

## Earnings Update – Q1 FY13



July 28, 2012

### Motilal Oswal Financial Services Limited

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

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



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## Consolidated Financials

- Revenues in Q1 FY13 were ₹1.1 billion, down 15% on a QoQ basis and down 2% on a YoY basis
- Reported PAT at ₹202 million for the quarter was down 7% on a QoQ basis and down 4% on a YoY basis
- Adjusted PAT in Q1 FY13 was ₹202 million, down 32% QoQ and down 4% YoY
- EBITDA and Reported PAT margins for Q1 FY13 were 34% (32% in Q4 FY12) and 19% (17% in Q4 FY12) respectively
- Strong balance sheet with net worth of ₹11.6 billion, net cash of ₹1.7 billion and zero debt, as of June 2012

## Volumes and Market Share

- Total ADTO in secondary equities was ₹23.0 billion in Q1 FY13 (₹29.5 billion in Q4 FY12 and ₹24.3 billion in Q1 FY12)
- Equity market share was 1.5% in Q1 FY13 (2.0% in Q4 FY12 and 1.8% in Q1 FY12)

## Distribution Reach

- Retail distribution stood at 1,565 business locations across 548 cities, as of June 2012
- Total client base increased to 749,745 which includes 659,274 retail broking and distribution clients

## Assets Managed

- Total assets under management/advice across mutual funds, PMS and private equity businesses was ₹31.0 billion. Within this, our mutual funds AUM was ₹4.8 billion, PE AUA was ₹12.4 billion, while PMS AUM was ₹13.9 billion
- Wealth management business managed assets of ₹15.6 billion
- Depository assets were ₹114.0 billion

## Business Updates

- MOAMC organized the 2<sup>nd</sup> edition of Motilal Oswal MOST Shares ETF Conclave 2012 in Mumbai in June 2012. The keynote speaker for the event was James Norris, Managing Director, Vanguard International
- Motilal Oswal Private Equity has achieved commitments of ₹4.9 billion from both domestic and offshore investors following the second closing of its 2nd growth capital PE fund, India Business Excellence Fund-II

## Accolades Received

- MOFSL won the 'Best Employer Brand' Award at the IPE Banking, Financial Services & Insurance Awards 2012
- Nasdaq 100 ETF won 'Most Innovative ETF Asia Pacific 2011' award at 8th Annual Global ETF Awards 2012 in USA
- Mr Motilal Oswal received Samaj Ratna award from President Smt Pratibha Patil under the banner of Cancer Foundation

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Particulars	Q1 FY13	Q4 FY12	Change (%) Q-o-Q	Q1 FY13	Q1 FY12	Change (%) Y-o-Y	FY12
	Jun 30, 2012	Mar 31, 2012		Jun 30, 2012	Jun 30, 2011		Mar 31, 2012
<b>₹million</b>							
Total Revenues	1,093	1,287	-15%	1,093	1,119	-2%	4,655
EBIDTA	366	406	-10%	366	348	5%	1,562
PBT (before E & EOI)	298	344	-13%	298	312	-5%	1,396
Reported PAT (after E & EOI)	202	217	-7%	202	212	-4%	1,039
Adjusted PAT	202	296	-32%	202	212	-4%	1,028
EPS - Basic	1.39	1.50		1.39	1.47		7.17
EPS - Diluted	1.39	1.50		1.39	1.47		7.17
No. of shares outstanding (million) - FV Rs 1/share	145	145		145	144		145

E & EOI = Exceptional items & Extraordinary items

Particulars ₹million	Q1 FY13	Q4 FY12	Change	Q1 FY13	Q1 FY12	Change	FY12
	Jun 30, 2012	Mar 31, 2012	(%) Q-o-Q	Jun 30, 2012	Jun 30, 2011	(%) Y-o-Y	Mar 31, 2012
Brokerage & operating income	693	894	-22%	693	770	-10%	3,201
Investment banking fees	27	38	-29%	27	22	25%	86
Fund based income	209	225	-7%	209	209	0%	822
Asset management fees	155	130	19%	155	103	50%	504
Other income	10	0	nm	10	15	-38%	42
<b>Total Revenues</b>	<b>1,093</b>	<b>1,287</b>	<b>-15%</b>	<b>1,093</b>	<b>1,119</b>	<b>-2%</b>	<b>4,655</b>

- Broking and related revenues were ₹693 million this quarter, down 22% from Q4 FY12 and down 10% from Q1 FY12. This segment contributed 63% of total group revenues
- Fund based income was ₹209 million, down 7% from Q4 FY12 and flat as compared to Q1 FY12. It contributed 19% of total group revenues. The loan book was ₹3 billion, as of June 2012
- Asset Management fees were ₹155 million for Q1 FY13, up 19% QoQ and up 50% YoY. The higher revenues this quarter are attributable to the fees related to the second closing of the new PE fund - IBEF-II
- Investment banking fees at ₹27 million were down 29% from Q4 FY12, though up by 25% on a YoY basis. Corporate fund-raising and deal activities continued to remain sluggish which impacted investment banking business
- Other income was ₹10 million in Q1 FY13, higher on a QoQ basis owing to the impact of loss on disposal of fixed assets in the previous quarter

₹million	As on Jun 30, 2012	As on Mar 31, 2012	As on June 30, 2011
<b>Sources of Funds</b>			
Networth	11,633	11,409	10,840
Loan funds	-	-	195
Minority interest	29	44	52
Deferred tax liability	48	47	-
<b>Total</b>	<b>11,710</b>	<b>11,500</b>	<b>11,087</b>

₹million	As on Jun 30, 2012	As on Mar 31, 2012	As on June 30, 2011
Networth	11,633	11,409	10,840
Debt (A)	-	-	195
Cash & Bank balances (B)	1,694	2,710	1,799
Net cash (B - A)	1,694	2,710	1,605
Debt : Equity	0.00x	0.00x	0.02x
Cash (% Networth)	15%	24%	17%

Application of Funds			
Fixed assets (net block)	3,291	3,445	2,985
Investments	1,103	941	742
Deferred tax asset	-	-	12
<b>Current Assets (A)</b>	<b>11,287</b>	<b>11,062</b>	<b>11,139</b>
- Sundry debtors	2,347	2,478	2,666
- Stock-in-trade	2,626	1,574	2,291
- Cash & Bank Balances	1,694	2,710	1,799
- Loans & Advances	4,589	4,253	4,202
- Other Assets	32	46	181
<b>Current liabilities (B)</b>	<b>3,971</b>	<b>3,948</b>	<b>3,791</b>
Net current assets (A-B)	7,316	7,114	7,348
<b>Total</b>	<b>11,710</b>	<b>11,500</b>	<b>11,087</b>



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## Broking & Distribution, Institutional Equities & Wealth Management

Particulars ₹million	Q1 FY13	Q4 FY12	Change (%) Q-o-Q	Q1 FY13	Q1 FY12	Change (%) Y-o-Y	FY12
	Jun 30, 2012	Mar 31, 2012		Jun 30, 2012	Jun 30, 2011		Mar 31, 2012
Total Revenues	783	1,014	-23%	783	863	-9%	3,577
EBIDTA	259	346	-25%	259	260	0%	1,182
PBT (before E & EOI)	214	294	-27%	214	226	-5%	1,031
PAT (before E & EOI)	144	210	-31%	144	154	-7%	727
PAT (after E & EOI)	144	210	-31%	144	154	-7%	815

E & EOI = Exceptional items & Extraordinary items

- Revenues were ₹783 million for Q1 FY13, down 23% from Q4 FY12 and down 9% from Q1 FY12. The decline in topline has been in line with that in cash volumes in the market this quarter
- PAT was ₹144 million for Q1 FY13, down 31% from Q4 FY12 and down 7% from Q1 FY12
- MOSL ADTO was ₹23.0 billion in Q1 FY13 (₹29.5 billion in Q4 FY12 and ₹24.3 billion in Q1 FY12)
- Market ADTO grew 6% QoQ to ₹1.6 trillion in Q1 FY13. The thrust behind the growth continued to be options, which comprised 75% of market volumes in Q1 FY13 vs. 67% in Q4 FY12. Cash delivery and intraday declined by ~25% each on a QoQ basis. As a result, the proportion of cash to market volumes declined from 11% to 7% in the same period. This impacted our equity market share, which fell from 2.0% in Q4FY12 to 1.5% in Q1 FY13. Nevertheless, our market share in the high-yield cash segment, our main focus area, held firm. Our blended yield marginally increased from 4.7 bps to 4.8 bps, on a QoQ basis
- As of June 2012, total client base was 749,745 which includes 659,274 retail broking and distribution clients; Pan-India distribution reach stood at 1,565 locations across 548 cities

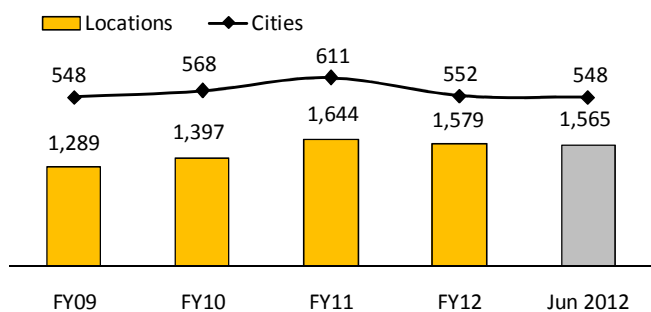
- Offers customized investment services to its retail customers
- 'Customer first' philosophy is executed through strategic focus on:
  - Increasing distribution reach to build a pan-India network
  - Customer segmentation based on individual needs
  - Wide bouquet of offerings (equity, PMS, MFs, commodities)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

## Recent initiatives :

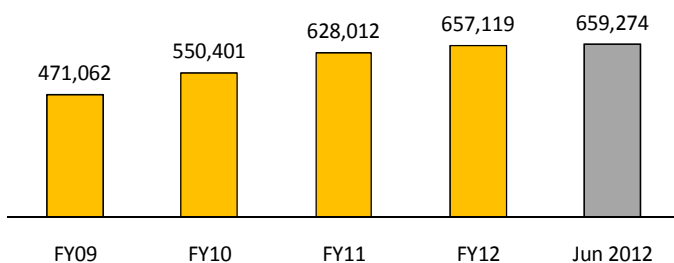
- Lite-Desktop (EXE Based Trading):
  - Introduced Two-Factor Authentication for the trading platform
  - Reduced the bandwidth requirement for the application
  - One of the lightest EXE based trading application in the industry
  - Rate refresh speeds further optimized to give instant feeds



