Motilal Oswal Financial Services

ConCall Summary & Earnings Release

Quarter ended Dec 2011

17 Jan 2012

Motilal Oswal Financial Services Limited (MOFSL) posted consolidated revenues of ₹1.1b for the quarter ended 31 Dec 2011, down 3% QoQ and down 33% YoY. Reported PAT decreased by 26% QoQ and 38% YoY to ₹260m. Adjusted PAT at ₹261m remained flat on a QoQ basis and was down 38% YoY. Broking-related revenues was ₹715m, down 12% QoQ and down 41% YoY. Fund-based income at ₹190m was down 4% QoQ and down 31% YoY. Asset management fees was up 70% QoQ and up 58% YoY to ₹170m, while investment banking fees decreased by 10% on a QoQ basis to ₹13m.

For a deeper insight into the company's performance and the management's expectations, we present extracts from the post-results conference call. We have edited and rearranged the transcript for greater lucidity. We have also included exhibits from the company's presentation on its performance for the quarter ended Dec 2011. This presentation is available at www.motilaloswal.com.

Corporate Participants

Mr Motilal Oswal

Chairman and Managing Director

Mr Raamdeo Agrawal

Joint Managing Director & Co-founder

Mr Navin Agarwal

Director

Mr Sameer Kamath

Chief Financial Officer

Good morning, ladies and gentlemen. Welcome to the Q3 FY12 earnings conference call of Motilal Oswal Financial Services Limited. We have with us Mr. Motilal Oswal, Chairman and Managing Director, Mr. Raamdeo Agarwal, Co-Founder and Joint Managing Director, Mr. Navin Agarwal, Director and Mr. Sameer Kamath, Chief Financial Officer. For the duration of this presentation, all participants' lines will be in the listen-only mode. I will be standing by for the Q&A session. I would now like to invite Mr. Navin Agarwal to make his opening remarks. Thank you and over to you sir….

MOFSL CONSOLIDATED FINANCIALS (₹ Mn)

	Q3 FY12	Q2 FY12	CHG. QOQ	Q3 FY12	Q3 FY11	CHG. YOY	9M FY12	9M FY11	CHG. YOY	FY11
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 O/s (Mn) - FV ₹1/share	145	145		145	144		145	144		144

E & EOI = Exceptional & extraordinary items *Source: MOFSL's presentation on Dec 2011 earnings*

REVENUE COMPOSITION (₹ Mn)

	Q3 FY12	Q2 FY12	CHG. QOQ	Q3 FY12	Q3 FY11	CHG. YOY	9M FY12	9M FY11	CHG. YOY	FY11
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
Total Revenues	1,106	1,143	-3%	1,106	1,653	-33%	3,369	4,744	-29%	6,004

Source: MOFSL's presentation on Dec 2011 earnings

Opening remarks

Good afternoon everybody. It is my pleasure to welcome all of you to the Motilal Oswal Financial Services earnings call for the Third Quarter ended December 2011. I will start by giving a brief backdrop of the broad market, the industry segments, and then run you through our own performance for the quarter ended December 2011.

Equity markets

Indian equity markets witnessed another challenging quarter. Macro-economic, policy-making, currency and global concerns impacted Indian corporate earnings, expansion plans and GDP outlook adversely. This resulted in India being one of the worst performing markets globally this year. Investors across segments opted to stay away from equities leading to lower participation levels. The benchmark Sensex returns in each quarter of 2011 has been negative, an unusual trend compared to the last 15-20 years. This has recurred only two or three times in the past. It ended the quarter at 15,455, down 6% QoQ and down 25% YoY in INR terms and over 35% in dollar terms. The BSE market capitalization was US$1.01t in Dec 2011, down 19% QoQ and down

37% YoY. With inflation coming under control this quarter with expectations of some kick-starting of policy post the UP elections, we have seen a pickup in cash market volumes in the last few days, particularly the last five or six trading days, well above the levels that we saw in the previous quarter. So the calendar year 2012 had started on a better note.

Average daily market turnover (ADTO) of equities in Q3 FY12 was ₹1.41t, down 4% QoQ and down 5% YoY. Both cash and F&O segments saw drop in volumes on a QoQ basis. ADTO in F&O segment was ₹1.29t in Q3 FY12, down 3% QoQ and up 1% YoY. Cash ADTO, which is more important to track our broking revenues, were down down 13% QoQ and down 42% YoY. However, the YoY change is also impacted by the fact that the third quarter of the previous year had seen a growth in cash volumes owing to few good quality public issues of PSU stocks at that time. Despite the dip in volumes across segments, the proportion of option volumes within the overall mix continued to be quite high at 71% and this compared with 57% in the same quarter of last year. On the other hand, the declining cash market volume as a proportion of total volumes also continued and the cash segment comprised 8% during the current quarter compared to 14% in the same quarter of last year.

