Motilal Oswal
Financial Services

ConCall Summary & Earnings Release

Quarter ended Sep 2012

19 Oct 2012

Motilal Oswal Financial Services Limited (MOFSL) posted consolidated revenues of ₹1.1b for the quarter ended 30 Sep 2012, up 3% QoQ and down 1% YoY. Reported PAT at ₹229m was up by 13% QoQ and down 34% YoY. Adjusted PAT at ₹229m was up 13% on a QoQ basis and down 12% YoY. Broking-related revenues was ₹728m, up 5% QoQ and down 10% YoY. Fund-based income at ₹211m was up 1% QoQ and up 6% on a YoY basis. Asset management fees was down 12% on a QoQ basis and up 35% on a YoY basis to ₹136m. Investment banking fees at ₹23m was down 15% QoQ, but up 62% YoY.

For a deeper insight into the company's performance and the management's expectations, we present extracts from the post-results conference call. We have edited and rearranged the transcript for greater lucidity. We have also included exhibits from the company's presentation on its performance for the quarter ended Sep 2012. This presentation is available at www.motilaloswal.com

Corporate Participants

Mr Motilal Oswal

Chairman and Managing Director

Mr Raamdeo Agrawal

Co Founder and Joint Managing Director

Mr Navin Agarwal

Director

Mr Sameer Kamath

Chief Financial Officer

This document includes forward looking statements, including discussions about the management's plans and objectives and about expected changes in revenues and financial conditions. Forward-looking statements about the financial condition, results of operations, plans and business are subject to various risks and uncertainties that could cause actual results to differ materially from those set forth in this document. You should not construe any of these statements as assurances of financial performance or as promises of particular courses of action.

Good morning, ladies and gentlemen. Welcome to the 2Q FY13 earnings conference call of Motilal Oswal Financial Services Limited. We have with us Mr. Motilal Oswal, Chairman and Managing Director, Mr. Raamdeo Agrawal, 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)

	2Q FY13	1Q FY13	CHG. QOQ	2Q FY13	2Q FY12	CHG. YOY	6M FY13	6M FY12	CHG. YOY	FY12
Total Revenues	**1,127**	**1,093**	**3%**	**1,127**	**1,143**	**-1%**	**2,220**	**2,262**	**-2%**	**4,656**
EBIDTA	400	366	9%	400	397	1%	767	745	3%	1,562
PBT (before E & EOI)	332	298	11%	332	362	-8%	631	675	-7%	1,396
Reported PAT (after E & EOI)	229	202	13%	229	350	-34%	431	561	-23%	1,039
Adjusted PAT	**229**	**202**	**13%**	**229**	**262**	**-12%**	**431**	**474**	**-9%**	**951**
EPS - Basic	1.6	1.4		1.6	2.4		3.0	3.9		7.2
EPS - Diluted	1.6	1.4		1.6	2.4		3.0	3.9		7.2
No.of shares o/s (mn) - FV Rs 1/share	145	145		145	145		145	145		145

E & EOI = Exceptional & extraordinary items *Source: MOFSL's presentation on Sep 2012 earnings*

REVENUE COMPOSITION (₹Mn)

	2Q FY13	1Q FY13	CHG. QOQ	2Q FY13	2Q FY12	CHG. YOY	6M FY13	6M FY12	CHG. YOY	FY12
Brokerage & operating income	728	693	5%	728	808	-10%	1,422	1,579	-10%	3,202
Investment banking fees	23	27	-15%	23	14	62%	50	36	40%	86
Fund based income	211	209	1%	211	198	6%	420	407	3%	822
Asset management fees	136	155	-12%	136	100	35%	291	204	43%	504
Other income	29	9	205%	29	22	30%	38	37	4%	42
Total Revenues	**1,127**	**1,093**	**3%**	**1,127**	**1,143**	**-1%**	**2,220**	**2,262**	**-2%**	**4,656**

Source: MOFSL's presentation on Sep 2012 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 Second Quarter ended September 2012. 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 September 2012.

Equity markets

Although most part of 2Q FY13 remained at muted levels as seen during 1Q FY13, September saw some positive news flow. Early signs of a few domestic reforms and net inflows from FIIs helped boost investor sentiments. As a result, Indian markets were up 8% QoQ in 2Q FY13. Market cap on BSE moved up by 9% QoQ to US$1.2t, about 60% of GDP, well below the peak of about 160% witnessed in early 2008.

Average daily market volumes grew 4% QoQ to ₹1.7t in 2Q FY13. Options grew 6% QoQ to comprise 76% of market volumes. A turnaround in investor sentiments positively impacted participation in the cash segment, with cash volumes up by 6% QoQ to about ₹125b. It had reached ₹143b in the month of September, the highest cash volume seen since the month of March this year. Increased participation was particularly seen in cash delivery, which rose by 15% on a QoQ basis. While its proportion to overall market volumes grew from 2% to 2.3% on a QoQ basis, it touched 2.8% in September alone. Proportion of overall cash volumes in total volumes was 7.6% in 2Q FY13, marginally up QoQ due to lower growth in intraday volumes vs delivery based volumes.

The proportion of FII and DII within cash volumes increased during 2QFY13 on a QoQ basis, as they led the growth in absolute volumes. Retail saw only a marginal growth as it typically exhibits some kind of a lag whenever there is a pick-up in the overall market volume.

