumbai



*# though Motilal Oswal Securities Limited*

\* Data as on Dec 31, 2011



Time bound results within the framework of the company's value system

A company honoring commitment with highest ethical and business practices

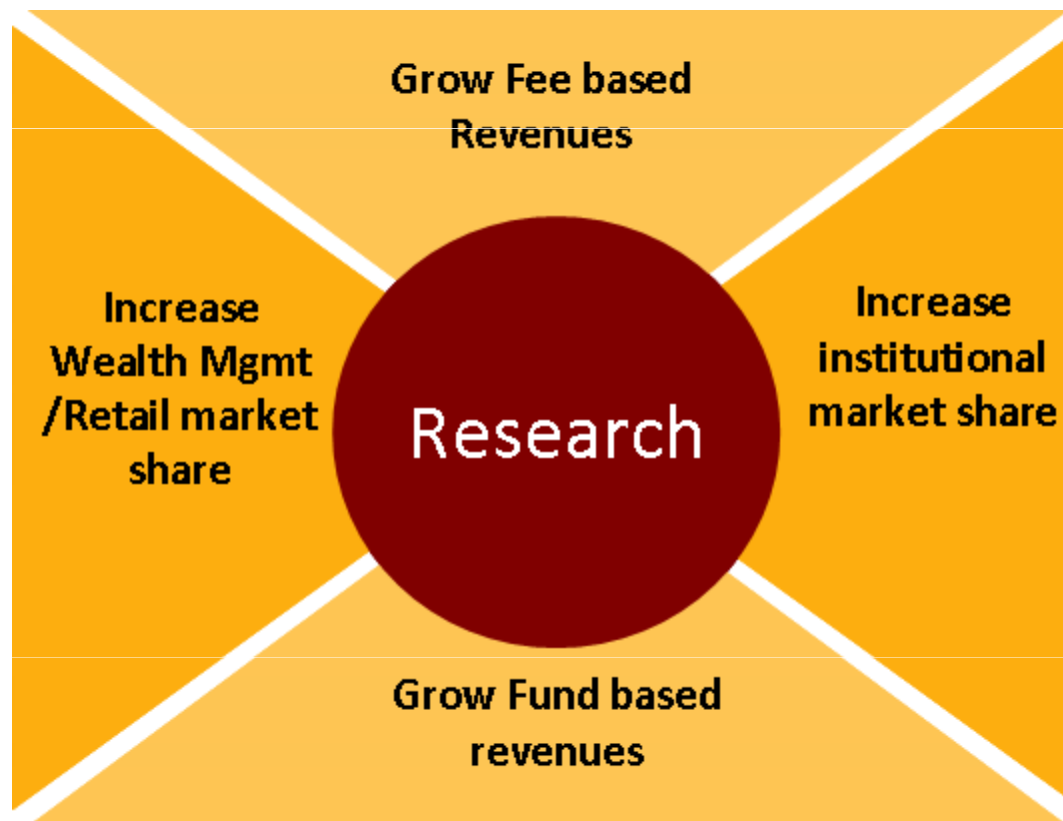


High energy and self-motivated with a “do it” attitude and entrepreneurial spirit

Attaining goals collectively and collaboratively

Performance gets differentiated, recognised and rewarded in an apolitical environment

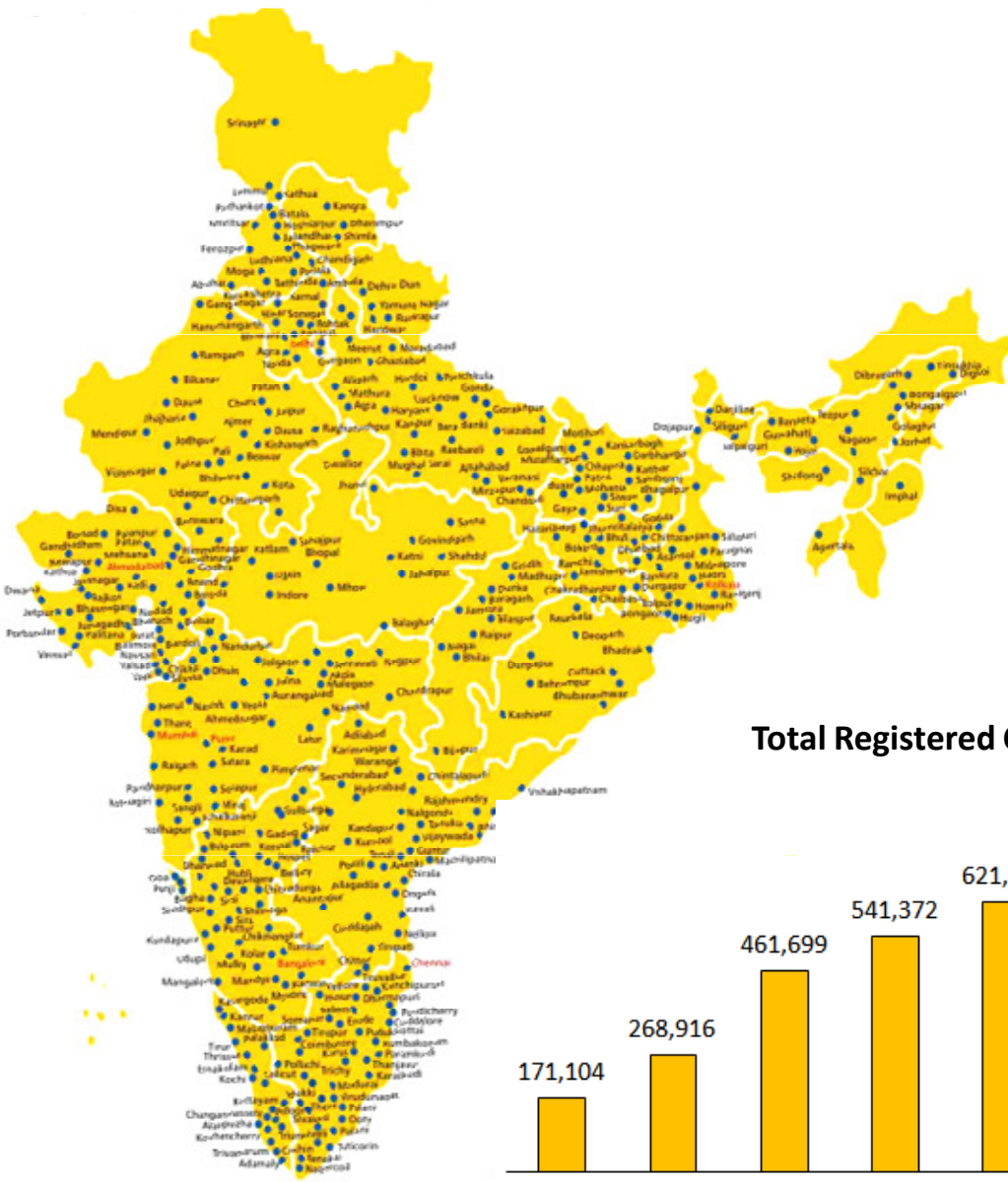
- Grow Investment banking business
- Build Asset management and Private equity business



- Further grow distribution network across India
- Leverage research and advisory capability
- Focus on wealth management solutions and new product offerings
- Increase distribution of mutual funds and insurance products