## Pan-India distribution footprint



## Retail broking and distribution clients



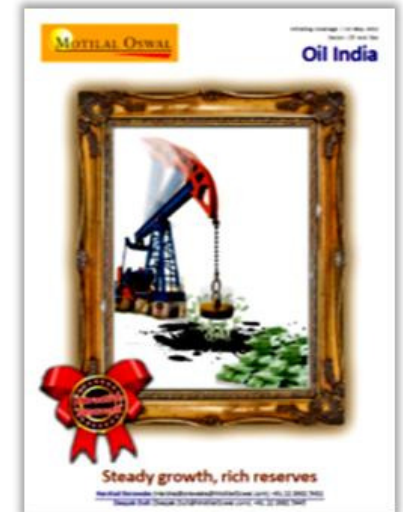
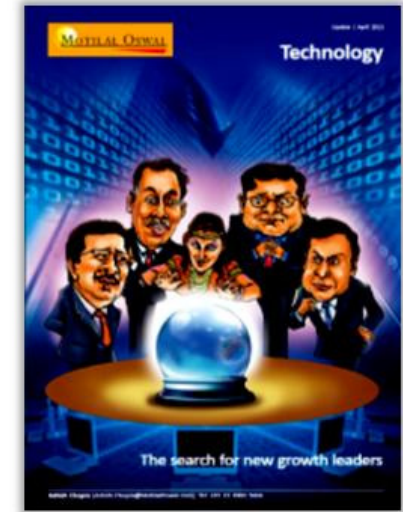
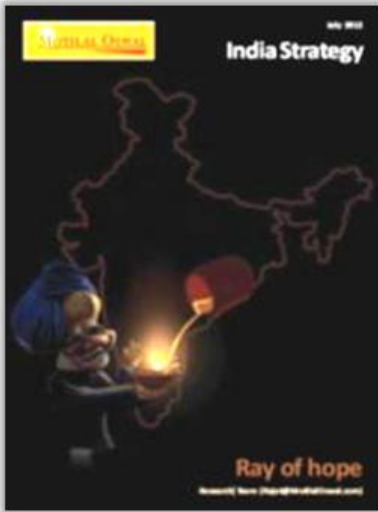
## Portfolio Review

- The new Portfolio Review service enables customers to review investments and take steps to realign them to the financial goals



- Cash and derivatives broking to institutional clients, along with a strong research and corporate access group
- Client base of 517 institutions including 348 FIIs, as of June 2012

## Recent Research Reports



- Focus on advisory and product mix that leads to Client Profitability
- Advises on in-house products like PMS, PE, MOST funds, equity broking and third party products like mutual funds, insurance and structured products, as well as a variety of alternate investments, specialist services and credit offerings
- Wealth management business had an AUM of ₹15.6 billion, as of June 2012
- 84 employees in wealth management business, as of June 2012
- The wealth management business has been strengthened with the joining of A.V. Srikanth as CEO. Prior to this, he was with Anand Rathi Private Wealth Management, where he played a significant role in growing the vertical. He was an integral part of the team that won several accolades for its product and advisory delivery. He also developed India's first Multi-Manager platform in partnership with external service providers
- Present in Mumbai, Delhi, Kolkata, Bangalore, Hyderabad, Ahmedabad and Pune

## Asset Structuring

- In-depth analysis of financial situation
- Tailor-made investment solutions
- Advice & support for asset structuring
- Asset financing

## Wealth Management

- Strategic & tactical asset allocation
- Enhanced yield mandates
- Estate planning & property management
- Strategy funds

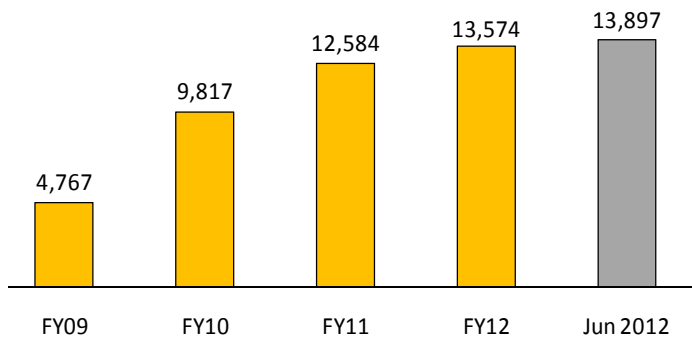
## Investment Advisory

- Market information & macro analysis
- Product selection & recommendations
- Selection of third-party funds
- Portfolio accounting and analytics

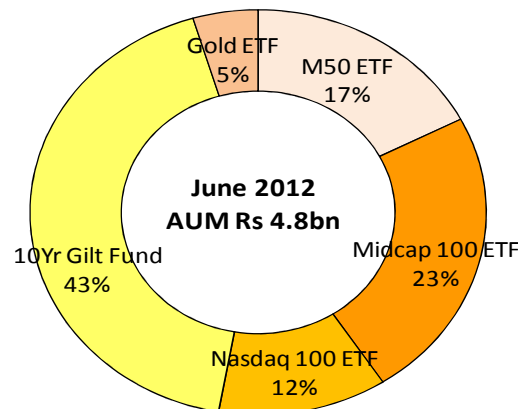
Particulars ₹million	Q1 FY13	Q4 FY12	Change (%) Q-o-Q	Q1 FY13	Q1 FY12	Change (%) Y-o-Y	FY12
	Jun 30, 2012	Mar 31, 2012		Jun 30, 2012	Jun 30, 2011		Mar 31, 2012
Total Revenues	95	90	5%	95	76	25%	318
EBIDTA	15	(9)	nm	15	(4)	nm	(9)
PBT	14	(10)	nm	14	(4)	nm	(11)
PAT	14	(30)	nm	14	(4)	nm	(31)

- As on June 2012, PMS AUM was ₹13.9 billion and mutual funds was ₹4.8 billion
- Diversified mutual fund bouquet with M50 comprising 17% of total MF AUM, Midcap 100 comprising 23%, Nasdaq 100 - 12%, Gilt - 43% and Gold - 5%
- Nasdaq 100 ETF won the 'Most Innovative ETF Asia Pacific 2011' award at the 8th Annual Global ETF Awards 2012 in USA

PMS AUM (₹ million)



Mutual Funds AUM



## Conducted the 2<sup>nd</sup> MOST Shares ETF Conclave in June 2012

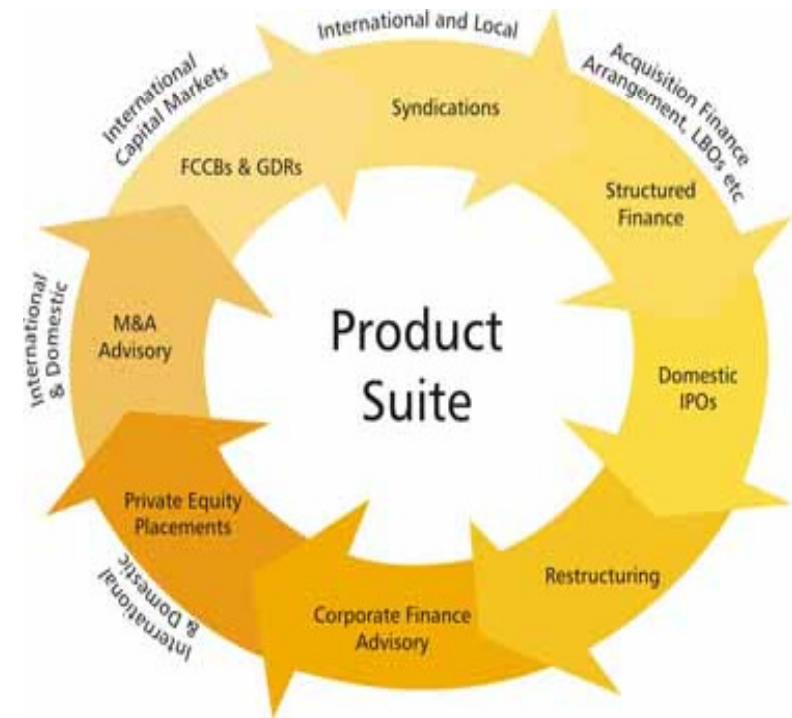
The objective was to demystify ETFs for Indian investors by discussing the advantages of ETFs and passive investing, building portfolios with ETFs and Vanguard's success in this space

James Norris, MD, Vanguard International gave the keynote speech. This was followed by a panel discussion between James Norris, Frank Satterthwaite (Head Corporate Strategy, Vanguard) and Anup Bagchi (MD and CEO, ICICI Securities)



Particulars ₹million	Q1 FY13	Q4 FY12	Change (%) Q-o-Q	Q1 FY13	Q1 FY12	Change (%) Y-o-Y	FY12
	Jun 30, 2012	Mar 31, 2012		Jun 30, 2012	Jun 30, 2011		Mar 31, 2012
Total Revenues	29	41	-31%	29	36	-21%	116
EBIDTA	(23)	(20)	nm	(23)	(0)	nm	(45)
PBT	(25)	(20)	nm	(25)	(0)	nm	(47)
PAT	(17)	(14)	nm	(17)	0	nm	(31)

- Corporate fund-raising and deal activities continued to remain sluggish in the market due to the global slowdown, uncertainties regarding government policies, poor performance of equity markets, as well as high borrowing costs
- Strong management team with substantial experience in investment banking, corporate banking and advisory
- The business is well aligned to arising market opportunities and the execution pipeline remains strong
- 28 employees in investment banking, as of June 2012



Particulars ₹million	Q1 FY13	Q4 FY12	Change (%) Q-o-Q	Q1 FY13	Q1 FY12	Change (%) Y-o-Y	FY12
	Jun 30, 2012	Mar 31, 2012		Jun 30, 2012	Jun 30, 2011		Mar 31, 2012
Total Revenues	62	42	49%	62	29	116%	194
EBIDTA	5	11	-50%	5	4	53%	31
PBT	5	10	-56%	5	3	37%	30
PAT	3	7	-56%	3	2	36%	20

- MOPE is an investment manager and advisor to 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 growth capital fund with AUM of US\$ 125 million, which has been fully committed across 13 companies.
- 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 June 2012
- MOPE achieved commitments of ₹4.9 billion from both domestic and offshore investors after the second closing of its 2nd sector-agnostic growth capital PE fund, India Business Excellence Fund-II (IBEF II)
- MOPE also organized Annual Investor Meets for its IBEF and IREF in May 2012.