All the segments saw decline in volume. Retail volumes were down by 16% QoQ, FII volumes were down by 13% QoQ and DII volumes were down by 11% QoQ. In terms of the composition of the market, retail contributed to 50% of the cash volumes, prop contributed 24%, FII contributed 18% and DII contributed 8% of the total volumes of the market during the current quarter.

SEBI's recent decision to allow Qualified Foreign Investors (QFI), including overseas individuals, to invest directly in Indian stock markets is a step in the right direction. This is expected to increase access to a wider base of investors. As the markets show sustained signs of improvement, this should positively impact equity participation and help deepen the capital markets. Uniform KYC guidelines are another positive step taken by SEBI to simplify the process for retail investors and should help to encourage investment flows from small investors into the capital markets.

With improvements in recent data on food inflation and IIP growth, along with possibility of a stall in interest rate hikes, January has seen a positive start in terms of cash volumes. Cash have comprised 12% of market volumes in January MTD, while derivatives comprised 88%.

Institutional activity

FIIs continued to exit from equities this quarter too, in terms of net flows. The current economic climate and market performance has made Indian equities relatively less attractive as compared to global peers. Q3 FY12 saw net outflow of ~US$0.5b vs net outflow of ~US$0.6b in Q2 FY12 and vs net inflows of ~US$10.9b seen in Q3 FY11. January MTD has already seen net inflows from FIIs to the tune of ~US$0.5b, including positive inflows on each day of the second week. This is an encouraging sign.

Although DIIs have shown a steady pick-up in terms of equity inflows this year, their net inflows this quarter was lower this quarter. Net inflows by DIIs were ~US$0.7b in Q3 FY12, as compared to ~US$2.1b in Q2 FY12. Q3 FY11 had seen a net outflow of US$2.2b.

Investment banking and private equity

M&A deal value was US$9.6b in Q3FY12, up from US$5.9b in Q2FY12. But this increase in deal value was largely attributable to the closure of a large transaction – the Cairn-Vedanta deal. Apart from this, the M&A market has remained largely sluggish this quarter. An emerging trend in M&A deal activity is that it has shown a shift from outbound to inbound this quarter, despite the Cairn transaction. Inbound segment comprised ~86% of total deal value this quarter, while outbound deals comprised 8%.

Fund raisings via IPOs hit a low as many companies delayed their fund raising plans in light of current market conditions. IPO value was US$0.1b by 8 companies in Q3 FY12, down from the US$0.5b raised by 12 companies in Q2 FY12. Fund raising via QIPs was nil in Q3FY12, as compared to US$0.1b raised by 3 companies in Q2 FY12.

Private equity deal value was US$1.4b across 106 deals in Q3 FY12, lower than the US$2.3b across 109 deals in Q2 FY12. Average deal size has declined from US$21m to US$13m over the same period, indicating that the appetite for large sized deals has reduced this quarter.

Asset management

Assets under management of mutual funds were ₹6.1t as on Dec 31, 2011, as compared to ₹6.4t on Sept 30, 2011. This decline is mainly attributable to the equity funds as well as liquid/money market funds. Equity funds were impacted by the current market performance and liquid/money market funds were impacted by regulatory changes regarding a cap on banks' investments in them. As equity markets under-performed, other relatively attractive avenues saw increased investor interest and launch of new products. Thus, Gilt, Gold and Other ETF segment was the only one that showed a growth in AUM this quarter.

Indian ETF assets were US$1.7b as of Dec 31, 2011, as compared to US$1.3b as of Sep 30, 2011. The drop in Indian equity ETF assets this quarter was countered by the growth in gold ETF assets.

MOFSL's Performance

- Consolidated revenue for Q3 FY12 was ₹1.1b, down 3% as compared to Q2 FY12 and down 33% from Q3 FY11.
- Reported PAT for Q3 FY12 at ₹260m is down 26% as compared to Q2 FY12 and down 38% from Q3 FY11
- Adjusted PAT for Q3 FY12 at ₹261m is almost flat as compared to Q2 FY12 and down 38% from Q2 FY1. Reported PAT for Q2 FY12 has been adjusted for certain onetime item i.e. profit on sale of fixed assets ₹130m (PAT impact ₹88m) for better comparison of operating performance. EBITDA and Adjusted PAT margins for Q3 FY12 have held firm at 37% (35% in Q2 FY12) and 24% (23% in Q2 FY12), respectively.
- Declared interim dividend of ₹1 per equity share (Face value of ₹1 per equity share)
- Strong balance sheet with net worth of ₹11.5b, net cash of ₹1.4b and negligible debt, as of Dec 31, 2011. Company's strategy of maintaining low gearing and focusing on its core businesses has helped sustain strong performance despite the current market cycle