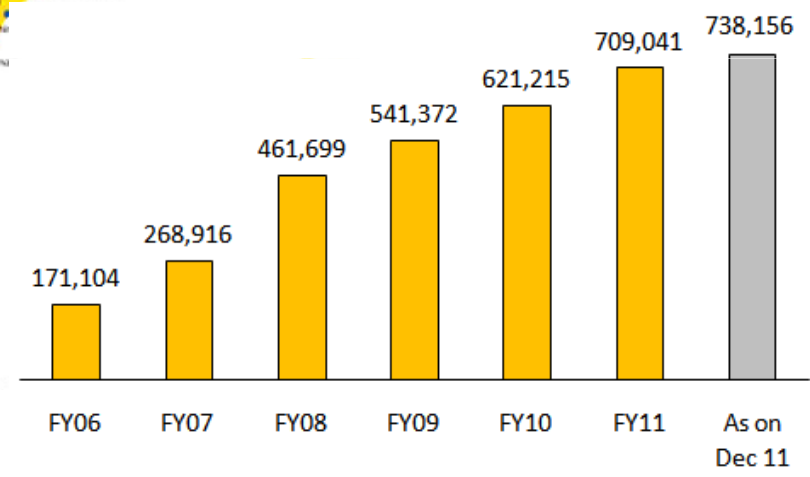
- Build stronger institutional relationships through wider and quality research
- Increase research support
- Grow institutional derivatives business

- Build Principal Strategies Group to maximise returns using risk free arbitrage strategies
- Grow margin funding book size

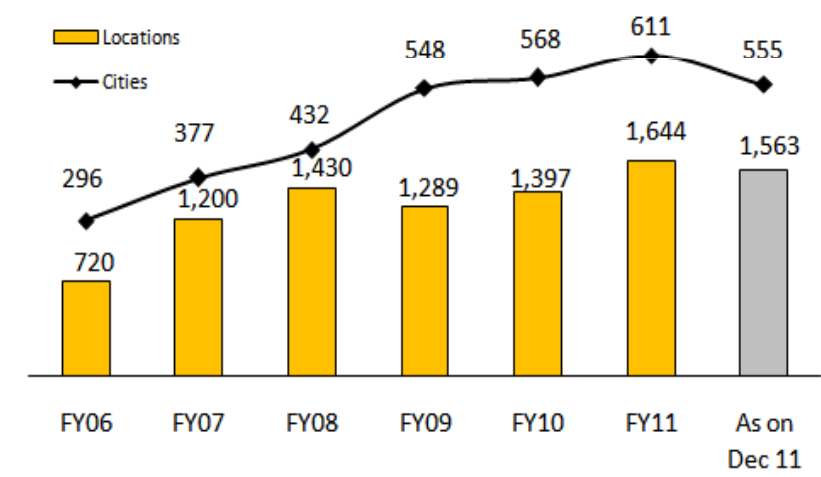


- Pan-India network with a presence in 555 cities across 1,563 business locations (branches plus franchisees), and complemented by a robust online channel
- Total registered client base of 738,156, including 650,272 retail broking and distribution clients
- Extensive distribution network providing opportunities to cross-sell products, particularly as we diversify further into new business streams

**Total Registered Clients**



**Distribution: (Business Locations & Cities)**



## Focused research team

- Strong research team comprising of 29 research analysts covering over 200 companies across 20 sectors and 25 commodities
- Focused on cash equities, equity derivatives and commodities and services all our business segments

## Strong Sales and Dealing Team

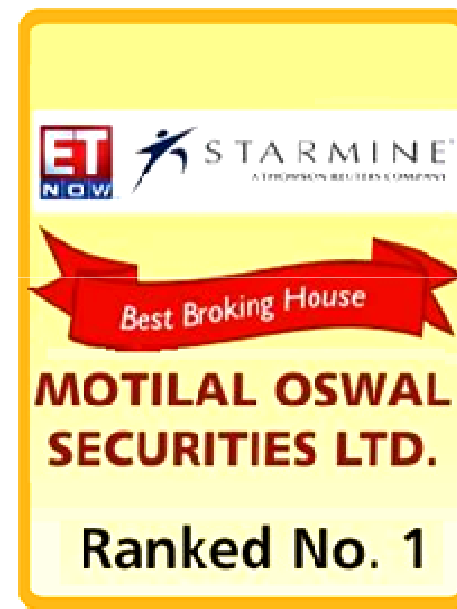
- Research supported by an extremely strong sales trading team comprising of qualified professionals

**MOSL has been consistently ranked amongst the top brokerage houses for its research**

### ET Now Starmine Analyst Awards 2010-2011

Award Winning Categories:

Category	Sector	Rank
Top Earnings Estimator	Across Sectors	1
Top Earnings Estimator	Financials	1
Top Stock Picker	Energy	1
Top Stock Picker	Real Estate	2



MOFSL conducted its 16<sup>th</sup> Annual Wealth Creation Study in December, 2011. The presentation of the study was followed by a Panel Discussion on the 'Future of Investing'. The discussion was covered live on ET-Now

Thematic Study | 9 December 2011

**MOTILAL OSWAL**

**16TH ANNUAL WEALTH CREATION STUDY (2006-2011)**

**Blue Chip Investing**  
Creating wealth from dividends

**HIGHLIGHTS**

- Blue chips are fountains of dividend, and offer as much, if not more, investment growth potential than lesser quality companies, but with far less risk.
- In investing, there is no profitable substitute for quality. Understanding quality of the company doesn't stop at profits and profitability, it must extend to dividend payouts and longevity.
- Most Blue Chips enjoy premium valuation. In deciding when to buy, one should focus not only on P/E, but also consider payout ratio, relative dividend yield, and earnings growth potential.
- In India, over last 20 years, Blue Chips have significantly outperformed benchmark indices with much lower risk.

*"The risk of paying too high a price for good-quality stocks — while a real one — is not the chief hazard confronting the average buyer of securities. Observations over many years have taught us that the chief losses to investors come from the purchase of low-quality securities at times of favorable business conditions."*  
— Benjamin Graham, The Intelligent Investor

**TOP 10 WEALTH CREATORS (2006-2011)**

Rank	THE BIGGEST		THE FASTEST		THE MOST CONSISTENT	
	Company	Wealth Created (₹ IN L)	Company	5-Year Price CAGR (%)	Company	Approved in WC Study (₹)
1	Reliance Industries	1,742	Sanwaria Agro	119	Kotak Mahindra Bank	10
2	TCS	1,379	Adani Enterprises	85	Sun Pharma	10
3	State Bank of India	1,070	Bhushan Steel	64	Asian Paints	10
4	Infosys	1,020	Jindal Steel	62	HDFC	10
5	NMDC	833	Shelving Intl	59	HDFC Bank	10
6	HDFC Bank	678	Shriram Transport	44	Reliance Industries	10
7	ITC	658	Commercial Inker	43	ACC	10
8	HDFC	636	LIC Housing Finance	43	Infosys	10
9	Larsen & Toubro	623	Side Industries	41	ONGC	10
10	ONGC	616	Industrial Bank	41	Ambuja Cements	10

Raamdeo Agrawal (Raamdeo@MotilalOswal.com) / Srinath Mithanbhaya (SrinathM@MotilalOswal.com)  
We thank Mr Dhruv Mehra (Dhruv.Mehra@dhruvmehra.in), Investment Consultant, for his invaluable contribution to this report.

- The study identified Reliance Industries, Sanwaria Agro and Kotak Mahindra as the biggest, fastest, consistent wealth creators, respectively
- It showed the contribution of the top-10 wealth creators declined from 76% in 2003 to 42% in 2011, indicating a more widespread wealth creation
- Financials have emerged as the largest wealth creating sector

Theme of this study was on **'Blue Chip Investing – Creating Wealth from Dividends'**

- Blue-chips were identified as well-established, financially sound companies entrenched as leaders in their field, generally paying high dividends
- Rationale is that good quality companies with strong dividends offer as much, if not more, investment potential than poor quality companies and with less risk
- Screening based on earnings and dividends history, RoE, liquidity, institutional shareholding identified 48 potential blue-chip stocks



MOFSL Chairman Mr. Motilal Oswal with Panelists- Mr. Ramesh Damani, Mr. Rakesh Jhunjhunwala, Mr. Madhusudan Kela and Mr. Raamdeo Agrawal (Joint MD and Author of the Wealth Creation Study)

The 16th Wealth Creation report can be downloaded by clicking on this link

[http://www.motilaloswal.com/Wealth\\_Creation\\_Study/Studies/](http://www.motilaloswal.com/Wealth_Creation_Study/Studies/)



