

Earnings Update – Q4 FY12 and FY12 (Audited)



April 25, 2012

Motilal Oswal Financial Services Limited

BSE: 532892 NSE: MOTILALOF5 Bloomberg:MOFS:IN Reuters: MOFS.BO

www.motilaloswal.com



**Q4 FY12
performance**

**Consolidated
financials**

**Business
snapshots**

About us

**Thematic
series**

**Industry
facts**

**Q4 FY12
performance**

**Consolidated
financials**

**Business
snapshots**

About us

**Thematic
series**

**Industry
facts**

Highlights – Q4 FY12 and FY12



Consolidated Financials	- Revenue in Q4 FY12 was ₹1.3 billion (up 16% QoQ and up 2%YoY); FY12 revenue was ₹4.7 billion (down 23% YoY) - Adjusted PAT in Q4 FY12 was ₹296 million (up 13% QoQ and up 9% YoY); ₹1.03 billion in FY12 (down 24% YoY) - Reported PAT in Q4 FY12 was ₹217 million (down 16% QoQ and down 10% YoY) ; ₹1.04 billion in FY12 (down 24% YoY); - EBITDA and Adjusted PAT margins for Q4 FY12 were 32% (37% in Q3 FY12) and 23% (23% in Q3 FY12) respectively. On a full year basis, EBITDA margin was 34% (FY11: 38%), while Adjusted PAT margin was 22% (FY11: 23%) - Proposed final dividend for FY12 is ₹ 0.5 per share (Face Value of ₹1 per share) - Strong balance sheet with net worth of ₹11.4 billion, net cash of ₹2.7 billion and zero debt as of Mar 31, 2012
Volumes and Market Share	- Total ADTO in secondary equities was ₹29.5 billion in Q4 FY12 (₹25.6 billion in Q3 FY12 and ₹31.0 billion in Q4 FY11) - Equity market share was 2.0% in Q4 FY12 (1.8% in Q3 FY12 and 2.0% in Q4 FY11)
Distribution Reach	- Retail distribution stood at 1,579 business locations across 552 cities, as of March 2012 - Total client base increased to 746,932, which includes 657,119 retail broking and distribution clients
Assets Managed	- Total assets under management/advice across mutual funds, PMS and private equity businesses was ₹29.1 billion. Within this, our mutual funds AUM was ₹4.5 billion, PE AUA was ₹11.0 billion, while PMS AUM was ₹13.6 billion - Wealth management- Purple Client Group, managed assets of ₹14.7 billion - Depository assets were ₹115.4 billion
Business Updates	- Motilal Oswal AMC launched its 5th product-MOSt Shares Gold ETF, India's 1st Gold ETF of its kind which seamlessly enables investment as well as consumption of pure gold for retail investors - Motilal Oswal Private Equity announced the first closing of its 2nd growth capital PE fund, India Business Excellence Fund-II, achieved at an equivalent of ₹3.5 billion raised through a combination of domestic and offshore investors
Accolades Received	- MOSL won 'Best Performing National Financial Advisor Equity Broker' award at CNBC TV18 Financial Advisor Awards 2012, for the second time in a row. - MOSL also won 'Best Equity Broker' award at Bloomberg UTV Financial Leadership Awards 2012. - MOFSL won 'Retailer of the Year (Banking & Financial Services)' award at Retail Excellence Awards 2012

**Q4 FY12
performance**

**Consolidated
financials**

**Business
snapshots**

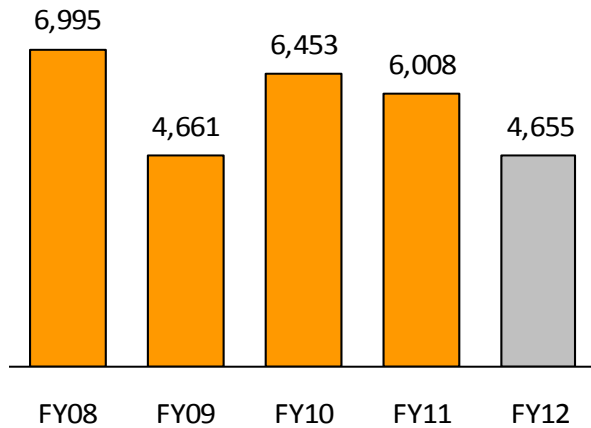
About us

**Thematic
series**

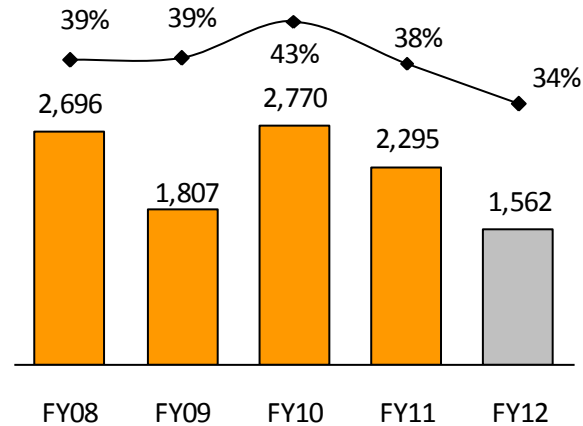
**Industry
facts**

Annual Performance at a Glance

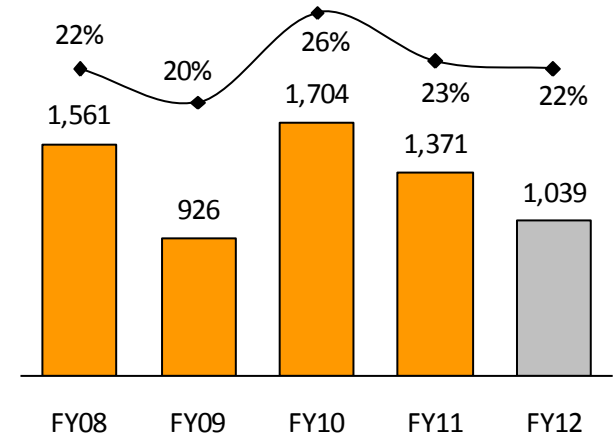
Consolidated revenues (₹ million)



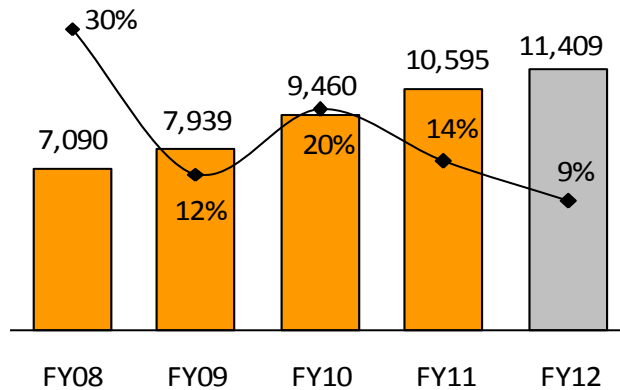
EBIDTA (₹ million, margin %)



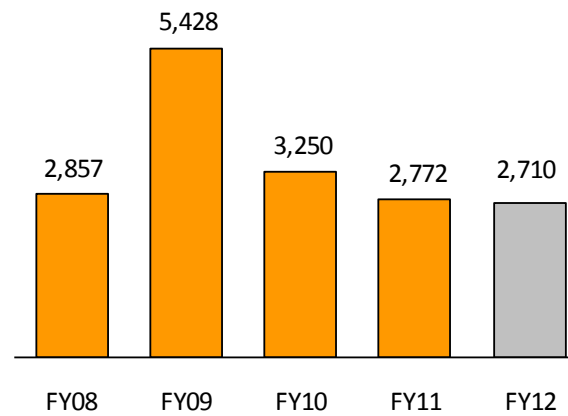
Reported PAT (₹ million, margin %)



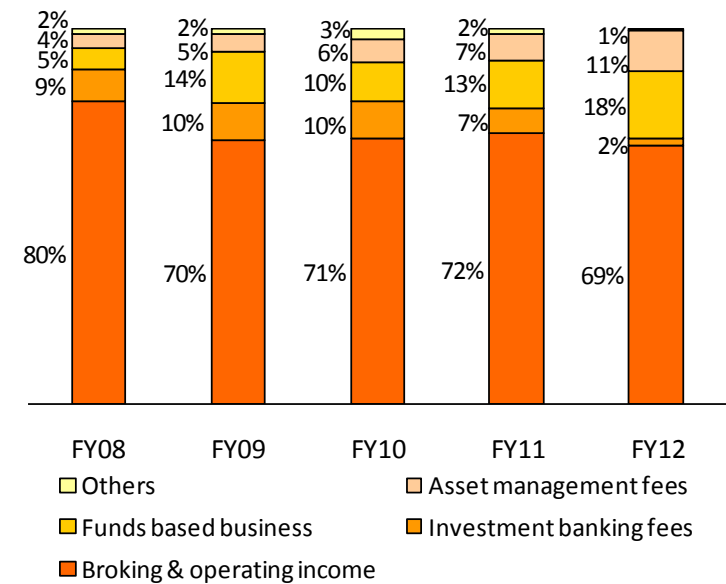
Net worth (₹ million); Return on Avg NW (%)



Net Cash (₹ million)



Revenue Composition (%)



Particulars	Q4 FY12	Q3 FY12	Change
₹million	Mar 31, 2012	Dec 31, 2011	(%) Q-o-Q
Total Revenues	1,286	1,113	16%
EBIDTA	406	411	-1%
PBT (before E & EOI)	344	378	-9%
Reported PAT (after E & EOI)	217	260	-16%
Adjusted PAT	296	261	13%
EPS - Basic	1.50	1.80	
EPS - Diluted	1.50	1.80	
No.of shares outstanding (million) - FV Rs 1/share	145	145	

Q4 FY12	Q4 FY11	Change
Mar 31, 2012	Mar 31, 2011	(%) Y-o-Y
1,286	1,260	2%
406	435	-7%
344	394	-13%
217	243	-10%
296	271	9%
1.50	1.67	
1.50	1.67	
145	144	

FY12	FY11	Change
Mar 31, 2012	Mar 31, 2011	(%) Y-o-Y
4,655	6,008	-23%
1,562	2,295	-32%
1,396	2,107	-34%
1,039	1,371	-24%
1,028	1,353	-24%
7.17	9.52	
7.17	9.52	
145	144	

E & EOI = Exceptional items & Extraordinary items

Reported PAT is adjusted for the following items to derive Adjusted PAT:

Particulars	Q4 FY12	Q3 FY12	Change	Q4 FY12	Q4 FY11	Change	FY12	FY11	Change
₹million	Mar 31, 2012	Dec 31, 2011	(%) Q-o-Q	Mar 31, 2012	Mar 31, 2011	(%) Y-o-Y	Mar 31, 2012	Mar 31, 2011	(%) Y-o-Y
Reported PAT	217	260	-16%	217	243	-10%	1,039	1,371	-24%
Adjustments: (Post tax)									
Less: Profit / (Loss) on sale of property, investments	(7)	(1)		(7)	(0)		80	32	
Add: Bad debt w.off / provision	21	0		21	0		49	14	
Add: Deferred tax asset of previous year reversed	20	0		20	28		20	0	
Add: Additional incentive for previous quarters based on annual appraisals	30	0		30	0		0	0	
Adjusted PAT	296	261	13%	296	271	9%	1,028	1,353	-24%

The company continues to put significant efforts in building new business ventures like Asset Management, Private Equity and Wealth Management which currently do not contribute to the profits of the Group. The combined loss on these businesses was Rs 31 million for Q4FY12 and Rs 26 million for FY12.