The month of October has also started on positive note with cash segment volumes of about ₹150b, higher than 2Q FY13 levels. Its proportion to total market volumes has also grown to ~10%, although volumes have tapered off in the last few days.

We would like to highlight here that the share of top 100 brokers in equity market volumes increased from ~44% in 1998 to ~77% in 2012 with bulk of this consolidation happening during 2003-08 upcycle. We would expect a similar consolidation in volumes in favor of the top brokers in the next upcycle as well.

Institutional activity

The quarter saw renewed buying by FIIs in all 3 months. FII net inflows into equities were ~US$7.3b in 1Q FY13, as compared to ~US$0.4b of net outflows in 1QFY13. This is largely attributable to global liquidity injection and positive developments on the domestic reforms front.

DIIs saw net outflows of ~US$3.4b in 2Q FY13 vs net inflows of ~US$0.5b in 1Q FY13. Mutual funds saw higher redemptions in the quarter, rendering DIIs as net sellers.

Investment banking and private equity

M&A deal value remain subdued this year. 2Q FY13 saw deals of US$2.6b, as compared to US$13.3b worth of deals in the same period last year. The larger deals in the quarter were mostly cross-border acquisition and divestments.

Equity-raising remained sluggish. IPO and QIP activities were at minimal levels. Additional issuance (which includes FPOs, block and other syndicated deals) was the only segment that saw some volume this quarter.

Debt raising were largely flat on a QoQ basis. Domestic bond issuances and INR loans saw slight declines, while foreign loans saw a pick-up in the quarter.

PE deal values showed an uptick in 2Q FY13, but this was only due to the Bain Capital-Genpact deal. If this transaction is excluded, the quarter actually saw lower deal values on both QoQ and YoY basis. IT/ITES, BFSI, Manufacturing, Engineering dominated in terms of deal values.

Asset management

Assets under management of mutual funds were ₹7.2t as on Sept 2012, up from ₹6.9t in June 2012. The increase is largely attributable to Debt funds. September saw a pick-up in the Equity segment although it was driven by market appreciation and no inflows.

Indian ETF assets continued its uptick to reach US$2.4b as of Sept 2012. Gold ETFs continued to grow this quarter. Other ETFs also saw a healthy growth in AUM, especially in the month of September itself

MOFSL's Performance

- Revenues for the quarter at ₹1,127m is up 3% on a QoQ basis and down 1% on a YoY basis
- Reported PAT for 2Q FY13 at ₹229m is up 13% on a QoQ basis and down 34% on a YoY basis
- Adjusted PAT for the quarter at ₹229m is up 13% on a QoQ basis but down 12% on a YoY basis. Adjusted PAT accounts for a profit of ₹88mn post-tax earned during 2QFY12 from the sale of office property. The drop in Adjusted PAT in 2QFY13 on a Year on Year basis is attributable to higher depreciation charge on the new corporate office
- EBITDA and Reported PAT margins improved to 36% (34% in 1Q FY13) and 20% (19% in 1Q FY13) respectively
- Strong balance sheet with net worth of ₹11.9b, net cash of ₹1.3b and nil debt, as of Sept 2012
- The Board has declared an interim dividend of ₹1 per share

Segment-wise business performance:

- Broking and related revenues at ₹728m were up 5% from 1Q FY13 and down 10% from 2Q FY12. Our overall equity market share dipped from 1.5% to 1.4% during the quarter, but we continue to maintain high market share in the high-yield cash segment including cash delivery, which is our focus area. Our blended yield marginally increased from 4.8 bps to 5.0 bps on a QoQ basis
- Pan-India retail distribution reach stood at 1,554 business locations across 530 cities
- Fund based income were ₹211m, up 1% QoQ and up 6% on a YoY basis. It contributed 19% of total group revenues. The loan book was ₹3.5b as of Sept 2012 vs ₹3b in June 2012.
- Asset Management fees at ₹136m was down 12% QoQ and up 35% YoY. Total Assets under Management for the Group were ~₹31.6b as of Sept 2012. Within this, mutual fund AUM was ₹5.8b, PE AUA was ₹12.4b and PMS AUM was ₹13.5b. The private equity business has been strengthened with the appointment of Somak Ghosh as its Co-CEO, who would be responsible for growing the real estate fund business and establishing the Sustainable Social Impact Fund. Prior to this, he had been the Co-Founder and Group President, Government & Development Banking at Yes Bank
- Investment banking fees at ₹23m were down 15% from 1Q FY13, though up by 62% from 2Q FY12. Investment banking business continued to be subdued across

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the industry, impacting transaction closures and flow of new projects.

- Other income was ₹29m in 2Q FY13.
- Wealth Management managed assets of ~₹15.8b, as of Sept 2012

MOFSL General Highlights

- Institutional Equities conducted the 8th Annual Motilal Oswal Global Investor Conference in Mumbai in Aug, 2012. Over 100 leading companies and experts interacted with over 180 institutional funds from across the world
- Sudhir Dhar, Head - Human Resources, MOFSL, received the 'Most Powerful HR Professionals of India' award at the World HRD Congress

Thematic initiative

The October issue of our thematic article series 'Fin-Sight', studies the topic – "Wealth management landscape and opportunity in India, Learnings from the global experience". The article is available on our website - in the Investor Relations section.

Outlook

The Indian economy and markets have undergone significant stress since the last year and a half. However, positive news flow in second half of September improved investor sentiments and participation levels, helping end the quarter on a positive note.