**Q3 FY12  
performance**

**Consolidated  
financials**

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“As part of our ongoing initiative to share knowledge on the Indian financial services sector, we have started a thematic article series, **Fin-Sight**, in which we discuss a topic impacting this sector. We look forward to your feedback to help us provide you a better perspective. Below is a shortened version of the current Fin Sight article”

## Declining cash volumes in Indian equity markets; Triggers that can effect a trend reversal

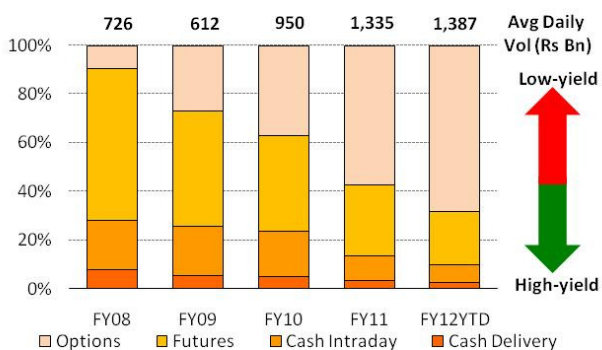
### Structural shift in the equity volume mix

Amongst equity volume segments:

- Cash delivery earns the highest yield
- Yield earned on options is the lowest

The blended yield earned by brokers has come under pressure due to a structural shift in the volume mix towards low-yield derivatives and away from high-yield cash

Proportion of low-yielding F&O volumes increasing; This is the main contributing segment towards increasing equity volumes

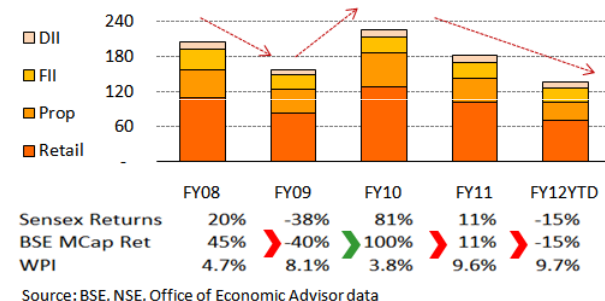


Source: BSE, NSE

### Why is this shift away from cash occurring?

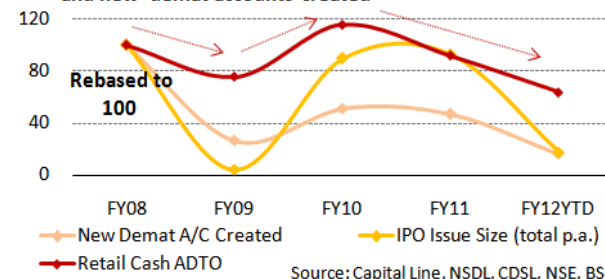
- Persistent macro headwinds:-
  - Slowed down capex plans
  - Clouded forward earnings visibility
- Markets have not shown any sustained trend:-
  - Cash volumes have declined mirroring the market performance
- Retail participation yet to pick up in India:-
  - Public issues are a popular entry point
  - Lackluster performance of most issues post-listing has dampened future participation
- Cost of trade is amongst the highest in India
  - STT is higher in cash delivery than in options
  - Creates bias towards options in volatile times

Participation in the cash segment (ADTO in Rs Bn) typically matches market performance across all market cap categories



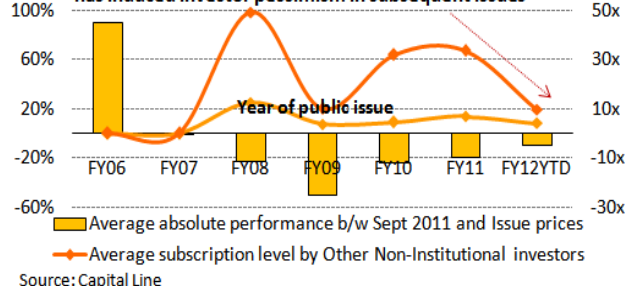
Source: BSE, NSE, Office of Economic Advisor data

Retail participation in cash volumes mirroring IPO issues and new demat accounts created



Source: Capital Line, NSDL, CDSL, NSE, BSE

Negative average returns in issues conducted since FY07 has induced investor pessimism in subsequent issues



Source: Capital Line

[Click here to view the full article](#)

[http://www.motilaloswal.com/uploadedFiles/MOSL/Investor\\_Relations/Presentation\\_And\\_Events/Corporate\\_Presentations/FIN-SIGHT\\_Dec%202011.pdf](http://www.motilaloswal.com/uploadedFiles/MOSL/Investor_Relations/Presentation_And_Events/Corporate_Presentations/FIN-SIGHT_Dec%202011.pdf)

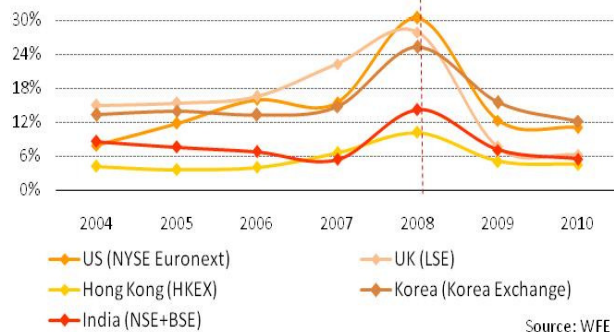
## Comparison to global averages

- Historically, cash volumes comprised ~40% of equity volumes in Americas, ~30% in Europe, ~15-20% in Asia, while India has lagged at ~25-35%
- Cash investors have held back globally, given the market volatility since 2008
- India has amongst the lowest trading velocities in cash market - ~0.3-0.5% daily
- Universe of regularly invested stocks is comparatively lower in India

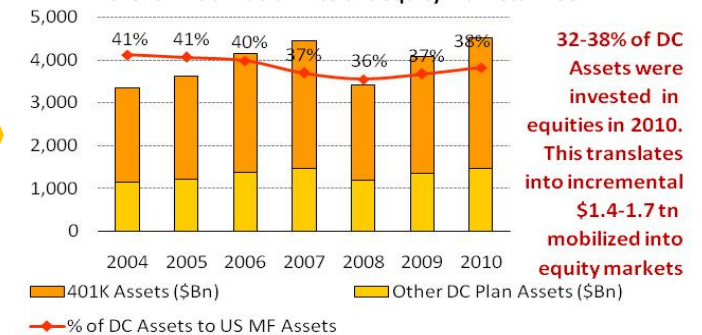
## Factors that aided cash proportions elsewhere

- USA:-**
  - Institutionalization of retail savings led by Defined Contribution plans (DC) was key
  - Investors are free to opt their asset allocation (32-38% into equities in 2010)
- South Korea:-**
  - Wireless broadband growth, buoyed by flat rate data plans, boosted share trading
  - Online trading is now predominant
  - Higher trading from institutions
  - Installment equity funds and 'wrap' pooled accounts were also key equity mobilizers
- China:-**
  - Surge in retail trading in cash due to billion dollar IPOs from Government companies
  - Foreign listings in Hong Kong due to its proximity to Chinese investors also evinced increased interest into cash trading there

Cash trading velocity indicating the proportion of market cap that is traded daily in cash equities is amongst the lowest in India

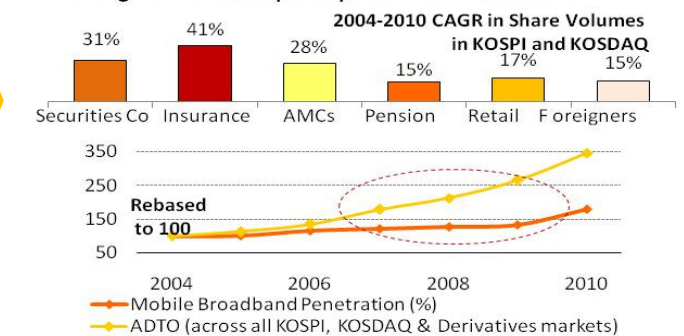


Defined Contribution assets have helped in a higher level of mobilization into the equity markets in USA



