


NIFTY 9,979.10

152.95 (1.56%)

02-Jun-2020 | EOD

SENSEX 33,825.53

522.01 (1.57%)

02-Jun-2020 | EOD

MOFSL 550.20

24.20 (4.60%)

02-Jun-2020 | EOD

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Motilal Oswal Financial Services reports Q4FY18 PAT of Rs 148 crores, +64% YoY and FY18 PAT of Rs 541 crores, +50% YoY.

Mumbai 21-May-2018

INVESTOR UPDATE

Motilal Oswal Financial Services reports Q4FY18 PAT of Rs 148crores, +64% YoY and FY18 PAT of Rs 541 crores, +50% YoY.

Mumbai, May 21, 2018: Motilal Oswal Financial Services Ltd. announced its results for the quarter ended and yearended March 31, 2018 post approval by the Board of Directors at a meeting held in Mumbai on May 21, 2018.

Performance Highlights

Rs Crores	Q4FY18	Q4FY17	YoY Chg	FY18	FY17	YoY Chg
Revenues	755	546	38%	2,784	1,933	44%
PBT	195	137	42%	781	515	52%
PAT	148	90	64%	541	360	50%
EPS (FV-1)	10	6.1		37	25	

Final dividend declared of Rs 4.5 per share

Performance for the quarter and year ended March 31, 2018

Consolidated revenues were 2,784 crores in FY18, +44% YoY and Rs 756 crores in Q4FY18, +38% YoY.

In FY18, Asset & Wealth Management business top-line was +66% YOY, Capital Market business was +47% YoY and Fund based business was +71% YoY. In FY18, 54% of revenue came from linear sources like Asset & Wealth Management and Housing Finance. Capital Markets share in revenue during the year was 38% led by market tailwinds coupled with operating leverage. Broking business has clocked its highest ever yearly revenues, its distribution arm clocked 71% YoY growth in AUM and Investment banking profits and pipeline continued to grow strongly. Notwithstanding this strong performance in Capital Markets, the share of annuity revenue streams went up, led by AMC's AUM growth of 76% YoY and Housing Finance business reporting a loan book growth of 17% YoY.

Consolidated PBT was up by 52% YoY at Rs 781 cr despite 3 factors – Rs 25.6 Cr impact of MAT cred

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olidated PAT was Rs 541 crores in FY18, +50% YoY, 22.9 Cr impact of change in ESOP accounting policy

were at the discretion of the management. This incremental PAT growth was contributed by Asset & wealth management business, +60% YoY and Capital Market business, +64% YoY. PAT ex-Aspire is up 81% YoY.

Significant investments have been made in manpower. Ad expenses are +54% YoY in Asset Management. The full impact of operating leverage from these sizeable investments is yet to unfold in our businesses.

Consolidated net worth stood at Rs 2,248 Cr, gross borrowing was Rs 5,314 Cr and net borrowing was Rs 4,958 Cr (including Aspire). Excluding Aspire, gross and net borrowings were Rs 1,428 Cr and Rs 1,071 Cr respectively and this is less than the market value of quoted investments at Rs 1,535 Cr. Overall gearing remains conservative at 2.4x; ex-Aspire it is at 0.7x and considering market value quoted investments, we are effectively net cash balance sheet.

RoE for FY18 was 27% on the reported PAT. However, this does not include unrealized gains in our quoted investments at Rs 560 Cr as of March-18. Had this been included, RoE in FY18 would have been ~31%.

Board has declared final dividend of Rs 4.5 per share (FV Re 1/share) taking total dividend to Rs 8.5 per share. Dividend payout policy is 25%-35% of PAT.

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

"Our strategy to diversify our business model towards linear sources of earnings like Asset Management and Housing Finance continues to show results, with bulk of the revenue pie now coming from these new businesses. Each of these businesses offers significant headroom for growth and operating leverage as they scale up. Even our traditional businesses also saw strong uptick during the quarter by registering record revenues. With this strategy, we have achieved highest ever annual revenue and profit during FY18. Our brand is now being recognized in each of our businesses".