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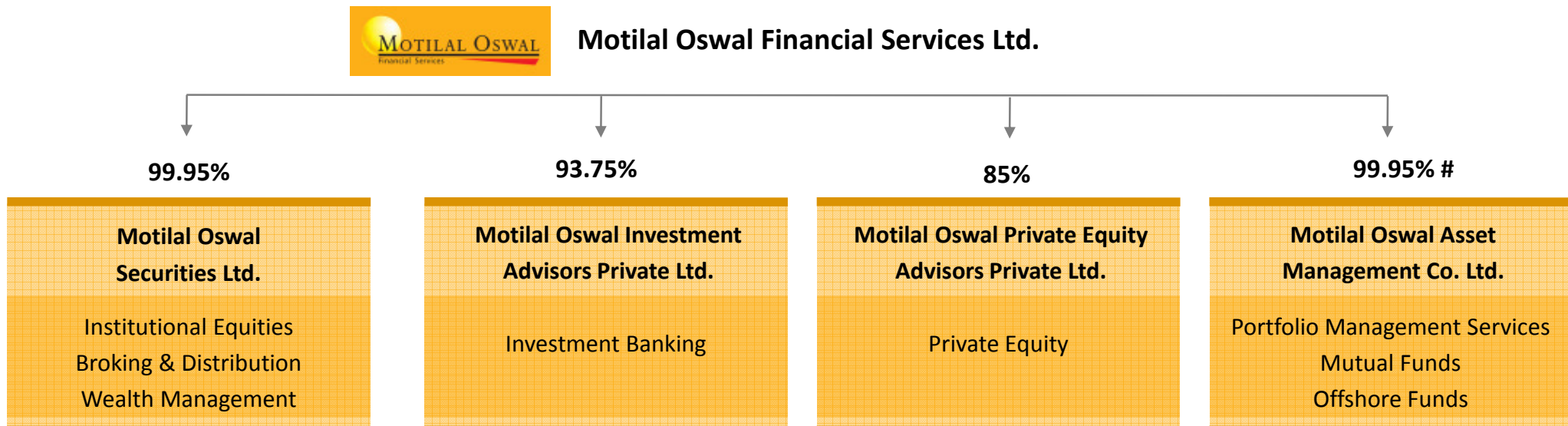
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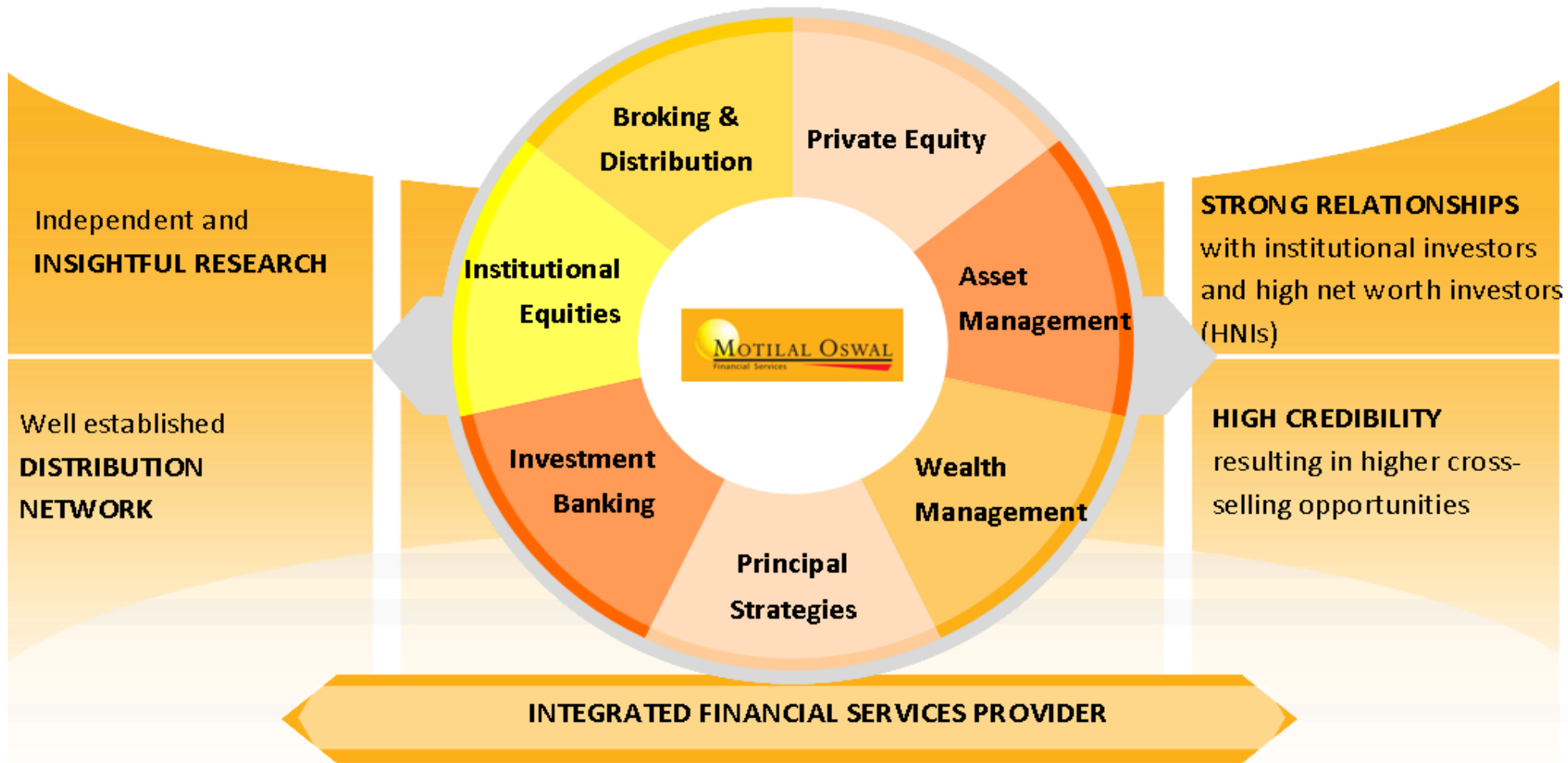
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- Well-diversified, financial services company offering a range of financial products and services
- Focused on wealth creation for all its customers, such as institutional clients, HNWIs and retail customers
- Network spread over 548 cities comprising 1,565 business locations operated by our business partners and us with 749,745 total registered customers
- Shares listed on the Bombay Stock Exchange and National Stock Exchange in Mumbai



# through Motilal Oswal Securities Limited

Data as on June 2012



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

A company honoring commitment with highest ethical and business practices

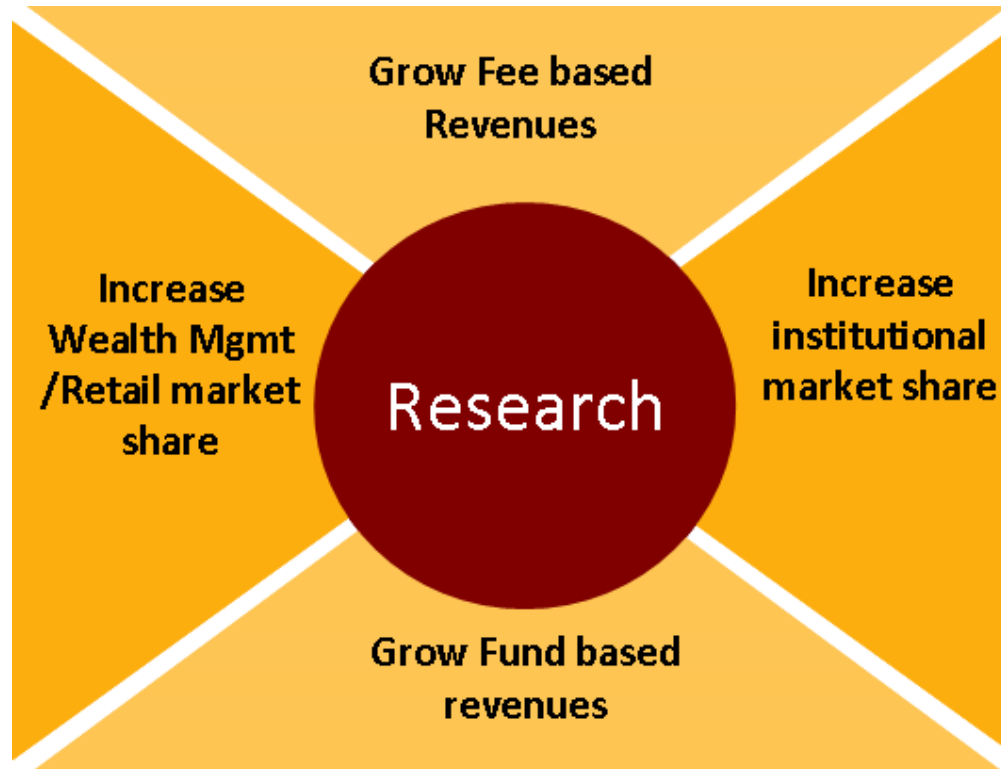


High energy and self-motivated with a "do it" attitude and entrepreneurial spirit