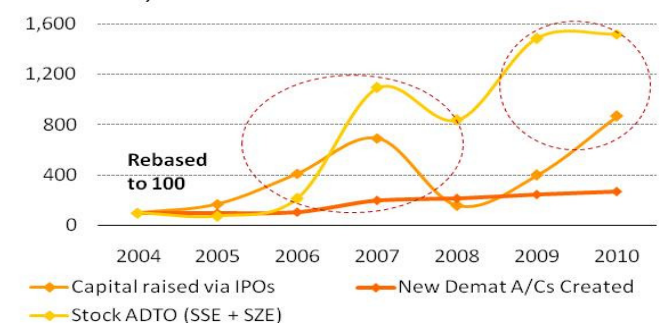
Source: ICI Factbook

Wireless broadband boosted overall volumes in Korea, alongwith increased participation from institutions



Source: KRX Factbook, OECD data, Indexmundi.com

Large IPOs boosted retail investors' participation in China; Flat since 2009 on inflation concerns



Source: SSE Factbook, SZE Factbook, PwC & E&Y reports on China IPOs

Email [investorrelations@motilaloswal.com](mailto:investorrelations@motilaloswal.com) to schedule a meeting with our management

## Possible solutions that might trigger a reversal in this trend away from cash segment...

**Public issues**, especially of quality PSUs, are critical to kick start cash participation. Pricing of public issues is important, as it will determine performance to some extent

**Easing of the macro climate** is essential. This should give the markets a clearer direction, better estimate of profitability and valuations and induce cash positions

If **minimum annual dividend payout is implemented**, then stocks backed by solid fundamentals and business performance will look attractive to hold cash positions in

Participation is restricted to a few stocks only. **Expanding research coverage will help information access on a larger universe of stocks**, showcase those with strong business performance and identify value-picks

**Role of domestic institutions is apparent.** Pension funds comprised the largest share of the institutional AUM globally. Growth in global pension fund assets in 2010 was higher than that in overall institutional AUM

**India needs a similar mobilizing mechanism led by pension funds.** EPFO's investments in equities are yet to take off due to volatility concerns. But this should reduce as market depth improves

Hong Kong's experience shows there are **high-quality companies globally looking to list in Asia**. IDRs are a route to list in India

**Reducing STT in the cash segment** may make it more competitive, and spark off additional cash trading volumes

Ability to service via **online/mobile trading**. Need to focus on cities where wealth is available, but retail participation yet to grow

*As and when good public issues come in, institutionalization of retail savings picks up, cost of trade becomes competitive and the economic outlook improves, the cash volumes will increase to match the global averages*

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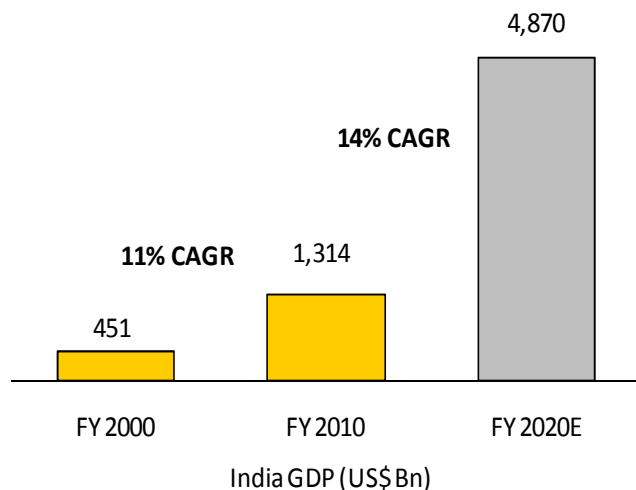
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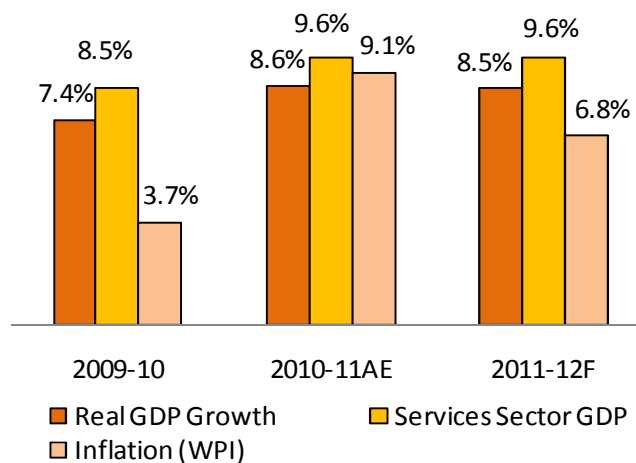
# India's long term growth prospects a boon for financial services