Revenue composition

Particulars	Q4 FY12	Q3 FY12	Change	Q4 FY12	Q4 FY11	Change	FY12	FY11	Change
₹million	Mar 31, 2012	Dec 31, 2011	(%) Q-o-Q	Mar 31, 2012	Mar 31, 2011	(%) Y-o-Y	Mar 31, 2012	Mar 31, 2011	(%) Y-o-Y
Brokerage & operating income	896	716	25%	896	856	5%	3,201	4,308	-26%
Investment banking fees	38	13	196%	38	54	-30%	86	399	-78%
Fund based income	225	190	19%	225	205	10%	822	765	8%
Asset management fees	130	170	-24%	130	134	-3%	504	429	17%
Other income	(3)	24	nm	(3)	12	nm	42	107	-61%
Total Revenues	1,286	1,113	16%	1,286	1,260	2%	4,655	6,008	-23%

- Broking and related revenues were ₹896 million this quarter, up 25% from Q3 FY12 and up 5% from Q4 FY11. This segment contributed 70% of total group revenues. On a full year basis, broking revenues at ₹3.2 billion were down 26% as compared to previous year
- Fund based income was ₹225 million, up 19% from Q3 FY12 and up 10% from Q4 FY11. It contributed 17% of total group revenues. On a full year basis, fund based income at ₹822 million was up 8% over previous year. The loan book was ₹3.5 billion as of Mar 31, 2012
- Asset Management fees were ₹130 million for Q4 FY12, down 24% QoQ and down 3% YoY. The higher revenue in Q3 FY12 is attributable to the fees related to the first close of the new IBEF-II fund. AMC revenues also includes PMS performance fee of ₹11.5 million accrued in Q4 FY12 (Q4 FY11 : ₹45.2 million). On a full year basis, asset management fees at ₹504 million were up 17% as compared to previous year
- Investment banking fees were ₹38 million for Q4 FY12, down 30% from Q4 FY11. On a full year basis, fees at ₹86 million were down 78% as compared to previous year due to the slowdown in corporate fund-raising activity
- Other income was ₹(3) million in Q4 FY12 includes loss on disposal of fixed assets to the tune of ₹11 million. On full year basis, other income was ₹42 million, down 61% as compared to previous year

₹million	As on Mar 31, 2012	As on Sep 30, 2011	As on Mar 31, 2011
Sources of Funds			
Networth	11,409	11,199	10,595
Loan funds	-	3	-
Minority interest	44	42	52
Deferred tax liability	47	17	2
Total	11,500	11,262	10,648
Application of Funds			
Fixed assets (net block)	3,445	3,136	2,894
Investments	941	786	588
Deferred tax asset	-	-	-
Current Assets (A)	13,486	12,914	15,104
- Sundry debtors	2,478	2,083	4,362
- Stock-in-trade	1,574	2,498	1,875
- Cash & Bank Balances	2,710	1,705	2,665
- Loans & Advances	6,678	6,539	6,161
- Other Assets	46	88	41
Current liabilities (B)	6,373	5,574	7,939
Net current assets (A-B)	7,114	7,340	7,166
Total	11,500	11,262	10,648

₹million	As on Mar 31, 2012	As on Sep 30, 2011	As on Mar 31, 2011
Debt (A)	-	3	-
Cash & Bank balances (B)	2,710	1,705	2,665
Net cash (B - A)	2,710	1,703	2,665
Debt : Equity	0.00x	0.00x	0.00x
Cash (% Networth)	24%	15%	25%

MOFSL's strategy of maintaining low gearing helped sustain strong performance in the high interest rate scenario

**Q4 FY12
performance**

**Consolidated
financials**

**Business
snapshots**

About us

**Thematic
series**

**Industry
facts**

Broking & Distribution, Institutional Equities & Wealth Management

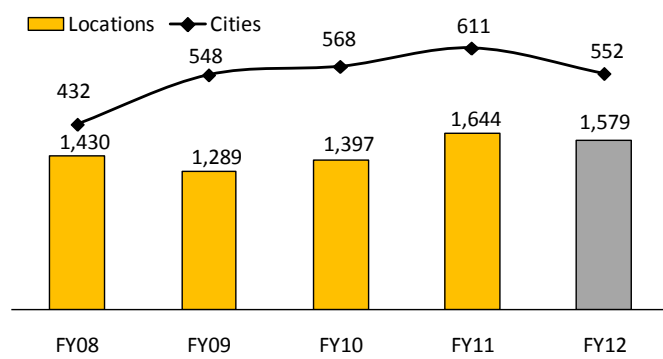
Particulars	Q4 FY12	Q3 FY12	Change	Q4 FY12	Q4 FY11	Change	FY12	FY11	Change
₹million	Mar 31, 2012	Dec 31, 2011	(%) Q-o-Q	Mar 31, 2012	Mar 31, 2011	(%) Y-o-Y	Mar 31, 2012	Mar 31, 2011	(%) Y-o-Y
Total Revenues	1,014	837	21%	1,014	985	3%	3,577	4,874	-27%
EBIDTA	346	295	17%	346	299	16%	1,182	1,666	-29%
PBT (before E & EOI)	294	263	12%	294	258	14%	1,031	1,489	-31%
PAT (before E & EOI)	210	181	16%	210	182	15%	727	1,008	-28%
PAT (after E & EOI)	210	181	16%	210	182	15%	815	1,008	-19%

E & EOI = Exceptional items & Extraordinary items

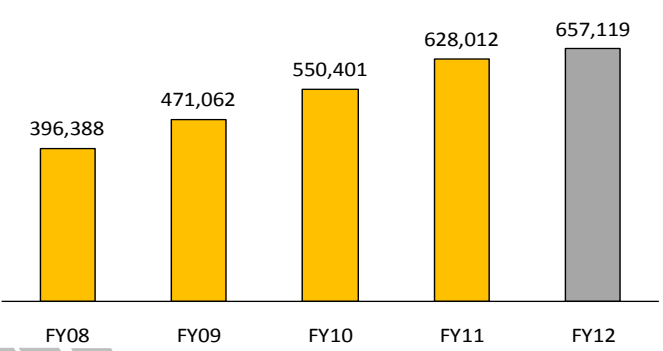
- Revenues were ₹1.0 billion for Q4 FY12, up 21% from Q3 FY12 and up 3% from Q4 FY11. On a full year basis, revenues at ₹3.6 billion were down 27% as compared to previous year
- PAT was ₹210 million for Q4 FY12, up 16% from Q3 FY12 and up 15% from Q4 FY11. On a full year basis, PAT (before E & EOI) at ₹727 million was down 28% as compared to FY11
- MOSL ADTO was ~₹29.5 billion in Q4 FY12, up 15% from ₹25.6 billion in Q3 FY12 but down 5% from ₹31.0 billion in Q4 FY11
- Market ADTO grew 6% QoQ to Rs 1.5 trillion, buoyed by a 34% growth in cash volumes following increased retail participation in Jan-Feb. Option volumes were flat on a QoQ basis. Thus, the proportion of cash to overall volumes improved from 8% to 11% QoQ, while options reduced from 70% to 67%. Our equity market share increased from 1.8% in Q3 FY12 to 2.0% in Q4 FY12 and our blended yield has held firm at 4.7 bps on a QoQ basis
- As on Mar 31, 2012, total client base has increased to 746,932 while Pan-India distribution reach stood at 1,579 business locations across 552 cities

- Offers customized investment services to its retail customers
- ‘Customer first’ philosophy is executed through strategic focus on:
 - Increasing distribution reach to build a pan-India network
 - Customer segmentation based on individual needs
 - Wide bouquet of offerings (equity, PMS, MFs, commodities)
 - Develop in-house technology for better customer experience
 - Intensify customer connect through seminars and feedback
- In Q4 FY12, MOSL continued its training programs on areas like equity trading strategies, wealth creation and financial planning

Pan-India distribution footprint



Retail equity broking clients



The company’s superior quality of broking and advisory services were recognized again this year

MOSL won 'Best Performing National Financial Advisor Equity Broker' award at CNBC TV18 Financial Advisor Awards 2012, for the 2nd year



MOSL also won ‘Best Equity Broker’ award at Bloomberg UTV Financial Leadership Awards 2012



MOFSL won ‘Retailer of the Year (Banking & Financial Services)’ award at the Retail Excellence Awards 2012, organised by Asia Retail Congress



Institutional equities – Research services

- Cash and derivatives broking to institutional clients, along with a strong research and corporate access group
- Client base of 513 institutions including 347 FIIs, as of Mar 31, 2012
- MOSL was ranked 2nd in the 'Best Overall Brokerage' category by Asia Money 2011

Recent Research Reports

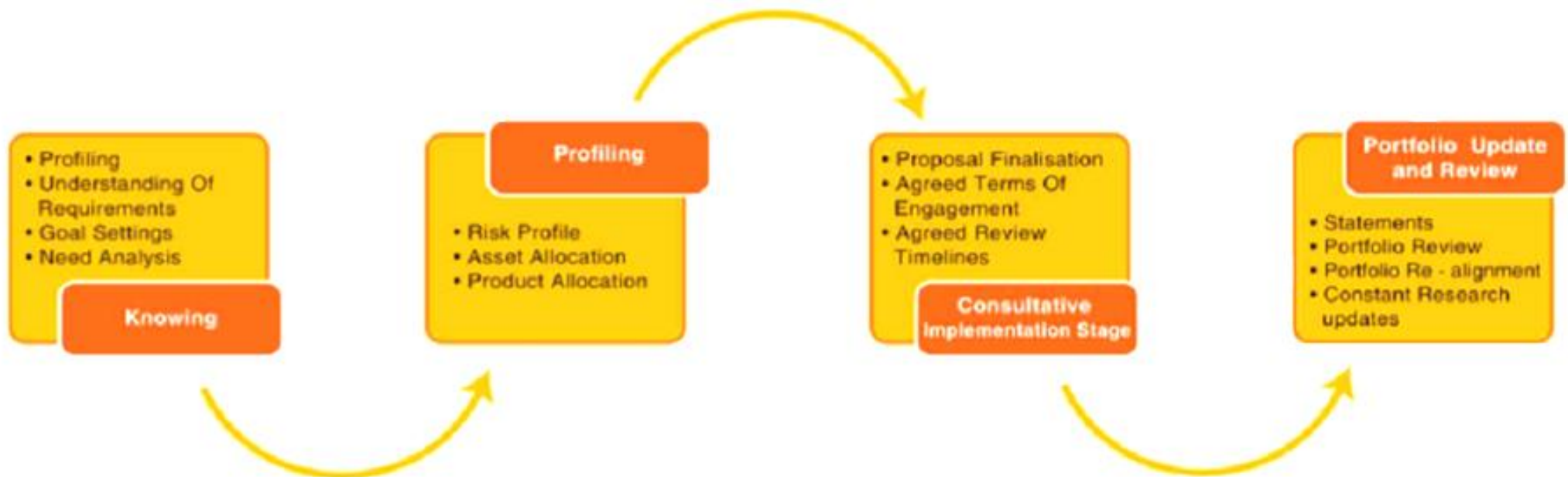




Wealth Management
from Motilal Oswal

The purple process

- Focus on advisory and product mix that leads to Client Profitability
- Diversified solution management to cater to unique needs of clients
- Advises on in-house products like PMS, PE, ETFs and third party products like debt, mutual funds, insurance etc
- AUM of ₹14.7 billion, as of Mar 31, 2012
- 73 employees in wealth management business, as of Mar 31, 2012
- Present in Mumbai, Delhi, Kolkata, Pune and Ahmedabad

