Motilal Oswal Financial Services reports FY17 Consolidated Revenues of Rs 1818 crores, +66% YoY (Rs 537 crores in Q4FY17, +69% YoY); and PAT of Rs 360 crores, +113% YoY (Rs 90 crores in Q4FY17, +91% YoY)

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INVESTOR UPDATE

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Mumbai, Apr 27, 2017: Motilal Oswal Financial Services Ltd. announced its results for the quarter and year ended Mar 31, 2017 post approval by the Board of Directors at a meeting held in Mumbai on Apr 27, 2017.

Performance Highlights

Rs Crores	FY17	YoY Chg	Q4FY17	YoY Chg
Revenues	1,818	66%	537	69%
PBT	515	117%	138	103%
PAT	360	113%	90	91%
EPS (FV 1)	25		6	

Performance for the Year and Quarter ended Mar 31, 2017
•Consolidated revenues were Rs 1818 crores in FY17, +66% YoY. It was Rs 537 crores in Q4FY17, +69% YoY
•Strong growth in FY17 across businesses. Housing finance was +160% YoY, asset management business +68% YoY and capital market businesses +40% YoY. The revenue mix is seeing healthy diversification, as 56% of the revenue came from linear sources like asset management and wealth business and housing finance vs. 44% 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 saw rapid growth in assets, and improved in profitability despite significant investments in areas like manpower, network and marketing. Broking improved its high-yield cash market share, while its distribution piece clocked solid growth in mobilization. Investment banking saw a record year, in terms of ECM transactions done
•Consolidated PAT was Rs 360 crores in FY17, +113% YoY. It was Rs 90 crores in Q4FY17, +91% YoY
•The contribution from the new businesses is be Explore vith 57% of the profit coming from asset &

with housing finance profit +103% YoY, asset & wealth management +237% YoY and capital market businesses +178% YoY
•Significant investments have been made into manpower in broking (+72% from Mar-15) and housing finance (+115% YoY), advertising in asset management (+105% YoY) and housing finance branches (+135% YoY). These upfronted investments will translate into operating leverage in the coming year. Some of this was visible this year, with PAT Margin of 20% in FY17 vs. 15% in FY16. However, the full effect of operating leverage is yet to unfold in our businesses
•As of Mar 2017, net worth is Rs 1786 crores, gross borrowing is Rs 5067 crores and net borrowing is Rs 4606 crores (including Aspire). Excluding Aspire, gross and net borrowing were Rs 1269 crores and Rs 971 crores respectively
•In line with our strategy to deliver sustainable 20%+ ROE in the long term, ROE for FY17 was 22% on reported PAT vs. 12% in FY16. However, this does not include unrealized gains on investments in Motilal Oswal's mutual fund products (Rs 334 crores, as of Mar 2017). Including this, the ROE in FY17 would have been ~31%.
•Balance sheet has strong liquidity, with ~Rs 976 crores as of Mar 2017 in near-liquid investments to fund future investments
•Declared final dividend of Rs 3 per share (total dividend at Rs 5.5 for FY17 vs. Rs 3.5 for FY16).