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

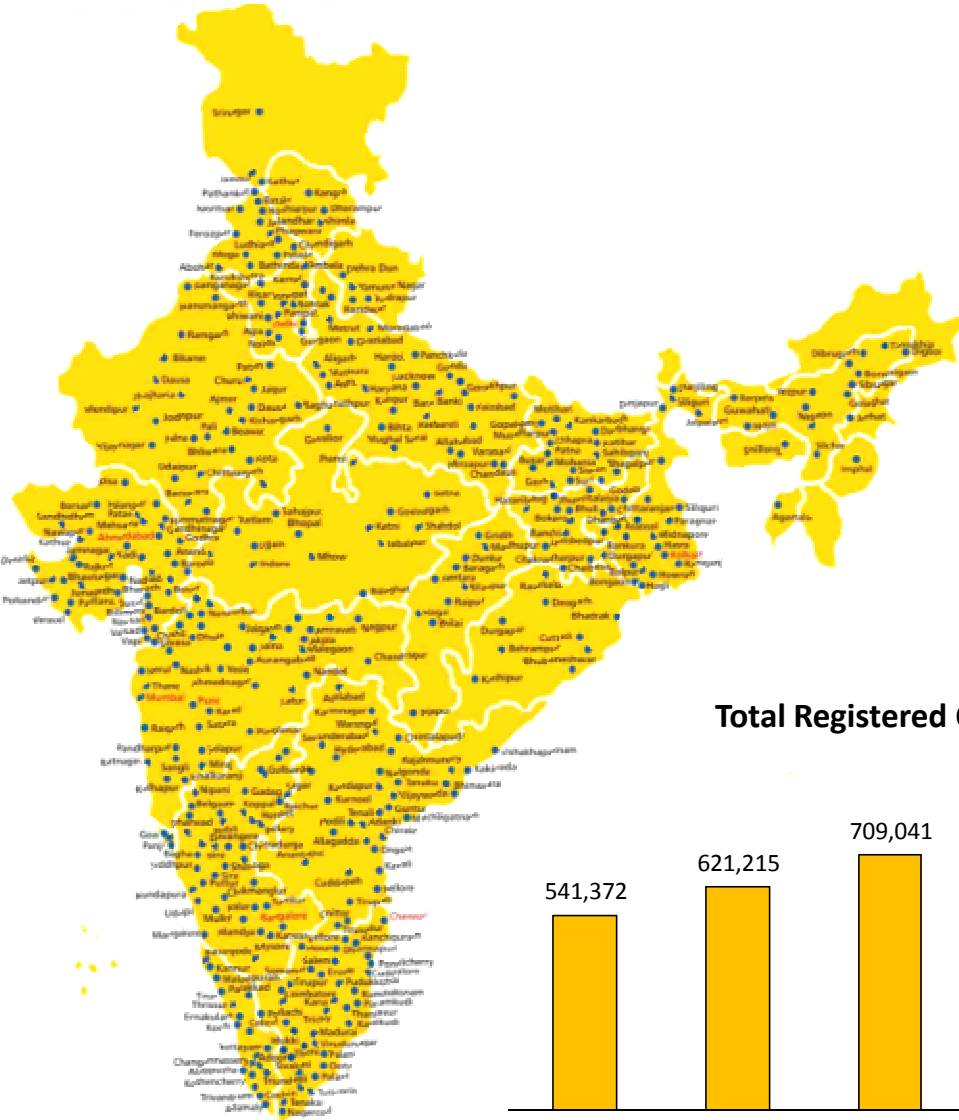


- Further grow distribution network across India
- Leverage research and advisory capability
- Focus on wealth management solutions and new product offerings
- Increase distribution of mutual funds and insurance products

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

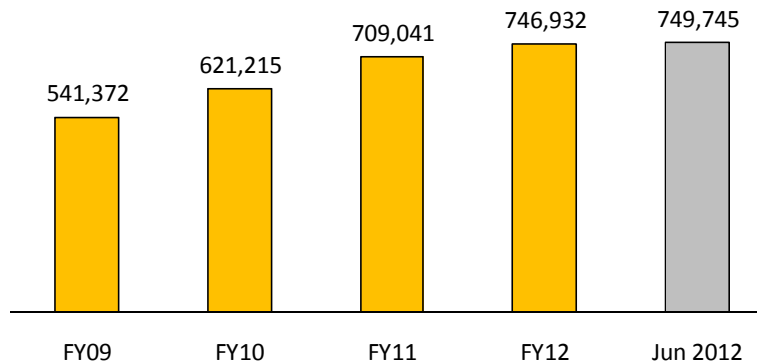
- Build Principal Strategies Group to maximise returns using risk free arbitrage strategies
- Grow margin funding book size

# Pan-India distribution network

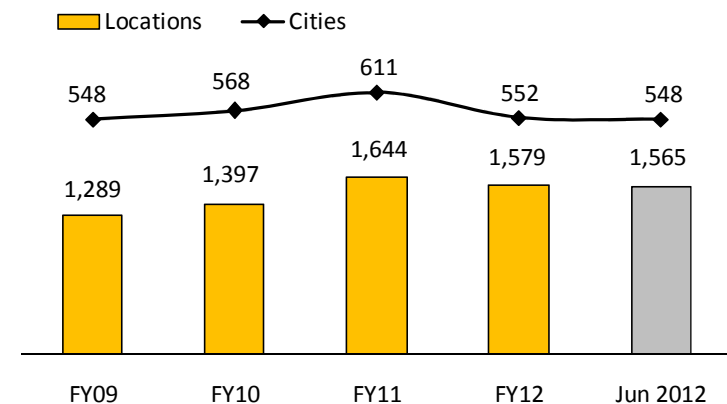


- Pan-India network with a presence in 548 cities across 1,565 business locations (branches plus franchisees), and complemented by a robust online channel
- Total registered client base of 749,745, including 659,274 retail broking and distribution clients
- Extensive distribution network providing opportunities to cross-sell products, particularly as we diversify further into new business streams

**Total Registered Clients**



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



# Award winning research and sales teams

## Focused research team

- Strong research team comprising of 26 research analysts covering more than 175 companies across over 20 sectors and 28 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



MOSL has conducted its Annual Wealth Creation Study since 1996, with the 16<sup>th</sup> Wealth Creation study held in December, 2011

The Wealth Creation reports can be downloaded here [http://www.motilaloswal.com/Wealth\\_Creation\\_Study/Studies/](http://www.motilaloswal.com/Wealth_Creation_Study/Studies/)

## 2009

**14TH ANNUAL WEALTH CREATION STUDY (2004-2009)**

**Winner Categories Category Winners**

**HIGHLIGHTS**

- India's NFDI (Near Trillion Dollar of GDP) will be marked by sustained boom in discretionary spend, savings and investment.
- Winner Categories and Category Winners will enjoy exponential growth in profits.
- Category Winners bought at reasonable valuations create significant wealth over the long term.

**TOP 10 WEALTH CREATORS (2004 - 2009)**

Rank	Company	Wealth Created (Rs. Cr)	5-Year Price CAGR (%)	10-Year Price CAGR (%)
1	Reliance Ind.	1,214	303	10
2	Sun Pharma	381	287	34
3	S.H.T.T.L	360	244	39
4	RAJCO	338	241	37
5	ION GIC	471	215	32
6	IC	420	210	32
7	Wipro Inf.	408	204	31
8	Infosys	391	200	31
9	S.A.I.L	380	192	30
10	H.D.F.C.	365	185	28

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We thank Mr. Divya Maria (DivyaMaria@MotilalOswal.com), Investment Consultant, for his invaluable contribution to this report.

**Winner Categories Category Winners**

## 2010

**15TH ANNUAL WEALTH CREATION STUDY (2005-2010)**

**UU Investing**  
Creating wealth from the unknown and unknowable

**HIGHLIGHTS**

- UU situations offer high returns, but these can be recognized only by investors with complementary skills and astute judgement.
- The portfolio value remains high as it includes valuations in excess of 100x current market.
- 75% of Ten Trillion Dollar holdings through 2020 will have up many 10x creating opportunities in India market.

**TOP 10 WEALTH CREATORS (2005 - 2010)**

Rank	Company	Wealth Created (Rs. Cr)	5-Year Price CAGR (%)	10-Year Price CAGR (%)
1	Reliance Ind.	2,056	35	33.9
2	ION GIC	1,092	45	33.2
3	RAJCO	1,014	32	32.3
4	HTFC	1,000	23	29.1
5	S.H.T.T.L	903	41	34.7
6	Infosys	870	32	32.7
7	IC	830	36	33.9
8	State Bank of India	672	32	31.7
9	S.A.I.L	590	32	31.7
10	Wipro Inf.	592	31	31.3

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**Creating Wealth from the Unknown and Unknowable**

## 2011

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

**Blue Chip Investing**  
Creating wealth from dividends

**HIGHLIGHTS**

- Blue chips are fountain of dividends, 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 policy and longevity.
- Most Blue Chips enjoy premium valuations. 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.

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

Rank	Company	Wealth Created (Rs. Cr)	5-Year Price CAGR (%)	10-Year Price CAGR (%)
1	Reliance Industries	1,763	119	47
2	ICI	1,079	86	39
3	State Bank of India	1,075	84	31
4	Infosys	860	74	37
5	RAJCO	820	39	26
6	HDFC Bank	678	44	29
7	IC	608	40	24
8	HDFC	508	40	24
9	State & Telco	525	41	33
10	ONGC	418	41	21

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**Blue Chip Investing Creating Wealth from Dividends**



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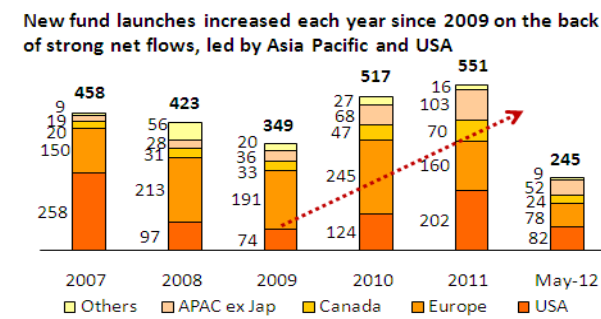
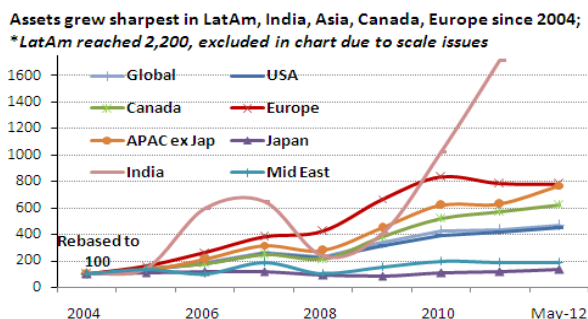
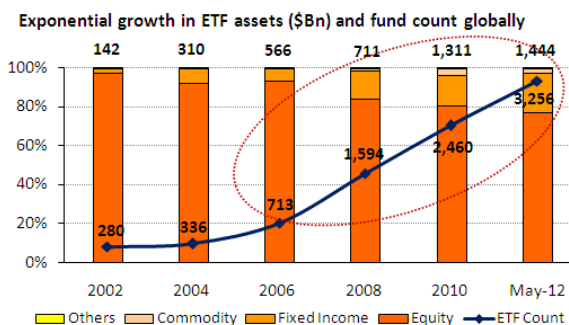
## Exchange Traded Funds (ETFs), the next game changer: Learnings from the global experience

- ETFs, mostly index funds trading like stocks, help achieve diversification, benchmark returns, access to multiple assets and real-time asset allocation at a low cost. The last few years have seen ETFs accumulating genuine scale. As of May'12, there were 3,256 ETFs with assets of \$1.4tn globally vs. 1,171 funds and \$797bn assets in 2007 and 280 funds and \$142bn assets in 2002. Over 80% of US ETFs today were launched in last 5 years
- Tough economic scenario, inability to attain alpha consistently, increased regulations post-2008 and heightened competition have led the recent popularity in passive investing, especially in low-cost ETFs. ETFs now account for over a third of US passive investing (index mutual funds)

Equity, though the largest constituent, has declined within global ETF assets, attributable to the volatile equity climate which shifted focus to uncorrelated assets for diversification

In terms of geography, the AUM share of USA, Japan & Europe has declined from 95% to 91% over the last decade. Asia Pacific, Latin America & Canada have shown stellar growth