**India's nominal GDP estimated to triple from current levels to reach ~US\$5 Tn by 2020**



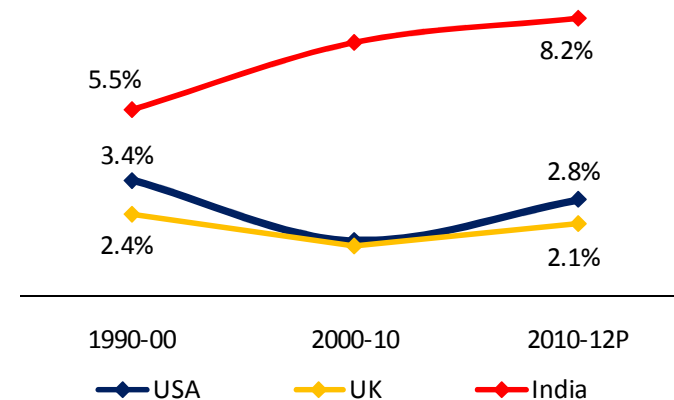
Source: MOSL estimates

**GDP growth to be led by the Services sector; Lower inflation positive for disposable income**



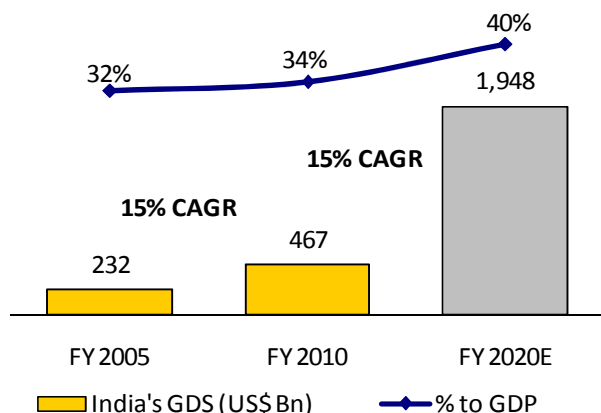
Source: NCAER, CSO data

**India's GDP to continue outperformance relative to the developed markets**



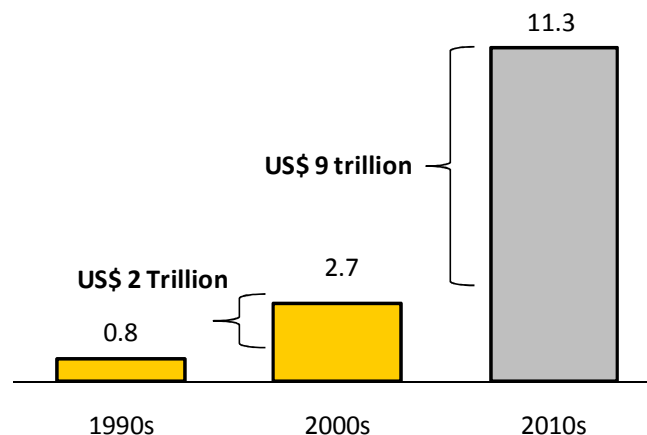
Source: World Bank, IMF data

**A high savings oriented country, India's gross savings to increase to 40% of GDP by 2020...**



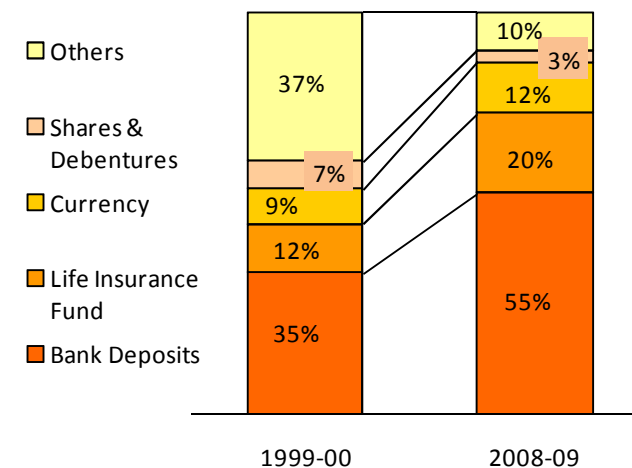
Source: MOSL estimates

**...This translates into cumulative decadal savings of over US\$10 trillion for the decade to 2020**



Source: MOSL estimates

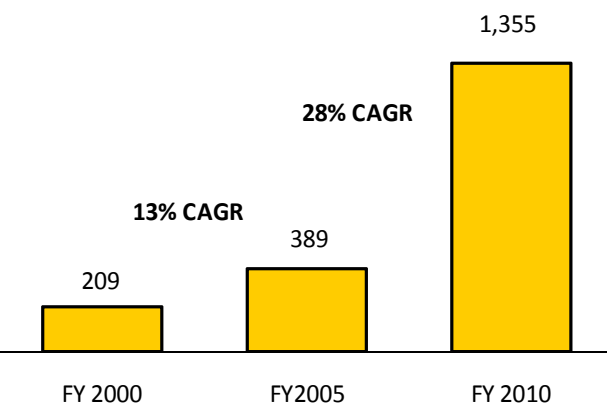
**Proportion invested into equities is still low - indicating headroom for growth**



Source: RBI data

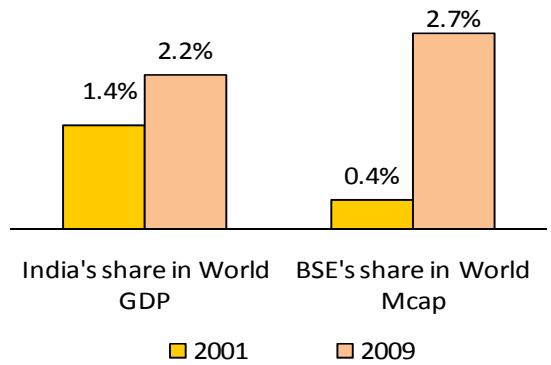
# Strong performance in Indian equity markets

Following its economic growth, India's equity market cap (\$Bn) has grown at a brisk pace



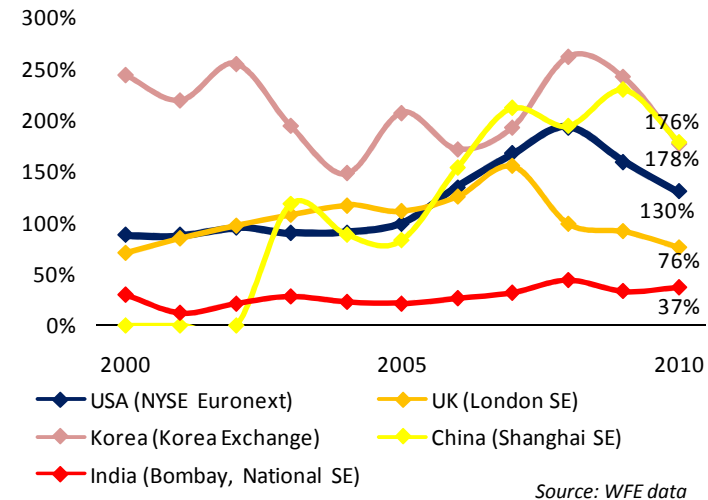
Source: BSE data

India is now rising in significance in the global context on a proportion basis



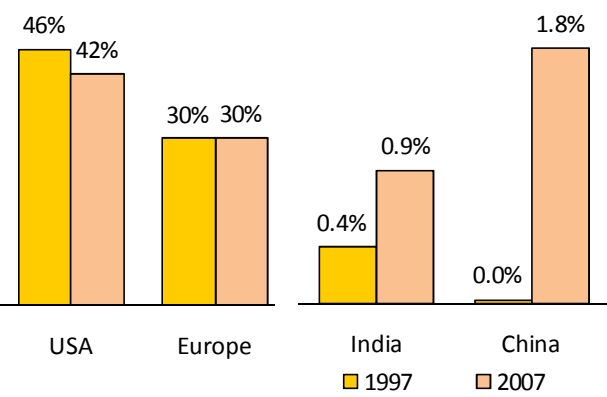
Source: WFE, World Bank, IMF data

As India's equities market grows, its trading velocity will align towards global markets



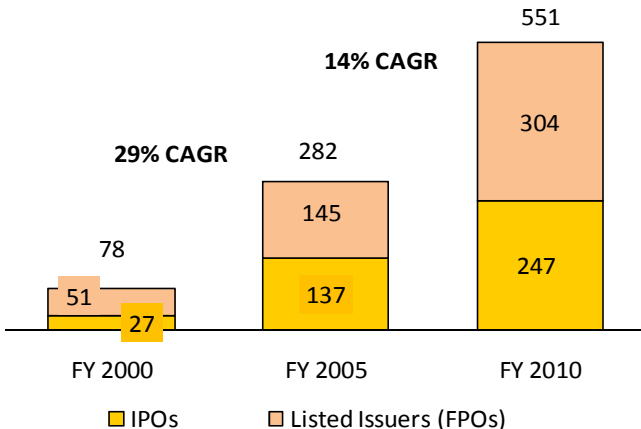
Source: WFE data

The growth in Indian equities was led by an increasing higher allocation by global funds...



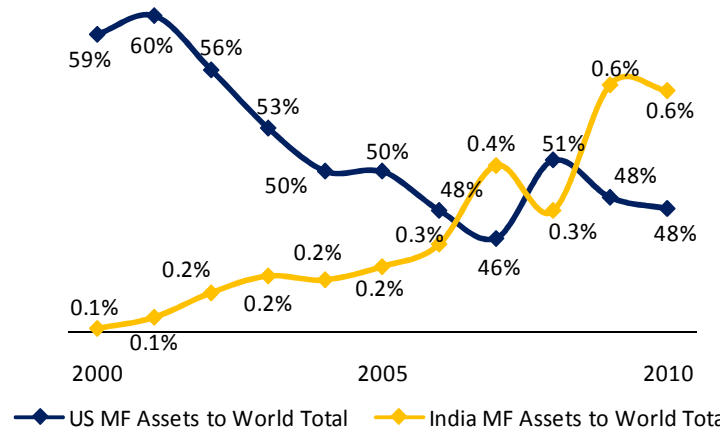
Source: MSCI country weight age data

...increased mobilization via primary markets (₹Bn) which boosted retail participation...