The traction that you see in the overall revenues, EBIDTA and profit particularly for the securities business, is led by an uptake which lasted for a mere 2 weeks out of the 13 weeks during the current quarter.

Going forward, as the reforms wheel shows sustained signs of building speed, the markets will hope to return to higher participation levels and fund-raising activities. We remain focused on building our businesses towards this objective, and putting strategies and processes in place in order to capture the resultant upside.

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)

	2Q FY13	1Q FY13	CHG. QOQ	2Q FY13	2Q FY12	CHG. YOY	6M FY13	6M FY12	CHG. YOY	FY12
Total Revenues	843	783	8%	843	869	-3%	1,626	1,732	-6%	3,577
EBIDTA	290	259	12%	290	281	3%	548	541	1%	1,182
PBT (before E & EOI)	247	214	15%	247	248	-1%	461	474	-3%	1,031
PAT (before E & EOI)	171	144	18%	171	183	-7%	315	337	-7%	727
PAT (after E & EOI)	171	144	18%	171	270	-37%	315	425	-26%	815

E & EOI = Exceptional & extraordinary items

Source: MOFSL's presentation on Sep 2012 earnings

How do you see the volume mix spanning out in the next 2-3 quarters, especially retail and HNI participation. Are we seeing the same traction in October also?

The volumes mix in the market improved in favour of cash in the current quarter, where we have higher yields, higher market share and more focus as a firm. During any period of sustained market upturn, the overall market volume typically rises. But it is more important for the cash market volumes to go up during such periods. These are some of the trends that could play out if there is a sustained upturn in the market for a few quarters. October saw a similar traction at the beginning, with cash volumes at almost 13% of total volumes. This has been quite encouraging. But the volumes have tapered off slightly in the last 4-5 days bringing down the month's average to about 10% so far. There is no real indication of how the overall quarter will shape up.

What was the mix of cash to F&O in the March ending quarter, when the volumes were also not that great? How do you see this going forward?

Cash was close to about 11% of the total market volumes in 4Q FY12. This declined to about 7.4% in 1Q FY13, and has further declined to about 7% in July and August. There was a significant uptake in the last few days of September, when it picked up to 9%. We saw a peak with 13% of the total volume coming from cash in the initial days of October, though this has slightly tapered off to around 7.5-8% for the last few days. Hence, whenever there is a positive sentiment and there is some traction in activity levels, the cash volumes have picked up in proportion to the overall market volumes.

Also, the biggest participants in the September rally had been the FIIs and domestic funds. Their contribution to cash volumes went up from a 24-25% run rate to about 28-29%. Retail has been largely stagnant in this rally. Going forward, we could expect some uptick coming from retail, as and when there is a sustainable increase in cash volumes.

What is the outlook on the yields?

Yields have remained depressed for the better part of the last few quarters. During the last financial year, our reported blended yield was close to ~4.8 bps. The first quarter also saw a similar trend. Now, on the back of the cash volume spurt, our yield has gone up marginally. Reported yields during FY10, when cash volumes were higher, were closer to about 5.8-6 bps. That indicates the potential for yields to catch again to those levels, once cash volumes start picking up.

There could be some impact on the DII side due to the cap of 12 bps introduced by SEBI in the cash segment. One of the other reasons why DII volumes have not gone up is the redemptions pressure in equities. This quarter saw close to ~₹60b of net outflows. We think that once retail sentiment turns positive and the net inflows come into equity, then there would be a volume uptake on the DII side. This would hopefully grow the absolute commission numbers to overcome the impact of the 12 bps cap.

The number of branches is down QoQ, from 1,565 in 1Q to 1,554 in this quarter?

As a conscious strategy, we keep adding about 25-30 franchises on a monthly basis. We also look at our network and see which franchises have not delivered up to the standards and who are not been able to scale up their business. We proactively close those franchises, because one can find a better alternative in that area. It is an ongoing exercise. Hence, the number of outlets may look slightly lower on a QoQ basis because we have closed unproductive franchises and replaced them with better ones. But the quality of the output and throughput will be far higher than in the previous quarter. The focus is not on quantity, but on quality. Also, while we have added new franchisee outlets, we have not increased the branch presence from the 21 branches that we have.

Average daily volumes remained stable around ₹23b on a QoQ basis. However, why have the operating costs come down from ₹269m to Rs247m? Is there any other component in this?

Operating costs are variable in nature, because a large part of this is franchise sharing. The growth in volumes this quarter has been largely from the institutional participation, and retail participation has been slightly lower. At the market level, institutional cash volumes are up 17% QoQ, while retail is up only 5%. In institutional participation, there are no franchises and this cost component is not relevant to that business. Due to this change in the mix, this line item may not have moved to the same proportion.

What is the reason for the decline in market share? If there is an uptick in cash volumes, shouldn't the market share increase as compared to other players?

The proportion of option has grown to about 77% of the market volumes. This is a segment where our market share is less, hence impacts the overall market share. Since the proportion of options within the overall market volumes is so high, hence an uptick in the cash segment may not impact the overall market share proportionately. However, our market share in the cash segment specifically has improved sequentially. An indication of this is that our yield has gone up from 4.8 bps to about 5 bps. This indicates that there has been a marginal improvement in the mix and that cash market share has also gone up.

Given that the market share has dropped, is the BSE volume included in the market share calculations, or is it just based on NSE?