Segment-wise business performance:

- Broking and related revenues were ₹715m in Q3 FY12, down 12% QoQ and down 41% YoY. Although market volumes dipped this quarter across all segments owing to weak sentiments, the proportion of options within the overall mix continued to increase. Our equity market share declined marginally from 1.9% in Q2 FY12 to 1.8% in Q3 FY12. However, our blended yield has held firm at 4.7 bps over the same period. We continue to maintain 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
- Fund based income was ₹190m, down 4% from Q2 FY12 and down 31% from Q3 FY11. It contributed 17% of total revenues. The loan book size was ₹2.4b as of Dec 31, 2011.
- Asset management fees in Q3 FY12 were ₹170m, up 70% QoQ. It contributed 15% of total group revenues. Total Assets under Management for the Group were ~₹22.3b as of Dec 31, 2011. This includes PMS AUM of ₹12.1b, mutual funds AUM of ₹2.8b and private equity AUM/AUA of ₹7.5b. The sequential growth in revenues is attributable to the first close of the domestic leg of the new Private Equity growth fund - IBEF-II.
- Investment banking fees in Q3 FY12 were ₹13m, down 10% QoQ.
- Wealth Management business - "Purple Client Group" managed assets of ~₹12.3b, as of Dec 31, 2011.
- Other income of ₹18m in Q3 FY12.

MOFSL General Highlights

- 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 successfully mobilized ₹736m
- Motilal Oswal Private Equity concluded the first closing of its domestic fund- India Business Excellence Fund II (IBEF-II) in October, 2011. This will be MOPE's 2nd sector-agnostic growth capital fund, for which fund raising is currently underway
- 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 - Sep 2011

Thematic initiative

As a part of our continuous initiative to share knowledge on the financial services sector, we have started a thematic series called Fin Sight. In each article, we aimed to discuss a topic impacting the sector. The last issue studies the topic 'Declining cash volumes in Indian equity markets and the factors that can affect a trend reversal'.

We will be posting more of these insights going forward as well. The full article is available on our corporate website in the Investor Relations section under Presentation. We would look forward to your feedback and questions to help us provide you a better perspective on the capital markets business going forward.

Outlook

The Indian markets have undergone a significant correction over the last year owing to various headwinds, and are now relatively more attractive for long term investing. Going forward, the reining in of inflation, reduction in interest rates and improved industrial output should have a positive impact on market performance, outlook and investor sentiments.

We believe that the long-term Indian growth story is intact and would present several growth opportunities for financial services companies. We are focused on this opportunity and are methodically building a customer focused organization with low financial leverage that has helped the company deliver reasonable performance across market cycles. We believe that our focus on knowledge driven efforts and building a robust franchise will help us garner a meaningful market share in the profitable parts of the capital markets space.

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

Broking & Distribution, Wealth Management and Institutional Broking

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

	Q3 FY12	Q2 FY12	CHG. QOQ	Q3 FY12	Q3 FY11	CHG. YOY	9M FY12	9M FY11	CHG. YOY	FY11
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 & extraordinary items *Source: MOFSL's presentation on Dec 2011 earnings*

Of the total broking revenues and PBT, what component would be from the retail and the institutional businesses?

We look at broking as one integrated segment and give out the revenues and profits from the entire broking business in our disclosures as a single unit. Looking at the contribution to the top-line and bottom line, about 70% of our top-line and PAT each, came from the broking business this quarter.

How much were the volumes this quarter?

Our equity turnover was about ₹25b this quarter, in terms of average daily volumes.

The client addition this quarter was slower, is this trend expected to continue?

Looking at the broader numbers in the market, two things have happened. The new additions to the number of demat accounts opened have reduced significantly (shown separately in our presentation). There were about 1.8 million demat accounts in the market at the end of FY11. However, the addition has been just about 0.7 million for the nine months of FY12. Also, retail participation itself has slowed down in the markets. Our performance is only a reflection of these factors.

The reported yield at 4.7 bps is more or less in line with the last quarter, despite the fact that the proportion of options continued to rise sequentially. How have your cash volumes been impacted? Could you share the cash market share?

We have retained our market share in the cash segment. The marginal drop seen is largely due to the mix change, with the proportion of cash volumes in the market coming down from 9% to about 8%. This is a minor arithmetic thing, otherwise we are holding our market shares across segments.

Our cash market share would be much higher than the overall reported market share.

How have the institutional and retail volumes moved in the market, both in terms of absolute and percentage to the cash volumes, from FY08 till date?