Source: SEBI Handbook 2010

...And a rise in India's MF assets, which is growing in its proportion to world MF assets



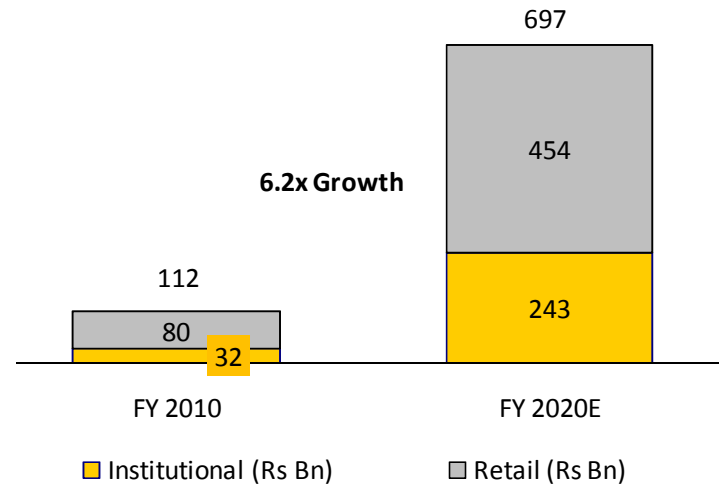
Source: ICI Factbook 2010, 2008 and AMFI

# India's equity broking opportunity

## India's equity broking opportunity: Market size in terms of revenue pool expected to grow 6 times over the next 10 years

### Methodology:

- Current size of broking revenue pool estimated at ₹112Bn
- Market Cap to touch US\$5Tn by 2020 based on GDP:Market Cap ratio of 1:1
- Assume trading velocity to double from current 37% to ~80% by 2020
- This gives a expected market size of ~ ₹697Bn by 2020, comprising ₹243Bn in institutional and ₹454Bn in retail segment



Source: MOSL estimates

### Factors that will help achieve this growth

- Sustained economic, savings and discretionary income growth
- Increase in retail participation
- Increased ability of DIIs to mobilize savings
- Higher India allocation by global funds
- Increase in fund raising by corporates
- Higher issues of fairly priced IPO/FPOs
- Tech-based tools for client's convenience

### What Motilal Oswal is doing to create scale

- Increasing distribution reach across India
- Using simplified research products
- Client focused advisory services
- Investor education for client engagement
- Tap the allocation of India focused funds
- Launched AMC to mobilize investments
- Develop relationships with corporates embarking on the next phase of growth
- Technology for better client experience

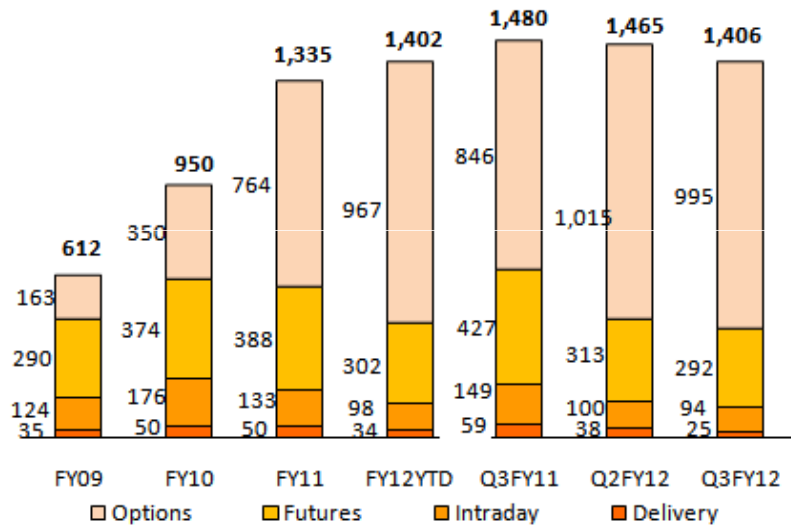
### Although certain external risks remain

- High inflation and interest rates
- Regulatory changes required DIIs to realign their marketing strategy to be able to channelize higher savings
- Global recovery reducing India's relative attractiveness among global funds
- Poor performance of IPOs post listing



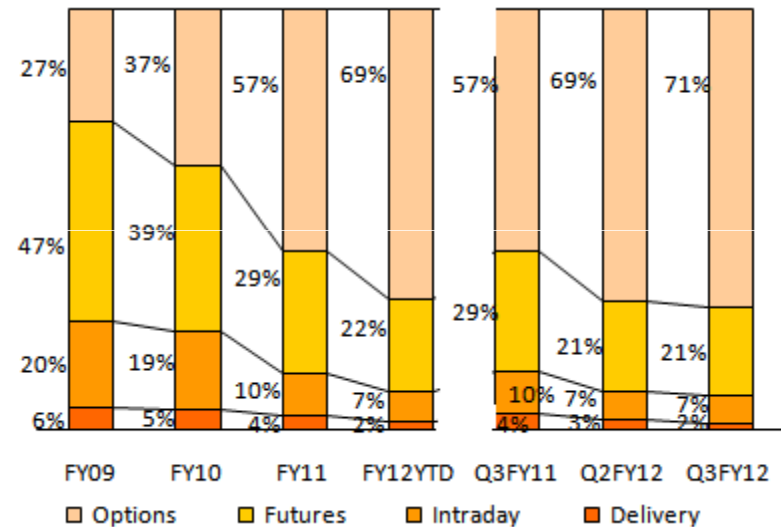
# Despite QoQ dip in volumes, proportion of options still rising

Equity market volumes has decreased in all segments this quarter, though more in cash than in F&O (₹Bn)



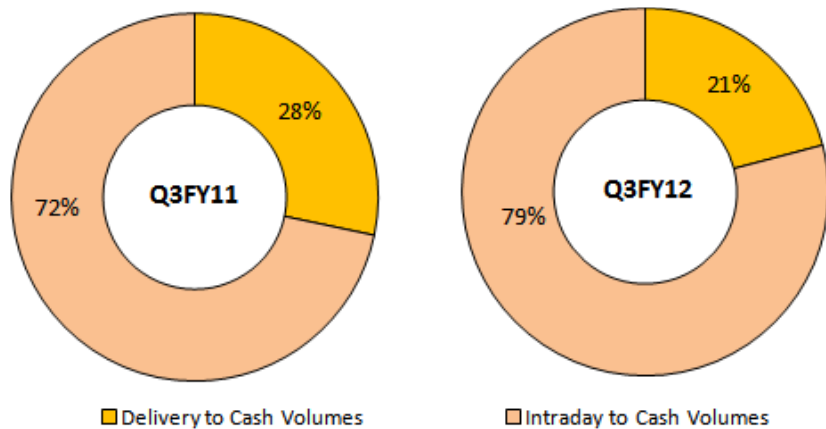
Source: NSE, BSE

Despite QoQ volume decline, the proportion of options continues to increase, while proportion of delivery declines further



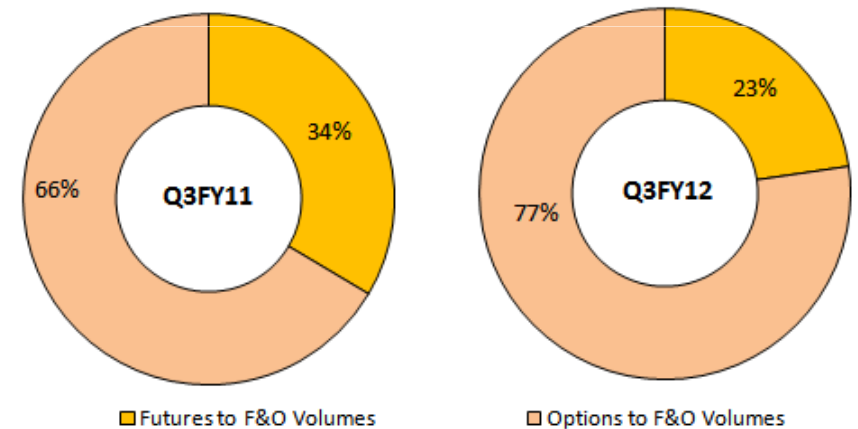
Source: NSE, BSE

Within market cash volumes, the proportion of high-yield delivery volumes has declined on a YoY basis