Performance of Business Segments for the quarter and year ended March 31, 2018

• Capital markets Businesses (Broking & Investment banking)

- Capital markets comprises of Retail Broking, Institutional Equities and Investment Banking business. Revenues were Rs 1,066 Cr in FY18, +47% YoY for this segment and contributed ~38% of Cons revenues. Profits grew much faster at 64% YoY and contributed ~32% of Cons PAT.
- In **Retail Broking & Distribution**, our Market share in high-yield cash segment has improved strongly on YoY basis. Overall market share has been maintained at 2% in FY18 despite higher F&O volumes.
- Our strategy to bring in linearity through the trail-based distribution business is showing results. Distribution Net Sales were Rs 3,497 Cr in FY18, +119% YoY, and AUM was Rs 7,530 Cr, +71% YoY. With only 10% of the near 10 lakhs client base tapped, Distribution income is already at 17.5% of retail broking gross revenues. We expect a meaningful increase in AUM and fee income as number of clients to whom we have cross sold and number of products per client cross sold rises.
- In **Institutional Broking**, rankings with existing clients improved, domestic institutions contribution improved and new client additions were encouraging. Every aspect of the business, research, sales, sales trading and corporate access is being strengthened. Tailwinds for local firms remain strong.
- **Investment Banking** revenues grew strongly by 29% YoY to Rs 113 Cr in FY18 while profits grew much faster at 62% at Rs 60.3 Cr. We have completed 15 ECM transactions in FY18. Some significant transactions have been closed in Q4 FY18 and the overall transaction pipeline remains quite encouraging.

• Asset Management businesses are nearing critical mass

- **Asset Management** business across MF, PMS & AIF reached the mark of Rs 35,640 Cr AUM, +76% YoY this year, comprising of Rs 18,159 Cr MF AUM, Rs 14,952 Cr PMS AUM and Rs 2,417 Cr of AIF AUM. Our AMC now ranks among the Top-10 players by total equity assets, PMS ranks #1 while AIF is growing rapidly. Net Sales were Rs 12,842 Cr in FY18, +125% YoY and compares with Rs 5,720 Cr in all of FY17. Net yield was ~0.9% in Q4 FY18 and 0.92% for FY18. Revenues were Rs 668 Cr in FY18, +96% YoY and PAT is Rs 131 Cr, +164% YoY. The asset management business offers the highest scalability and operating leverage among all our businesses.
- Our Equity MF AUM of Rs 18,159 Cr is just 2% of the Industry Equity AUM of Rs 8.3 lakh crore. However, our market share in Equity MF Net Sales has scaled up to ~4% in FY18. Our endeavor would be to sharpen the QGLP philosophy to sustain alpha generation, to increase our [Explore](#) as funds form part of performance league tables

improving our share in Net Sales. Ad & marketing spends were Rs 27.9 Cr in FY18, +54% YoY, forming 9% of net revenue. Our ongoing ad campaign "Think Equity Think Motilal Oswal" is reiterating our positioning as equity specialist. Separately, our pricing power in MF is improving and the direct net sales contribution is rising – up from 17% in Q4FY17 to 31% in Q4FY18. This will help improve net yields.

- Our share of Alternate assets, comprising of PMS & AIF, is the highest among AMC's at ~50% and continues to grow very strongly. Yields and profitability of Alternates is higher. As of March 2018, ~20% of Alternates AUM is performance-fee linked, and our target is to increase this further.
- **Private Equity** manages an AUM of Rs 4,694 Cr across 3 growth capital PE funds & 3 real estate funds. This business has delivered on profitability and scalability fronts. The 1st growth fund (IBEF 1) has delivered an XIRR of 28%, and alpha of 10% and is expected to return nearly 5.4x MoC (Multiple of Cost). Till date, 3.3x MoC has been returned for INR investors and 2.2x for USD investors. Strong performance and positioning has also aided new fund raise. We launched IBEF-3 this year and received phenomenal response by garnering Rs 1,470 Cr and expected to achieve targeted size of Rs 2,000 Cr by June 2018.
- **Wealth Management** business AUM grew by 46% YoY at Rs 14,713 Cr with highest-ever Net adds in FY18 at Rs 2,660 Cr, +50% YoY, revenues grew 47% YoY and PAT grew 134% YoY. EBITDA margins improved to 35% in FY18 vs 31% in FY17. RM count of this business has reached 118 in FY18 from 78 in FY17, +51% YoY. Investments in strong RM addition suppressed reported profitability of past years. As ratio of new adds to opening RM's falls and the vintage of RM's improve, both productivity and profitability of the business will scale up.
- Overall **Asset and Wealth Management** revenues were Rs 845 Cr in FY18, +66% YoY and contributed 30% of consolidated revenues. Profits grew by 60% YoY and this segment now contributes 37% of consolidated profits, with highest scalability and with least capital employed among our portfolio of businesses.