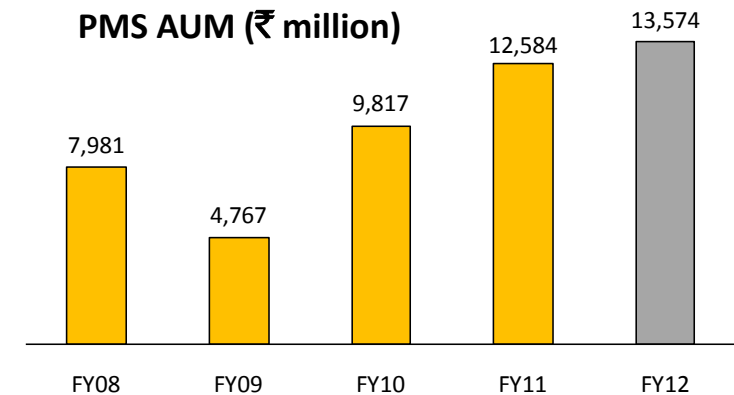


Particulars	Q4 FY12	Q3 FY12	Change
₹million	Mar 31, 2012	Dec 31, 2011	(%) Q-o-Q
Total Revenues	90	76	19%
EBIDTA	(9)	4	nm
PBT	(10)	3	nm
PAT	(30)	3	nm

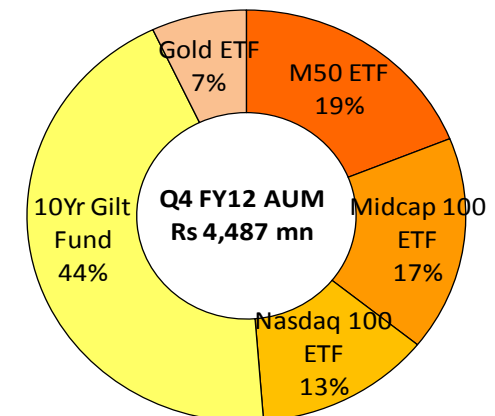
Q4 FY12	Q4 FY11	Change
Mar 31, 2012	Mar 31, 2011	(%) Y-o-Y
90	113	-20%
(9)	10	nm
(10)	9	nm
(30)	(20)	nm

FY12	FY11	Change
Mar 31, 2012	Mar 31, 2011	(%) Y-o-Y
318	195	63%
(9)	(84)	nm
(11)	(85)	nm
(31)	(85)	nm

- As on Mar 31, 2012, PMS AUM was ₹13.6 billion
- Launched its 5th fund product - MOST Shares Gold ETF, India's 1st Gold ETF of its kind which seamlessly enables investment as well as consumption of pure gold for retail investors
- Mutual funds AUM across the 5 funds was ₹4.5 billion
- Diversified product bouquet with M50 comprising 19% of total MF AUM, Midcap 100 comprising 17%, Nasdaq 100 - 13%, while Gilt and Gold comprised 44% and 7% respectively
- During the current quarter, deferred tax asset of ~ ₹20 million recognized in the earlier year(s) has been reversed



Mutual Funds AUM (₹ million)



- MOSt Shares Gold ETF is an open ended ETF providing returns by investing 95%-100% of its corpus in gold bullion, and the remainder in G-Secs and money market instruments
- It is India's 1st Gold ETF to offer pure imported gold at a price lower than other options in the market by redeeming ETF units for physical gold bars as low as 10 gm across 22 cities in India
- Investors can buy/sell the units through their trading accounts at the price quoted on exchanges
- Units can also be directly bought/sold from the AMC in creation unit lot of 10 units (10 gm) and multiples of 10 units thereof

● Key advantages :-

- Opens spot gold prices to retail investors for the 1st time
- No storage or security issues
- No entry and exit load
- Units will not be liable for wealth tax
- Invests in gold of 99.5% or higher purity
- Low correlation with major asset classes
- Joins the investment benefits of gold with consumption

Parameter	MOSt Gold Shares	Other GOLD ETFs	Jeweller	Bank
Physical Lots	10 gms or multiples	1 Kg. or multiples	N.A.	N.A.
Gold Collection Centres	22 Locations across India	Only Mumbai	N.A.	N.A.
Mode of Holding	Demat	Demat	Physical (Bars / Coins)	Physical (Bars / Coins)
Pricing	Spot Gold prices	Spot Gold prices	Differs from one to another. Neither transparent nor standard.	Differs from bank to bank. Not standard.
Purity	99.5% or higher	99.5% or higher	Can't Say	High
Risk of Theft	No, Secured Vaults	No, Secured Vaults	Yes	Yes
Wealth Tax	No	No	Yes	Yes
Long Term Capital Gains Tax	Indexation benefit after one year	Indexation benefit after one year	Only after 3 years	Only after 3 years
Liquidity	High	High	Relatively at High Cost	Low on Liquidity

MOST Shares Gold ETF is a new scheme and does not have a performance track record. The information above alone is not sufficient and and shouldn't be used for the development or implementation of an investment strategy. It should not be construed as investment advice to any party. The above illustration is for general purposes only and not a complete disclosure of every material fact, terms or conditions of the Scheme. Investment methodology is as mentioned in the Scheme Information Document

Particulars	Q4 FY12	Q3 FY12	Change
₹million	Mar 31, 2012	Dec 31, 2011	(%) Q-o-Q
Total Revenues	40	16	147%
EBIDTA	(20)	(17)	nm
PBT	(20)	(18)	nm
PAT	(14)	(12)	nm

Q4 FY12	Q4 FY11	Change
Mar 31, 2012	Mar 31, 2011	(%) Y-o-Y
40	56	-28%
(20)	28	nm
(20)	28	nm
(14)	19	nm

FY12	FY11	Change
Mar 31, 2012	Mar 31, 2011	(%) Y-o-Y
116	418	-72%
(45)	196	nm
(47)	196	nm
(31)	130	nm

- Strong management team with substantial experience in investment banking, corporate banking and advisory
- 25 employees in investment banking, as of Mar 31, 2012
- Poor performance of equity markets adversely impacted equity raising activities both IPO and QIPs in the market
- The business is well aligned to arising market opportunities and the execution pipeline remains strong



Particulars	Q4 FY12	Q3 FY12	Change
₹million	Mar 31, 2012	Dec 31, 2011	(%) Q-o-Q
Total Revenues	42	97	-57%
EBIDTA	11	16	-32%
PBT	10	16	-33%
PAT	7	11	-33%

Q4 FY12	Q4 FY11	Change
Mar 31, 2012	Mar 31, 2011	(%) Y-o-Y
42	27	52%
11	1	1153%
10	1	1516%
7	0	1388%

FY12	FY11	Change
Mar 31, 2012	Mar 31, 2011	(%) Y-o-Y
194	128	52%
31	34	-9%
30	33	-11%
20	23	-11%

- MOPE is an investment manager and advisor to two private equity funds, acts as an advisor and mentor to the investee companies and leverages the relationships of the Motilal Oswal group for the benefit of these companies
- India Business Excellence Fund (IBEF) is a SME focused growth capital fund with AUM of US\$ 125 million (~₹5.5 billion). It has invested in 13 companies, and committed ~83% of funds under management, as of Mar 31, 2012
- India Realty Excellence Fund (IREF) is a domestic real estate fund with total AuA at ₹2 billion. IREF has made investments across 6 deals, committing about 74% of its funds under management, as of Mar 31, 2012
- MOPE announced the first closing of its fund - India Business Excellence Fund II (IBEF-II) raising ₹3.5 billion through a combination of domestic and offshore investors This will be MOPE's 2nd sector-agnostic growth capital fund seeking to invest in mid-market companies to accelerate their growth