The third quarter of FY08 would mark the peak volumes as far as the institutional cash segment is concerned. The institutional cash volumes averaged at ~₹45b in FY08, down to ~₹33b in FY09, went up again in FY10 and FY11 at ~₹40b each, and have come down to ~₹34b so far this year. The retail cash volumes averaged at ~₹110b in FY08, which dropped to ~₹84b in FY09, then increased in FY10 to ~₹130b in FY10, before coming down to ~₹100b in FY11 and ~₹68b this year till date. Looking at the institutional and retail mix, retail was about ~55% of the total cash market volumes in FY08. This has fallen to ~51% this year. Institutions, which used to be ~ 22% of the total cash volumes in FY08, have taken the share from retail to comprise ~26% this year.

How has the retail brokerage moved, in terms of absolute yield? Has the yield come down to last three years?

We do not see any pressure on the intra segmental yields. So, delivery to delivery and likewise for intraday, futures and options, we have not seen a yield pressure as such. The drop in blended yield is largely attributable to the volume mix change and not because of intra segmental pressure changes.

Given the fragmented nature of the Indian broking industry in India, do you see any opportunity for consolidation given the current market scenario?

There is a huge opportunity for consolidation. But that may not happen in the Indian context because of the very nature of most of the players. We do not think we are going to see mega-consolidation with a number of players coming together and forming a big outfit. Most likely, those players who would find it unviable to continue would quit, and about 50 to 100 players will be left on the ground to grab the major market share. That is the kind of consolidation that we see, i.e. the top 50 players gaining market share from the current levels.

In terms of cash volumes handled in the market, the top 100 players would be close to ~76% currently. The real consolidation has happened during the bull runs. Through the cycle of 2003 to 2008 which was the last big bull run, the share of the top 100 actually consolidated by ~15%, from ~60% of total cash volumes in 2003 to ~74% in 2008.

We have always seen that during the rising market, the well-established players are able to get a larger share of the incremental business and so the consolidation happens in a very natural way. What is most likely to happen is that if depression continues for another year or two, the next bull run consolidation might be much more pronounced.

What are the assumptions behind the ₹112b revenue potential in equity broking? How much would be share of cash in this? What margins have been applied for institutional and retail segments? Have you accounted for prop segment?

The market volumes reported by the various exchanges can be broken into three main segments, cash delivery, cash intraday and futures & options. There is a further breakdown provided between the prop business and the agency business, i.e. the retail and institutional business. We have used each of the segments as far as volume data is concerned. The growth assumptions are based on the trading velocity which is currently very low and of which, that of cash is even lower. There are also certain qualitative assumptions made which we feel will help the markets expand going forward and that's how we quantified the growth in revenues.

Regarding margins, this is applied on a segment to segment level. We have used probable yields in the market based on our interactions with industry players. In institution, there are only two segments, as it does not have intraday. So there are only delivery and futures & option segments where we have applied intra segment yields to get the overall institution broking revenues. Yields here could vary between 10-15 bps for cash and as low as 1.5-2 bps for F&O. It varies within retail as well. Delivery margins here could be in a broad range between 20-50 bps, and it can go down to as low as 2 bps for options.

This is how we have estimated the revenue pool of ₹112b across retail plus institution. Of this, the cash market share would be typically larger, to the extent of about 70% at least.

We have not accounted any revenues for the prop segment. Prop is largely a fund-based activity, so it is not being quantified. This estimation is purely agency broking revenues.

What is the outlook on the commodities broking space? Do you see this segment growing exponentially going forward? What is the market share in this space?

There has been some growth in commodities turnover. We are now seeing daily volumes of ~₹520b regularly, but this is predominantly across few commodities. This is an asset class which is rising. Wherever the volatility in prices is visible, there has been a growth in volumes. So, it depends upon how the price levels of the various commodities pan out, especially in gold, silver, crude and few agro commodities. It is very difficult to make the call on international price volatility of these commodities. But the interest and the participation are increasing.

Another factor is that since the equity market has not delivered much, so lot of volume has shifted from equity to commodities. So, the business keeps on shifting from one segment to another, between commodities, equities and to some extent currencies.

We have got a lot of our clients actually participating in the commodities business. We are methodically building that business.

Fund Based Income

MOFSL STANDALONE FINANCIALS (₹ Mn)

	Q3 FY12	Q2 FY12	CHG. QOQ	Q3 FY12	Q3 FY11	CHG. YOY	9M FY12	9M FY11	CHG. YOY	FY11
Total Revenues	113	124	-9%	113	187	-40%	569	540	5%	642
EBIDTA	90	95	-5%	90	173	-48%	456	496	-8%	577
PBT (before E & EOI)	89	94	-5%	89	162	-45%	454	484	-6%	565
Reported PAT (after E & EOI)	62	65	-5%	62	109	-44%	375	374	0%	427
PAT (after E & EOI)	62	65	-5%	62	109	-44%	375	374	0%	427

E & EOI = Exceptional & extraordinary items *Source: MOFSL's presentation on Dec 2011 earnings*

