

## Earnings Update – Q1 FY14



July 27, 2013

**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

- Revenues in Q1 FY14 were ₹1.1 billion (down 17% QoQ and up 1% YoY)
- Reported PAT in Q1 FY14 was ₹185 million (down 50% QoQ and down 9% YoY)
- EBITDA and Reported PAT margins for Q1 FY14 were 32% (42% in Q4 FY13) and 17% (27% in Q4 FY13) respectively
- The balance sheet had net worth of ₹12.4 billion and net cash of ₹1.3 billion as of Jun, 2013
- The Board of Directors at its meeting on April 27, 2013 proposed the buyback of shares. The Shareholders of the Company vide special resolution accorded their consent for the buyback, by way of postal ballot, the results of which were declared on June 21, 2013. The Company made a public announcement on June 25, 2013 for the buyback of maximum of 7.5 million Equity Shares of ₹1 each, upto buyback amount of ₹650 million, at a price not exceeding ₹90/- per share. The company commenced buyback of shares from open market through stock exchange from July 8, 2013

## Volumes and Market Share

- Total ADTO in secondary equities was ₹31.9 billion in Q1 FY14 (₹30.3 billion in Q4 FY13 and ₹23.3 billion in Q1 FY13)
- Equity market share was 1.7% in Q1 FY14 (1.7% in Q4 FY13 and 1.5% in Q1 FY13)

## Distribution Reach

- Retail distribution stood at 1,490 business locations across 501 cities, as of Jun 2013
- Total client base increased to 781,663 which includes 685,022 retail broking and distribution clients

## Assets Managed

- Total assets under management/advice across mutual funds, PMS and private equity businesses was ₹31.2 billion. Within this, our mutual funds AUM was ₹4.6 billion, PE AUA was ₹13.8 billion, while PMS AUM was ₹12.9 billion
- Wealth management business managed assets of ₹23.2 billion
- Depository assets were ₹112.5 billion

## Business Updates

- Following the fourth close of its 2nd growth capital PE fund - India Business Excellence Fund-II, Motilal Oswal Private Equity has received total commitments of ₹6.3 billion till date from domestic and offshore investors. We continue to see good traction in commitments towards final closing
- Motilal Oswal Private Equity appointed Sharad Mittal as Head - Real Estate business. He brings with him rich experience in areas like real estate investments and fund raising
- Motilal Oswal Insurance Brokers has received in-principal approval for insurance broking license from IRDA
- Motilal Oswal Asset Management conducted the 3rd MOST Shares ETF Conclave in June 2013

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Particulars ₹million	Q1 FY14	Q4 FY13	Change (%) Q-o-Q	Q1 FY14	Q1 FY13	Change (%) Y-o-Y	FY13
	Jun 30, 2013	Mar 31, 2013		Jun 30, 2013	Jun 30, 2012		Mar 31, 2013
Total Revenues	1,109	1,341	-17%	1,109	1,103	1%	4,729
EBIDTA	357	570	-37%	357	366	-2%	1,744
PBT (before E & EOI)	290	477	-39%	290	298	-3%	1,437
Reported PAT	185	367	-50%	185	202	-9%	1,091
EPS - Basic	1.3	2.6		1.3	1.4		7.6
EPS - Diluted	1.3	2.6		1.3	1.4		7.6
No.of shares outstanding (million) - FV Rs 1/share	145	145		145	145		145

E & EOI = Exceptional items & Extraordinary items

- PAT for Q4 FY13 had included total amount of ₹39 million (post-tax) representing profit from sale of fixed assets and provision for doubtful advances / write offs

Particulars ₹million	Q1 FY14	Q4 FY13	Change (%) Q-o-Q	Q1 FY14	Q1 FY13	Change (%) Y-o-Y	FY13
	Jun 30, 2013	Mar 31, 2013		Jun 30, 2013	Jun 30, 2012		Mar 31, 2013
Brokerage & operating income	679	760	-11%	679	702	-3%	2,972
Investment banking fees	8	8	2%	8	27	-69%	78
Fund based income	267	377	-29%	267	209	28%	997
Asset management fees	128	170	-25%	128	155	-18%	599
Other income	28	26	7%	28	11	162%	83
<b>Total Revenues</b>	<b>1,109</b>	<b>1,341</b>	<b>-17%</b>	<b>1,109</b>	<b>1,103</b>	<b>1%</b>	<b>4,729</b>

- Broking and related revenues were ₹679 million in Q1 FY14, down 11% on a QoQ basis and down 3% on a YoY basis. This segment contributed 61% of the total group revenues
- Fund based income was ₹267 million, down 29% from Q4 FY13 and up 28% from Q1 FY13. Q4 FY13 had included profit earned on partial exits in few investments of the Private Equity Fund in which MOFSL made sponsor commitments. The loan book was ₹4.4 billion, as of Jun 2013
- Asset Management fee were ₹128 million for Q1 FY14, down 25% QoQ and down 18% YoY. Q4 FY13 had included fees related to the closing of the new IBEF-II fund as well as PMS performance fee of ₹6.2 million
- Investment banking fees at ₹8 million was marginally up 2% from Q4 FY13, but down 69% YoY. Transaction closures remained impacted as multiple macro concerns continue to affect the investment mood in the economy
- Other income was ₹28 million in Q1 FY14

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## Broking & Distribution, Institutional Equities & Wealth Management

Particulars ₹million	Q1 FY14	Q4 FY13	Change (%) Q-o-Q	Q1 FY14	Q1 FY13	Change (%) Y-o-Y	FY13
	Jun 30, 2013	Mar 31, 2013		Jun 30, 2013	Jun 30, 2012		Mar 31, 2013
Total Revenues	775	883	-12%	775	792	-2%	3,369
EBIDTA	233	286	-18%	233	259	-10%	1,076
PBT (before E & EOI)	195	233	-17%	195	214	-9%	887
Reported PAT	124	288	-57%	124	144	-14%	821

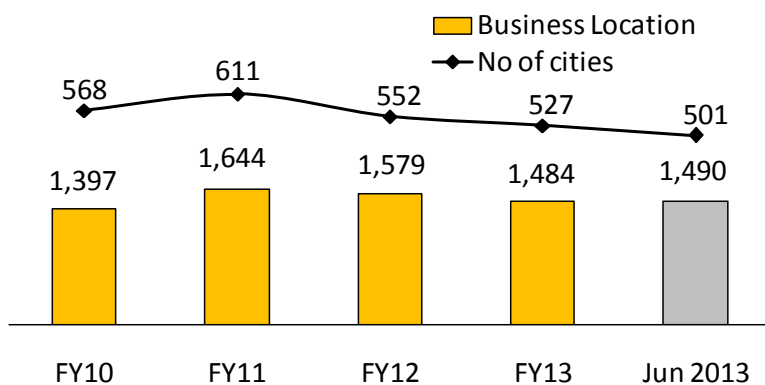
E & EOI = Exceptional items & Extraordinary items

MOSL PAT for Q4 FY13 had included total amount of ₹130 million (post-tax) representing profit from sale of fixed assets

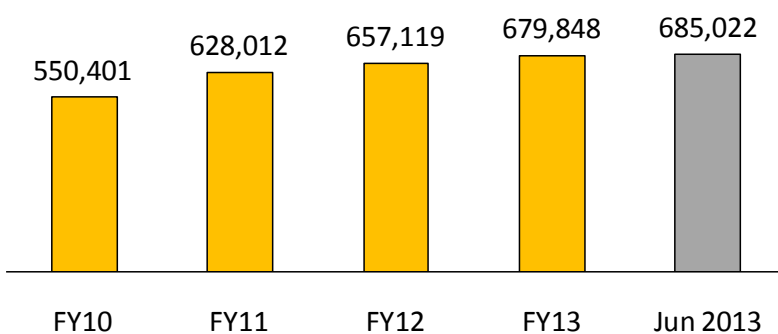
- Revenues were ₹775 million for Q1 FY14, down 12% from Q4 FY13 and down 2% as compared to Q1 FY13
- Reported PAT was ₹124 million for Q1 FY14, down 57% from Q4 FY13 and down 14% from Q1 FY13
- MOSL ADTO was ₹31.9 billion in Q1 FY14 (₹30.3 billion in Q4 FY13 and ₹23.3 billion in Q1 FY13)
- Equity market ADTO reached a high of ₹1.9 trillion in Q1 FY14, led yet again by options which now comprise 78% of market volumes, up from 76% in the previous quarter. Cash volumes declined by 11% QoQ to ₹125 billion. It comprised 6.5% of market volumes in Q1FY14, down from 8% in the previous quarter. Cash delivery, in particular, saw a steeper fall of 16% QoQ to comprise 1.9% of market volumes, down from 2.5% in the previous quarter. Despite the market challenges, our overall equity market share held at 1.7% on a QoQ basis. We maintained our market share in the cash segment, including the delivery segment, which are our focus segments. However, the adverse change in the market mix towards F&O has resulted in our blended yield coming down to 3.4 bps in Q1FY14, from 4.0 bps in Q4FY13
- As of Jun 2013, total client base was 781,663 which includes 685,022 retail broking and distribution clients; Pan-India distribution reach stood at 1,490 locations across 501 cities