**Q4 FY12
performance**

**Consolidated
financials**

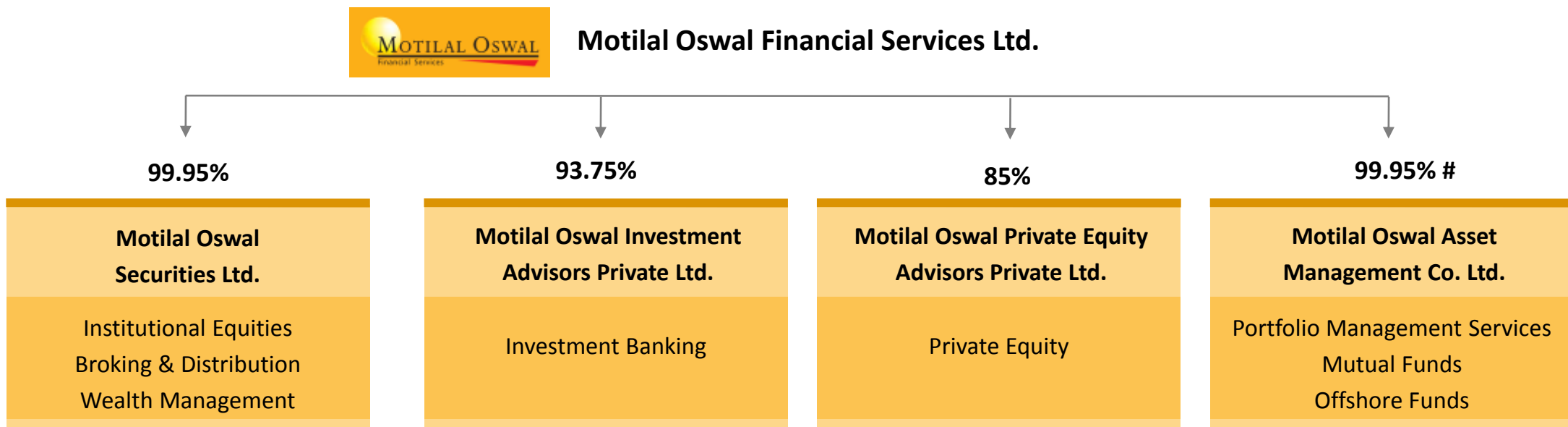
**Business
snapshots**

About us

**Thematic
series**

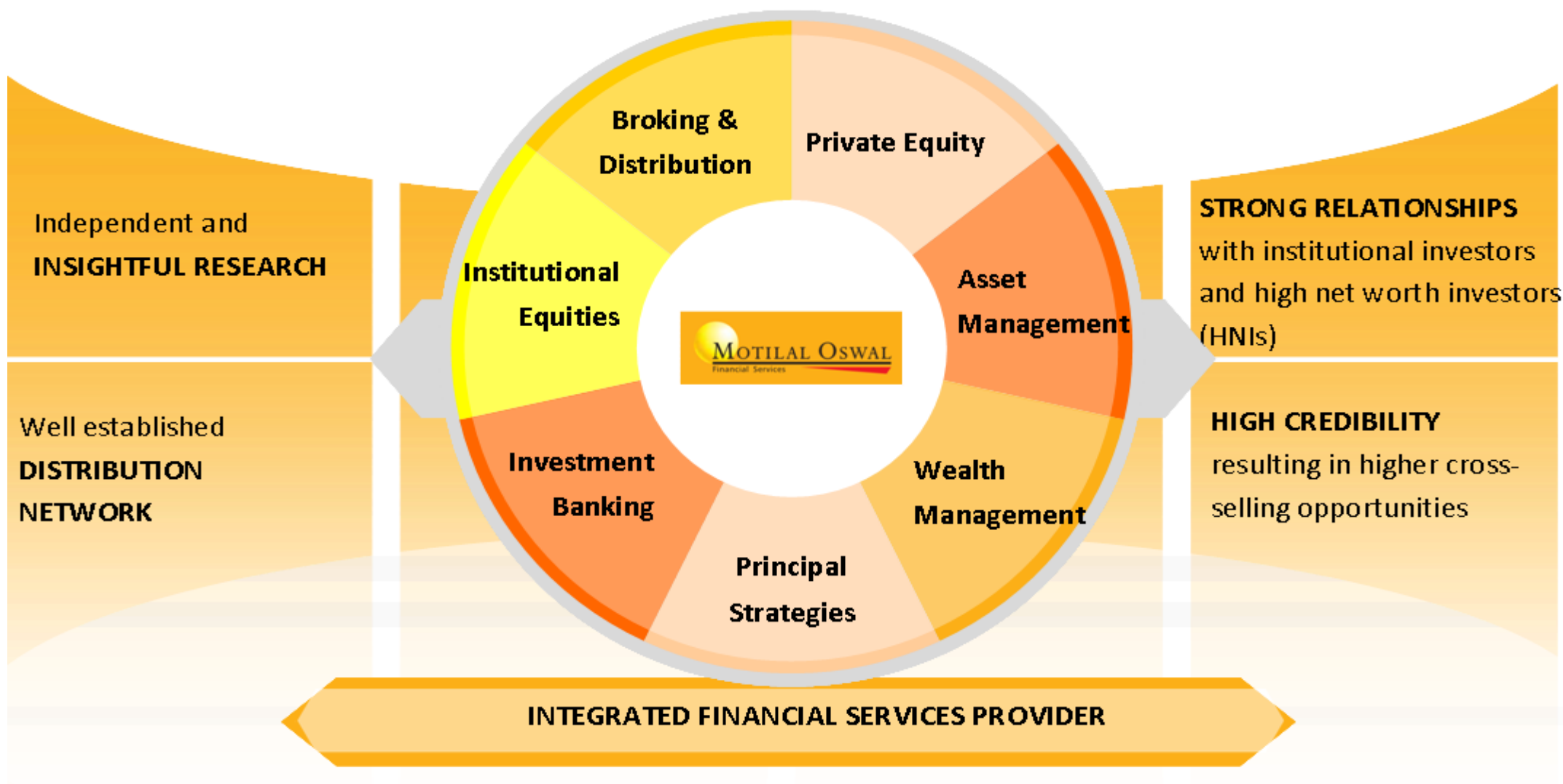
**Industry
facts**

- Well-diversified, financial services company offering a range of financial products and services
- Focused on wealth creation for all its customers, such as institutional clients, HNWI and retail customers
- Network spread over 552 cities comprising 1,579 business locations operated by our business partners and us with 746,932 total registered customers
- Shares listed on the Bombay Stock Exchange and National Stock Exchange in Mumbai



though Motilal Oswal Securities Limited

* Data as on Mar 31, 2011



Time bound results within the framework of the company's value system



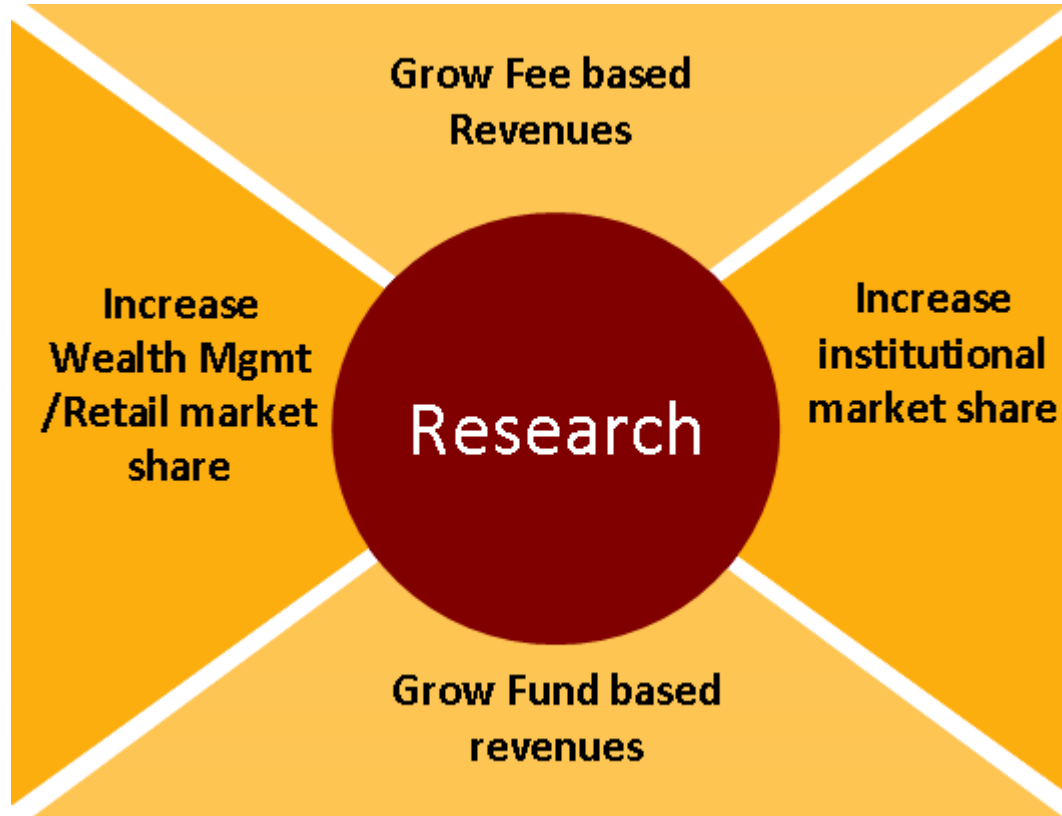
A company honoring commitment with highest ethical and business practices

High energy and self-motivated with a “do it” attitude and entrepreneurial spirit

Attaining goals collectively and collaboratively

Performance gets differentiated, recognised and rewarded in an apolitical environment

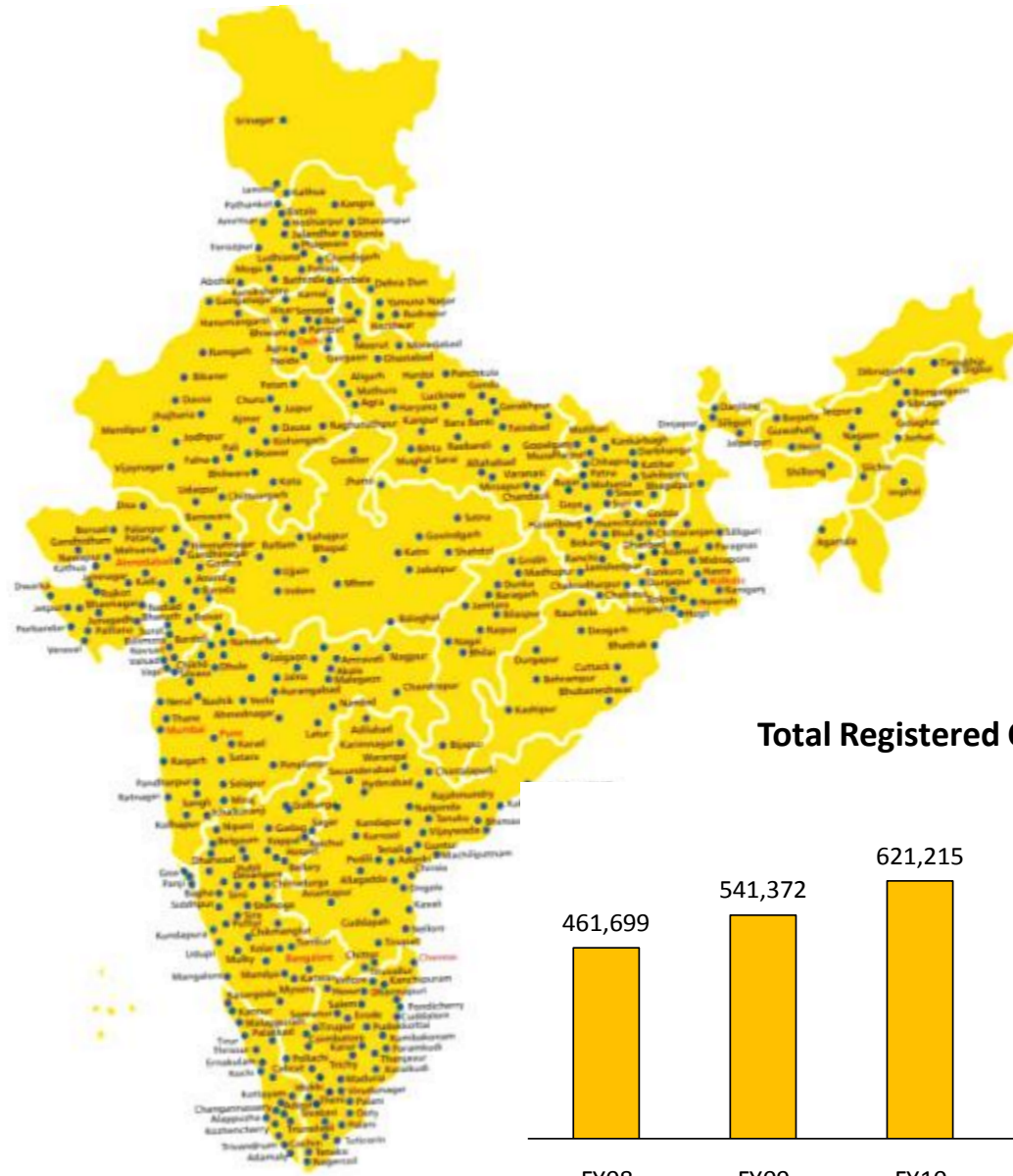
- Grow Investment banking business
- Build Asset management and Private equity business



- Further grow distribution network across India
- Leverage research and advisory capability
- Focus on wealth management solutions and new product offerings
- Increase distribution of mutual funds and insurance products

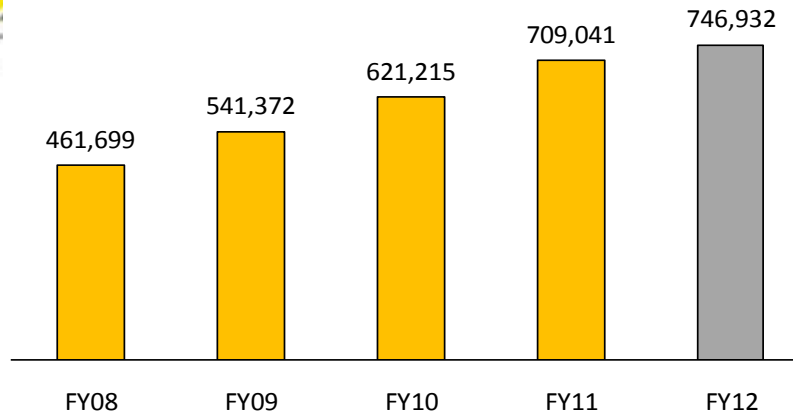
- Build stronger institutional relationships through wider and quality research
- Increase research support
- Grow institutional derivatives business

- Build Principal Strategies Group to maximise returns using risk free arbitrage strategies
- Grow margin funding book size

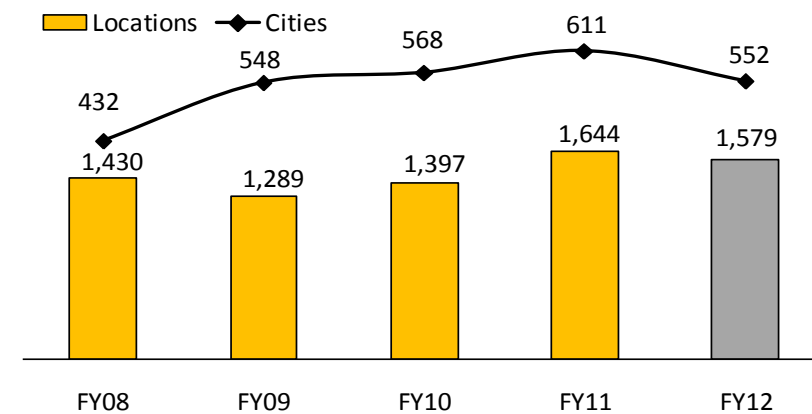


- Pan-India network with a presence in 552 cities across 1,579 business locations (branches plus franchisees), and complemented by a robust online channel
- Total registered client base of 746,932, including 657,119 retail broking and distribution clients
- Extensive distribution network providing opportunities to cross-sell products, particularly as we diversify further into new business streams