Our market share calculation includes BSE as well. There has been a big uptick in BSE F&O volumes recently, when its volumes peaked at ₹330b for the month. This is a segment where our participation is slightly muted. If the BSE F&O volumes were excluded, then our market share should have been better. But our main focus area is the cash business, which bears maximum yields and where we enjoy healthy market share.

Is there any pressure on market share in terms of client segments, like FII or DII?

We have seen see stable market share across all segments. Whatever growth that has been reported is pretty well rounded, in that sense.

What is the mix between the retail and institutional business? How is this mix expected to shape up?

We have been in both these businesses for quite some time now. Hence, we have fairly good market share in both these businesses, and these have remained quite robust over a period of time. We expect the mix to be similar to how the market volumes pan out.

What is the lag effect that is being referred to with respect to retail participation?

Retail largely comes in only when they see that they are missing out. Stocks, as an asset class, do not behave like bonds which go up every day. Equities grow exponentially, but that is its nature. Retail investors only come when they find that the going is good, and when they come they come in hoards. In 2008 itself, the mutual fund inflow was ₹520b and this year the outflow is only ₹500b.

Where do you see retail broking within the overall broking pie in the coming years? When would retail investors move beyond real estate, gold and bank deposits?

It is very difficult to answer when retail will come back. There has been a midcap rally in some stocks since the last 1-2 months, hence it has clearly excited people. There is some buzz that is building up now, but it is still early to say if it will become a trend. We have seen some booms in the markets since the last 25 years, and our sense is that every time the boom comes in a different form and much bigger than the last one. It is difficult to say when the next boom will happen and what will be the shape of it. Right now, we are seeing that the market has become quite irrational in terms of participation.

How is the internet business model emerging on the retail side?

The online model has a lot of potential and is the biggest challenge to the offline model. However, the online has made limited progress wherever our kind of market structure exists world over, like in the US. Though the online model has become big, the offline model is still pretty large. Online is set to become bigger in India, once cheap broadband and 3G-4G comes in. But, offline will still remain pretty big because the cost differential between online and offline does not really exist in India. So there is no reason why people should really go to the online mode, which is not very good at this juncture in terms of internet connectivity all over the country. Our sense is that online will definitely have a much more dominant role going forward and will pose a challenge for offline, but its share will still remain limited.

In terms of client addition, what was the retail client count in 2Q FY12?

In September 2011, we had close to 6,46,000 retail broking clients. We had added roughly about 10,000 retail clients in the September quarter of 2011. We would have added slightly lower in this quarter because of the current market condition. There are some customers who became inactive, but there were gross additions.

The markets have not done well, with the returns CAGR limited to 4-5% over a 5-year period. But there have been individual stocks that have done well. Is this a sign that Indian markets have matured and this polarization will continue?

The markets are still as cyclical as ever, and it will see big bottoms and big tops. The investor's psychology has not really matured, and there is big irrationality during both the downside and the upside.

Asset Management

KEY FINANCIALS: ASSET MANAGEMENT (₹Mn)

	2Q FY13	1Q FY13	CHG. QOQ	2Q FY13	2Q FY12	CHG. YOY	6M FY13	6M FY12	CHG. YOY	FY12
Total Revenues	86	95	-9%	86	76	13%	181	152	19%	318
EBIDTA	19	15	23%	19	(0)	nm	34	(4)	nm	(9)
PBT	18	14	25%	18	(0)	nm	32	(4)	nm	(11)
PAT	18	14	25%	18	(0)	nm	32	(4)	nm	(31)

Source: MOFSL's presentation on Sep 2012 earnings

How do we model the income from asset management? Is there some guidance?

Bulk of the revenue in asset management comes from PMS. As far as the inflow in AMC is concerned, it is market dependent. If the investor mood changes in the next 6 months and we get inflows, then that could change the spectrum of things. But otherwise the fees earned will be dependent on market appreciation. We do not think there is going to be much change in the AMC fee, per se.

Are there any specific plans for the AMC business, post the new guidelines for expanding into smaller cities?

Our asset management business is modeled on the ETF route. Hence to some extent, we are already at one of the lowest fees available in the market. We are trying to expand the distribution base not just to retail investors but also to institutions, where we see good flow coming into some of our products. While we have seen some redemption pressure because of profit booking in PMS, the AUM remains fairly stagnant. Our mutual fund AUM has gone up significantly as we have seen active interest, especially in our two equity linked ETFs, and also because we have widened our distribution base. As a strategy in the AMC business, we have kept innovating with products and expanding the distribution platform. We have seen good interest coming from national distributors, banks and wealth platforms. As some of these relationships fructify, we should see much higher inflows come into these products.

The PMS business seems to have had some outflow, because the market is up ~7-8% but the AUM is down. Is this understanding right?

Our PMS AUM has remained largely flat. We have seen some profit booking happening because when equity generally comes to a certain level, investors like to book to profit. This is an industry wide phenomenon. So we have seen some profit booking happening in our business as well. It is not that we have not seen new inflows, but we have seen slightly more redemption than the inflows for this quarter. That is why AUM remains fairly stagnant despite an appreciation in the overall number.

Private Equity

KEY FINANCIALS: PRIVATE EQUITY (₹Mn)

	2Q FY13	1Q FY13	CHG. QOQ	2Q FY13	2Q FY12	CHG. YOY	6M FY13	6M FY12	CHG. YOY	FY12
Total Revenues	52	62	-17%	52	27	96%	114	55	106%	194
EBIDTA	16	5	200%	16	1	nm	22	4	391%	31
PBT	15	5	239%	15	0	nm	20	4	451%	30
PAT	10	3	238%	10	0	nm	14	3	407%	20

Source: MOFSL's presentation on Sep 2012 earnings

What could be the quantum on the second PE fund? Is there any target number?