Higher number of launches each year since 2009. ETFs from China, Korea rank amongst the large launches in 2012. Its ability to give access to assets, which were out of reach, is a key driver



## Factors that led to recent popularity and surge in ETFs globally

### Market Trends

- Gradual move from "Commission" to "For Fee Model"
- Popularity with RIAs/IFAs for retail client portfolios
- Volatile markets & inability to generate alpha consistently
- Regulatory changes banning commissions

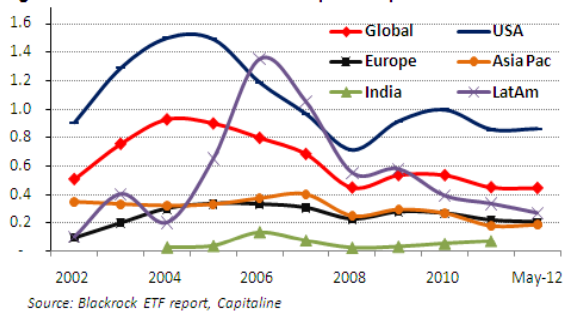
### Product Features

- Low fees and trading costs
- Broad exposure to entire sectors, countries and assets
- Tradability and other features like equity shares
- Maintaining low levels of cash helps reduce tracking error

**Few takeaways from the growth trends in ETF seen globally**

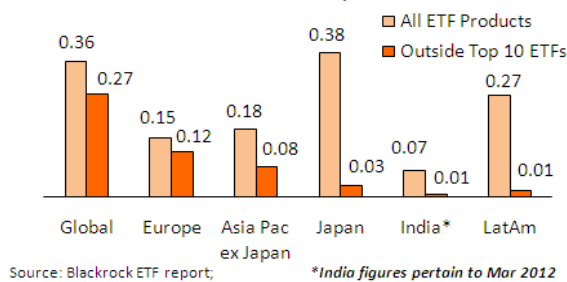
While ETFs grew globally, Avg AuM per fund has declined, particularly in Asia Pac & Japan. Majority of new funds launched in USA in 2011 are struggling to reach even \$30mn of assets

Though assets are growing, average AUM per fund (\$Bn) has dipped in global context and in Asia Pac with rapid fund proliferation



Increase in smaller sized funds outside the Top 10 is a concern, as this impacts profitability. India is an exception due to rapid addition to Gold assets, though not in terms of equity ETFs

Diff in AUM per Fund (\$Bn) between Overall and Outside Top 10 funds stresses the concentration of Top 10 ETFs in each market



ETF growth has been more due to net inflows rather than price appreciation. New money in 2011 was at par with 2010, but AUM growth was less, stressing the impact of net inflows

Global ETF industry growth attribution in 2011 vs. 2010

	USA	Europe	Global	USA	Europe	Global	USA	Europe	Global
<b>Total industry growth</b>				<b>From cash flows</b>			<b>From asset prices</b>		
Equity	-0.4%	-8.7%	-1.4%	8.5%	9.2%	10.0%	-8.9%	-17.8%	-11.4%
Fixed Income	32.8%	-0.9%	23.5%	32.8%	-0.7%	23.6%	-0.1%	-0.2%	-0.1%
Commodity	NA	15.3%	15.9%	NA	16.8%	17.2%	NA	-1.4%	-1.3%
<b>Total</b>	<b>5.1%</b>	<b>-4.9%</b>	<b>3.2%</b>	<b>12.5%</b>	<b>7.8%</b>	<b>12.5%</b>	<b>-7.5%</b>	<b>-12.7%</b>	<b>-9.3%</b>

Source: Deutsche Bank report: 2011 ETF Market Review (\*Total includes currency, multi asset, alternate assets also)

Trends in USA show that as ETF volumes grew, its contribution to cash volumes showed more resilience even during a drop in overall cash volumes

**Few Characteristics of Successful ETFs**

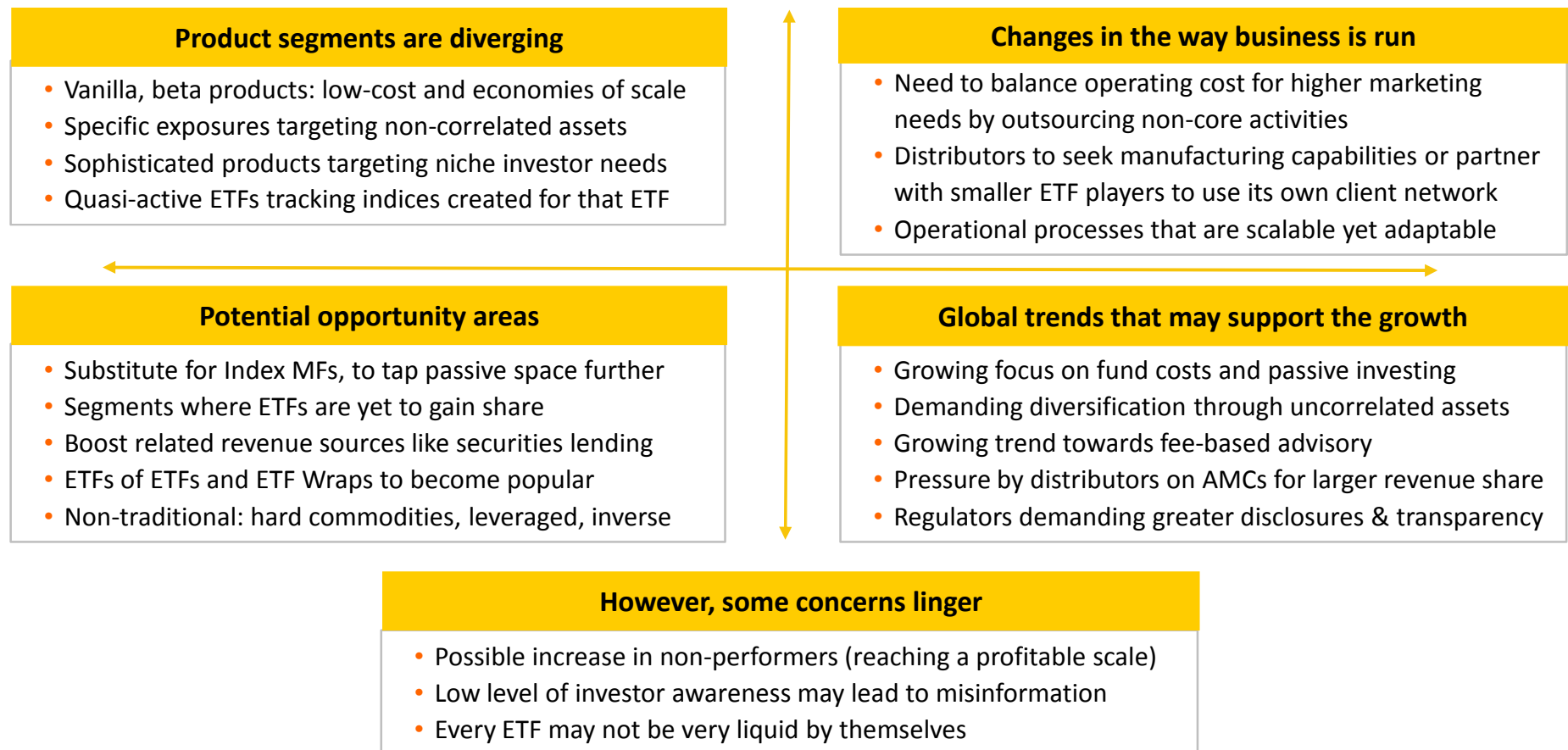
- Linked to less exotic indices: Simpler, the better
- Indices with long term appeal
- Proliferation outside equities, like fixed income
- Minimal tracking error
- Product innovations
- Cost-friendly for investors

**Few investment strategies with ETFs**

- Core- satellite investing to tap alpha and beta
- Dividend ETF portfolios for current income
- Exposure to undervalued segments
- Targeted exposure to alternative, uncorrelated assets
- Tactical investing based on short term views
- Park liquid money in short term fixed income ETFs
- Pairs trading to capture stock vs. sector differential
- Leveraging with margin

**Evolution of ETFs going forward: The potential is unparalleled, since each index that can be replicated signifies a possible product**

- The **initial period of entry** into ETFs ushered in first-movers who had manufacturing capabilities due to their experience in index MFs
- The **next stage** will require AMCs to target specific, focused segments, which will require product innovation, incentivizing distribution channels, technology for service capabilities and **thus, build a unique value proposition in an increasingly crowded market**
- **Smaller players are already making a mark**, especially in Asia. Samsung and Huatai, who did not figure amongst the Top 5 players by AUM back in 2009, have scaled up rapidly to break into the Top 5 rankings in May 2012



**Game Plan for India**

- Indian market comprised 34 ETFs with \$2.3bn assets by Mar 2012 - 52% CAGR in last 7 years
- Surge in gold prices and volatile equity markets shifted focus to gold since 2008
- By 2012, gold ETFs comprised 86% of Indian ETF assets, which include 8 out of Top 10 funds
- With a 7 year CAGR of 12%, the proportion of equity ETFs dipped to 10%

**As Asia's growth outpaces its peers, India presents a large growth potential**

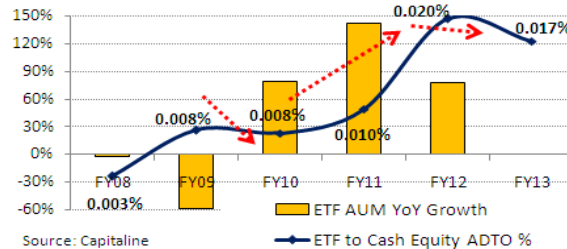
- With MF assets at ~\$122bn in Mar 2012 and ETFs comprising just ~2% of it, a significant opportunity exists. Past data shows that this proportion has doubled in the last 5 years itself

Rise in number of ETFs with AUM <Rs1bn (\$20mn)

	FY06	FY08	FY10	FY12
> Rs 3bn	1	2	4	8
Rs 1-3bn	2	5	3	2
<Rs 1bn	3	5	14	24
Total	6	12	21	34

Source: Capitaline

In India, the proportion of ETF volumes to overall cash trading volumes has typically lagged the YoY growth rates in ETF assets, as seen during the last few years



Source: Capitaline

**However, the market poses challenges as well**

- Need to develop product varieties at effective pricing to tap market share away from MFs
- Rapid growth of ETFs with small asset size (<\$20mn) remains a key concern to be profitable
- Banks, one of the largest distributors in India, prefer MFs as they don't require demat A/Cs
- Liquidity of underlying stocks is a key driver, this may restrict number of indices available
- Lack of investor awareness and education may lead to slower acceptance rate