Total Registered Clients



Distribution: (Business Locations & Cities)



Focused research team

- Strong research team comprising of 30 research analysts covering more than 200 companies across over 20 sectors and 25 commodities
- Focused on cash equities, equity derivatives and commodities and services all our business segments

Strong Sales and Dealing Team

- Research supported by an extremely strong sales trading team comprising of qualified professionals

MOSL has been consistently ranked amongst the top brokerage houses for its research

ET Now Starmine Analyst Awards 2010-2011

Award Winning Categories:

Category	Sector	Rank
Top Earnings Estimator	Across Sectors	1
Top Earnings Estimator	Financials	1
Top Stock Picker	Energy	1
Top Stock Picker	Real Estate	2



MOSL has conducted its Annual Wealth Creation Study since 1996, with the 16th Wealth Creation study held in December, 2011

The Wealth Creation reports can be downloaded here http://www.motilaloswal.com/Wealth_Creation_Study/Studies/

2009

MOTILAL OSWAL Thematic Study | 17 December 2009

14TH ANNUAL WEALTH CREATION STUDY (2004-2009)

Winner Categories

HIGHLIGHTS

- India's NTD Era (Near Trillion Dollar of GDP) will be marked by sustained boom in discretionary spend, savings and investment
- Winner Categories and Category Winners will enjoy exponential growth in profits
- Category Winners bought at reasonable valuation create sign/cant wealth over the long term

Category Winners

TOP 10 WEALTH CREATORS (2004 - 2009)

THE BIGGEST		THE FASTEST		THE MOST CONSISTENT	
Rank	Company	Rank	Company	Rank	Company
1	Reliance Inds.	1	Unitech	1	H D F C
2	Sun Pharma	2	Axis Bank	2	Sun Pharma
3	S H E L	3	Axis Bank	3	S H E L
4	NHDC	4	Axis Bank	4	NHDC
5	IOB	5	Axis Bank	5	IOB
6	IC	6	Axis Bank	6	IC
7	Infosys Tech.	7	Axis Bank	7	Infosys Tech.
8	Larsen & Toubro	8	Axis Bank	8	Larsen & Toubro
9	SAIL	9	Axis Bank	9	SAIL
10	H D F C	10	Axis Bank	10	H D F C

Raamdeo Agrawal (Raamdeo@MotilalOswal.com) : Shrinath Mithanahya (ShrinathM@MotilalOswal.com)
We thank Mr. Divya Mehra (Divya.Mehra@MotilalOswal.com), Investment Consultant, for his invaluable contribution to this report.

**Winner Categories
Category Winners**

2010

MOTILAL OSWAL Thematic Study | 17 December 2010

15TH ANNUAL WEALTH CREATION STUDY (2005-2010)

UU Investing
Creating wealth from the unknown and unknowable

HIGHLIGHTS

- UU situations offer asymmetric payoffs; these can be exploited only by investors with complementary skills and unbiased judgement
- Low portfolio risk remains the most reliable valuation indicator of future wealth creation
- TTS - Ten Trillion Dollar Savings through 2020 - will throw up many UU investing opportunities in Indian financial services

TOP 10 WEALTH CREATORS (2005 - 2010)

THE BIGGEST		THE FASTEST		THE MOST CONSISTENT	
Rank	Company	Rank	Company	Rank	Company
1	Reliance Inds.	1	Unitech	1	Axis Bank
2	IOB	2	Axis Bank	2	Axis Bank
3	NHDC	3	Axis Bank	3	NHDC
4	S H E L	4	Axis Bank	4	S H E L
5	IOB	5	Axis Bank	5	IOB
6	IC	6	Axis Bank	6	IC
7	Infosys Tech.	7	Axis Bank	7	Infosys Tech.
8	Larsen & Toubro	8	Axis Bank	8	Larsen & Toubro
9	SAIL	9	Axis Bank	9	SAIL
10	H D F C	10	Axis Bank	10	H D F C

Raamdeo Agrawal (Raamdeo@MotilalOswal.com) : Shrinath Mithanahya (ShrinathM@MotilalOswal.com)
We thank Mr. Divya Mehra (Divya.Mehra@MotilalOswal.com), Investment Consultant, for his invaluable contribution to this report.

**Creating Wealth from the
Unknown and Unknowable**

2011

MOTILAL OSWAL Thematic Study | 9 December 2011

16TH ANNUAL WEALTH CREATION STUDY (2006-2011)

Blue Chip Investing
Creating wealth from dividends

HIGHLIGHTS

- Blue chips are fountain of dividend, and offer as much, if not more, investment growth potential than lower quality companies, but with far less risk.
- In investing, there is no profitable substitute for quality. Understanding quality of the company doesn't stop at profits and profitability, it must extend to dividend payouts and longevity.
- Most Blue Chips enjoy premium valuation, in deciding when to buy, one should focus not only on P/E, but also consider payout ratio, relative dividend yield, and earnings growth potential.
- In India, over last 20 years, Blue Chips have significantly outperformed benchmark indices with much lower risk.

"The risk of paying too high a price for good quality stocks -- while it will rise -- is not the chief reason for excluding the average range of equities. Otherwise, over many years, the growth in their stock returns to investors would be the product of low-quality valuation of stocks of mediocre business conditions."

— Benjamin Graham, The Intelligent Investor

TOP 10 WEALTH CREATORS (2006-2011)

THE BIGGEST		THE FASTEST		THE MOST CONSISTENT	
Rank	Company	Rank	Company	Rank	Company
1	Reliance Industries	1	Axis Bank	1	Axis Bank
2	IOB	2	Axis Bank	2	Axis Bank
3	S H E L	3	Axis Bank	3	Axis Bank
4	NHDC	4	Axis Bank	4	NHDC
5	IOB	5	Axis Bank	5	IOB
6	IC	6	Axis Bank	6	IC
7	Infosys Tech.	7	Axis Bank	7	Infosys Tech.
8	Larsen & Toubro	8	Axis Bank	8	Larsen & Toubro
9	SAIL	9	Axis Bank	9	SAIL
10	H D F C	10	Axis Bank	10	H D F C

Raamdeo Agrawal (Raamdeo@MotilalOswal.com) : Shrinath Mithanahya (ShrinathM@MotilalOswal.com)
We thank Mr. Divya Mehra (Divya.Mehra@MotilalOswal.com), Investment Consultant, for his invaluable contribution to this report.

**Blue Chip Investing
Creating Wealth from Dividends**

**Q4 FY12
performance**

**Consolidated
financials**

**Business
snapshots**

About us

**Thematic
series**

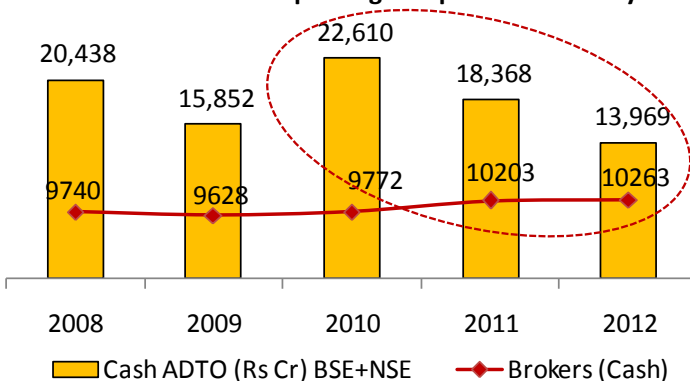
**Industry
facts**

Consolidation in the Indian Broking Sector: Learnings from the US Experience

Current Indian industry scenarios making consolidation imperative

While cash volumes are declining since 2010, the number of brokers remained largely unchanged, thus increasing the intensity of market competition

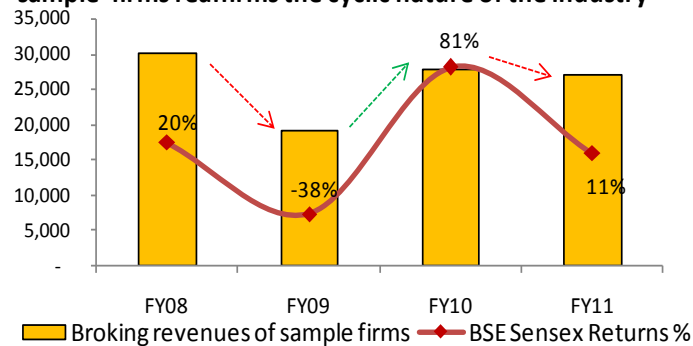
Lower cash volumes impacting competition intensity



Source: SEBI Bulletin, BSE, NSE

Broking income has moved in line with market performance. With cyclicality breeding uncertainty, it rendered a natural situation for consolidation

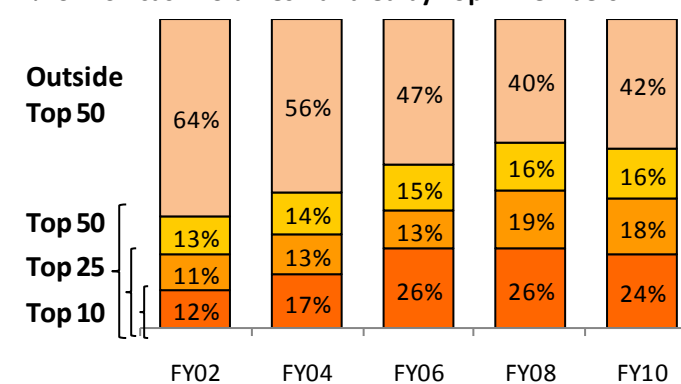
Trend in broking revenues vs market movement for sample firms reaffirms the cyclic nature of the industry



Source: BSE. Company filings (*Sample: MOFS, Kotak Sec. I-Sec. Reliance, IIFL)

Though proportion of cash volumes with the Top brokers has increased, only 24% volumes with the Top 10 in FY10 indicates a still highly fragmented market

% of NSE cash volumes handled by Top X members



Source: NSE Factbook

How consolidation has panned out in Indian broking space

- Large brokers surviving on the back of balance sheets, technology, product and trading platforms, while strong client relations hold key for smaller brokers
- Firms unable to scale up in a low-cost manner, offer a range of value-differentiators or fight on price will eventually exit by closing down or selling out
 - **Firm closures:** Many small brokers shut shop over the last year as lower cash volumes, foreign competition and algorithmic trading put viability pressures
 - **Acquisitions:** Foreign and domestic firms entered into deals to increase their product offerings across segments and geographies

Click here to read the full article plus access previous Fin-Sight articles: http://www.motilaloswal.com/Presentation_and_Events/

The US Scenario: Market structure and characteristics similar to India in terms of affecting consolidation

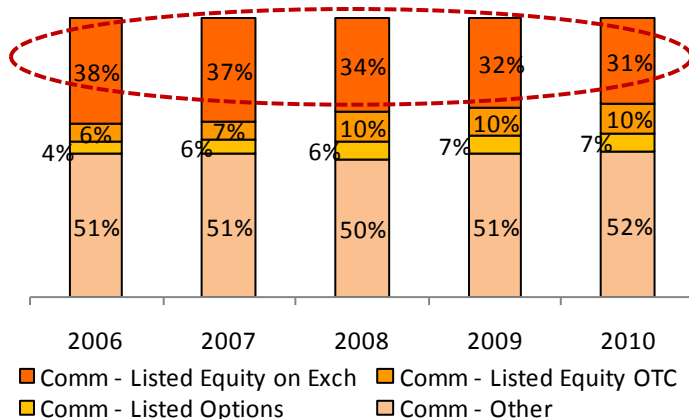
- The US broking industry includes pure brokers and broking units of financial firms
- Increase in the competitive intensity with less than proportionate decline in member count as compared to the decline in cash volumes
- Members' revenues impacted in line with market performance has meant the industry's experience has been cyclical too
- Commission revenues of 6 sample firms shows their level of market concentration has moved up from 12% in 2006 to 24% in 2010