- Offers customized investment services to its retail customers
- ‘Customer first’ philosophy executed through strategic focus on:
  - Creating a robust Pan-India distribution network
  - Customer segmentation based on individual needs
  - Offerings include equity, PMS, MFs, commodities, currency
  - Develop in-house technology for better customer experience
  - Intensify customer connect through seminars and feedback
- Added NSE Currency and MCX-SX equity/F&O, thus providing single access to equity, F&O, commodities & currency on its LITE platform\*
- Charting tool on Lite-Desktop/Dealer platforms for all listed scrips providing 35+ indicators, price-quantity data per scrip, signal tracker with buy-sell signals and tracking of events like large bids/offers, large volume change, live block deals etc through alert trackers
- Radar, a news dashboard that provides real-time F&O heat maps based on long/short, price/volume, volatility, rollovers, open interest etc, F&O market watch, MOSL research calls and valuation guide, sector heat maps on price/sentiment, charts, event calendar, etc

### Pan-India distribution footprint



### Retail broking and distribution clients

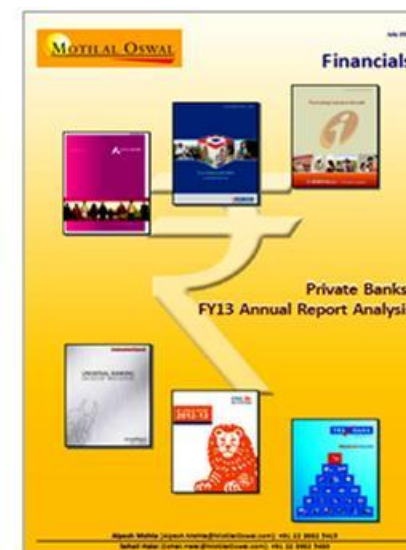


The collage displays various features of the Motilal Oswal trading platform:

- Stock List:** A table showing various stocks with columns for Name, Price, Bid, Offer, Buy Qty, Sell Qty, and LTP.
- Charting Tool:** A candlestick chart for Tata Power Co. Ltd. with various technical indicators.
- News Dashboard:** A 'Radar' section showing real-time F&O heat maps and news alerts.
- Stock Analysis:** A detailed view of Tata Motors Ltd. showing its price change, volume, and various indicators like Active Calls, Active Puts, Volatility, and Short Built Up.

- Cash and derivatives broking to institutional clients, along with a strong research and corporate access group
- Client base of 533 institutions, as of Jun 2013

## Recent Research Reports



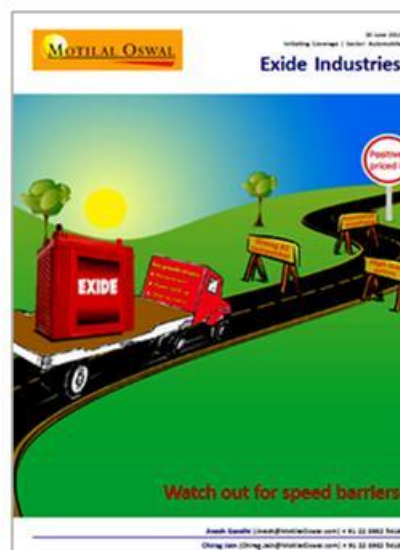
**Indusind Bank**

Q1 FY13 Results (Updated) | Sector: Financials

Q1 FY13	Q1 FY12	Q1 FY11	Q1 FY10	Q1 FY09	Q1 FY08
Revenue	1,000	950	900	850	800
Profit	150	140	130	120	110
EPS	1.5	1.4	1.3	1.2	1.1

**Key Highlights:**

- Revenue growth of 5% YoY, driven by strong performance in Retail Banking and Corporate Banking.
- Profit growth of 7% YoY, supported by improved asset quality and cost efficiency.
- Strong growth in deposits and loans, contributing to a healthy growth in the balance sheet.



- Private wealth management business had an AUM of ₹23.2 billion, as of Jun 2013
- Our new and improved advisory proposition ‘Motilal Oswal Private Wealth Management (MOPWM)’ with the motto ‘Responsible Advisory’ was launched in Q4FY13. The value proposition is based on comprehensive risk profiling leading to portfolio advice which can be objectively tracked for value addition. MOPWM also launched India’s first Advisory Index and other indices which will help clients track the value addition by an advisor objectively - an Industry First
- Clients will have access to a multi asset class open architecture platform
- Present in Mumbai, Delhi, Kolkata, Bangalore, Hyderabad, Ahmedabad and Pune

## Our Offerings: A comprehensive menu of Multi Asset Class Advisory Solutions

Professional Money Managers	Trading	Alternative Assets
<ul style="list-style-type: none"> <li>• Mutual Funds</li> <li>• PMS</li> <li>• Alternative Invst. Funds</li> </ul>	<ul style="list-style-type: none"> <li>• Equity</li> <li>• Fixed Income</li> <li>• Commodity &amp; Currency</li> </ul>	<ul style="list-style-type: none"> <li>• Private Equity</li> <li>• Real Estate</li> <li>• Structured Products</li> </ul>

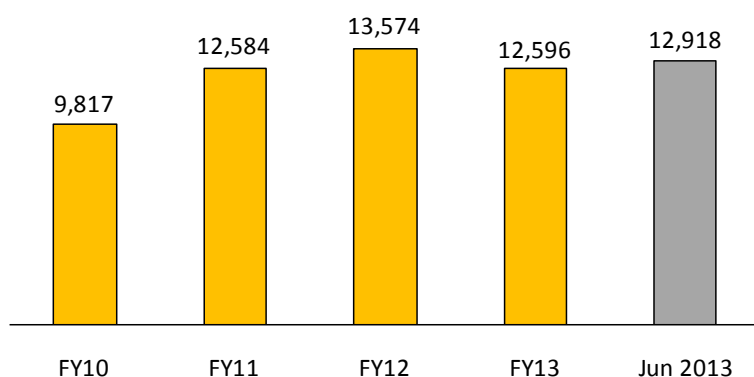
Credit Solutions	Wealth Transmission	Specialized Services	Ancillary Services
<ul style="list-style-type: none"> <li>• IPO Financing, ESOP Funding</li> <li>• LAS/LAP</li> <li>• Institutional Credit Solutions</li> </ul>	<ul style="list-style-type: none"> <li>• Estate Planning</li> <li>• Trust services</li> <li>• Wills</li> </ul>	<ul style="list-style-type: none"> <li>• Investment Bnkg. Services</li> <li>• Offshore Advisory &amp; Solutions</li> <li>• Hedging &amp; Insurance Advisory</li> </ul>	<ul style="list-style-type: none"> <li>• Tax Advisory</li> <li>• Legal Advisory</li> </ul>

Particulars	Q1 FY14	Q4 FY13	Change (%) Q-o-Q
₹million	Jun 30, 2013	Mar 31, 2013	
Total Revenues	72	88	-19%
EBIDTA	(12)	11	nm
PBT	(13)	10	nm
Reported PAT	(13)	10	nm

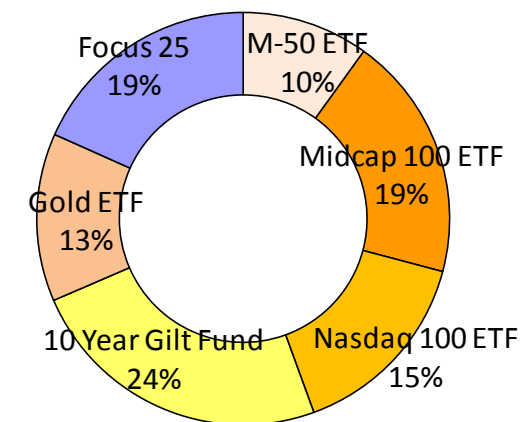
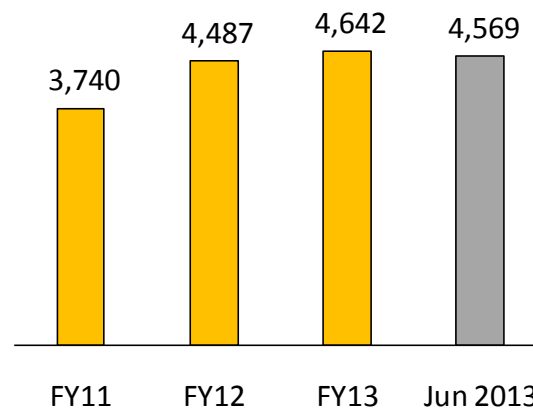
Q1 FY14	Q1 FY13	Change (%) Y-o-Y
Jun 30, 2013	Jun 30, 2012	
72	95	-24%
(12)	15	nm
(13)	14	nm
(13)	14	nm

FY13
Mar 31, 2013
348
58
53
53

**PMS AUM (₹ million)**



**Mutual Funds AUM (₹ million)**



- As on Jun 2013, PMS AUM was ₹12.9 billion and mutual funds AUM across the 6 funds was ₹4.6 billion
- Launched its 6th MF scheme - MOST Focused 25 Fund. This would invest in a focused portfolio of max 25 stocks which possess enduring economic moats that ensure sustainable competitive advantages, quality, longevity & high growth potential