• Housing finance business

- **Aspire Home Finance's** loan book grew by +17% YoY at Rs 4,863 Cr. We plan to grow loan book at about 15% in FY19.
- In FY18, profits of the company declined on account of provisioning of Rs 56.4 Cr and write off of Rs 71.5 Cr.
- In FY18, AHFC has accelerated provisions of Rs 19.4 Cr over the regulatory requirements resulting into substantial increase in PCR to 35% from 18% in FY17. We plan to increase PCR further in coming quarters.
- Strong ramp-up in collection headcount, +60% QoQ to ~215 officers. Average age of collection officers into the system is ~35-40 days. We expect meaningful traction in collection as their customer touch base increases in-line with their vintage. Cost to Income ratio stood at 38% in FY18.
- Disbursements in Q4FY18 were Rs 183 Cr versus Rs 900 Cr in Q4FY17. Overall, disbursements in FY18 were Rs 1,436 Cr versus Rs 2,430 Cr in FY17.
- NNPA stood at 3.3% in Q4FY18 from 3.6% in Q3FY18. In FY18, overall rise in NPA was on account of seasoning of book coupled with delay in setting up collection organisation. Further, prolonged impact of external shocks in economy also affected asset quality. Impact of collection organization has now started showing positive results.
- We remain confident of the long term outlook of the home finance business. Rs 50 Cr equity capital has been infused during the quarter and we are committed to provide further capital as the business scales up.
- Management team has been strengthened with additions and changes in Heads of Credit, Technical, Collections, Operations, HR, Business Process & Quality and Compliance. The process of strengthening the team further will continue in the coming quarters.
- Margins stood at 4.1% in FY18 versus 3.6% in FY17. This margin expansion, despite interest reversals, was on account of lower cost of funds.
- Branch expansion is being pursued in the new states where we commenced operations year ago. 4 new states launched in FY17 are performing better.
- Gearing remains conservative, with the Debt/Equity ratio at 4.9x.

• Fund based business includes sponsor commitments to our AMC & PE funds, equity investments and NBFC LAS book.

- **Fund Based** activities like commitments to our asset management products, not only helped seed these new businesses by investing in highly scalable opportunities, but they also represent liquid resources for future opportunities.
- Investments in quoted equity investments stood at Rs 975 Cr at cost, while the unrealised gain on these investments as of March-18 stood at Rs 560 Cr. These gains are not reflected in the reported PAT. The post-tax cumulative XIRR of these investments is ~12%. As per IND-AS, these gains will form a part of earnings from FY19.

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through RoE vs reported RoE of this business just

- Investment in seeding our PE funds is Rs 269 Cr at cost. IBEF-1 is expected to deliver a 5x MoC. NBFC LAS book is Rs 183 Cr as of March-18, which is now run as a spread business.
- Inline with the goal to achieve a sustainable 20%+ RoE, consolidated RoE for the Group for FY18 was 27% (without including unrealized gains on quoted equity investments of Rs 560 Cr). Within this, Asset and Wealth Management RoE was 200%, Capital Markets RoE was 156% and Fund based RoE was 12%.

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 Financial Service won the 'Brand of the Year' award at the IBLA CNBC TV 18. 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.

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