Impact on the firms, and how they are reacting

A) Cash commission depressed → Firms pushing towards advisory based revenue model

Lower cash trading impacted the proportion of its income within the overall commission pool

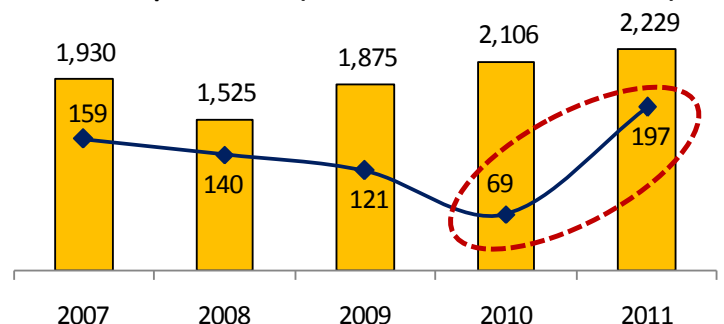
FINRA members' commission segmental revenues



Source: FINRA statistics

Combined client assets in sample firms moved up and new assets shot up in 2011 - highest in 5 yrs

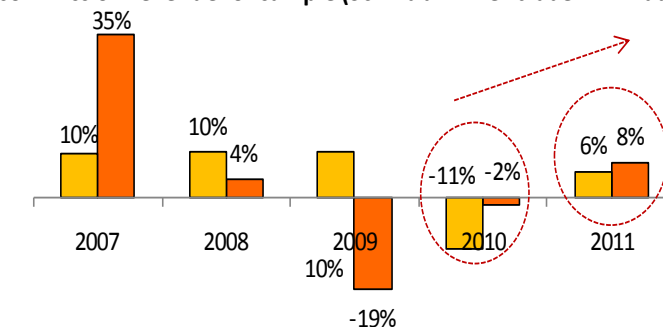
Client assets have gone up while new client assets shot up in 2011 for sample US firms (Schwab + Ameritrade + E*Trade)



Source: Company filings

Growth in asset management/advisory fee better than commission revenues for past two years

YoY growth in asset mgt and advice fee picking up as compared to commission revenue for sample (Schwab+ Ameritrade + E*Trade)



Source:
Company filings

Click here to read the full article plus access previous Fin-Sight articles: http://www.motilaloswal.com/Presentation_and_Events/

B) Market pressures leading to firm closures, acquisitions → Move towards offering a value-proposition to attract and retain clients

No sustained earnings due to lower volumes resulting in smaller US brokers closing down

M&As as firms look to grow into universal financial houses or offer a wider product range: Citigroup etc

Brokerages using specific value-propositions to attract clients like research, delivery platforms etc

C) Need to scale up → Seek long-term, sustained revenue growth using economies of scale and a low-cost, scalable approach

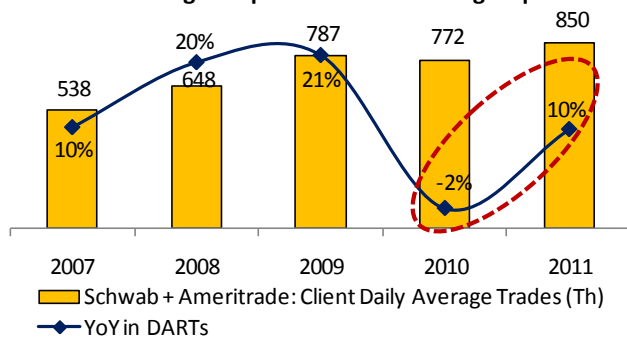
Scaling up across products and clients types - differentiated models as per client types

Adopting a low-cost, scalable model – Handle more business with low consequential impact on cost

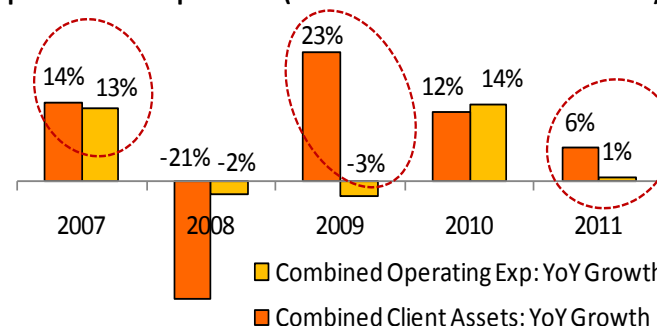
Technology – investor tools, mobile/tablet platforms, 24*7 support, DMA, algorithmic trading

Schwab and Ameritrade's daily trades shot up in 2011 - partly attributable to higher option trades following acquisitions

YoY growth in client assets have exceeded growth in operating expenses for sample firms (Schwab+ Ameritrade + E*Trade)



Source: Company SEC filings

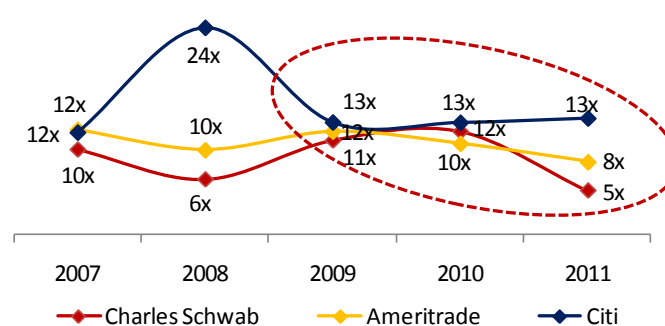


Source: Company filings

Retail client referrals key for customer addition

- Strong sales and service culture across active traders, long-term investors and RIAs
- Focus on for-fee model

Valuation ratios like EV/EBITDA of players who made recent acquisitions are yet to show a resultant positive impact



Source: Bloomberg data

D) Mega deals not to have yielded much value → To opt for smaller, niche deals in future

- M&As driven primarily for superior technology
- But most major deals are yet to show results

Going forward, deals mainly expected in small transactions focusing on niche competencies

Click here to read the full article plus access previous Fin-Sight articles: http://www.motilaloswal.com/Presentation_and_Events/

Going forward, the Scenario for Consolidation in Indian broking space

- *Potential for consolidation is visible with the fragmented nature of the sector and profitability pressure*
- *Firms with strong balance sheet, sticky client relationships, wide product bouquet and advice, technology will grow.*
- *Remaining players will be forced to shut shop owing to unviable scale of operations*
- *Consolidation leading to stronger domestic players countering foreign peers; enhanced customer satisfaction*

Triggers for Survival



Universal Shops Vs Value-add pure brokers

Need for technology platform, processes

Strong client relation: key for stickiness

Diversify & grow related businesses

Building online and mobile broking space

Scalable but low-cost, asset-light model

Click here to read the full article plus access previous Fin-Sight articles: http://www.motilaloswal.com/Presentation_and_Events/

**Q4 FY12
performance**

**Consolidated
financials**

**Business
snapshots**

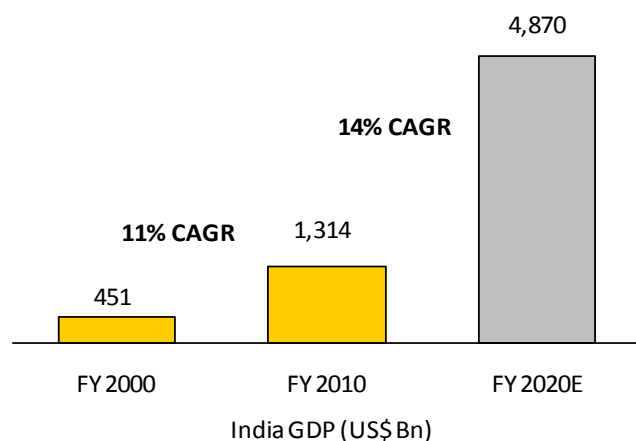
About us

**Thematic
series**

**Industry
facts**

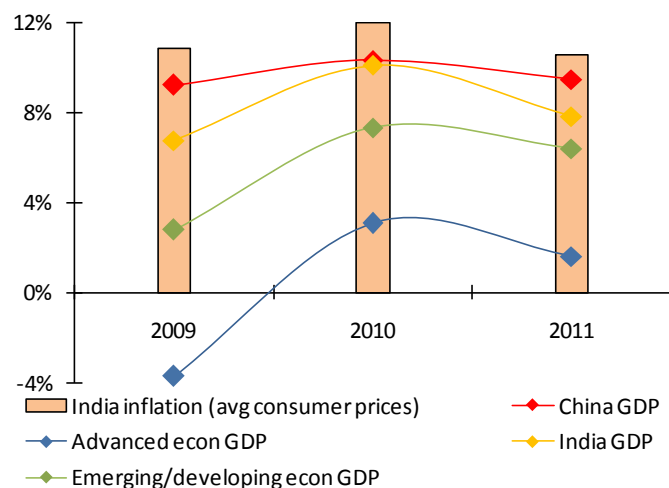
India's long term growth prospects a boon for financial services

India's nominal GDP estimated to triple from current levels to reach ~US\$5 Tn by 2020



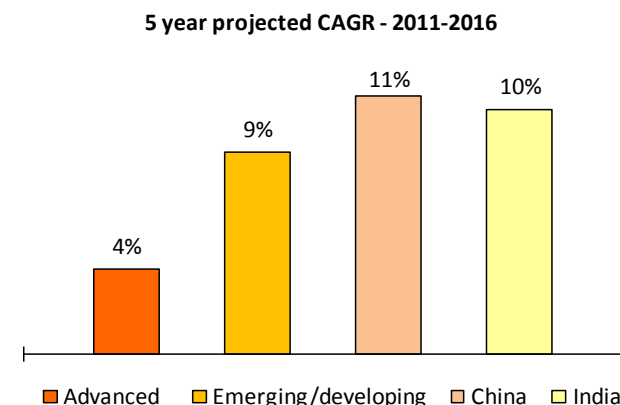
Source: MOSL estimates

Indian GDP outperformed both emerging and advanced nation groups; Inflation receding



Source: IMF data

Indian GDP is also projected to continue outperformance, close the gap with China

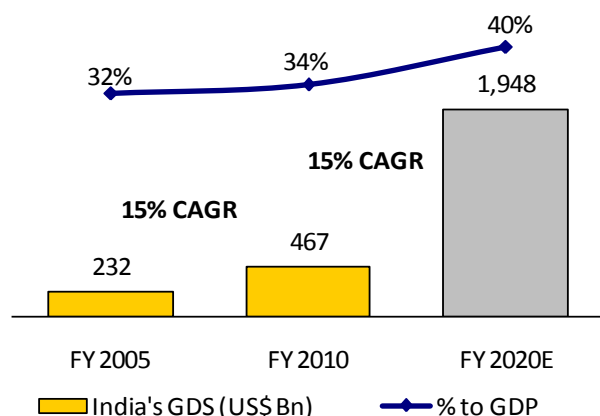


Source: IMF data

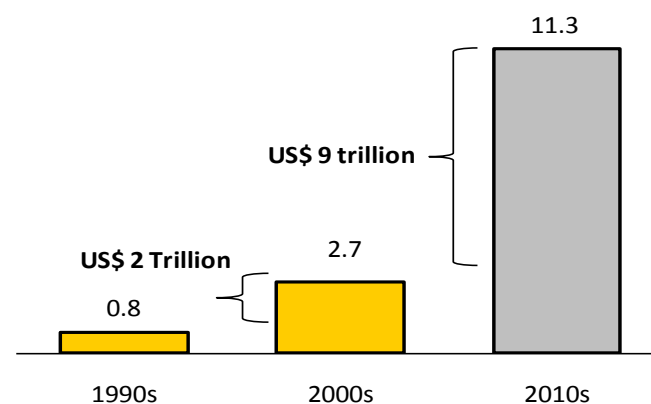
A high savings oriented country, India's gross savings to increase to 40% of GDP by 2020...