## Conducted the 3<sup>rd</sup> MOST Shares ETF Conclave in June 2013

- The objective was to demystify ETFs for Indian investors by discussing the advantages of ETFs and passive investing, disseminate information on ETFs and open up discussions across manufacturers, distributors and strategists on global trends in ETFs
- The conclave included a panel discussion on 'Making Most of ETFs' with senior panelists from the ETF space from India and abroad, as well as a detailed presentation of global ETF trends by Deborah Fuhr (Partner and Co-Founder, ETFGI)



Particulars	Q1 FY14	Q4 FY13	Change (%)	Q1 FY14	Q1 FY13	Change (%)	FY13
₹million	Jun 30, 2013	Mar 31, 2013	Q-o-Q	Jun 30, 2013	Jun 30, 2012	Y-o-Y	Mar 31, 2013
Total Revenues	9	8	7%	9	29	-70%	80
EBIDTA	(22)	(21)	nm	(22)	(23)	nm	(60)
PBT	(25)	(24)	nm	(25)	(25)	nm	(68)
Reported PAT	(17)	(20)	nm	(17)	(17)	nm	(52)

- The investment climate continues to be vitiated on the back of policy paralysis. Recent depreciation of the Indian Rupee and the concomitant increase in yields triggered by possible phasing out of US Fed's QE programme adversely impacted the investment mood. Given these developments, transaction closures have been affected though the deal pipeline remains healthy
- The company continues to focus on building its capabilities in identified sectors and product lines
- 27 employees in investment banking, as of Jun 2013



Particulars ₹million	Q1 FY14	Q4 FY13	Change (%) Q-o-Q	Q1 FY14	Q1 FY13	Change (%) Y-o-Y	FY13
	Jun 30, 2013	Mar 31, 2013		Jun 30, 2013	Jun 30, 2012		Mar 31, 2013
Total Revenues	60	90	-34%	60	62	-4%	274
EBIDTA	22	31	-29%	22	5	313%	82
PBT	21	30	-30%	21	5	366%	78
Reported PAT	14	21	-31%	14	3	365%	53

- India Business Excellence Fund (IBEF) is a growth capital fund focused on the SME space with AUM of US\$ 125 million, which has been fully committed across 13 companies. The fund has partially exited two holding companies till date via secondary sales at extremely healthy multiples. The fund has returned approximately 40% of capital to its investors so far
- India Realty Excellence Fund (IREF) is a domestic real estate fund with total AuA at ₹2 billion, which has been fully committed across 7 deals. Following partial exits from four projects till date, the fund has returned approximately 42.5% of capital to its investors so far
- The 2<sup>nd</sup> growth capital PE fund, India Business Excellence Fund-II achieved its fourth closing this quarter. This fund has received total commitments of ₹6.3 billion till date from both domestic and offshore investors. We continue to see good traction in commitments towards final closing. This fund is currently evaluating several investment opportunities and has made two investments so far
- Motilal Oswal Private Equity appointed Sharad Mittal as Head - Real Estate business. He brings with him rich experience in areas like real estate investments and fund raising



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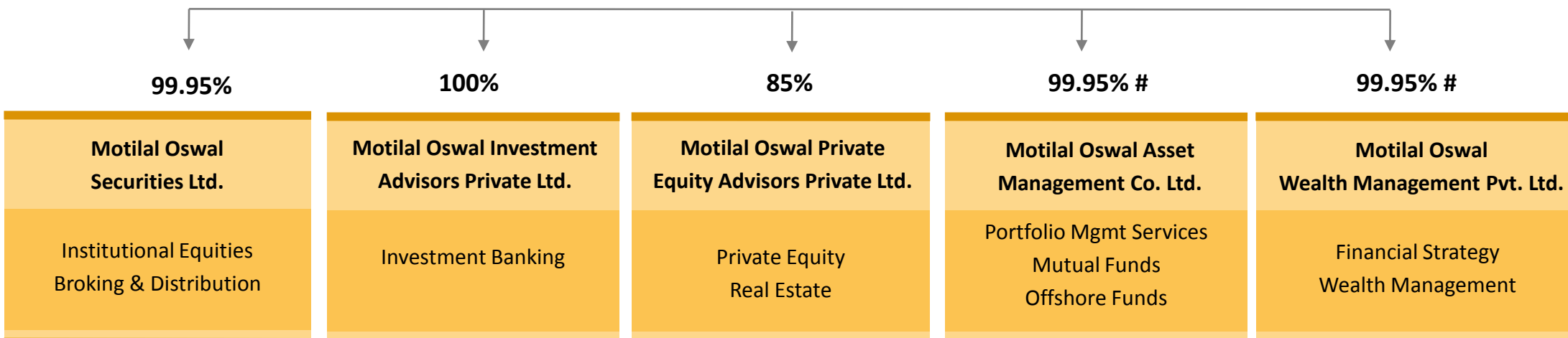
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series**

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facts**

- 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 501 cities comprising 1,490 business locations operated by our business partners and us with 781,663 total registered customers
- Shares listed on the Bombay Stock Exchange and National Stock Exchange in Mumbai