Asset Management

KEY FINANCIALS: ASSET MANAGEMENT (₹ Mn)

	Q3 FY12	Q2 FY12	CHG. QOQ	Q3 FY12	Q3 FY11	CHG. YOY	9M FY12	9M FY11	CHG. YOY	FY11
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)
Reported PAT (after 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 & extraordinary items *Source: MOFSL's presentation on Dec 2011 earnings*

Private Equity

KEY FINANCIALS: PRIVATE EQUITY (₹ Mn)

	Q3 FY12	Q2 FY12	CHG. QOQ	Q3 FY12	Q3 FY11	CHG. YOY	9M FY12	9M FY11	CHG. YOY	FY11
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
Reported PAT (after 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 & extraordinary items *Source: MOFSL's presentation on Dec 2011 earnings*

What was the amount raised this quarter in the new private equity fund? Is some part of the increase in the QoQ fees one-off, nonrecurring in nature or is this is likely to continue over time?

In the last quarter, we had the first closing of the domestic part of the new private equity fund and are in the process of completing the first closing of the offshore part as well. In total, we have raised a corpus of about ₹3.5b in this new fund so far. When the fund is closed, one can charge the corpus for the establishment fees etc, so the increase in QoQ fees is largely a part of regular business, but some part would be one-off in nature as well. The expenses would have been incurred through the period in the P&L and this is the income coming in as and when the fund achieved its first close.

Investment Banking

KEY FINANCIALS: INVESTMENT BANKING (₹ Mn)

	Q3 FY12	Q2 FY12	CHG. QOQ	Q3 FY12	Q3 FY11	CHG. YOY	9M FY12	9M FY11	CHG. YOY	FY11
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
Reported PAT (after 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 & extraordinary items *Source: MOFSL's presentation on Dec 2011 earnings*

Overall

What is the status on the new corporate office? When do you plan to move? Are you planning to rent a portion out and what would be the possible rental income?

We are planning to move from March onwards. So, the complete migration for all the businesses will happen from the first quarter of next financial year maybe. We have 12 floors in all. About 8 floors will be occupied by us and we are looking at the option to lease out about 4 floors. The rent in that area would be about ₹130-150 per square feet, and about 80,000-90,000 square feet will be available for lease.

Assuming there is no improvement and 2012 is an equally challenging year like 2011, is the company's performance at the bottom or can it go even worse, i.e. is the ₹260m PAT in the quarter the bottom, even if it is a couple of bad years?

It is very difficult to make out. But if you look at the last three quarters, you will see the same level of performance more or less, in PAT terms. We feel that the worse is behind us, but we can't rule out any kind of issues in the markets, looking at inflation and the domestic issues. However, we remain quite hopeful and optimistic.

The company's profits can be split into two or three parts. The PBT in our oldest business, broking (for which we report separate financials) was down by 40% in the 9 months period as compared to the 9 months of the previous year. Looking at the volumes of the last 2-3 quarters and our own outlook for this year, we believe that this may well be the absolute bottom in terms of volumes, revenues and profits for the core broking business.

As far as the non-broking business is concerned, which contributes to the balance 30% of the revenues, this can be split further into capital based and agency based businesses. The agency businesses have not contributed much to the profits this year while they had collectively contributed meaningfully to the profits in the previous cycle. Some of them are still in a build-out mode and they should start contributing to profits going forward. So the delta there should be bigger than the delta in the broking businesses going forward, because they are not contributing anything to the profits now.

As far as the capital based business is concerned, our operating profits are all free cash flow because there is no capex requirement. The pool available for deployment will only increase because of the (a) operating cash flow of the company and (b) the sale of the offices in south Mumbai once we move into the new building sometime in the next three months. So the cash available for generating returns and income would only go up.

These are the three streams - broking business down 40%, non-broking businesses contributing equal to the profits and capital accumulation only rising even after the dividend payout for the interim dividend. So, we are looking at the future definitely with a lot of optimism.

The improvement is mainly on the cost front this quarter. Consolidated revenue is down by 3% QoQ and cost is down by 7%. Is there some conscious effort that has been put or some particular item that has changed? Which are the parameters on which the company has tried to reduce costs?

Our total revenues are down 3%, but the broking revenues are down 12%. The operating expenses are variabalized to broking revenues because of the franchisee model that we have and this has also reduced by 12%. Hence, a large part of our costs are directly linked to the revenues because of the franchisee model that we pursue. The change in the broking business' top-line and the change in the operating expenses are matching and that is the dominant source of cost reduction. This is why we are seeing the overall operating margins being higher than last reported quarter. All other costs have actually declined less than the top-line itself.

What is the cash and debt that is held in the balance sheet, as of December? What are the rates at which you are funding?