...This translates into cumulative decadal savings of over US\$10 trillion for the decade to 2020

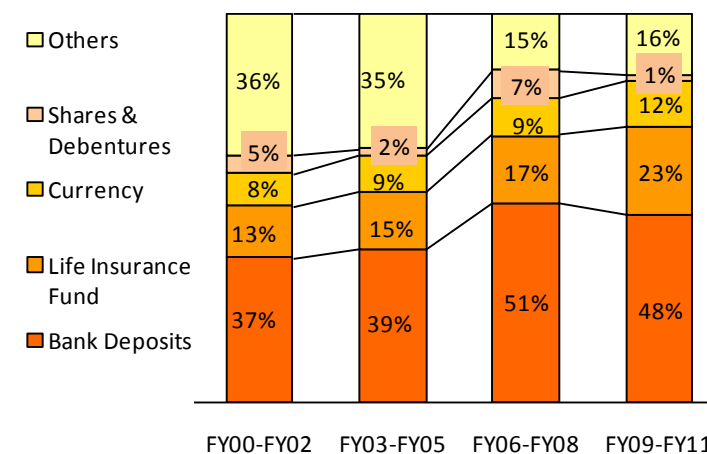
Proportion invested into equities is still low - indicating headroom for growth



Source: MOSL estimates



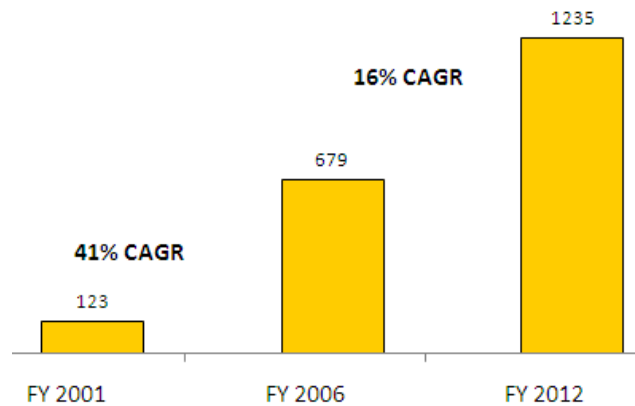
Source: MOSL estimates



Source: RBI data

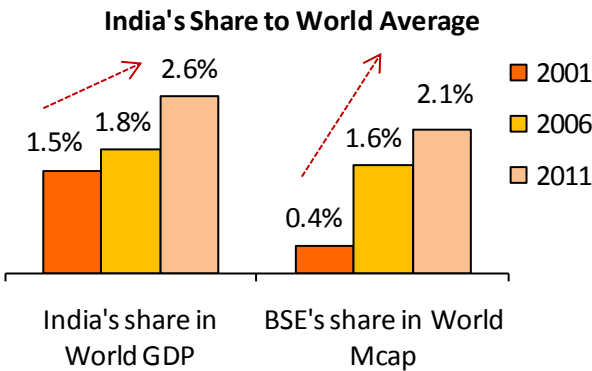
Strong performance in Indian equity markets

Following its economic growth, India's equity market cap (\$Bn) has grown at a brisk pace



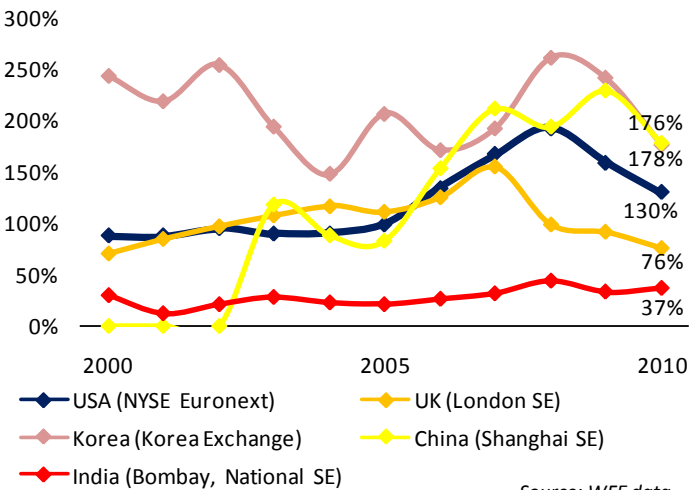
Source: BSE data

India is now rising in significance in the global context on a proportion basis



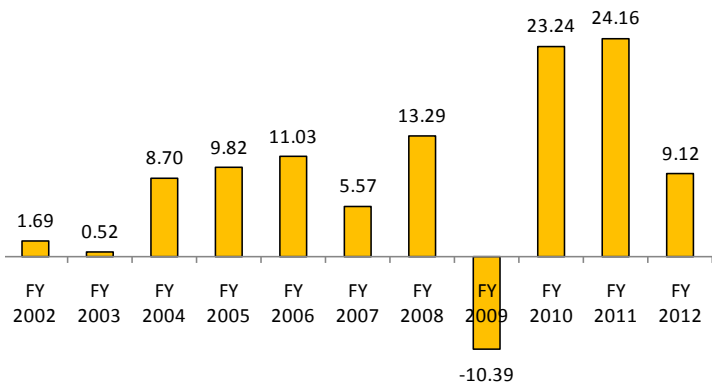
Source: WFE, BSE, IMF data

As India's equities market grows, its trading velocity will align towards global markets



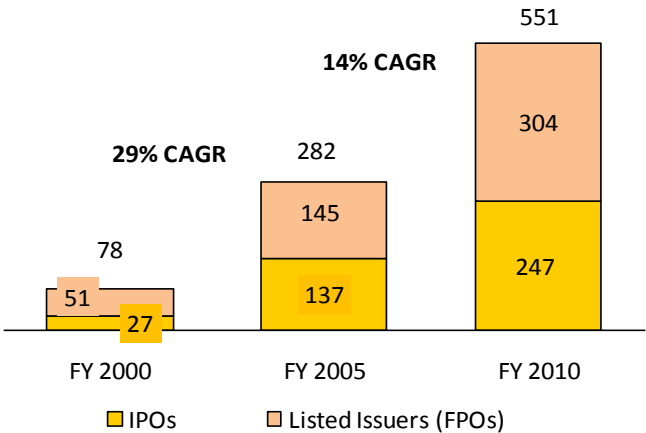
Source: WFE data

Participation in Indian equities was led by increasing trend in FII net inflows (\$Bn)



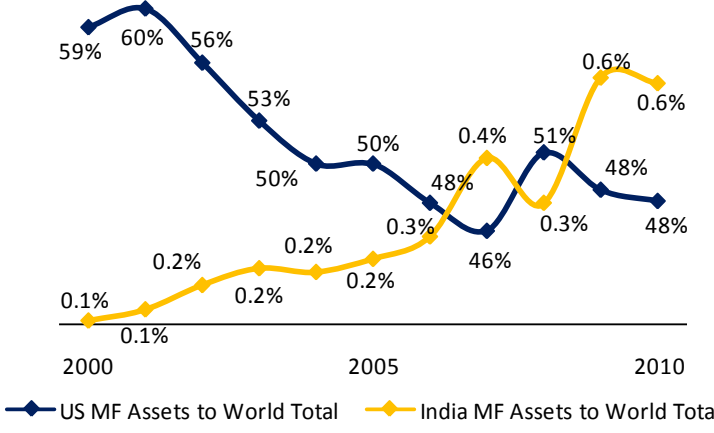
Source: SEBI

...increased mobilization via primary markets (₹Bn) which boosted retail participation...



Source: SEBI Handbook 2010

...And a rise in India's MF assets, which is growing in its proportion to world MF assets



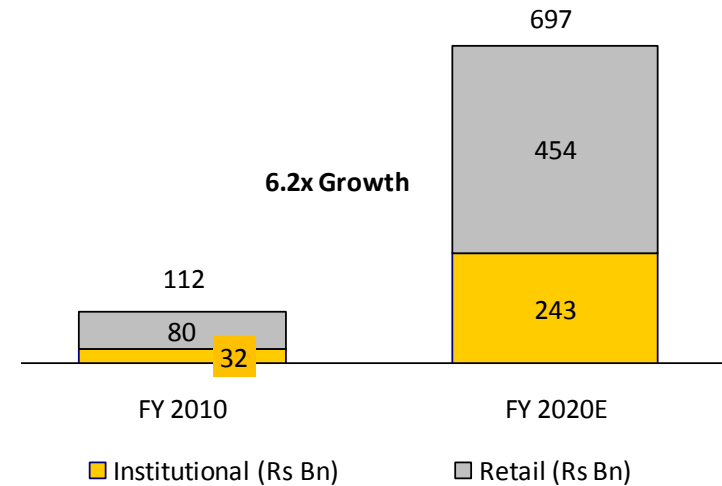
Source: ICI Factbook 2010, 2008 and AMFI

India's equity broking opportunity

India's equity broking opportunity: Market size in terms of revenue pool expected to grow 6 times over the next 10 years

Methodology:

- Current size of broking revenue pool estimated at ₹112Bn
- Market Cap to touch US\$5Tn by 2020 based on GDP:Market Cap ratio of 1:1
- Assume trading velocity to double from current 37% to ~80% by 2020
- This gives a expected market size of ~ ₹697Bn by 2020, comprising ₹243Bn in institutional and ₹454Bn in retail segment



Source: MOSL estimates

Factors that will help achieve this growth

- Sustained economic, savings and discretionary income growth
- Increase in retail participation
- Increased ability of DIIs to mobilize savings
- Higher India allocation by global funds
- Increase in fund raising by corporates
- Higher issues of fairly priced IPO/FPOs
- Tech-based tools for client's convenience

What Motilal Oswal is doing to create scale

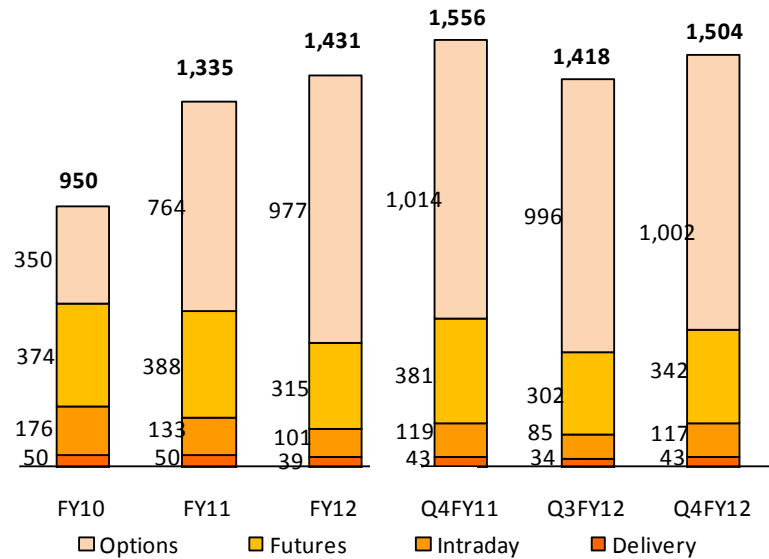
- Increasing distribution reach across India
- Using simplified research products
- Client focused advisory services
- Investor education for client engagement
- Tap the allocation of India focused funds
- Launched AMC to mobilize investments
- Develop relationships with corporates embarking on the next phase of growth
- Technology for better client experience