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 showing definite results, with over half of the revenue and profit pie now coming from these new businesses. They have built scale in the last year, while maintaining critical operating parameters. We are near critical size in some of these new businesses. Our traditional businesses also saw decisive uptick this year, especially in the focus areas where we have invested in recent quarters. Our brand is now being recognized in each of our businesses. Our ROE was 22% this year, 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 Year and Quarter ended Mar 31, 2017
•Capital markets Businesses (broking & investment banking) saw good growth this year
oBroking & related revenues in FY17 were Rs 662 crores, +30% YoY. It was Rs 178 crores in Q4FY17, +41% YoY. Market ADTO grew 35% YoY in FY17, with F&O +36% YoY and cash +23% YoY. Q4FY17 saw disproportionate high cash volumes in the market due to large-scale inter-promoter transfers. Overall market share was 2.1% in FY17 vs. 2% in FY16, and cash market share improved YoY. Given the continued shift in market volume to F&O, blended yield in FY17 was 3.1 bps in FY17 vs. 3.5 bps in FY16. The QoQ decline in MOSL PAT is due to higher provisioning for year-end employee bonus on the back of strong business performance in the year and lower treasury gains in Q4FY17. Some of the operating leverage from the investments in manpower (+72% from Mar-15), brand & technology is visible, as MOSL's PAT margin improved to 15% in FY17 vs. 11% in FY16. However, the full benefit of operating leverage is yet to unfold.
oIn retail broking & distribution, distribution business saw significant traction in FY17. Distribution net sales were Rs 1594 crores, +133% YoY. AUM was Rs 4393 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 50%+ A/Cs opened via e-KYC & 60%+ leads generated from online sources. Online business continued to grow. It was 45% of retail volumes in FY17 from 36% in FY16. Mobile app formed an increasing share within this.
oIn institutional broking, blocks continued to gain solid traction within our volumes. Institutional clients were 630, +6% YoY. We empanelled several FIIs this year
oInvestment banking fees were Rs 86 crores in FY17, +254% YoY. It was Rs 42 crores in Q4FY17, +444% YoY. IB business saw a landmark year with all time high revenues since inception. It topped the FY17 India QIP league table ranking, and completed 10 ECM transactions in the year - its best ever performance in terms of number of deals and value of transactions.
oCapital markets businesses collectively contributed ~41% of revenues in FY17 vs. ~49% in FY16
•Asset and Wealth Management Businesses near critical mass
oIn asset management, Net Sales across MF, PMS & AIF were Rs 5720 crores in FY17, +10% YoY, with quarterly net flow of Rs 1927 crores in Q4FY17, +134% YoY. AUM was Rs 20302 crores, +94% YoY. Net Sales in the context of the closing AUM provides visibility of continued strong AUM growth. Net yield was close to ~1% in FY17. Investment performance was robust this year. As of Mar 2017, ~14% of non-mutual fund AUM was performance-fee linked. Our target is to increase this further. Our rank in Equity AUM improved to 9 vs. 14 in FY15. All 3 mutual funds complete their 3-year p
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k record, which should enhance participation

+55% YoY. Significant investments in manpower (+48% from Mar-15) and advertising/marketing have been upfronted, which should help build operating leverage in future. With financial savings to total savings in India rising from 31% in FY12 to 41% in FY16, 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

oIn private equity, we manage an AUM of Rs 3073 crores across 2 growth capital PE funds & 3 real estate funds. The PE business has demonstrated robust profitability and the RE business has shown significant scalability. The 1st growth fund has returned ~209% capital so far. It is estimated to deliver a gross multiple of ~3.5X. This means over half of the estimated profits are yet to be booked. The 2nd growth fund has committed 100%. Fundraising for IBEF III is expected to commence in FY18. The 2nd real estate fund has returned ~ 29% money to investors. The 3rd real estate fund has raised commitments of ~Rs 900 crores so far

oAsset Management fee (asset management & private equity) were Rs 375 crores in FY17, +68% YoY. It was Rs 128 crores in Q4FY17, +94% YoY. This contributed ~21% of consolidated revenues in FY17 vs. 20% in FY16

oIn Wealth management, Net Sales was Rs 1776 crores in FY17, +21% YoY, with quarterly net flow at Rs 364 crores in Q4FY17, +2% YoY. AUM was Rs 10100 crores, +57% YoY. Net Sales in the context of closing AUM provides visibility of continued strong AUM growth. We enjoy a yield of ~0.87%, due to the higher share of equity & alternates in our AUM. A strong brand image helped attract quality RM talent.