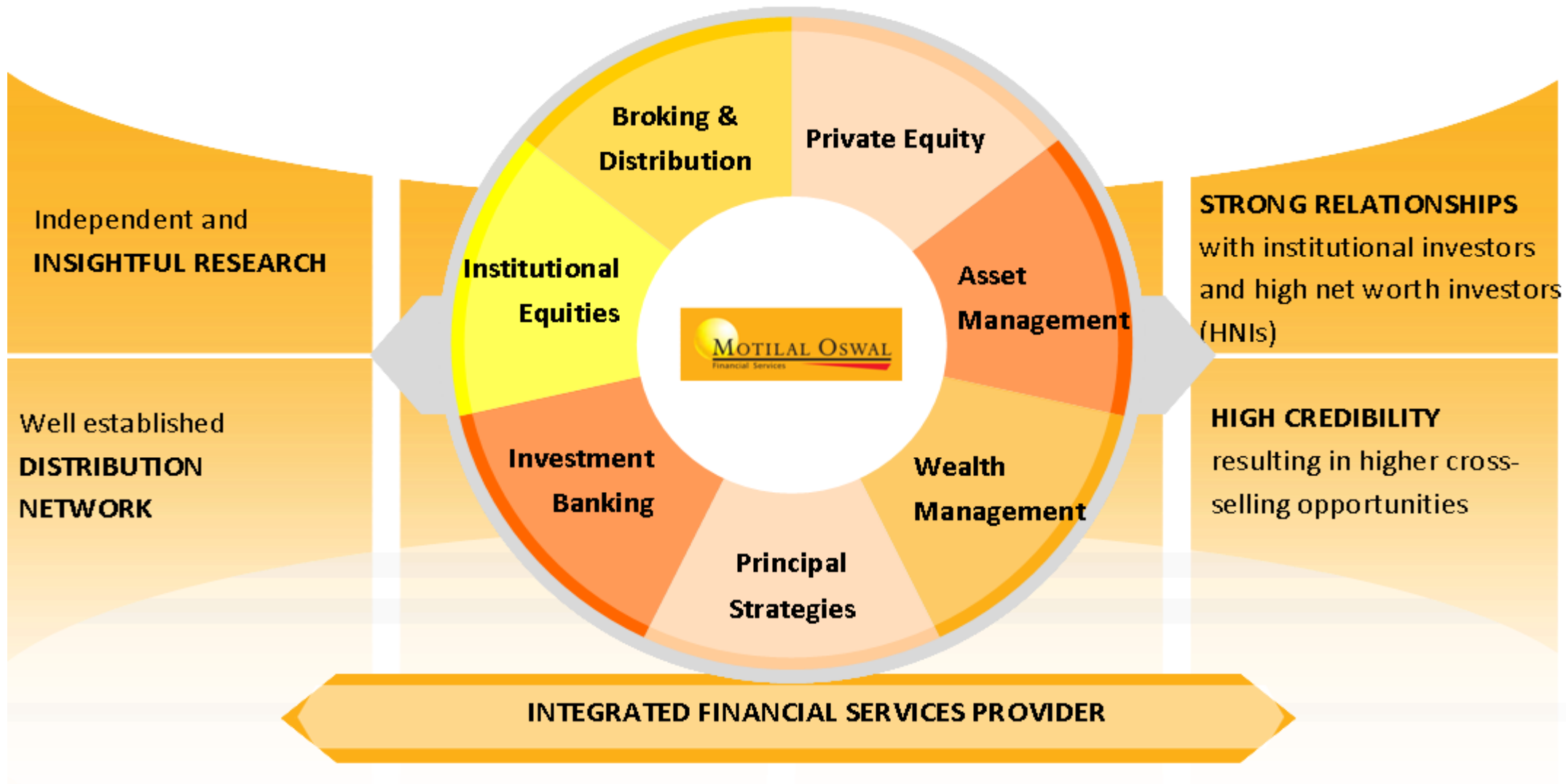


## Motilal Oswal Financial Services Ltd.



# through Motilal Oswal Securities Limited

Data as on Jun 2013



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

A company honoring commitment with highest ethical and business practices

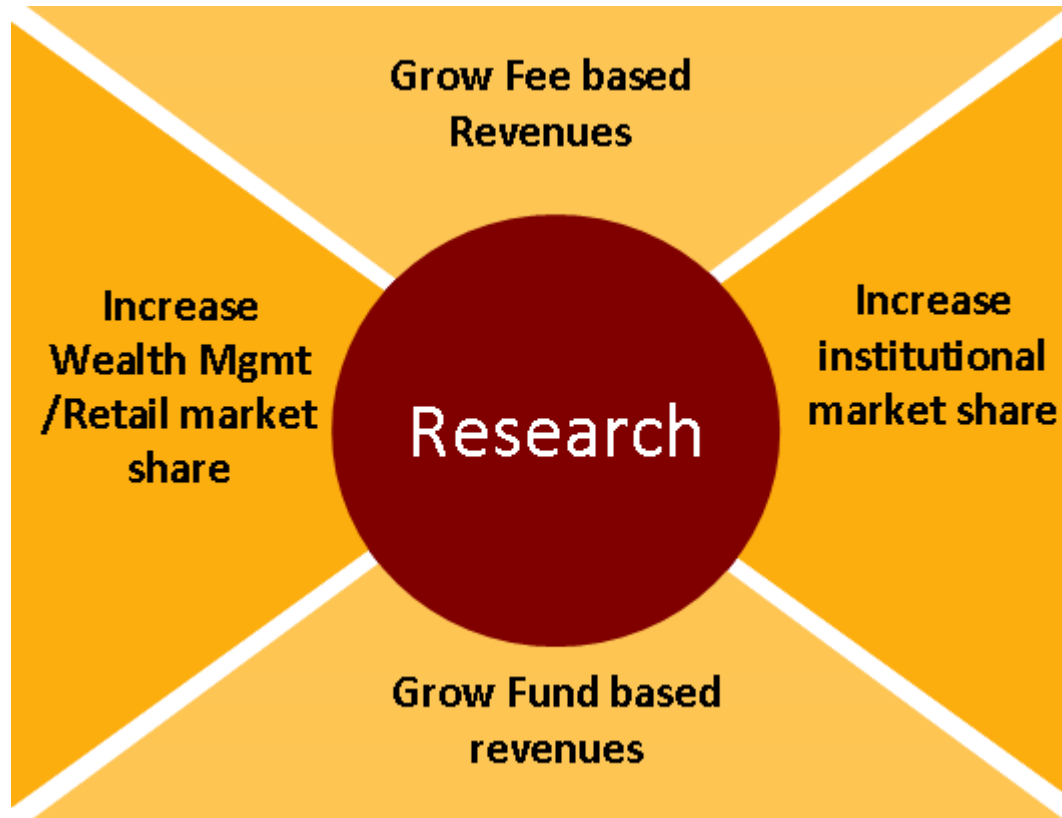


High energy and self-motivated with a “do it” attitude and entrepreneurial spirit

Attaining goals collectively and collaboratively

Performance gets differentiated, recognised and rewarded in an apolitical environment

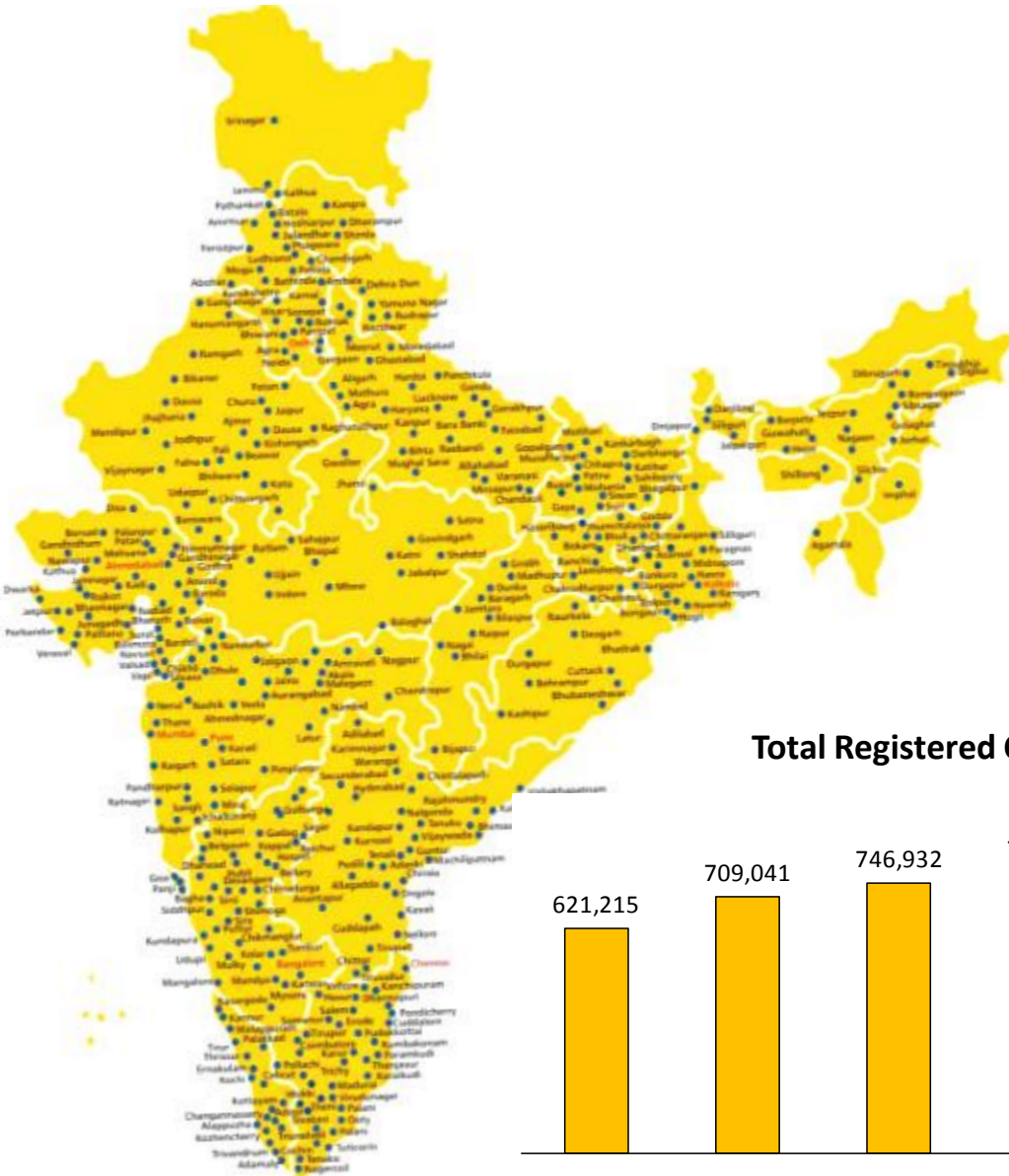
- Grow Investment banking business
- Build Asset management and Private equity business



- Strong distribution network across India
- Leverage research and advisory capability
- Create products suited to customer needs
- Increase distribution of third party products

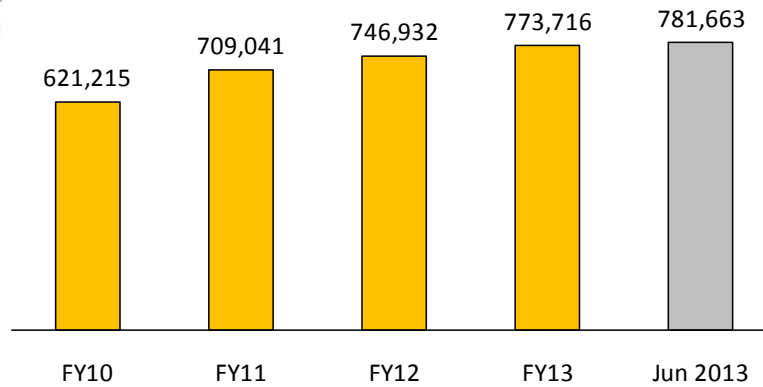
- Build stronger institutional relationships through wider and quality research
- Increase research support
- Grow institutional derivatives business

- Principal Strategies Group to maximize returns using risk free arbitrage strategies
- Grow capital market related lending business

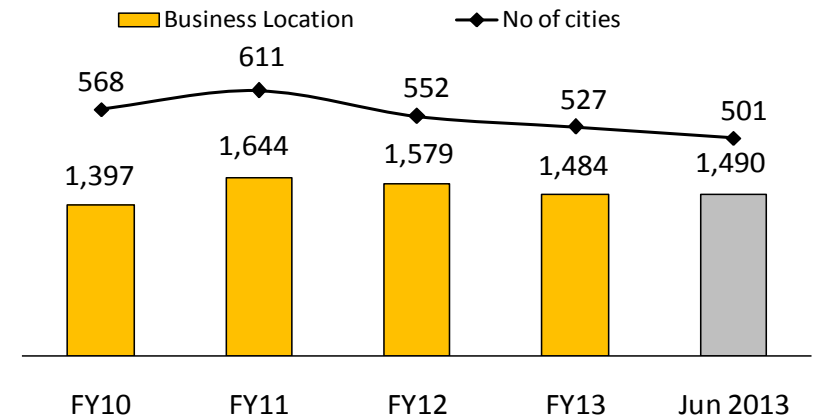


- Pan-India network with a presence in 501 cities across 1,490 business locations (branches plus franchisees), and complemented by a robust online channel
- Total registered client base of 781,663 which includes 685,022 retail broking and distribution clients
- Robust distribution network providing opportunities 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 27 research analysts covering over 200 companies across over 20 sectors and 27 commodities
- Focused on cash equities, equity derivatives and commodities and services all our business segments

## Strong Sales and Corporate Access Team

- Research supported by an extremely strong sales trading team comprising of qualified professionals
- Conducts a number of corporate access events throughout the year. Its Annual Investor Conference is one the largest event formats of its kind in this industry

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 17<sup>th</sup> Wealth Creation study held in December, 2012

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

## 2010

**15TH ANNUAL WEALTH CREATION STUDY (2005-2010)**  
**UU Investing**  
Creating wealth from the unknown and unknowable

**HIGHLIGHTS**

- UU situations offer asymmetric payoffs; these can be exploited only by investors with complementary skills and unique judgement.
- One payback rule remains the most reliable indicator in search of hidden wealth creation.
- TTS - Ten Trillion Dollar Savings through 2020 - will throw up many uncreating opportunities in Indian financial ecosystem.

