Motilal Oswal Financial Services reports Q1FY18 Consolidated Revenues of Rs 576 crores, +58% YoY; and PAT of Rs 101 crores, +28% YoY

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Mumbai, July 27, 2017: Motilal Oswal Financial Services Ltd. announced its results for the quarter ended June 30, 2017 post approval by the Board of Directors at a meeting held in Mumbai on July 27, 2017.

Performance Highlights
Rs CroresQ1FY18Q1FY17YoY ChgQ4FY17QoQ Chg
Revenues576365?58%537?7%
PBT139106?30%138?1%
PAT10279?28%90?13%
EPS (FV-1)766

Performance for the quarter ended June 30, 2017
•Consolidated revenues were Rs 576 crores in Q1FY18, +58% YoY.
•Strong growth in Q1FY18 across businesses. Asset management business +102% YoY, housing finance was +60% YoY, and capital market businesses +53% YoY. The revenue mix is seeing healthy diversification, as 56% of the revenue came from linear sources like asset & wealth management and housing finance vs. 49% last year. While the share of Capital Markets reduced in the mix, it continues to grow in absolute terms. Both asset management and housing finance businesses saw rapid growth in assets, and improved in profitability despite significant investments in areas like manpower, network and marketing. Broking business registered highest ever quarterly revenue led by increase in volume coupled with stable market share. Further, distribution piece has also registered solid growth in mobilization. Investment banking saw a continued traction with 5 ECM transactions done during the quarter.
•PBT was up by 30% YoY at Rs 138 crores despite the impact of change in accounting policy of ESOP. Excluding this impact, PBT would have been higher by 46% YoY.
•Consolidated PAT was Rs 101 crores in Q1FY18, +28% YoY, despite the impact of change in accounting policy of ESOP. This incremental PAT growth was contributed by Asset & wealth management (exc. PE) business, +168% YoY, followed by fund based business, +156% YoY and Capital Market business, +63% YoY.
•Significant investments have been made into manpower in broking (+31% YoY) and housing finance (+87% YoY). Ad expenses are +128% YoY in Asset Management busi[...] Explore [...]ısing, branches are up by 94% YoY, Manpower cost +80% YoY. These up-fronted investments will translat[...]erage in the coming year. Some of this was visible.

•As of June 2017, net worth is Rs 1,907 crores, gross borrowing is Rs 5,238 crores and net borrowing is Rs 4,954 crores (including Aspire). Excluding Aspire, gross and net borrowings were Rs 1,402 crores and Rs 1,183 crores respectively.
•In line with our strategy to deliver sustainable 20%+ ROE in the long term, ROE for Q1FY18 was 22% on reported PAT. However, this does not include unrealized gains on investments in Motilal Oswal's mutual fund products (Rs 357 crores, as of June 2017). Including this, the ROE in Q1FY18 would have been ~26%.
•Balance sheet has strong liquidity, with ~Rs 990 crores as of June 2017 in near-liquid investments to fund any future investment needs of operating businesses.

Speaking on the performance of the company, Mr. Motilal Oswal, CMD said
"Our strategy to diversify our business model towards linear sources of earnings is continued to show results, with over half of the revenue pie now coming from these new businesses. These businesses continue to build scale, while maintaining critical operating parameters along with profitability. Our traditional businesses also saw decisive uptick during the quarter by registering record revenues. With this strategy we have achieved highest ever quarterly revenue and profit during Q1FY18. Our brand is now being recognized in each of our businesses. Our ROE was 22% this quarter, and we are well on course to achieve a 20%+ ROE on a sustainable basis. The opportunity size in all our business segments is still huge, and our businesses are well placed to benefit from these opportunities."