We are holding close to ₹1.4b of cash, which is used as working capital. We have had zero debt in the balance sheet for the last two to three quarters. Since we have not borrowed anything, we don't have any cost of funds as of now.

INVESTOR UPDATE

Motilal Oswal Financial Services reports Q3 FY12 topline of ₹1.1 billion, down 3% QoQ; Adjusted PAT of ₹261 million, flat on a QoQ basis; declares interim dividend of ₹1 per equity share (F.V. ₹1)

Mumbai, January 16, 2012: Motilal Oswal Financial Services (MOFSL), a leading financial services company, announced its results for the quarter ended December 31, 2011 post approval by the Board of Directors at a meeting held in Mumbai on January 16, 2012.

Performance Highlights

₹Million	Q3 FY12	Q2 FY12	Comparison (Q2 FY12)
Total Revenues	1,106	1,143	↓ 3%
EBIDTA	411	397	↑ 3%
Reported PAT	260	350	↓ 26%
Adjusted PAT	261	262	0%
EPS- ₹ (FV of ₹1)	1.8	2.4	

Performance for the Quarter ended December 31, 2011

- Revenues for the quarter at ₹1.1 billion is marginally down by 3% as compared to Q2 FY12
- Reported PAT for Q3 FY12 at ₹260 million is down 26% from Q2 FY12
- Adjusted PAT for Q3 FY12 at ₹261 million is almost flat as compared to Q2 FY12
- EBITDA and Adjusted PAT margins have held firm at 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 debt, as of Dec 31, 2011

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

"The Indian markets continued to face pressures from macro-economic and global financial concerns this quarter, which impacted investor sentiments. Participation remained muted across segments, and FIIs again saw net outflows from equities. The latest food inflation and IIP numbers have been encouraging. As the macro factors show sustained signs of easing out, it should give the markets a clearer visibility and bring back participation to earlier levels. Our focus to build a diversified financial services organization is on track with the launch of our new Gilt mutual fund and the first closing of the domestic leg of the second growth capital PE fund – IBEF II. We continue to believe in the long term opportunity in financial services and remain committed to build a robust and profitable franchise that will be able to garner a meaningful market share in the capital markets space."

Segment results for Q3 FY12

- Broking and related revenues were ₹715 million this quarter, down 12% from Q2 FY12. Although market volumes dipped this quarter across all segments owing to weak sentiments, the proportion of options within the overall 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
- Fund based income was ₹190 million, down 4% as compared to Q2 FY12 and down 31% from Q3 FY11. It contributed 17% of total revenues. The loan book was ₹2.4 billion as of Dec 31, 2011
- Asset Management fees were ₹170 million, up 70% from Q2 FY12. This segment contributed 15% of 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, down 10% as compared to Q2 FY12
- Other income was ₹18 million in Q3 FY12

Business highlights for Q3 FY12

- Total client base increased to 738,156, which includes 650,272 retail broking and distribution clients
- Pan-India retail distribution reach stood at 1,563 business locations across 555 cities
- Total Assets under Management for the Group were ~₹22.3 billion as of Dec 31, 2011. This includes PMS AUM of ₹12.1 billion, mutual funds AUM of ₹2.8 billion and private equity assets under advice of ₹7.5 billion
- Wealth Management business - “Purple Client Group” managed assets of ~₹12.3 billion, as of Dec 31, 2011
- Depository assets were ₹99.8 billion, as of Dec 31, 2011
- 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 2nd sector-agnostic growth capital fund, for which fund raising is currently underway
- 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

About Motilal Oswal Financial Services Limited

Motilal Oswal Financial Services Ltd. (NSE: MOTILALOFS, BSE: 532892, BLOOMBERG: MOFS IN) is a well-diversified, financial services company focused on wealth creation for all its customers, such as institutional, corporate, HNI and retail. Its services and product offerings include wealth management, retail broking and distribution, institutional broking, asset management, investment banking, private equity, commodity broking and principal strategies. The company distributes these products through 1,563 business locations spread across 555 cities and the online channel to over 738,156 registered customers. MOFSL has strong research capabilities, which enables them to identify market trends and stocks with high growth potential, facilitating clients to take well- informed and timely decisions. MOFSL has been ranked by various polls such as the Best Local Brokerage 2005, Most Independent Research - Local Brokerage 2006 and Best Overall Country Research - Local Brokerage 2007 in the Asia Money Brokerage Polls for India. In the StarMine India Broker Rankings 2009 from Thomson Reuters, we won awards in 3 out of 4 categories and also bagged the No. 1 Broker Award in the ET Now – StarMine Analyst