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**Q1 FY13  
performance**

**Consolidated  
financials**

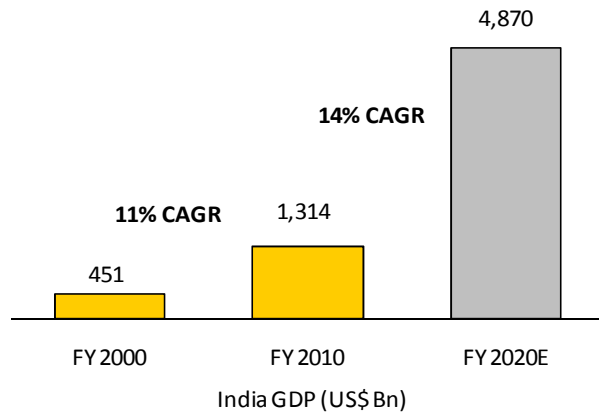
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series**

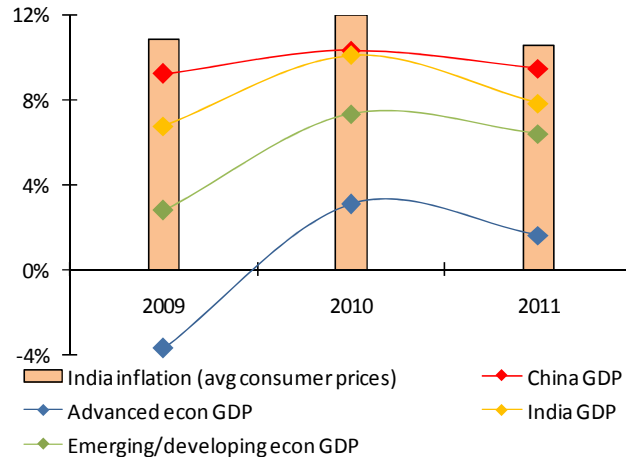
**Industry  
facts**

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



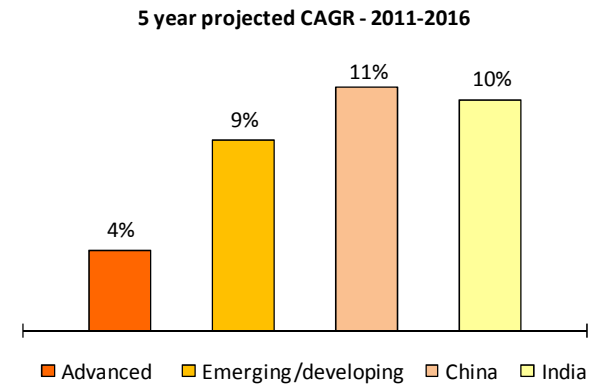
Source: MOSL estimates

**Indian GDP outperformed both emerging and advanced nation groups; Inflation receding**



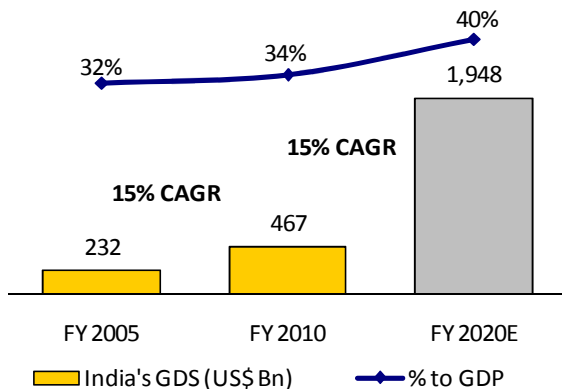
Source: IMF data

**Indian GDP is also projected to continue outperformance, close the gap with China**



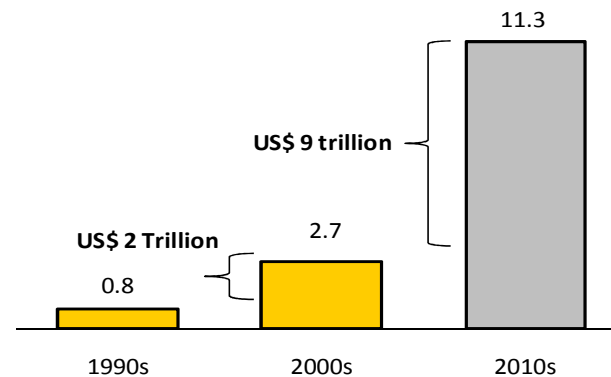
Source: IMF data

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



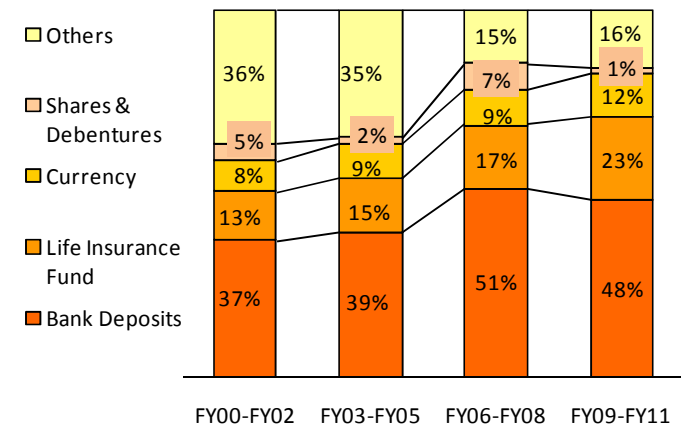
Source: MOSL estimates

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



Source: MOSL estimates

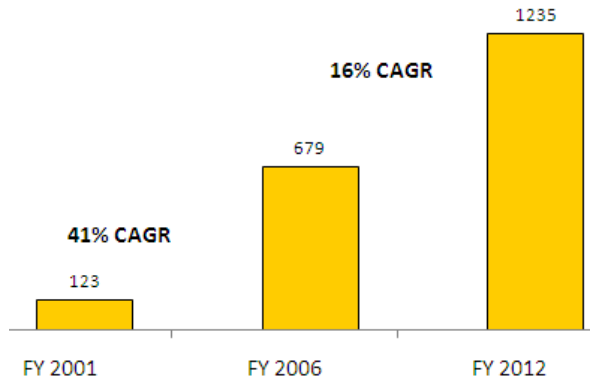
**Proportion invested into equities is still low - indicating headroom for growth**



Source: RBI data

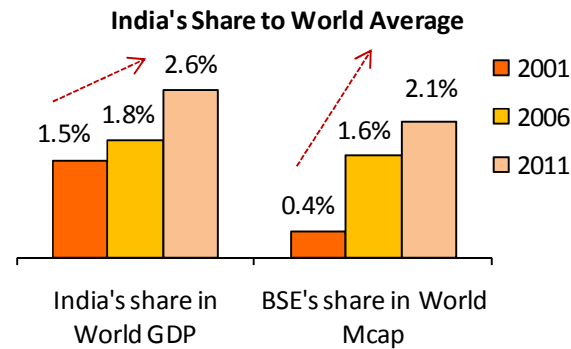
# Strong performance in Indian equity markets in last few years

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



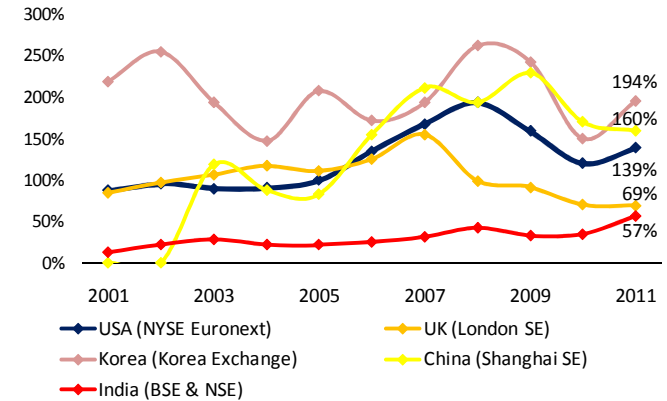
Source: BSE data

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



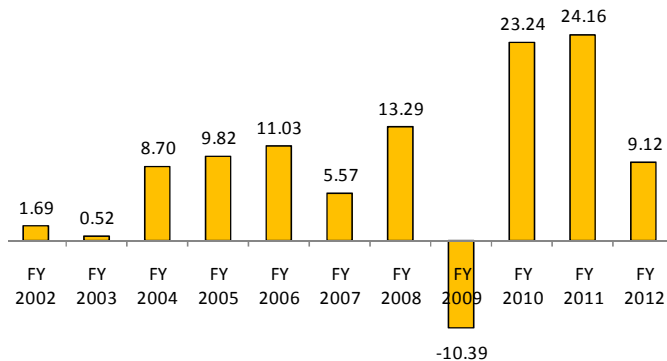
Source: WFE, BSE, IMF data

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



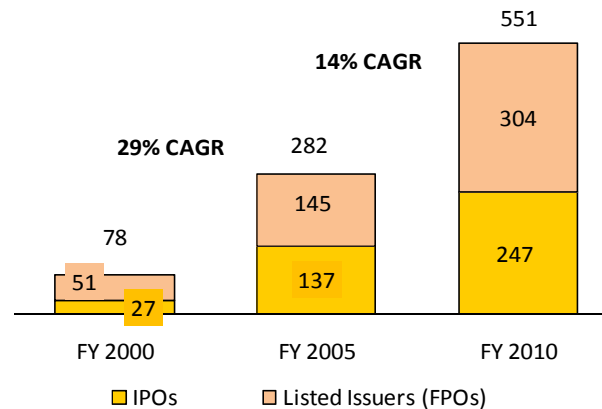
Source: WFE data

Participation in Indian equities was led by increasing trend in FII net inflows (\$Bn)



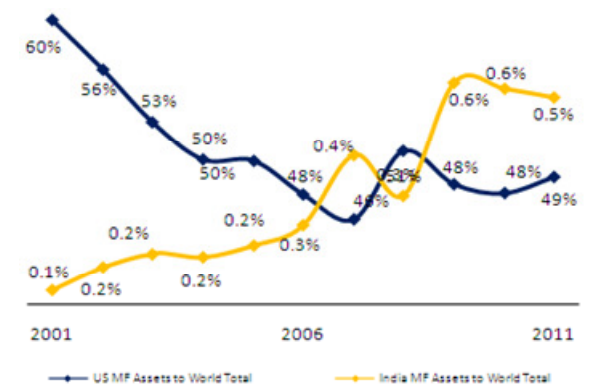
Source: SEBI

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



Source: SEBI Handbook 2010

...And India's MF assets, which has been growing in its proportion to world MF assets