The second closing of the 2nd growth capital PE fund has already been done at ~₹5b, which is a similar size as the first fund. We hope to get much more and finally close it at around ~₹9b.

Is there some guidance on the income from private equity?

The closure of the second private equity fund is due this year. If we close the second fund hopefully by December or January, we will see a consequent bump up in the revenue in this particular half.

Fund Based Income

MOFSL STANDALONE FINANCIALS (₹Mn)

	2Q FY13	1Q FY13	CHG. QOQ	2Q FY13	2Q FY12	CHG. YOY	6M FY13	6M FY12	CHG. YOY	FY12
Total Revenues	211	139	51%	211	124	71%	351	455	-23%	819
EBIDTA	164	104	58%	164	95	73%	267	366	-27%	680
PBT	120	64	88%	120	94	28%	184	365	-50%	662
PAT	105	42	149%	105	65	62%	148	314	-53%	563

Source: MOFSL's presentation on Sep 2012 earnings

Is the fund based income purely from the loan book? Is there any other component? Can you share the book size of your arbitrage or other prop book?

There are 2 components in this. Part of it would come from the funding book of ₹3.5b. Remaining part would be from the Principal Strategy Group, which is the arbitrage business where we deploy some of our surplus fund. The size of this arbitrage book varies, it does not remain at a stable state. About 60-70% of the income comes from the lending business and the remaining will come from the arbitrage business.

MOFS has not strategically not entered into lending business along the NBFC route, like other brokerages. Is that strategy going to continue?

We do not have any active plans to leverage the balance sheet significantly. We will continue to keep the balance sheet the way it is.

Investment Banking

KEY FINANCIALS: INVESTMENT BANKING (₹Mn)

	2Q FY13	1Q FY13	CHG. QOQ	2Q FY13	2Q FY12	CHG. YOY	6M FY13	6M FY12	CHG. YOY	FY12
Total Revenues	23	29	-20%	23	23	1%	52	59	-12%	117
EBIDTA	(7)	(23)	nm	(7)	(8)	nm	(30)	(8)	252%	(45)
PBT	(9)	(25)	nm	(9)	(9)	nm	(33)	(9)	265%	(47)
PAT	(6)	(17)	nm	(6)	(6)	nm	(23)	(6)	323%	(31)

Source: MOFSL's presentation on Sep 2012 earnings

How has the investment banking pipeline been? Do you expect some sort of improvement in yields or do you expect yields to remain soft in investment banking?

The pipeline continues to be robust. Deal closures have been almost negligible for few quarters now, including in the first half of the year. We are quite happy about the robust pipeline that we have. What remains to be seen is that when the closures really start. We are hopeful that the closures should be significantly better in the second half, than what was seen in the previous four quarters. As far as yields are concerned, particularly non-ECM investment banking transactions, they vary on a case to case and there is no general rule of thumb. The fees are usually negotiated for each of these assignments separately. There is no pressure on yields, at least on the non-ECM side, which forms the bulk of our pipeline as well as reported historical revenues.

Is there any guidance in terms of revenues from investment banking?

Given the volatility in terms of closure, it would be very tough to give any meaningful guidance on revenues in the second half or going forward

Overall

How do you see the overall cost saving turning out, in terms of moving to a new place and also any additional rental incomes, if at all?

Regarding rental income, we have not been able to get the right kind of tenants. We are still looking out for that. We are getting enquiries from tenancy but nothing so far is finalized. In terms of cost, we have taken an additional cost of about ₹50m this quarter. The majority of this, about ₹35-40m, will be depreciation. The remaining ₹10-15m will be the additional overheads.

We had booked profit on the sale of office premises last quarter. Do we still own some office premises or is it all done now?

We still have a big property in Nariman Point of about 15,000 square feet. We are waiting for the right kind of market. We are getting some offers but want to sell only as and when we get a good, reasonable price.

How many employees are there in the Group? How many of them are there in the retail broking side and in the institutional business?

The number of employees has gone up to slightly to 1,030, as of September. Retail broking will be ~60-70% of that, i.e. ~700 people. The institutional business would be about 70 people.

What is the guideline on the employee cost?

We are building some of our businesses and that is why there have been some additions in our wealth business and asset management business. We are now also building some strength in our retail distribution business. We are very conscious and judicious about cost. However, as and when we see good talent and good opportunities, we are looking at expanding our employee base, but still in a gradual fashion.

Apart from broking business, both investment banking and asset management are not adding to the bottom line. When would these start adding to the bottom line?

There are four businesses which are not adding anything to the bottom line right now - Wealth Management, Asset Management, Private Equity and Investment banking. Decent investments have gone into those businesses. The only bit of loss that we are having is from the Wealth Business. AMC is more or less at breakeven. With 4-6 years completed now in these businesses, we hope the results should come in the next couple of years.

INVESTOR UPDATE

Motilal Oswal Financial Services reports Q2 FY13 PAT of ₹229 million, up 13% QoQ; declares interim dividend of ₹1 per share (F.V. ₹1)

Mumbai, Oct 18, 2012: Motilal Oswal Financial Services (MOFSL), a leading financial services company, announced its results for the quarter ended Sept 30, 2012 post approval by the Board of Directors at a meeting held in Mumbai on Oct 18, 2012.