Performance of Business Segments for the quarter ended June 30, 2017
•Capital markets Businesses (broking & investment banking)
oCapital market revenues in Q1FY18 were Rs 210 crores, +53% YoY. Market ADTO grew 78% YoY in Q1FY18, with F&O +80% YoY and cash +46% YoY. Our market share in high-yield cash segment was maintained on YoY basis and overall market share was 1.8% in Q1FY18. Blended yield has improved from 3.1bps in Q1FY17 to 3.2bps in Q1FY18. Some of the operating leverage from the investments in manpower (+31% YoY), brand & technology is visible, as MOSL's PAT margin is at 16% in Q1FY18. However, the full benefit of operating leverage is yet to unfold.
oIn retail broking & distribution, distribution business saw significant traction in Q1FY18. Distribution net sales were Rs 432 crores, +147% YoY. AUM was Rs 5,210 crores, +147% YoY. With only ~20% of the network tapped, we expect meaningful increase in AUM and fee income as cross-selling increases. Sales productivity improved, with 60%+ leads generated from online sources. Online business continued to grow. It was 44% of retail volumes in Q1FY18. Mobile app formed an increasing share within this. Our ongoing campaign of TIP (Target Investment Plan) which is an investment product which helps in meeting an individual's personal & financial goals, this is receiving positive initial response among all distributors and branches.
oIn institutional broking, blocks continued to gain solid traction within our volumes. Our empanelled trend remains strong with 8 new client additions during the quarter. Focus has been on making the most of the market tailwind while building sustained areas of competitive advantage.
oInvestment banking continues to have a strong pipeline. IB fee were Rs 24 crores in Q1FY18, +165% YoY. Our IB was among the top 10 investment banks in primary market equity deal ranking in H1CY17. It has completed 5 ECM transactions in Q1FY18.
oCapital markets businesses contributed ~37% of revenues in Q1FY18. The contribution of capital markets in the PAT mix was ~28% in Q1FY18
•Asset Management Businesses near critical mass
oAsset management, business across MF, PMS & AIF reached the milestone Rs 25,000 crores AUM mark this year, comprising of Rs 11300 crores MF AUM and Rs 12800 crores PMS AUM. Our AMC now ranks among the Top-10 players by total equity assets. Net Sales were Rs 2,896 crores in Q1FY18, +231% YoY and compares with Rs 5700 crores in all of FY17. AUM was Rs 25,000 crores, +104% YoY. Net yield was close to ~1% in Q1FY18. Our QGLP philosophy continued to deliver on investment performance this year. Our 3 flagship mutual funds schemes completed their 3-year performance track record, leading to increased participation from distributors. As of June 2017, ~14% of non-mutual fund AUM was performance-fee linked, and our target is to increase this further. As we scale up further, our ~2.2% market share in Equity MF AUM and ~4.6% market share in Equity MF Net Sales should likely converge. Ad & marketing spends were Rs 4.6 crores in Q1FY18, +128% YoY, forming 8% of net revenue. Our ongoing ad campaign "Think Equity Think Motilal Oswal" is reiterating our positioning as equity specialist. These branding exercise and strong performance of our products coupled with higher equity inflows in market are helping us to garner higher market share.
oTotal costs ex-distribution sharing were Rs 20.2 crores in Q1FY18, +96% YoY. Significant investments in manpower (+30% YoY) and advertising have been up-fronted, which could result in a meaningful operating leverage in the future. With increase in financial savings to total savings, the domestic market should continue to benefit from this shift towards financial assets. In offshore, which is 2x of institutionally managed equity assets in India, we are seeing initial interest in our offshore products.

has returned ~209% capital so far. It is estimated to deliver a gross multiple of ~3.7x. This implies that nearly half of the estimated profits are yet to be booked. IBEF III has been launched during the quarter and expected to close its first tranche by end of H1FY18 with corpus of Rs 600 crores to Rs 700 crores. The 3rd real estate fund raised commitments of ~Rs 980 crores so far.
oAsset Management fee (asset management and private equity) were Rs 135 crores in Q1FY18, +131% YoY. This now contributes to ~25% of consolidated revenues in Q1FY18 vs. 18% back in Q1FY17. Contribution of Asset & Wealth Management in the Profit mix was ~29% in Q1FY18.

•In Wealth management, business AUM grew by 53% YoY at Rs 11,300 crores. Net Sales were sequentially stable at Rs 362 crores. RM productivity has increased in line with their vintage, overall RM recruitment was strong during the quarter.