Awards 2009. We were adjudged as the 'Best Performing Equity Broker (National)' at the CNBC TV18 Financial Advisors Awards 2010. MOSL won 4 awards in the ET-Now Starmine Analyst Awards 2010-11, placing it amongst the Top-3 award winning brokers, was ranked No. 2 by AsiaMoney Brokers Poll 2010 in the Best Local Brokerage Category and won the 'Best Market Analyst' Award for 2 sectors at the India's Best Market Analyst Awards 2011. Our mutual fund product, M-50 ETF bagged the 'Most Innovative Fund of the Year' award at the CNBC TV18 CRISIL Mutual Funds Awards 2011. MOFSL won awards for Excellence in HR through Technology and Excellence in Healthcare at Asia's Best Employer Brand Awards 2011 in Singapore, and the 'Best Capital Markets and Related NBFC' award at the CNBC TV18 Best Banks and Financial Institutions Awards 2011. MOSL also won the 'Best Equity Broking House' award for FY11 at the Dun & Bradstreet Equity Broking Awards 2011.

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CONSOLIDATED UNAUDITED FINANCIAL RESULTS FOR THE QUARTER & NINE MONTHS ENDED 31ST DECEMBER 2011

(Rs in Lacs)

Particulars	Quarter Ended			Nine Months Ended		Year Ended
	31.12.2011	30.09.2011	31.12.2010	31.12.2011	31.12.2010	31.03.2011
1. (a) Income from Operations	10,590	10,982	16,184	32,388	45,529	57,669
(b) Other Operating Income	284	219	301	821	1,015	1,316
Total	**10,874**	**11,201**	**16,485**	**33,209**	**46,544**	**58,985**
2. Expenditure						
a. Operating Cost	2,581	2,920	4,142	8,203	11,372	14,551
b. Employees cost	2,752	2,843	3,312	8,503	11,117	14,219
c. Depreciation	269	269	337	813	988	1,313
d. Other expenditure	1,620	1,694	2,148	5,422	6,346	8,311
e. Total	**7,222**	**7,726**	**9,939**	**22,941**	**29,823**	**38,394**
3. Profit from Operations before Other Income, Interest & Exceptional Items (1-2)	**3,652**	**3,475**	**6,546**	**10,268**	**16,721**	**20,591**
4. Other Income	187	228	48	477	892	1,052
5. Profit before Interest & Exceptional Items (3+4)	3,839	3,703	6,594	10,745	17,613	21,643
6. Interest	57	80	207	216	478	569
7. Profit after Interest but before Exceptional Items (5-6)	3,782	3,623	6,387	10,529	17,135	21,074
8. Exceptional Items - (Expense)/Income	-	1,299	-	1,299	-	-
9. Profit / (Loss) from Ordinary Activities before tax (7-8)	**3,782**	**4,922**	**6,387**	**11,828**	**17,135**	**21,074**
10. Tax expense	1,166	1,426	2,144	3,592	5,637	7,124
11. Net Profit / (Loss) from Ordinary Activities after tax but before minority interests (9-10)	2,616	3,496	4,243	8,236	11,498	13,950
12. Share of minority interests in (profits)/ loss	(14)	(0)	(29)	(21)	(347)	(244)
13. Net Profit from Ordinary Activities after tax and Minority Interests (11-12)	**2,602**	**3,495**	**4,214**	**8,215**	**11,151**	**13,706**
14. Paid-up equity share capital (Face Value of Re. 1/- Per Share)	1,451	1,451	1,443	1,451	1,443	1,444
15. Reserves excluding Revaluation Reserves						104,499
16. Earnings Per Share (EPS)						
a) Basic EPS	1.80	2.41	2.92	5.67	7.85	9.52
b) Diluted EPS	1.80	2.41	2.92	5.67	7.84	9.52
17. Dividend Per Share (Face Value Re. 1 each)						1.40
18. Public shareholding						
- Number of shares	43,278,211	44,543,618	44,440,379	43,278,211	44,440,379	44,531,979
- Percentage of	29.82%	30.69%	30.79%	29.82%	30.79%	30.84%
19. Promoters and promoter group Shareholding						
a) Pledged/Encumbered						
- Number of shares	8,500,000	8,500,000	8,500,000	8,500,000	8,500,000	8,500,000
- Percentage of shares (as a % of the total shareholding of promoter and promoter group)	8.35%	8.45%	8.51%	8.35%	8.51%	8.51%
- Percentage of shares (as a % of the total share capital of the company)	5.86%	5.86%	5.89%	5.86%	5.89%	5.89%
b) Non-encumbered						
- Number of shares	93,341,258	92,075,851	91,376,300	93,341,258	91,376,300	91,387,250
- Percentage of shares (as a% of the total shareholding of promoter and promoter group)	91.65%	91.55%	91.49%	91.65%	91.49%	91.49%
- Percentage of shares (as a % of the total share capital of the company)	64.32%	63.45%	63.32%	64.32%	63.32%	63.28%

Notes

1)The above results were reviewed by the Audit Committee and taken on record by the Board of Directors of the Company at its Meeting held on Monday, 16th January, 2012. The results for the quarter ended 31st December, 2011 have been reviewed by the Statutory Auditors of the Company.