Performance Highlights

₹Million	Q2 FY13	Comparison (Q1 FY13)	Comparison (Q2 FY12)
Total Revenues	1,127	↑3%	↓1%
EBIDTA	400	↑9%	↑1%
Adjusted PAT	229	↑13%	↓12%
EPS- ₹(FV of ₹1)	1.6		

**E&EOI refers to Exceptional and Extraordinary Items*

Performance for the Quarter ended Sept 30, 2012

- Revenues for the quarter at ₹1,127 million is up 3% on a QoQ basis and down 1% on a YoY basis
- Adjusted PAT for the quarter at ₹229 million is up 13% on a QoQ basis and down 12% on a YoY basis. Adjusted PAT excludes profit the sale of office property of ₹88 million post-tax earned during Q2FY12. The drop of 12% in Adjusted PAT in Q2FY13 on a Year on Year basis is also attributable to higher depreciation charge on the new corporate office at Prabhadevi
- Reported PAT for Q2 FY13 at ₹229 million is up 13% on a QoQ basis and down 34% on a YoY basis
- EBITDA and Reported PAT margins improved to 36% (34% in Q1 FY13) and 20% (19% in Q1 FY13) respectively
- Strong balance sheet with net worth of ₹11.9 billion, net cash of ₹1.3 billion and nil debt, as of Sept 2012
- Board declared interim dividend of ₹1 per share (Face value of ₹1 per equity share)

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

"While most part of the second quarter remained at the muted levels as seen in Q1FY13, the quarter ended with some positive news. Movement in the domestic reforms process and net inflows from FIIs lifted market sentiments during September. Cash volumes in the market, including high-yield delivery, went up in September, pushing up the quarter's total. While FIIs

returned as net buyers, DIIs were net sellers. Retail participation in cash market also rose, but it remained subdued as retail investors were relatively cautious in this initial market rally in September. Going forward, as the reforms wheel shows sustained signs of building speed, the markets will hope to return to higher cash participation levels and fund-raising activities. We remain focused on building our businesses towards this objective, and putting strategies and processes in place in order to capture the upside as the market activities pick up."

Segment results for Q2 FY13:

- **Broking and related revenues** at ₹728 million were up 5% from Q1 FY13 and down 10% from Q2 FY12. Daily volumes in the equity markets grew 4% QoQ to ₹1.7 trillion in Q2 FY13. While options grew 6% QoQ to comprise 76% of market volumes, the cash segment also picked up by 6% this quarter to ₹125 billion. Cash delivery, in particular, rose by 15% on a QoQ basis on the back of higher volumes in September. While delivery's proportion to overall market volumes grew from 2% to 2.3% on a QoQ basis, it touched 2.8% for the month of September alone. While our overall equity market share dipped from 1.5% to 1.4% during the quarter, our market share in the high-yield cash segment including cash delivery, which is our focus area, saw an increase. Our blended yield marginally increased from 4.8 bps to 5.0 bps on a QoQ basis
- **Fund based income** were ₹211 million, up 1% QoQ and up 6% on a YoY basis. It contributed 19% of total group revenues. The loan book was ₹3.5 billion as of Sept 2012.
- **Asset Management fees** at ₹136 million was down 12% QoQ and up 35% YoY.
- **Investment banking fees** at ₹23 million were down 15% from Q1 FY13, though up by 62% from Q2 FY12. Investment banking business continued to be subdued across the industry, impacting transaction closures and flow of new projects.
- **Other income** was ₹29 million in Q2 FY13.

Business Highlights for Q2 FY13

- Total client base increased to 750,077, which includes 658,181 retail broking and distribution clients
- Pan-India retail distribution reach stood at 1,554 business locations across 530 cities
- Total Assets under Management for the Group were ~₹31.6 billion as of Sept 2012. Within this, mutual fund AUM was ₹5.8 billion, PE AUA was ₹12.4 billion and PMS AUM was ₹13.5 billion
- The private equity business has been strengthened with the appointment of Somak Ghosh as its Co-CEO, who would be responsible for growing the real estate fund business and establishing the Sustainable Social Impact Fund. Prior to this, he had been the Co-Founder and Group President, Government & Development Banking at Yes Bank
- Wealth Management managed assets of ~₹15.8 billion, as of Sept 2012
- Depository assets were ₹116.0 billion, as of Sept 2012
- Institutional Equities conducted the 8th Annual Motilal Oswal Global Investor Conference in Mumbai in Aug, 2012. Over 100 leading companies and experts interacted with over 180 institutional funds from across the world
- Sudhir Dhar, Head - Human Resources, MOFSL, received the 'Most Powerful HR Professionals of India' award at the World HRD Congress

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 1,554 business locations spread across 530 cities and the online channel to over 750,077 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. MOSL won 4 awards in the ET-Now Starmine Analyst Awards 2010-11, placing it amongst the Top-3 award winning brokers, was ranked No. 2 by AsiaMoney Brokers Poll 2010 in the Best Local Brokerage Category and won the ‘Best Market Analyst’ Award for 2 sectors at the India’s Best Market Analyst Awards 2011. MOFSL won the ‘Best Capital Markets and Related NBFC’ award at the CNBC TV18 Best Banks and Financial Institutions Awards 2011. MOSL also won the ‘Best Equity Broking House’ award for FY11 at the Dun & Bradstreet Equity Broking Awards 2011. MOSL won the ‘Best Performing National Financial Advisor Equity Broker' award at the CNBC TV18 Financial Advisor Awards 2012, for the second year in a row. MOSL also won ‘Best Equity Broker’ award at Bloomberg UTV Financial Leadership Awards 2012, ‘Retailer of the Year (Banking & Financial Services) award at Retail Excellence Awards 2012, and was ranked 2nd in the “Best Overall Brokerage” category by Asia Money in 2011. MOFSL won the ‘Best Employer Brand’ Award at the IPE Banking, Financial Services & Insurance Awards 2012.