•Housing finance has shown traction in assets & liabilities, while maintaining risk & operational parameters

oHousing finance income was Rs 571 crores in FY17, +160% YoY. It was Rs 170 crores in Q4FY17, +87% YoY.

oDisbursements were Rs 2404 crores in FY17, +32% YoY, with quarterly disbursements at Rs 924 crores, +26% YoY. Loan Book was Rs 4141 crores, +2X YoY. Disbursements in the context of the closing loan book provide visibility of continued strong growth in assets. Average yield held firm at ~13.4% on a YoY basis.

oExpanded into 5 new states in Q4FY17 (Rajasthan, Karnataka, Andhra Pradesh, Tamil Nadu & Chattisgarh). Disbursements of the HFC industry in these 5 states in FY15 were ~Rs 45000 crores, which gives an indication of the addressable market. Branch network increased from 51 to 120 during this year, with 32 in the new states

oIn liabilities, ~58% borrowings were from NCDs and ~42% from bank loans. As of Mar 2017, 32 Banks/NBFC had extended lines, apart from 22 institutions to whom NCDs were allotted. This was 29 and 14 respectively last year

oAverage cost of borrowing raised cumulatively has been ~9.4%, while it was ~9% on the borrowings raised in FY17. Credit ratings are CRISIL A+ Stable and ICRA AA-. Gearing remains conservative, with Debt/Equity ratio at 6X

oROA for FY17 was 2.6%, while ROE was 16.7%. Asset quality remains under control, with GNPL at 0.6% as of Mar 2017. We maintained steady operating metrics. Average ticket-size came down from Rs 10 lakhs as of Mar 2016 to Rs 8.98 lakhs as of Mar 2017. LTV was ~60% as of Mar 2017 vs. ~64% last year. FOIR was ~46% as of Mar 2017, same as last year

oCumulative capital infusion from sponsor is Rs 500 crores and net worth is Rs 633 crores, as of Mar 2017

oIncrease in state outreach (4 to 9 YoY), branches (51 to 120 YoY) and employees (489 to 1,051 YoY) resulted in a high Cost-Income ratio of ~36% in FY17 vs. ~37% in FY16, despite doubling of the loan book. This network expansion is expected to yield results in FY18

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

oPMAY CLSS is a demand-side boost to this sector, and bulk of our loans qualifies for this scheme. Tax-relief for developers on unsold stocks for 1 year post project completion and reclassification of housing unit size from 30-60 sq. m. built-up area to 30-60 sq.m. carpet area for subsidy qualification are supply-side boosts to this sector

oHousing Finance contributed ~31% of consolidated revenues in FY17 vs. ~20% in FY16

•Fund Based Business includes sponsor commitments to our AMC & PE funds, and the NBFC LAS book.

oFund based income was Rs 117 crores in FY17, +4% YoY. It was Rs 17 crores in Q4FY17, -31% YoY

oInvestments in Motilal Oswal’s mutual funds (at cost) stood at Rs 643 crores. Unrealized gain on these was Rs 334 crores, as of Mar 2017 vs. Rs 117 crores as of Mar 2016. The same is not reflected in the reported PAT. Had this been included, the Group’s ROE would have been much higher at ~31%. Post-tax XIRR of the MF investments (since inception) is ~24%, in line with the long term performance track record of our QGLP investment philosophy. This compares with a reported FY17 RoE of 5% for this business vs. 7% in FY16.

oInvestments in Motilal Oswal’s alternative investment funds stood at Rs 257 crores. Exits from 1st PE fund led to portfolio gains of Rs ~26 crores this year

oBoth these commitments not only helped “seei Explore inesses by investing in highly scalable

•Other income was Rs 9 crores in FY17
•In line with the goal to achieve a sustainable 20%+ ROE, consolidated ROE for the Group for FY17 was 22% (without including unrealized gains on mutual funds investments of Rs 334 crores). Within this, Housing Finance RoE was 17%, Asset and Wealth Management RoE was 206%, Capital Markets RoE was 61% and Fund based RoE was 5% 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 5th 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 AsiaMoney 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.

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