Source: NSE, BSE

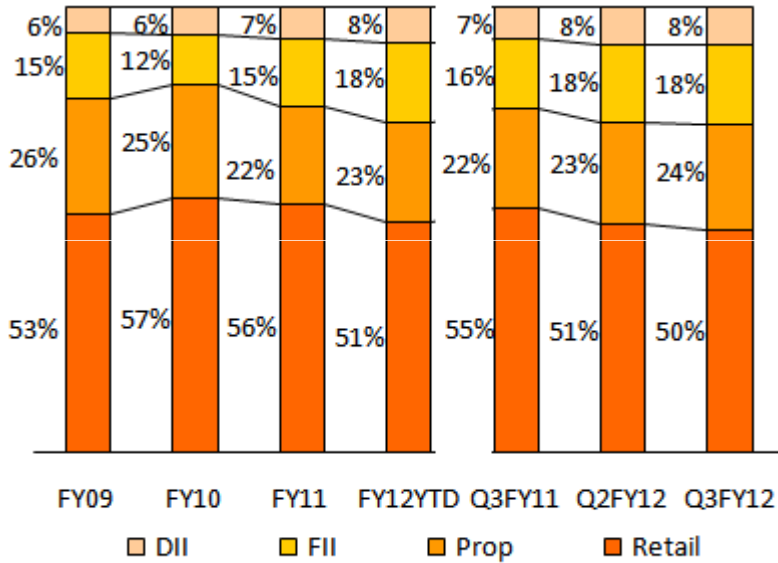
Within market F&O volumes, the proportion of low-yield options continues to increase



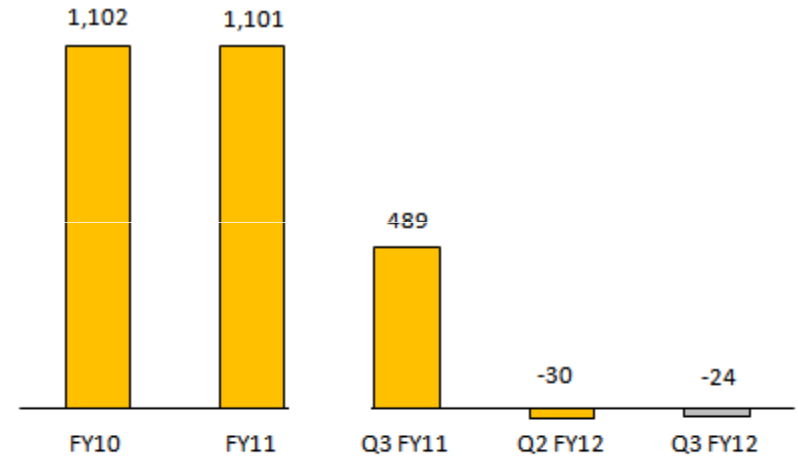
Source: NSE, BSE

# Retail and DII participation muted, while FIIs see net outflows

Proportion of cash participation across segments have largely remained unchanged on a QoQ basis, though retail has declined YoY

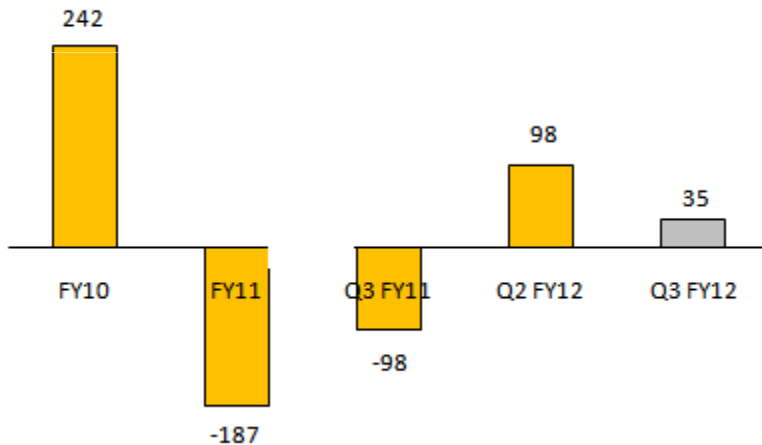


FII net flows remain muted this year with a net outflows seen in the last two quarters (₹Bn)



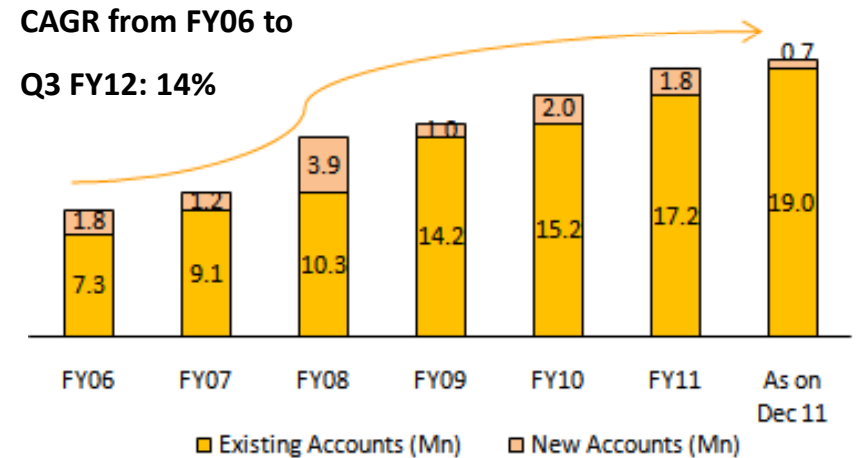
Source: SEBI

Though net inflows from DIIs have picked up this year, the quarter saw lower inflows QoQ (₹Bn)



Source: NSE

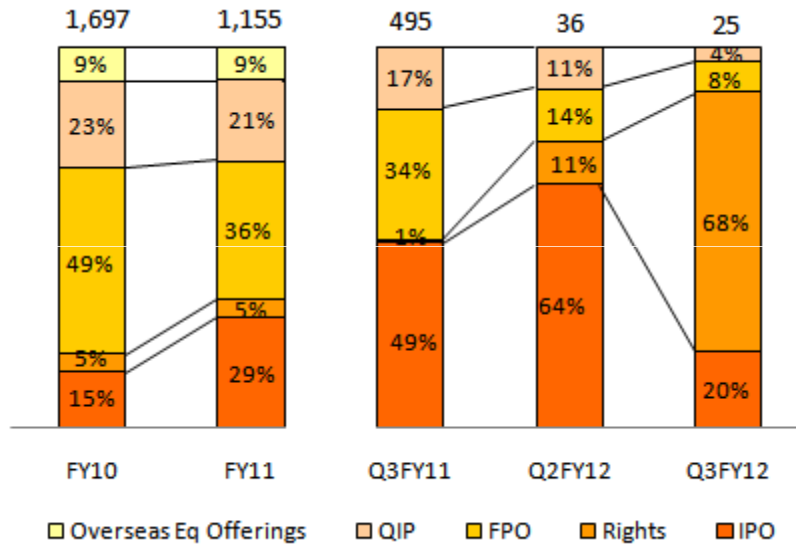
Growth in new demat accounts created (Mn) has slowed down this year coinciding with muted retail participation



Source: CDSL, NSDL

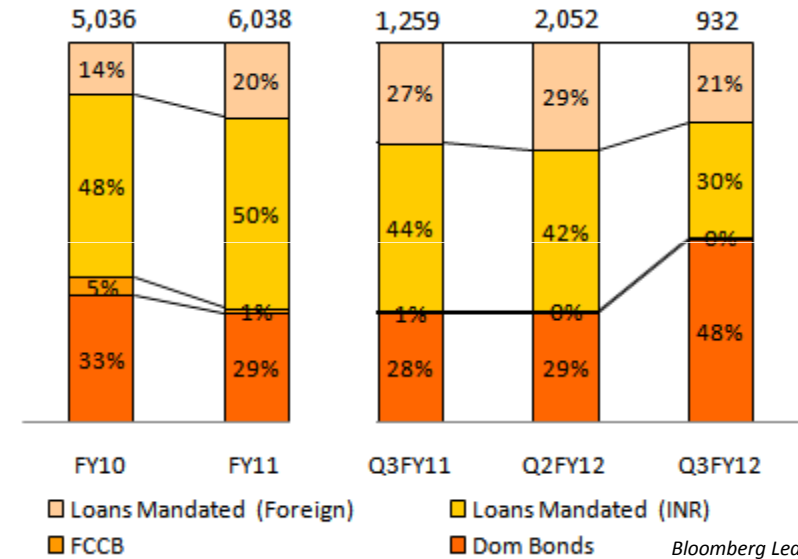
# Capital raising slows down this quarter across ECM, DCM, PE