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CONSOLIDATED UNAUDITED FINANCIAL RESULTS FOR THE QUARTER & HALF YEAR ENDED 30TH SEPTEMBER 2012

(Rs in Lacs)

Particulars	**Quarter Ended**			**Half Year Ended**		**Year Ended**
	30.09.2012	**30.06.2012**	**30.09.2011**	**30.09.2012**	**30.09.2011**	**31.03.2012**
1. Income from Operations						
(a) Income from Operations	10,712	10,427	10,701	21,138	21,254	44,366
(b) Other Operating Income	270	411	506	681	1,001	1,777
Total Income	**10,981**	**10,838**	**11,207**	**21,820**	**22,255**	**46,143**
2. Expenditure						
a. Operating expense	2,473	2,692	2,919	5,165	5,618	11,643
b. Employees benefits expense	2,607	2,509	2,752	5,116	5,554	11,386
c. Depreciation and amortisation expenses	649	626	269	1,274	544	1,297
d. Other expenditure	2,187	2,067	1,784	4,254	4,000	7,912
Total expenses	**7,916**	**7,894**	**7,725**	**15,810**	**15,716**	**32,238**
3. Profit from Operations before Other Income, Finance Cost & Exceptional Items (1-2)	**3,065**	**2,944**	**3,482**	**6,010**	**6,539**	**13,906**
4. Other Income	287	94	221	382	368	417
5. Profit from Ordinary Activities before Finance Cost &	3,353	3,039	3,704	6,392	6,906	14,323
6. Finance Cost	31	56	81	87	159	360
7. Profit from ordinary activities after Finance Cost but before Exceptional Items (5-6)	3,323	2,983	3,623	6,306	6,747	13,963
8. Exceptional Items - (Expense)/Income	-	-	1,299	-	1,299	1,299
9. Profit from Ordinary Activities before tax (7-8)	**3,323**	**2,983**	**4,922**	**6,306**	**8,046**	**15,262**
10. Tax expense	1,012	960	1,426	1,971	2,425	4,844
11. Net Profit from Ordinary Activities after tax but before minority interests (9-10)	2,311	2,023	3,496	4,334	5,621	10,417
12. Share of minority interests in (profits)/ loss	(20)	0	(0)	(20)	(7)	(29)
13. Net Profit after tax and Minority Interests (11-12)	**2,291**	**2,023**	**3,495**	**4,315**	**5,614**	**10,389**
14. Paid-up equity share capital (Face Value of Re. 1/- Per Share)	1,452	1,451	1,451	1,452	1,451	1,451
15. Reserves excluding Revaluation Reserves	-	-	-	-	-	112,642
16. i. Earnings Per Share (EPS) (before Extraordinary items) (of Rs. 1/- each)						
a) Basic EPS	1.58	1.39	2.41	2.97	3.88	7.17
b) Diluted EPS	1.58	1.39	2.41	2.97	3.88	7.17
16. ii. Earnings Per Share (EPS) (after Extraordinary items) (of Rs. 1/- each)						
c) Basic EPS	1.58	1.39	2.41	2.97	3.88	7.17
d) Diluted EPS	1.58	1.39	2.41	2.97	3.88	7.17
Particulars of Shareholding						
17. Public shareholding						
- Number of shares	43,368,614	43,301,689	44,543,618	43,368,614	44,543,618	43,282,882
- Percentage of shareholding	29.86%	29.84%	30.69%	29.86%	30.69%	29.82%
18. Promoters and Promoter group Shareholding						
a) Pledged/Encumbered						
- Number of shares	NIL	8,500,000	8,500,000	NIL	8,500,000	8,500,000
- Percentage of shares (as a % of the total shareholding of promoter and promoter group)	NIL	8.35%	8.45%	NIL	8.45%	8.35%
- Percentage of shares (as a % of the total share capital of the company)	NIL	5.86%	5.86%	NIL	5.86%	5.86%
b) Non-encumbered						
- Number of shares	101,867,162	93,321,180	92,075,851	101,867,162	92,075,851	93,339,987
- Percentage of shares (as a% of the total shareholding of promoter and promoter group)	100.00%	91.65%	91.55%	100.00%	91.55%	91.65%
- Percentage of shares (as a % of the total share capital of the company)	70.14%	64.30%	63.45%	70.14%	63.45%	64.32%
19. Investors Complaints						
Pending at the beginning of the period	NIL	1	NIL	1	NIL	NIL
Received during the period	3	2	2	5	4	14
Disposed of during the period	3	3	2	6	4	13
Remaining unresolved at the end of the period	NIL	NIL	NIL	NIL	NIL	1

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 Thursday, 18th October, 2012. The results for the quarter and half year ended 30th September, 2012 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 (100%), 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 (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) Exceptional item for the quarter , half year and year ended 31st March, 2012 consists of Profit on Sale of Office Premises of Rs. 1299 Lacs.