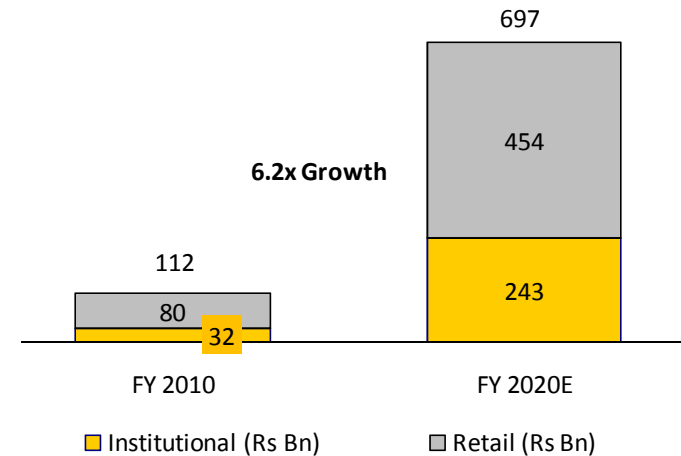
Source: ICI Factbook 2012, AMFI



## 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

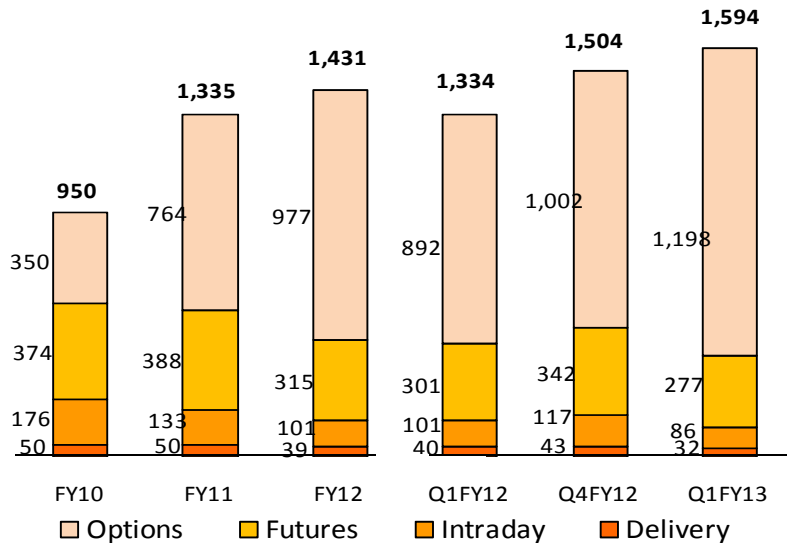
- Increasing distribution reach across India
- Using simplified research products
- Client focused advisory services
- Investor education for client engagement
- Tap the allocation of India focused funds
- Launched AMC to mobilize investments
- Develop relationships with corporates embarking on the next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

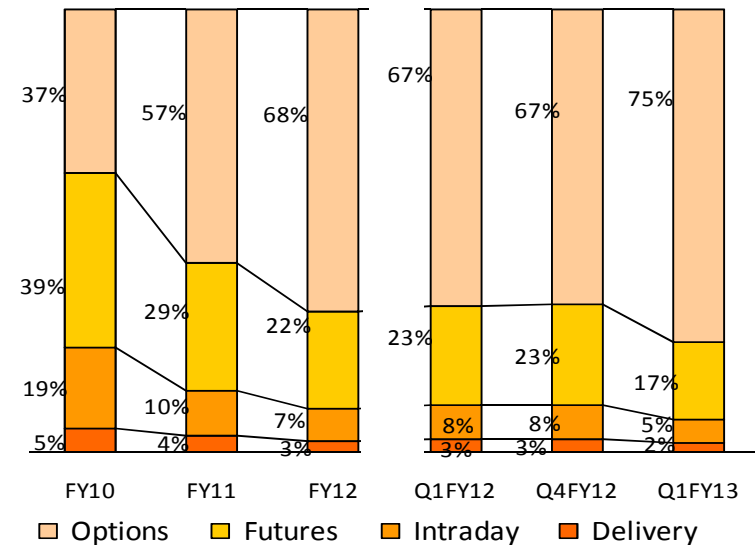
# Options leads growth in equity market volumes, yet again

Equity market volumes in Q1FY13 up with growth in the options segment, while delivery, intraday and futures saw a decline (₹Bn)



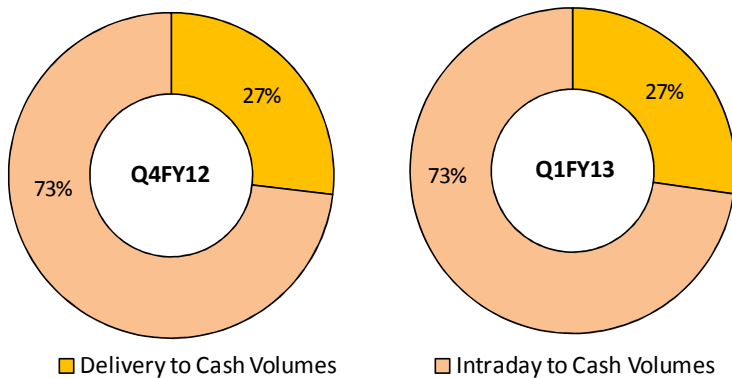
Source: NSE, BSE

With options volumes increasing further, it comprised 75% of overall market volumes in Q1FY13, while cash reduced to just 7%



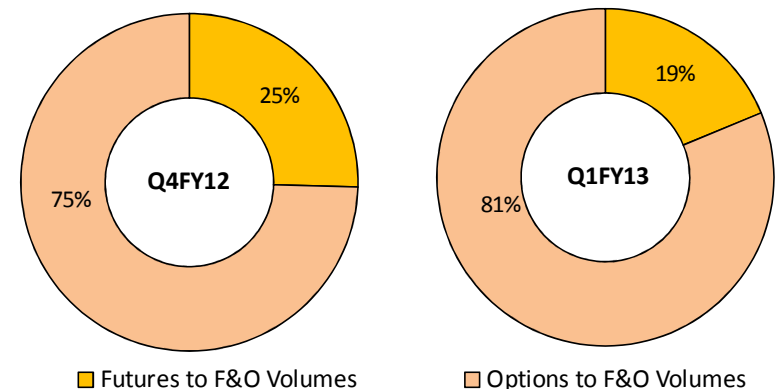
Source: NSE, BSE

Within cash segment, the proportion of high-yield delivery to overall cash volumes has held constant



Source: NSE, BSE

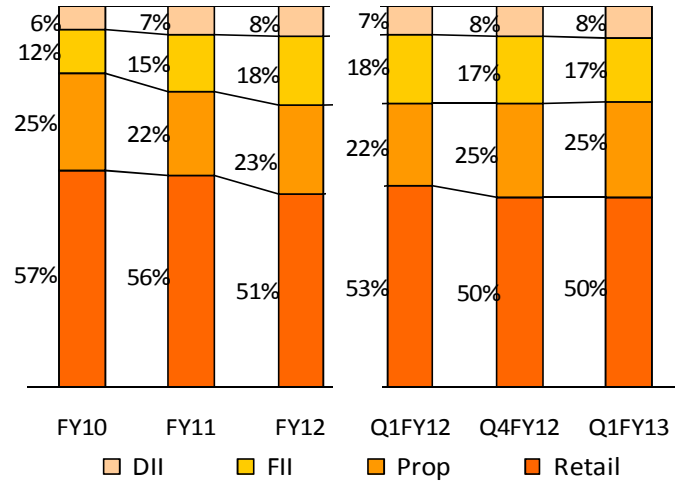
With the continued decline in futures and increase in options, the proportion within F&O is further skewed towards options



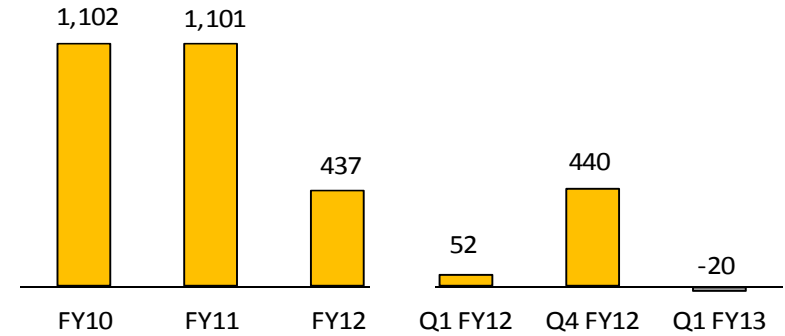
Source: NSE, BSE

# Participants' proportions flat despite cash vol drop; FII see net outflows

While volumes of each participant segment in the cash market has declined this quarter, their proportions remained largely unchanged

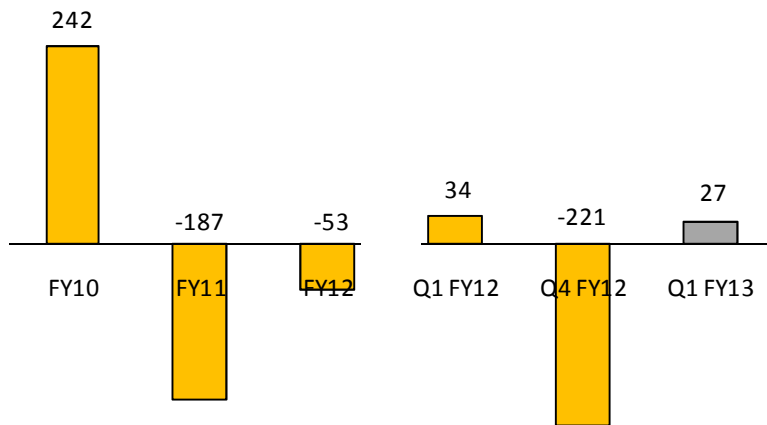


Flat QoQ performance in the benchmarks and worries over GAAR regulations impacted FII sentiments towards India (₹Bn)



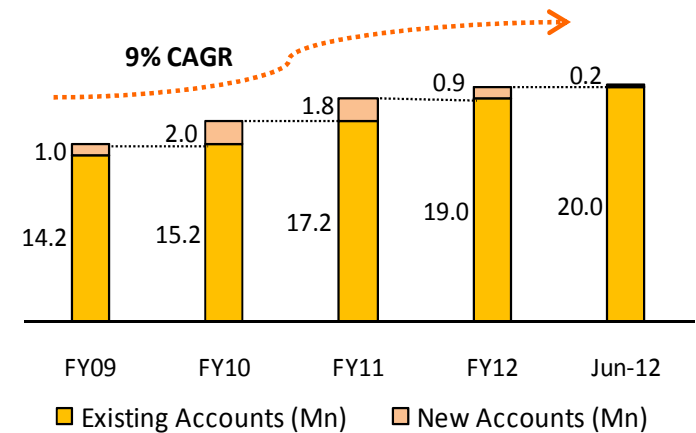
Source: SEBI

DII, despite posting net inflows in 4 out of the last 5 quarters, are still in negative territory in terms of total net flows in this period (₹Bn)