2) The consolidated results of the Company include the results of the subsidiaries – Motilal Oswal Securities Limited (99.95%), Motilal Oswal Investment Advisors Private Limited (93.75%), Motilal Oswal Private Equity Advisors Private Limited (85%), Motilal Oswal Commodities Broker Private Limited (97.55%), Motilal Oswal Capital Markets Private Limited (99.95%), Motilal Oswal Wealth Management Private Limited (Formerly known as Antop Traders Private Limited) (99.95%), Motilal Oswal Insurance Brokers Private Limited (99%), Motilal Oswal Asset Management Company Limited (99.95%), Motilal Oswal Trustee Company Limited (99.95%), Motilal Oswal Securities International Private Limited (99.95%), Motilal Oswal Capital Markets (Singapore) Pte Ltd (99.95%) & Motilal Oswal Capital Markets (Hong kong) Private Limited (99.95%).

3)The Board of Directors at its meeting held on January 16, 2012, has declared an interim dividend of Rs 1 / - per equity share (on face value of Re 1 per equity share) for the financial year 2011-12.

4)The financial statements of two foreign subsidiaries which reflect total revenue of Rs. Nil for the quarter and period ended 31.12.2011 and net loss after tax of Rs. 4.77 lacs & 7.50 lacs for the quarter and period ended 31st December, 2011 respectively are certified by the management.

5) Exceptional item for the nine months ended 31st December, 2011 consists of Profit on sale of Office Premises of Rs. 1299 Lacs.

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

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

Particulars	Quarter Ended			Nine Months Ended		Year Ended
	31.12.2011	**30.09.2011**	**31.12.2010**	**31.12.2011**	**31.12.2010**	**31.03.2011**
Gross Revenue	1,132	1,238	1,874	5,686	5,402	6,425
Profit Before Tax	889	940	1,619	4,538	4,842	5,654
Profit After Tax	617	651	1,092	3,754	3,739	4,266

8) Information on investor complaints pursuant to Clause 41 of the Listing Agreement for the quarter ended 31st December, 2011

Particulars	Opening balance	Additions	Disposal	Closing balance
Number of complaints	NIL	7	7	NIL

9) CONSOLIDATED UNAUDITED SEGMENT RESULTS FOR THE QUARTER AND NINE MONTHS ENDED 31ST DECEMBER 2011

(Rs in Lacs)

Particulars	Quarter Ended			Nine Months Ended		Year Ended
	31.12.2011	30.09.2011	31.12.2010	31.12.2011	31.12.2010	31.03.2011
1. Segment Revenue						
(a) Equity Broking & Other related activities	8,203	9,847	13,241	26,627	38,518	48,299
(b) Financing & Other activities	1,132	1,238	1,874	3,673	4,061	5,084
(c) Investment Banking	160	228	499	733	3,515	4,052
(d) Unallocated	2,432	1,805	1,544	5,749	3,131	4,893
Total	**11,927**	**13,118**	**17,158**	**36,782**	**49,225**	**62,328**
Less: Inter Segment Revenue	866	390	625	1,796	1,789	2,291
Income From Operations, Other Operating income & Other Income	**11,061**	**12,728**	**16,533**	**34,985**	**47,436**	**60,037**
2. Segment Results Profit / (Loss) before tax and interest from Each segment						
(a) Equity Broking & Other related activities	2,596	3,727	4,338	8,602	12,343	14,955
(b) Financing & Other activities	889	940	1,619	2,524	3,502	4,314
(c) Investment Banking	(178)	(90)	177	(288)	1,574	1,832
(d) Unallocated	579	431	402	1,259	171	524
Total	**3,885**	**5,008**	**6,536**	**12,097**	**17,590**	**21,625**
Less: Interest	103	86	149	270	455	551
Profit/(Loss) from Ordinary Activities before Tax	**3,782**	**4,922**	**6,387**	**11,828**	**17,135**	**21,074**
3. Capital Employed						
(Segment assets – Segment Liabilities)						
(a) Equity Broking & Other related activities	44,994	44,938	41,798	44,994	41,798	51,842
(b) Financing & Other activities	56,811	56,093	53,441	56,811	53,441	54,149
(c) Investment Banking	584	664	954	584	954	1,050
(d) Unallocated	12,204	10,300	10,654	12,204	10,654	(1,090)
Total	**114,593**	**111,995**	**106,847**	**114,593**	**106,847**	**105,951**

Notes:

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

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

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

Motilal Oswal
Chairman & Managing Director

Mumbai, 16th January, 2012
investors@motilaloswal.com.