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

THE BIGGEST		THE FASTEST		THE MOST CONSISTENT			
Rank	Company	Wealth Created (Rs. Cr)	Company	5-Year Price CAGR (%)	Company	Appeared in WC Study (4)	10-Year Price CAGR (%)
1	Reliance Inds.	2,206	Unitech	95	HeroCycles/Video	10	33.8
2	ONGC	1,790	Apco 3SD	85	Sun Pharma	10	33.2
3	WIPAC	1,614	EmkaySteel	82	Asian Paints	10	32.3
4	NTPC	1,200	Adani Enterprises	73	H.D.F.C.	10	29.1
5	S.N.E.L.	900	Sawtooth	47	HDFC Bank	10	26.7
6	Shree Raktwajaya	670	Shankar International	42	Reliance Inds.	10	23.7
7	TCS	435	Swk Int'l	56	Inves	10	19.8
8	HDFC Bank of India	422	Drumlin	30	Ernst/Mohandis/Bank	7	16.8
9	Larsen & Toubro	300	Whisper Steel	18	Hind Ziv	5	14.7
10	Bank of India	292	Hind Crane	8	Chirp D.C.	3	13.7

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We thank Mr. Divya Mehta (Divya.Mehta@Investments.in), Investment Consultant, for his invaluable contribution to this report.

**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 favorites of dividend, and offer as much, if not more, investment growth potential than lower 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 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 30 years, Blue Chips have significantly outperformed benchmark indices with much lower risk.

*"The risk of paying too high a price for a good quality stock -- while it still can -- is not the chief reason underlying the average underperformance of investors. Over time, over many years, the biggest reason for investment underperformance is the purchase of low-quality securities at times of excessive business confidence."*  
— Benjamin Graham, The Intelligent Investor

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

THE BIGGEST		THE FASTEST		THE MOST CONSISTENT			
Rank	Company	Wealth Created (Rs. Cr)	Company	5-Year Price CAGR (%)	Company	Appeared in WC Study (4)	10-Year Price CAGR (%)
1	Reliance Industries	1,740	Sarawati Agri	119	Kalot Mahindra Bank	10	47
2	TCS	1,579	Adani Enterprises	86	Sun Pharma	10	30
3	State Bank of India	1,275	Blackhat Steel	64	Asian Paints	10	31
4	Larsen	1,225	Arvind Steel	60	HDFC	10	29
5	WIPAC	833	Shreeing Int'l	59	HDFC Bank	10	28
6	HDFC Bank	678	Shikhar Transport	44	Reliance Industries	10	27
7	ITC	608	Commercial Int'l	40	ACC	10	24
8	HDFC	426	LIC Housing Finance	40	Inbasa	10	24
9	Larsen & Toubro	423	Bata Industries	41	CHDC	10	23
10	CHDC	416	Industrial Bank	41	Amul/Co Cements	10	21

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We thank Mr. Divya Mehta (Divya.Mehta@Investments.in), Investment Consultant, for his invaluable contribution to this report.

**Blue Chip Investing  
Creating Wealth from Dividends**

## 2012

**17TH ANNUAL WEALTH CREATION STUDY (2007-2012)**  
**Economic Moat**  
Fountainhead of Wealth Creation

**HIGHLIGHTS**

- Companies with products, profits and profitability of companies have competitive moat.
- Companies with competitive advantages persist of business. Most Companies (CMCA) leads to superior levels of profits and stock returns.
- New 2007-2012 CMCA in India have outperformed benchmark returns.
- Moat of business. Most business receive wealth destruction.
- Moats were proved to last for 10 to 20 years.

**TOP 10 WEALTH CREATORS (2007-2012)**

THE BIGGEST		THE FASTEST		THE MOST CONSISTENT			
Rank	Company	Wealth Created (Rs. Cr)	Company	5-Year Price CAGR (%)	Company	Appeared in WC Study (4)	10-Year Price CAGR (%)
1	Reliance Inds.	2,206	Unitech	95	HeroCycles/Video	10	33.8
2	ONGC	1,790	Apco 3SD	85	Sun Pharma	10	33.2
3	WIPAC	1,614	EmkaySteel	82	Asian Paints	10	32.3
4	NTPC	1,200	Adani Enterprises	73	H.D.F.C.	10	29.1
5	S.N.E.L.	900	Sawtooth	47	HDFC Bank	10	26.7
6	Shree Raktwajaya	670	Shankar International	42	Reliance Inds.	10	23.7
7	TCS	435	Swk Int'l	56	Inves	10	19.8
8	HDFC Bank of India	422	Drumlin	30	Ernst/Mohandis/Bank	7	16.8
9	Larsen & Toubro	300	Whisper Steel	18	Hind Ziv	5	14.7
10	Bank of India	292	Hind Crane	8	Chirp D.C.	3	13.7

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We thank Mr. Divya Mehta (Divya.Mehta@Investments.in), Investment Consultant, for his invaluable contribution to this report.

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## Emerging trends impacting institutional broking - Algorithmic Trading (Algos) & Direct Market Access (DMA)

- Algos & DMA have altered the integration relationship between clients and brokers - a must-have for brokers today
- Origin of DMA globally traced back to FIX (Financial Interface exchange) networks, with Fidelity-Salomon Smith the first firms to go live in 1994. FIX gained in popularity as it reduced chances of manual errors, etc. On the algo front, developments in programme trading, electronic markets, ECNs, decimalization etc furthered the popularity of algos
- In India, while algos started in 2005, it was after DMA was allowed that algos gained wider acceptance from 2008-09
- DMA and algos in India seen across almost all funds and in both cash & F&O volumes, though higher in F&O segment

**Purpose of this note is to (a) demystify these concepts to some extent - how they work, why they picked up, (b) benefit to clients, (c) how these impact institutional broking (the segment where its available in India)**

### 1. Direct Market Access:

- **What:** Enables clients to get direct access automatically to the exchange's system without manual intervention by the broker. In India, it is available only to institutional clients. At the broker's end, it works on the same system as other orders, except that the order type changes
- **Variants:** One-touch DMA and Zero-touch DMA. Under one-touch, the broker has a dedicated person to accept or reject the order, before sending the order 'as it is' for execution at the exchange. This helps checking the order as per risk management guidelines (RMS). In case of discrepancies, RMS can reject the order or send feedback to the client. The broker cannot modify the order, he can just accept or reject it – i.e. give authorization. Zero-touch DMA bypasses the broker altogether, but it undergoes automated RMS checks which are pre-defined and automated in the system. Broker will get to know such orders only from end-of-day reports, or if the client calls RMS desk in case of problems . In India, one-touch DMA is more preferred due to vulnerability of technical glitches, risk of fat fingers, etc. Also, clients often want a verbal confirmation from the broker before final execution, which is doable under one-touch DMA
- **Why:** a) Lowers the transaction costs, b) helps maintain order confidentiality as broker cannot see order/not supposed to reveal info, c) reduces chances of errors, d) helps extract best price for the trade, esp zero-touch, e) ability to integrate back-office operations into the system
- **RMS:** Checks for buy/sell limits, order type, tolerance limits, compliance with maximum holding % norms etc
- **Market share:** DMA comprise approx 20% of volumes in India currently, however this share had gone up to approx 30% at it's peak
- **Documentation:** Clients using DMA need to complete specific agreements with the broker, but these documentation are not a major challenge

## 2. Algorithmic Trading:

- **What:** Algos is a quantitative-based computer programme into which the trading strategy is codified. The programme analyzes quotes, volume, liquidity etc and turns it into automated trading decisions within seconds generating the timing/size of orders, often slicing a large order into small pieces. While algos executed via DMA earn lower yield in line with DMA, algos via manual orders earn yields comparable to normal trades
- **How:** Algos can be executed via both DMA and manual order. Algos run on proprietary or of third-party FIX connectivity between the client and broker. Every new algo is approved by the exchange and then uploaded on the client's OMS via FIX where he can view it. An algo sent by a specific broker can be executed only on the FIX mapped to that broker, while algos developed by buy-side can be executed via any broker
- **Why:** a) Processes more, at faster speed, b) Cheaper (if done via DMA), c) Allows buy-side to take control of their trading process, d) Disguises orders by slicing it into smaller pieces
- **RMS:** For algos running through DMA, the RMS checks of the broker are both at the basket level and at individual order level
- **Market structure:** Both sell-side and buy-side are developing algos in India. While this is a product for the sell-side to sell to as many clients as possible, they may customize for large clients in order to make it more relevant. Most foreign brokers already have in-house development experience. Most domestic brokers are largely utilizing third-party vendors as of now, though some are looking to build in-house capabilities
- **Types:** Based on 'parent parameter' & 'child parameter' - Parent parameters are based on a basic framework and are more popular in India. Complex strategies (variants of child parameter) yet to pick up. Popular algos are VWAP, TWAP, Percent of volume, Liquidity Seeker, Display Size