Source: NSE

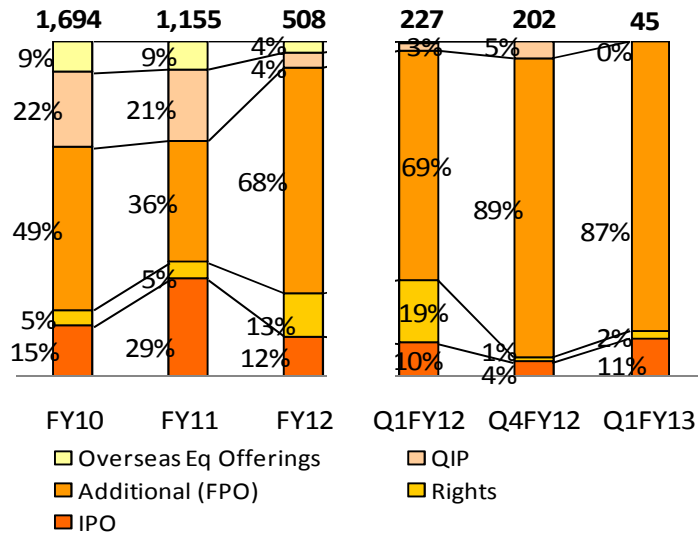
Growth in new demat accounts (Mn) slowed down coinciding with muted retail participation and slowdown in primary market activity



Source: CDSL, NSDL

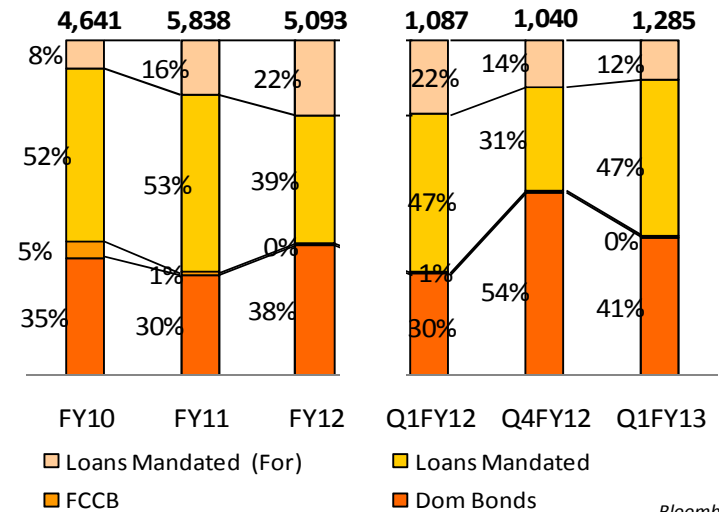
# ECM down; PE dips slightly; Domestic bonds/loans pull up DCM

Equity raising continued to remain sluggish, with FPOs being the only segment that saw decent volumes, though at lower levels too (₹Bn)



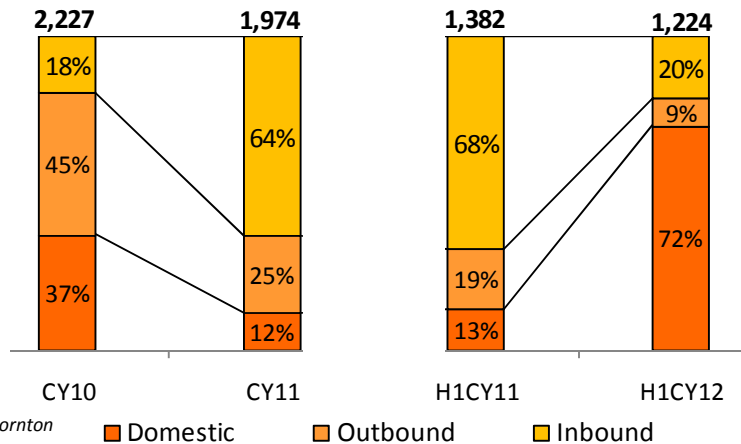
Source: Bloomberg League Tables

Debt raising saw a slight increase on QoQ and YoY basis due to higher INR loans and domestic bonds volumes resp (₹Bn)



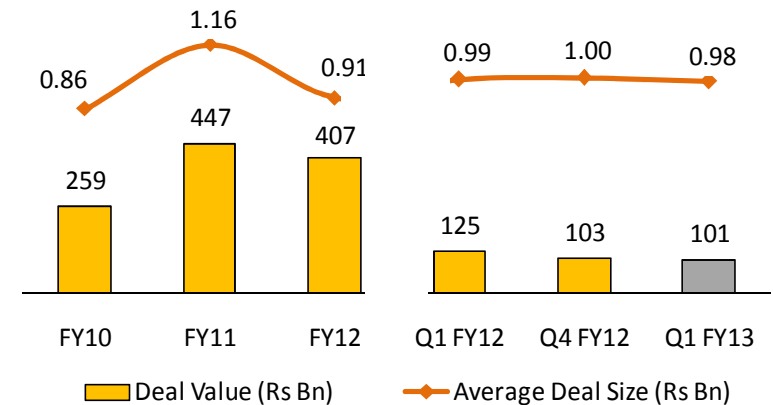
Source: Bloomberg League Tables

M&A deal value in H1 CY12, down on a YoY basis, improved from H2 CY11 mainly owing to the Sesa-Sterlite merger in the Jan-Mar quarter (₹Bn)



Source: Grant Thornton

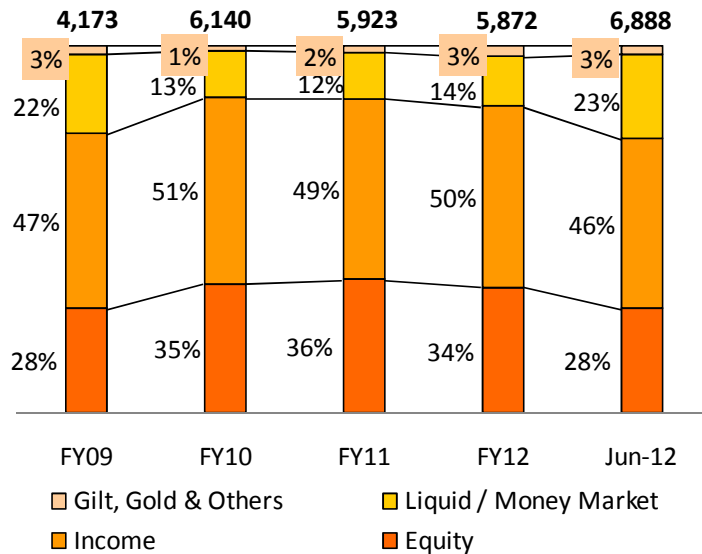
PE deal values and avg value per deal marginally dipped as market conditions impacted fund raising plans, valuations and exits (₹Bn)



Source: Venture Intelligence 36

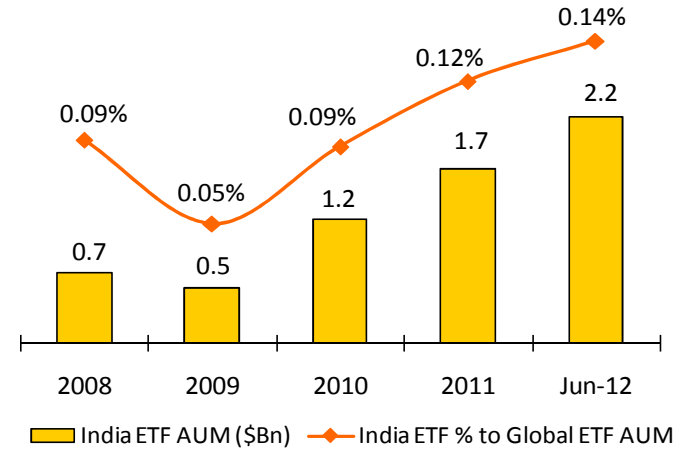
# Equity mutual funds assets hit; Gold ETFs boost India ETF AuM

Mutual fund AuM picked up this quarter mainly owing to Liquid funds, as interest in Equities and FMPs waned a bit (₹Bn)



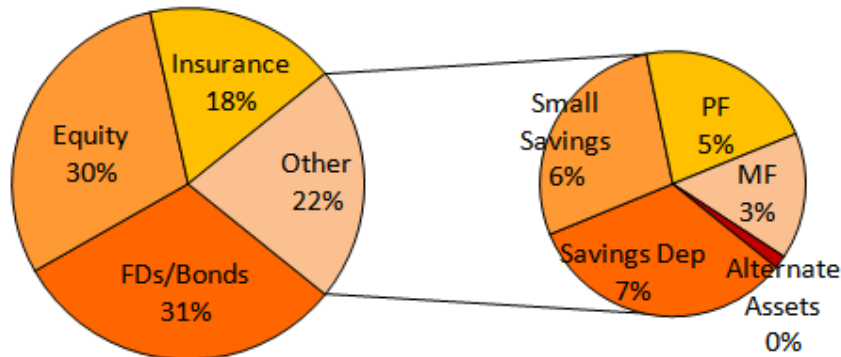
Source: AMFI

Gold ETFs lead the growth in Indian ETF AuM; Its proportion to global ETF assets continues to grow since last 3 years (US\$ Bn)

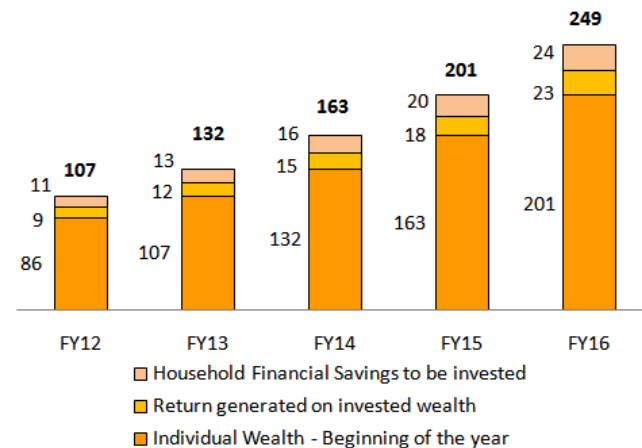


Source: Bloomberg/Blackrock report

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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## Thank You

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