•Housing finance has shown traction in assets, while maintaining risk & operational parameters
oHousing finance loan book grew by 73% YoY at Rs 4306 crores. Net income was Rs 14.1 crore Q1FY18, +5% YoY.
oBranch network remained at 120 branches across 9 states likely to see further expansion in coming quarters which will provide cushion in achieving our loan growth
oWe have maintained steady operating metrics. The average ticket-size was Rs 8.9 lakh as of June 2017. LTV was ~59% as of June 2017 and FOIR was ~46%.
oDisbursements were Rs 327 crores in Q1FY18, impacted partly by external factors in economy such as RERA, GST causing postponement of customer decision and builders adopting wait and watch approach. Also, after a very strong Q4, management consciously decided to utilise this quarter to make investments in systems and processes that will help achieve a bigger scale. Our outlook of disbursement growth remains positive, enabled by a significantly expanded state and branch footprint.
oGNPA increased from 0.6% in Q4FY17 to 1.6% in Q1FY18 on account of seasonality in expenditure of the customers in affordable housing segment besides seasoning of Aspire's loan book.
oAverage yield held firm at ~13.4% on a YoY basis despite competition; maintained NIM at 4%
oIn liabilities, ~55% borrowings were from NCDs and ~45% from bank loans. As of June 2017, 27 Banks/NBFC had extended lines, apart from 22 institutions to whom NCDs were allotted.
oOur credit ratings are CRISIL A+ Stable and ICRA AA-. We have kept gearing conservative, with the Debt/Equity ratio at 5.1X.

oROA for Q1FY18 was 1.3%, while ROE was 8.2%.
oThe cumulative capital infusion from the sponsor is Rs 100 crores during the quarter to take our networth to Rs 750 crores.
oInvested significantly into Digitization to reduce opex and TAT, and improve customer convenience. We expect majority of the transactions to be covered by our digital initiatives
oUnder PMAY CLSS we have received subsidy on more than ~4000 customers amounting to Rs 85 crores till date out of which Rs 49 crores we have received in this quarter alone.
oWe have been awarded with second prize for "Best Performing PLI (prime lending institution) under PMAY by MHUPA (Ministry of Housing and Urban Poverty Alleviation)"
•Fund Based Business includes sponsor commitments to our AMC & PE funds, and the NBFC LAS book.
oFund based income was Rs 42.2 crores in Q1FY18.
oOur investments in our mutual fund products stood at Rs 635 crores (at cost). The unrealized gain on these as of June 2017 was Rs 357 crores vs. Rs 180 crores as of Jun 2016. This is not reflected in the reported PAT. The post-tax XIRR of these MF investments (since inception) is ~24%, which is in line with the long term performance track-record of our QGLP investment philosophy.
oOur investments in Motilal Oswal's alternative investment funds stood at Rs 247 crores.
oBoth these commitments not only helped "seed" these new businesses by investing in highly scalable opportunities, but they also represent liquid "resources" available for deployment in any future opportunities
oUnrealised gain in AU Small Finance bank Investment was Rs 176 crores (based on last closing price)
oNBFC LAS lending book was Rs 247 crores as of June 2017, which is run as a spread business

•Other income was Rs 3.5 crores in Q1FY18 vs Rs 2.4 crores in Q1FY17.
•In line with the goal to achieve a sustainable 20%+ ROE, consolidated ROE for the Group for Q1FY18 was 22% (without including unrealized gains on mutual funds investments of Rs 357 crores). Within this, Housing Finance RoE was 8%, Asset and Wealth Management RoE was 155%, Capital Markets RoE was 72% and Fund based RoE was 13% annualized (without considering unrealized gains on mutual funds).

About Motilal Oswal Financial Services Limited

Motilal Oswal Financial Services Ltd. is a financial services company. Its offerings include capital markets businesses (retail broking, institutional broking & investment banking), asset & wealth management (asset management, private equity & wealth management), housing finance & equity based treasury investments. Motilal Oswal Securities won the 'Best Performing National Financial Advisor Equity Broker' award at the CNBC TV18 Financial Advisor Awards for the 6th time. It was ranked the Best in Events/Conferences, ranked amongst Top-2 for Overall Sales Services & Best Roadshows/Company Visits & amongst the Top-3 in Best Local Brokerage, Best Execution & Sales Trading Visits at the Asia Money Awards 2015. Motilal Oswal Private Equity won the 'Best Growth Capital Investor-2012' award at the Awards for PE Excellence 2013. Motilal Oswal Private Wealth Management won at the UTI-MF CNBC Financial Advisor Award in HNI Wealth Management category for 2015. Aspire Housing Finance was awarded 'India's Most Admired & Valuable Housing Finance Company' at India Leadership Conclave 2015.

For further details contact:
Mr. Rohini Kute
Motilal Oswal Financial Services
Ph- +91-22-30102340
Mob- +91-9820196838

Mr. Shalibhadra Shah
Motilal Oswal Financial Services
Ph- +91-22-39825500
Mob- +91-9819060032

Mr. Anirudh Rajan / Alpesh Nakrani
Paradigm Shift Public Relations
Ph- +91-22 22813797
Mob- +91-9892343828 / +91-9869121167