### Benefits to clients

- Reduction in latency

- Lowers transaction costs

- Captures best price and lowering of impact

- Disguises orders by slicing it in small pieces

- Reduces risk of manual errors

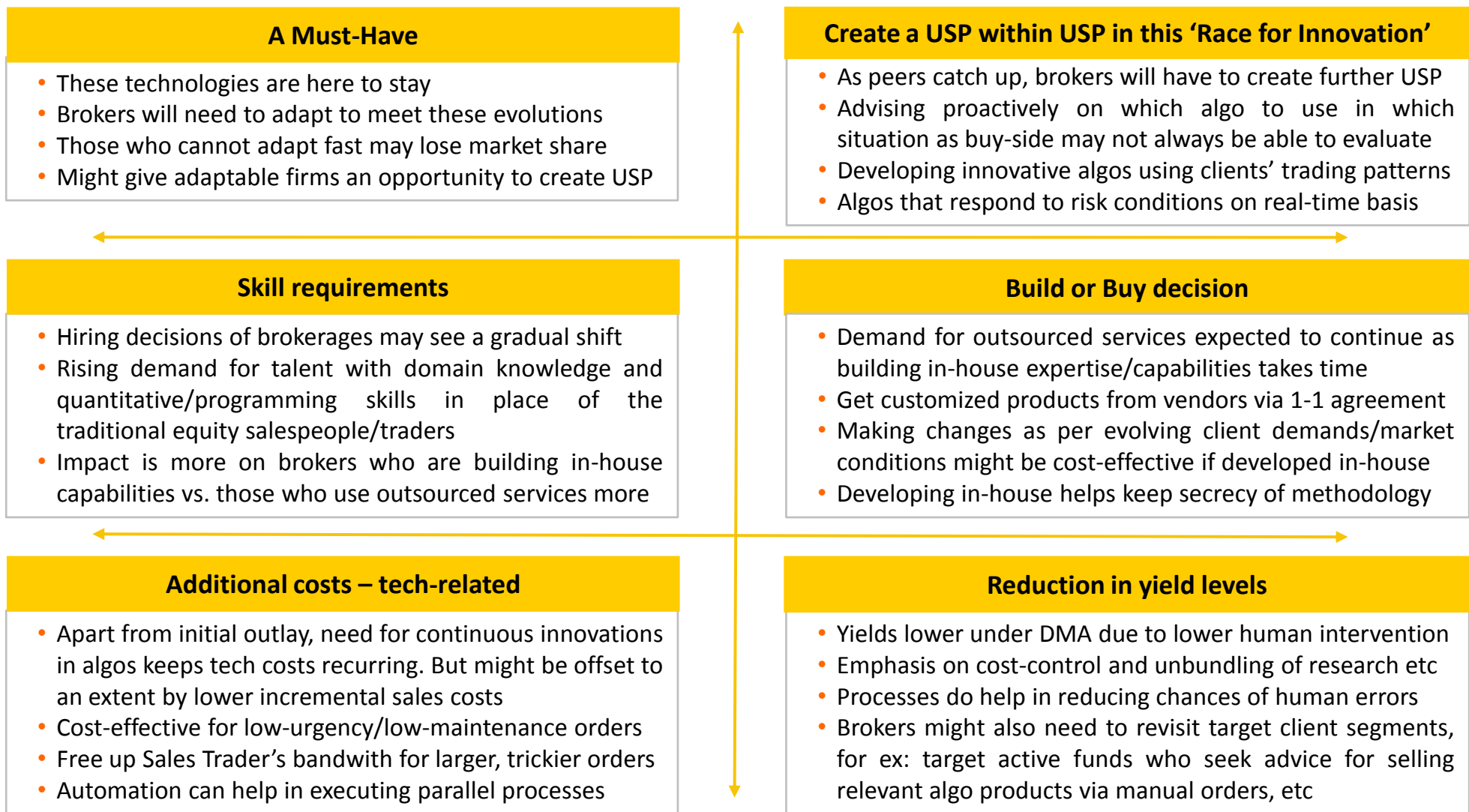
- Faster execution

- Reduces the time to react to market events

- Allows clients to take control of trades

- Identify opportunities for all market trends

**Challenges/Opportunities for the Institutional Broking business...**



*While making customized algos may help gain market share, the ability to make relevant products might depend on the extent of analysis shared between buy-side & sell-side, since such past discussions can give relevant clues. However, buy-sides might be wary of disclosing too much info about their strategies, bringing the emphasis on 1-1 agreements & info security measures for such products for client’s comfort*

Conclusion...

- Can be a cost-effective option for low-urgency/low-maintenance orders
- Can free up the Sales Trader's bandwidth to work on larger, trickier orders
- Automation can help in executing parallel processes that is a cost advantage
- Advising proactively on which algo to use in which situation might be value-add
- Developing innovative algos using clients' trading patterns/specific requirements
- Possible demand for algos that respond to risk conditions on real-time basis
- Celent's figs show an increasing no. of buy-sides in Asian peers are adopting DMA & rapid growth of algo trading seen as a percent of volumes amongst Asian peers
- India is prepared to handle next level of algo/DMA activity, as it has regulations in place, co-location facilities available from both equity exchanges, smart order routing between the exchanges have been operational, availability of educated manpower in technology/quants disciplines and has ability to handle large number of small sized trades
- Brokers need to adapt fast to meet evolving market trends. But it may also offer opportunities to gain market share. Algos provides an opportunity to develop relevant products as per market situations to pitch to clients and thus develop an USP
- Firms who can introduce innovative algorithms quickly, while keeping its costs in line, may eventually outpace peers in terms of market share and profitability

The screenshot shows a 'fin-sight' article from July 2013. The main headline is 'Emerging trends impacting institutional broking - Algorithmic Trading & Direct Market Access'. The article text discusses how DMA and Algos are changing the institutional broking landscape, highlighting the need for brokers to adapt to these trends. It mentions that Algos can provide a cost-effective option and free up sales traders' bandwidth. The article also touches upon the importance of automation and the need for brokers to develop relevant products. There are several sub-sections and a table at the bottom of the article.

Please click here to read the full article, plus access previous Fin-Sight articles:  
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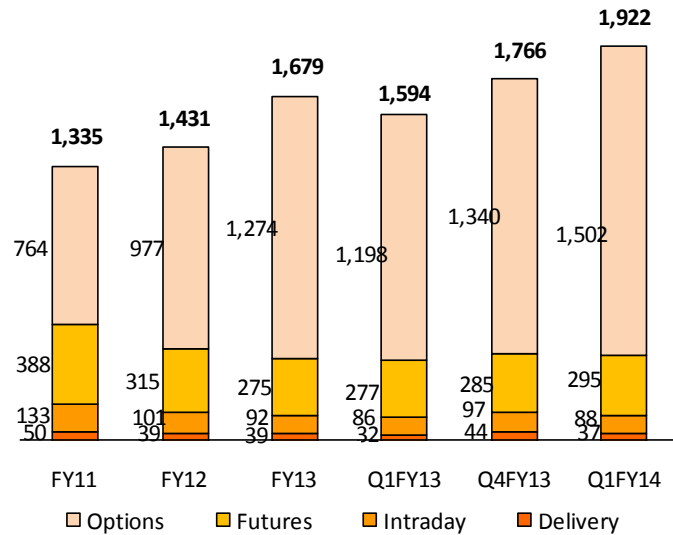
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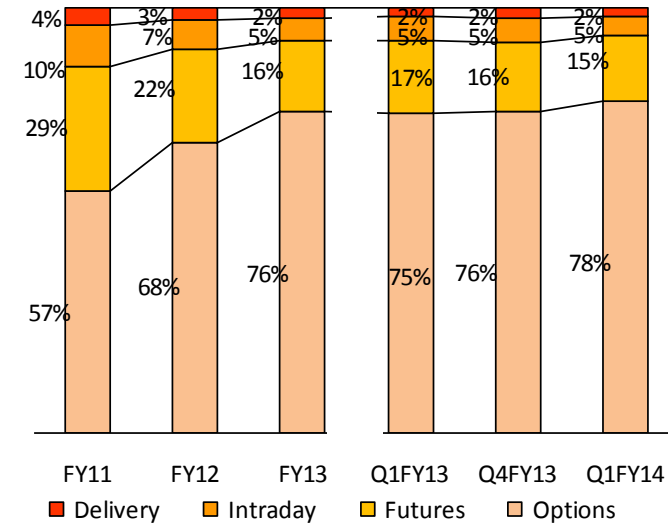
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Market ADTO continues to hit highs, buoyed by the options segment; Cash ADTO remains depressed (₹Bn)