Equity raising slowed down on macro concerns and subdued market sentiment; Proportion of Rights rose with Bajaj Hindustan issue (₹Bn)



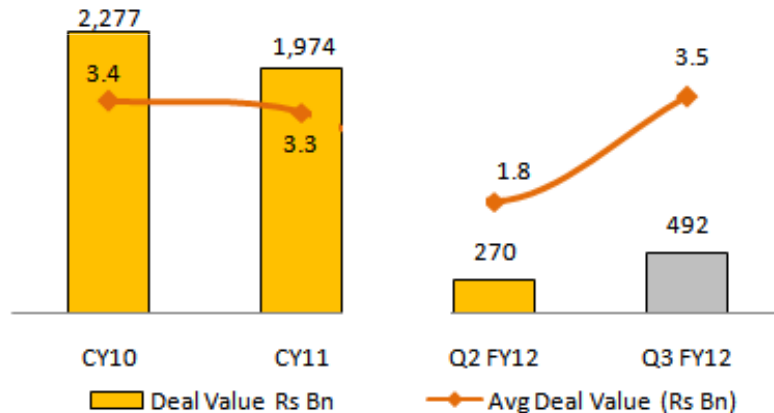
Source: Bloomberg League Tables

Debt raising has also declined this quarter as slowdown in capex and rupee movement took effect (₹Bn)

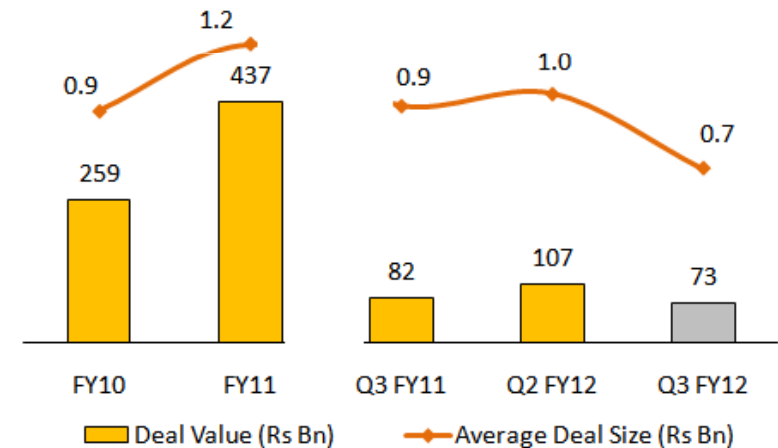


Source: Bloomberg League Tables

M&A deal value picked up this quarter, although overall M&A deals this calendar year have declined (₹Bn)



PE deal value and average value per deal have declined on a QoQ basis (₹Bn)

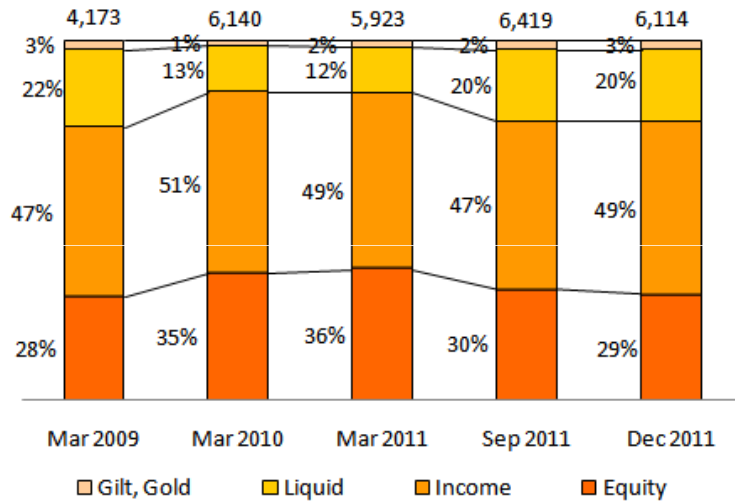


Source: Grant Thornton

Source: Venture Intelligence

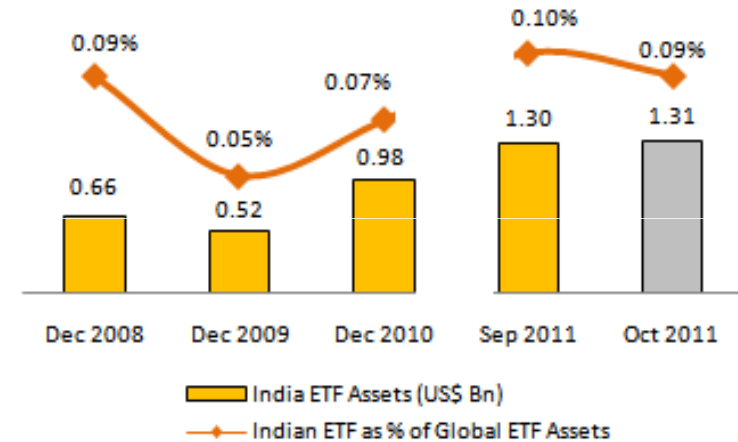
# Equity assets hit with global and macro concerns this quarter

**% AUM by assets on Dec'11 (₹Bn): Gold/gilt growing in popularity, Signs of interest rates peaking impact growth in Income/Liquid**



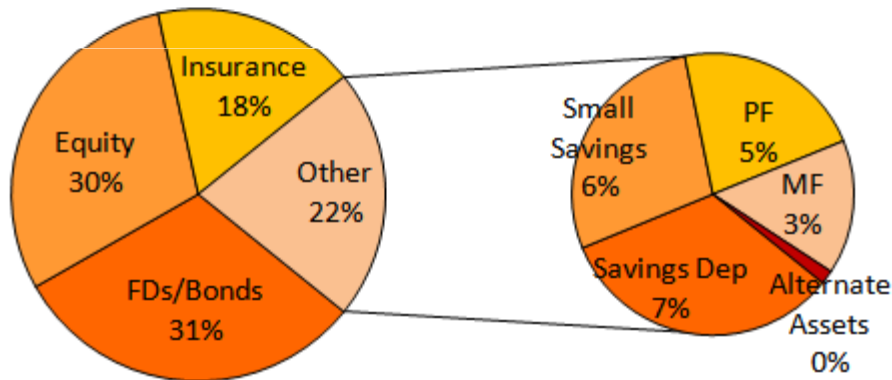
Source: AMFI

**Gold ETF segment has led growth in Indian ETF assets (US\$ Bn), at a time when market volatilities have impacted equity funds**

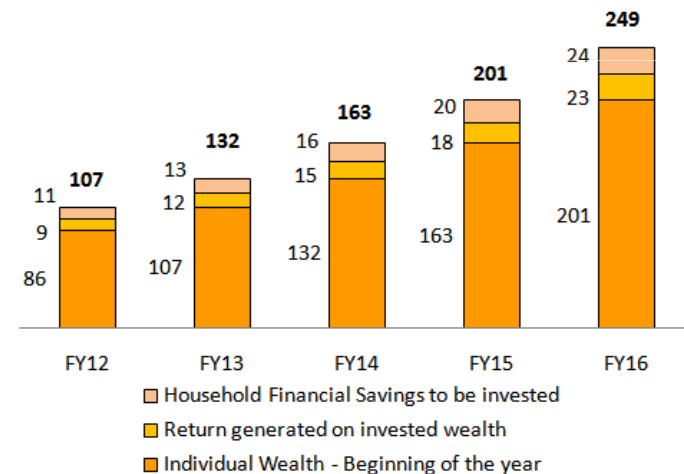


Source: Bloomberg/Blackrock report

**Individual wealth in India is estimated at ₹86.4Tn in FY11, led by the fixed deposit/bonds, equity and insurance sectors**



**Individual wealth in India expected to reach ₹249Tn over the next 5 years**



Source: Karvy Wealth report 2011

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