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

5) Management Certified accounts of two foreign subsidiaries have been considered for consolidation.

6) Pursuant to the approval of the members obtained at the 7th Annual General Meeting of the Company held on 28th July, 2012, a Committee of the Board of Directors of the Company at its Meeting held on 10th August, 2012, has allotted 1,12,907 equity shares of the face value of Re.1 each at the rate of Rs. 103.48 per share to an employee of Motilal Oswal Investment Advisors Private Limited (MOIAPL), a subsidiary of the Company, in discharge of the purchase consideration for acquisition of 62,500 equity shares of Rs.10 each of MOIAPL acquired by the Company from him. With this acquisition MOIAPL has become a wholly owned subsidiary of the Company.

7) The Board of Directors at its meeting held on October 18, 2012, has declared an interim dividend of Re. 1/- per equity share (on face value of Re 1/- per equity share) for the financial year 2012-13.

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

Particulars	**Quarter Ended**			**Half Year Ended**		**Year Ended**
	30.09.2012	**30.06.2012**	**30.09.2011**	**30.09.2012**	**30.09.2011**	**31.03.2012**
Gross Revenue	2,112	1,395	1,237	3,507	4,551	8,195
Profit Before Tax	1,201	639	940	1,839	3,649	6,622
Profit After Tax	1,055	423	651	1,478	3,138	5,630

9) CONSOLIDATED UNAUDITED SEGMENT RESULTS FOR THE QUARTER ENDED 30TH SEPTEMBER 2012

Particulars	Quarter			Half Year Ended		Year Ended
	30.09.2012	30.06.2012	30.09.2011	30.09.2012	30.09.2011	31.03.2012
1. Segment Revenue						
(a) Broking & Other related activities	8,598	8,241	10,467	16,839	19,410	38,747
(b) Financing & Other activities	1,387	1,395	1,238	2,782	2,541	4,732
(c) Asset Management & Advisory	1,378	1,565	1,019	2,944	2,067	5,098
(d) Investment Banking	230	270	228	500	574	1,144
(e) Unallocated	508	296	165	804	263	577
Total	**12,103**	**11,766**	**13,118**	**23,868**	**24,855**	**50,299**
Less: Inter Segment Revenue	833	833	390	1,665	931	2,439
Income From Operations, Other Operating income & Other Income	**11,270**	**10,933**	**12,728**	**22,203**	**23,924**	**47,860**
2. Segment Results Profit / (Loss) before tax and interest from Each segment						
(a) Broking & Other related activities	2,380	2,354	3,997	4,734	6,438	12,396
(b) Financing & Other activities	476	639	940	1,114	1,636	3,157
(c) Asset Management & Advisory	240	162	(6)	402	(19)	150
(d) Investment Banking	(81)	(259)	(90)	(340)	(109)	(492)
(e) Unallocated	510	298	167	808	267	588
Total	**3,523**	**3,194**	**5,008**	**6,718**	**8,213**	**15,799**
Less: Interest	201	211	86	412	167	537
(ii) Other Un-allocable Expenditure net off						
(iii) Un-allocable income						
Profit/(Loss) from Ordinary Activities before Tax	**3,323**	**2,983**	**4,922**	**6,306**	**8,046**	**15,262**
3. Capital Employed						
(Segment assets – Segment Liabilities)						
(a) Broking & Other related activities	40,942	51,918	42,048	40,942	42,048	56,153
(b) Financing & Other activities	58,252	57,829	51,796	58,252	51,796	57,313
(c) Asset Management & Advisory	80	213	78	80	78	219
(d) Investment Banking	614	504	664	614	664	354
(e) Unallocated	18,903	5,869	17,408	18,903	17,408	55
Total	**118,790**	**116,333**	**111,994**	**118,790**	**111,994**	**114,094**

Notes:

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

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

10) STATEMENT OF ASSETS & LIABILITIES (CONSOLIDATED)

(Rs in Lacs)

Particulars	As on	
	Unaudited	Audited
	30.09.2012	31.03.2012
I. EQUITY & LIABILITIES		
(1) Sources & Funds :		
Share Holders' Funds :		
Share Capital	1,452	1,451
Reserves and Surplus	117,338	112,642
(2) Minority Interest	234	444
(3) Non-Current Liabilities :		
(a) Deferred tax liabilities (Net)	515	467
(b) Long term provisions	432	506
(4) Current Liabilities :		
(a) Trade payables	33,392	27,436
(b) Other current liabilities	3,607	8,009
(c) Short-term provisions	1,974	3,533
Total	**158,945**	**154,488**
II.ASSETS :		
(1) Non-current assets		
(a) Fixed assets		
(i) Tangible assets	32,423	33,642
(ii) Intangible assets	685	809
(iii) Capital work-in-progress	1	-
(b) Non-current investments	11,406	9,415
(c) Long term loans and advances	1,917	3,162
(2) Current assets		
(a) Current Investments	15,505	-
(b) Inventories	9,872	15,739
(c) Trade receivables	18,686	24,781
(d) Cash and bank balances	13,099	27,105
(e) Short-term loans and advances	55,017	39,372
(f) Other current assets	333	462
Total	**158,945**	**154,488**

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

Motilal Oswal
Chairman & Managing Director

Mumbai, 18th October, 2012
investors@motilaloswal.com.

MOTILAL OSWAL

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