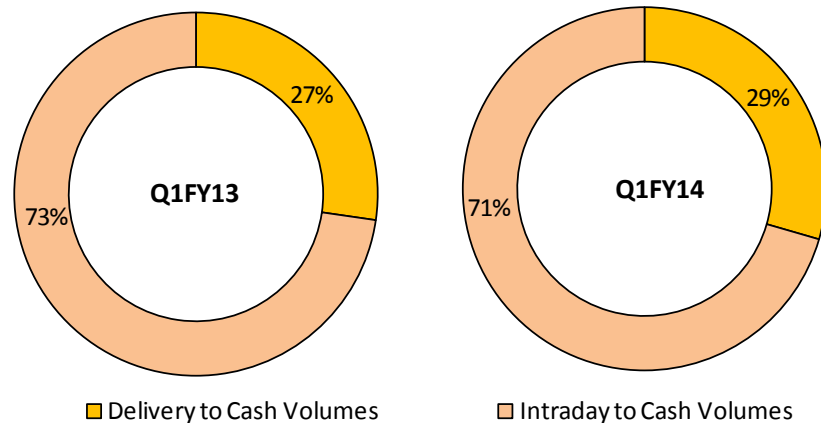
Source: NSE, BSE

Options continued their dominance and comprised 78% of market ADTO in Q1FY14; Cash to market ADTO at 6.5% of market ADTO

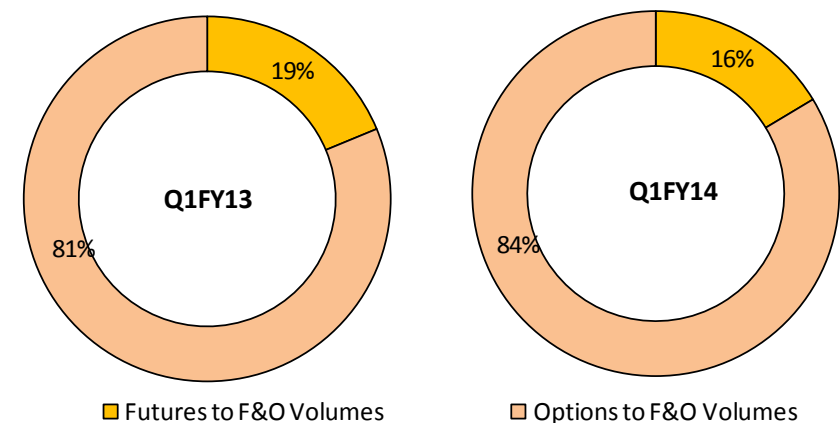


Source: NSE, BSE

On a YoY basis, the proportion of delivery within market cash volumes picked up this quarter



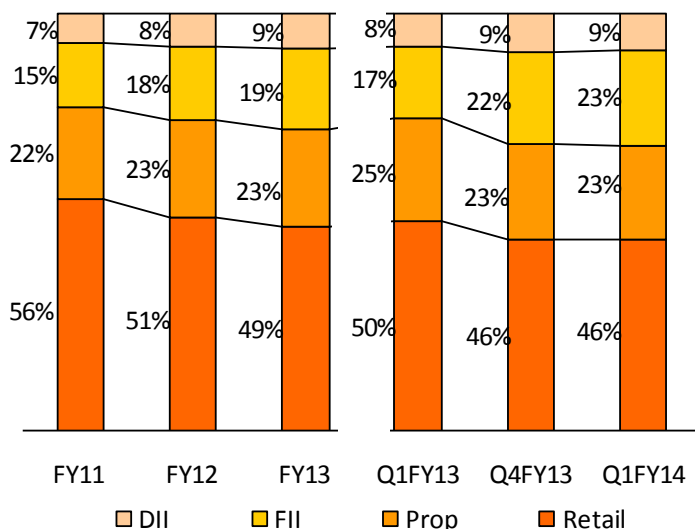
On a YoY basis, proportion of options within F&O volumes continued to grow



Source: NSE, BSE

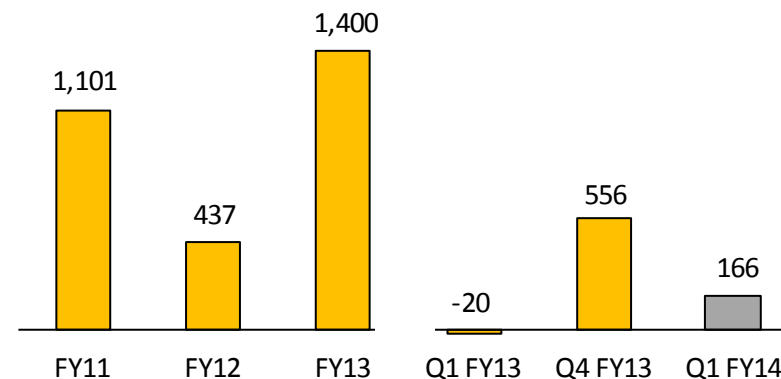
Source: NSE, BSE

Proportion of retail to cash volumes dips on a YoY basis this quarter, while FII proportion picked up slightly



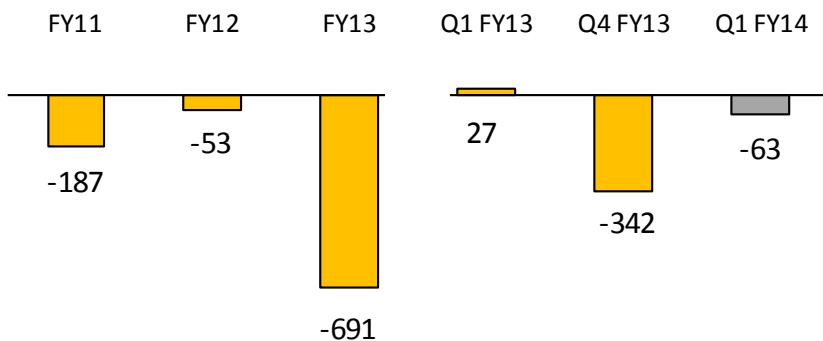
Source: NSE, BSE

While April, May saw strong inflows from FIIs, outflows in June due to multiple newsflow lowered the quarter's figure to less than half of that clocked in each of the last 3 quarters (₹Bn)



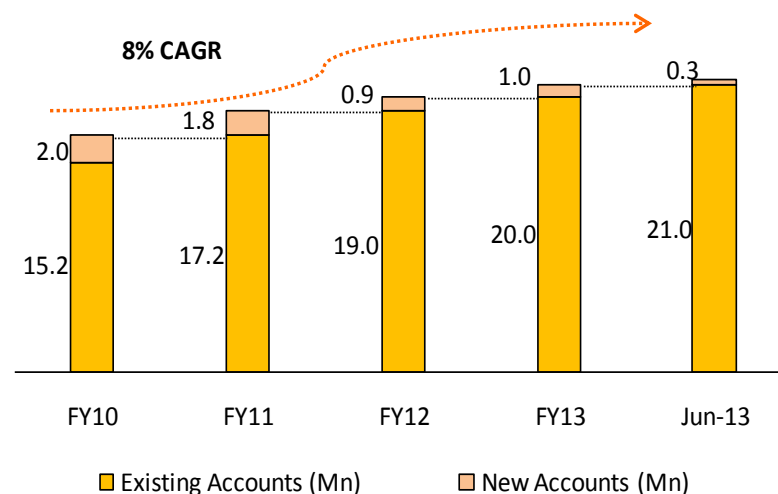
Source: SEBI

DIs continue to remain as net sellers since the last 4 quarters, although the net outflow seen this quarter was lower than earlier quarters (₹Bn)



Source: NSE

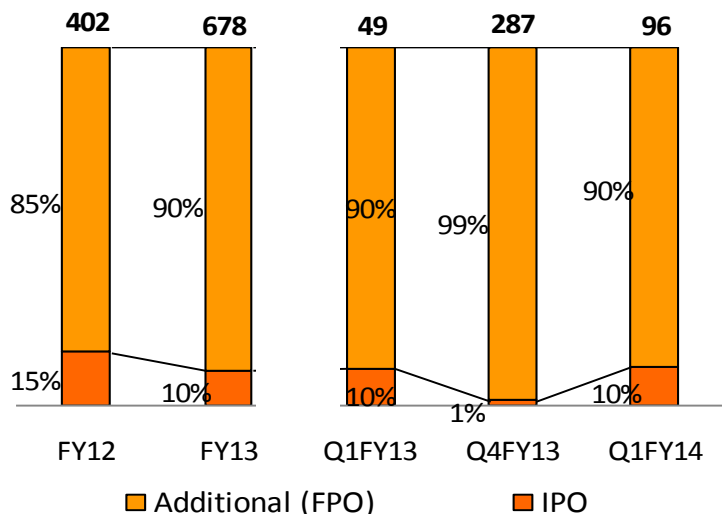
Growth in new demat accounts (Mn) at its lowest, as primary market activities have largely dried up



Source: CDSL, NSDL

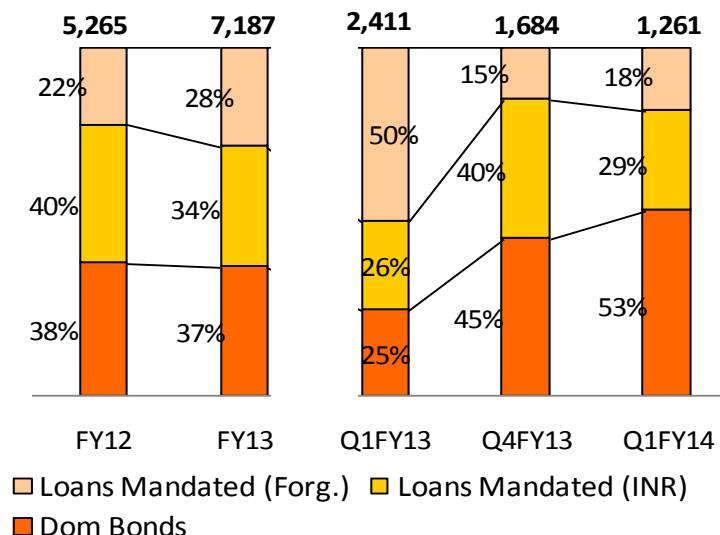


ECM remained depressed this quarter as well, Additional saw a dip after higher activity levels in Q4 due to Offer for Sale issues (Rs Bn)



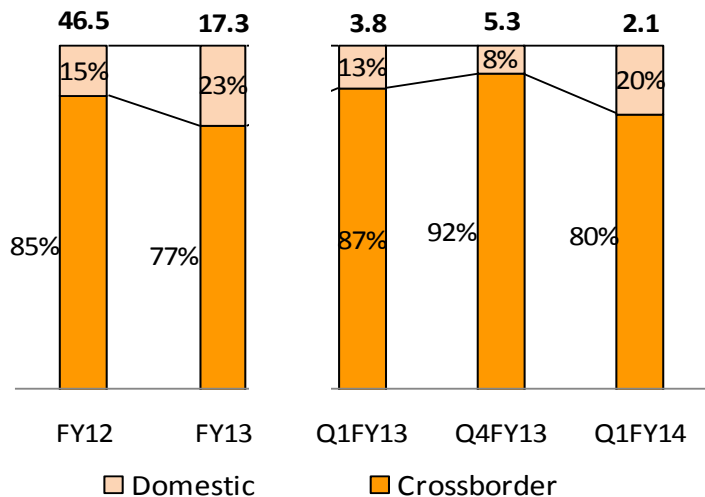
Source: Bloomberg

DCM moderated as companies possibly deferred their debt raising plans in anticipation of further rate cuts (Rs Bn)



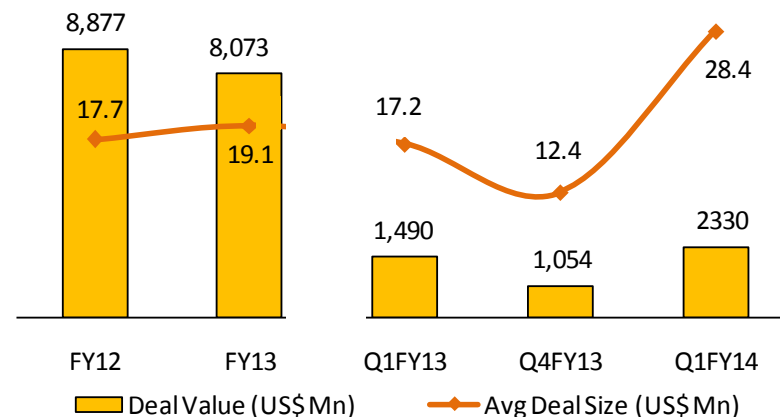
Source: Bloomberg

M&As slowed down this quarter, esp cross-border activity, as investors shied away given uncertain outlook (US\$Bn)

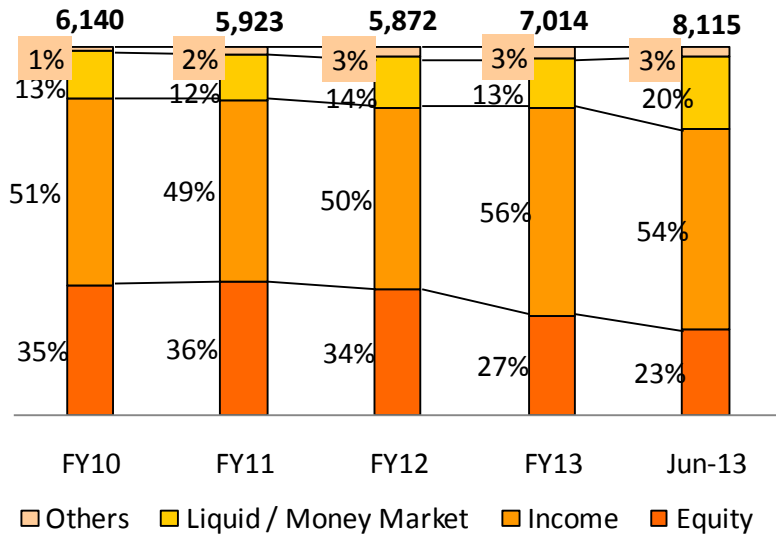


Source: Bloomberg

PE investments spiked solely due to the US\$1.3bn Bharti Airtel-Qatar Foundation deal. If this is excluded, PE deal values were comparable to those seen in the previous quarter

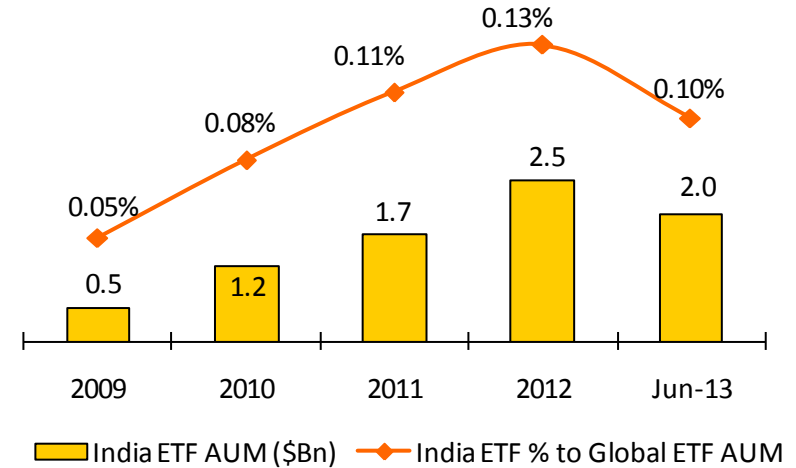


MF AUM saw an increase in Liquid funds on a QoQ basis, while Income funds saw a moderate growth. Equity MF remain muted



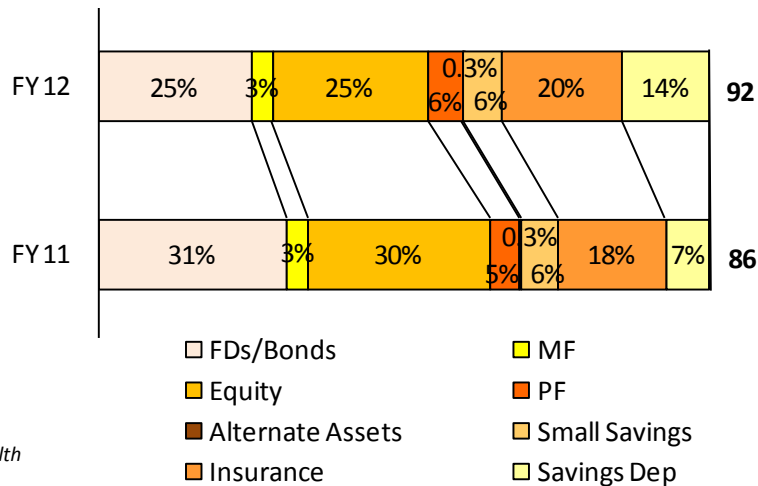
Source: AMFI

Indian ETF assets were lower this quarter owing to a decline in Gold ETF AUM, though Other ETFs saw a marginal uptick



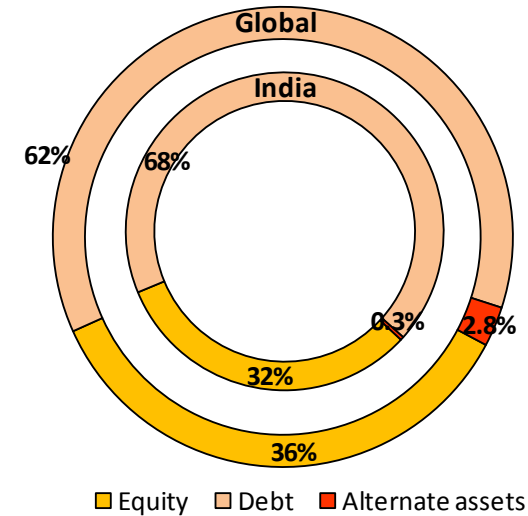
Source: AMFI/Blackrock report

Individual wealth in India is estimated at ₹92.3Tn in FY12, led by the fixed deposit/bonds, equity and insurance sectors



Source: Karvy Wealth report

Asset-wise wealth classification (as of 2011) shows Equity currently comprises a much lesser proportion in India than the Global average



Source: Karvy Wealth report

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## Thank You

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