Although certain external risks remain

- High inflation and interest rates
- Regulatory changes required DIIs to realign their marketing strategy to be able to channelize higher savings
- Global recovery reducing India's relative attractiveness among global funds
- Poor performance of IPOs post listing

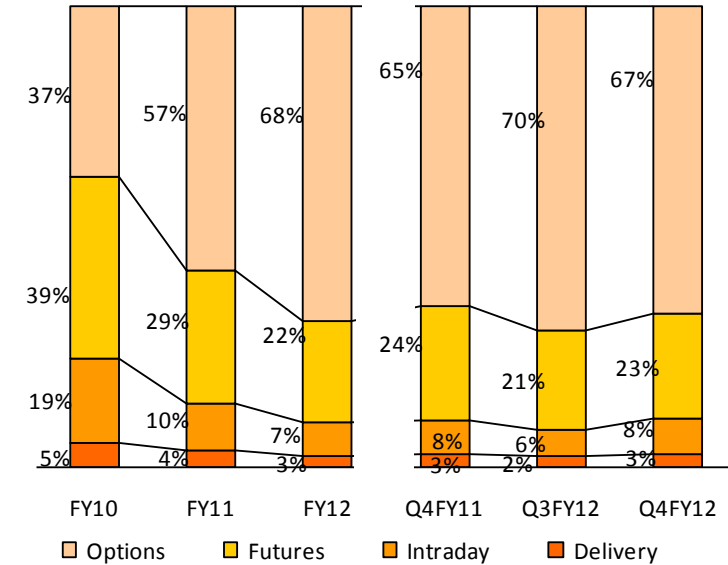
Strong QoQ growth in cash segment pips up overall volumes

Equity market volumes up QoQ on the back of higher than proportionate increase in cash segment in Q4 FY12 (₹Bn)



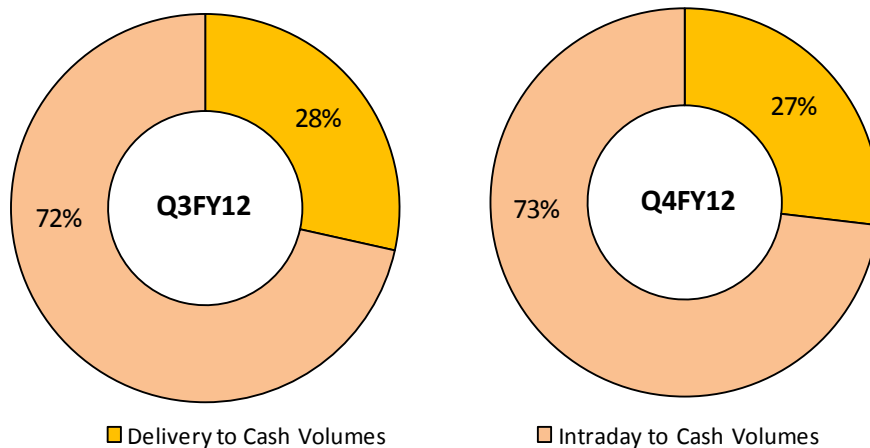
Source: NSE, BSE

Proportion of cash to overall volumes up due to the QoQ growth in cash segment; Proportion of options dips slightly in Q4 FY12



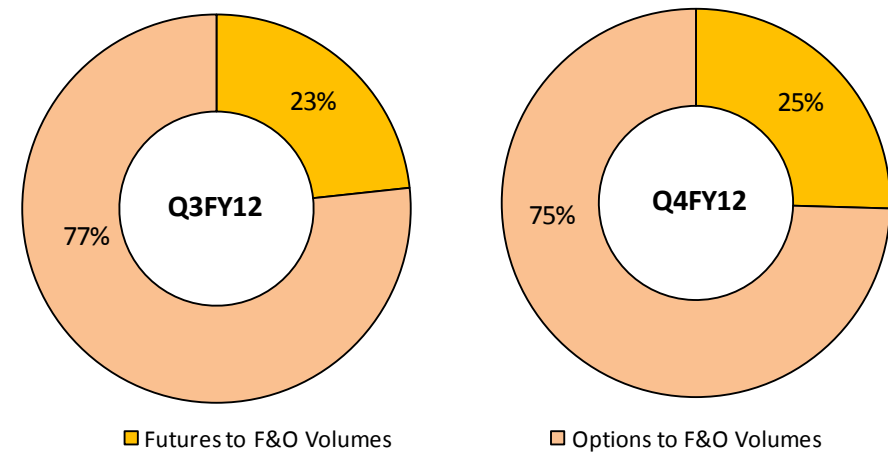
Source: NSE, BSE

Despite the pick-up in cash volumes, the proportion of high-yield delivery has dipped marginally QoQ within the cash segment



Source: NSE, BSE

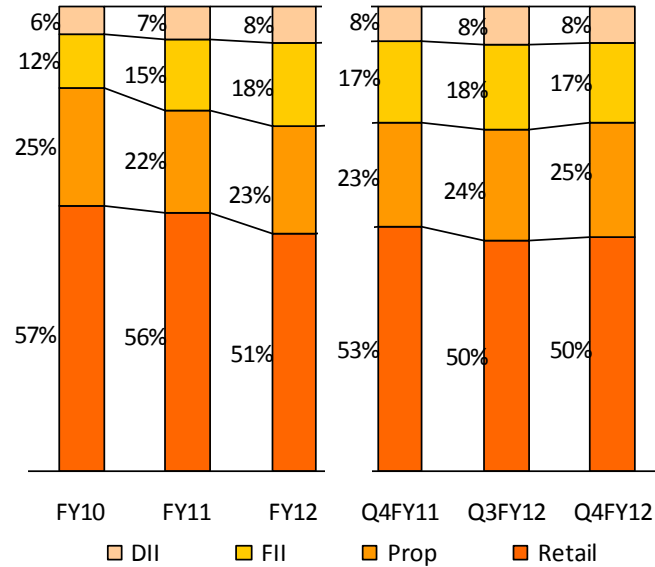
With options volume remaining flat this quarter on a QoQ basis, its proportion within F&O volumes has decreased slightly



Source: NSE, BSE

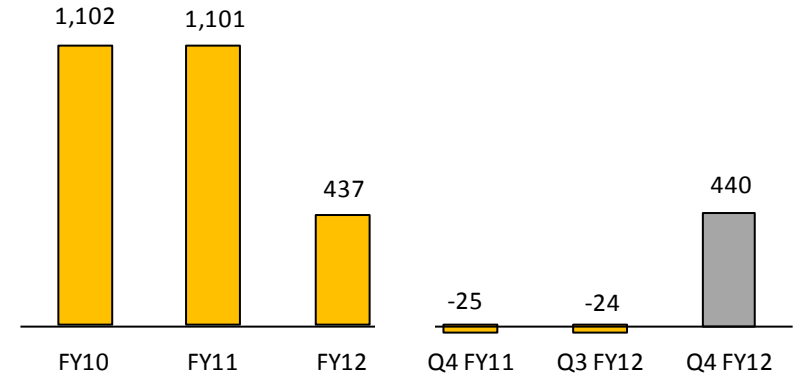
Participants' proportions flat QoQ; FII net inflows in Jan-Feb

Proportion of cash participants across segments has remained largely unchanged on a QoQ basis, though retail has declined YoY



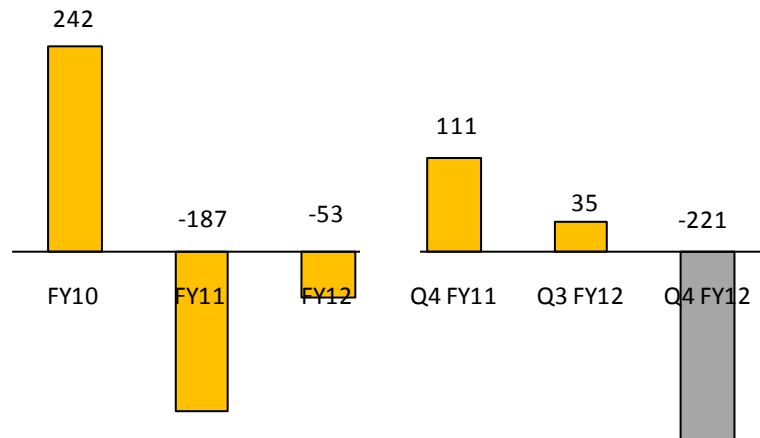
Source: NSE, BSE

Market rally in Jan-Feb saw FIIs post strong net inflows, despite net outflows seen in prior two quarters (₹Bn)



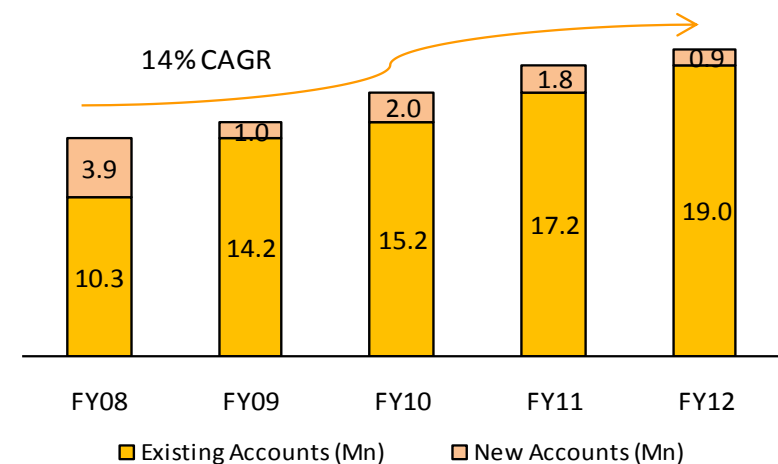
Source: SEBI

DII, which posted net inflows each quarter since Q4FY11, saw net outflows in Q4FY12 with profit booking and macro concerns (₹Bn)



Source: NSE

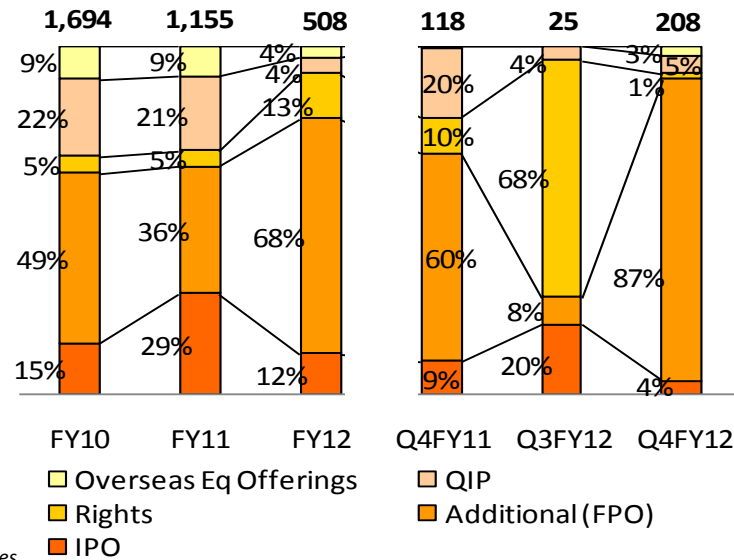
Growth in new demat a/c (Mn) slowed down coinciding with muted retail participation and slowdown in primary market activity



Source: CDSL, NSDL

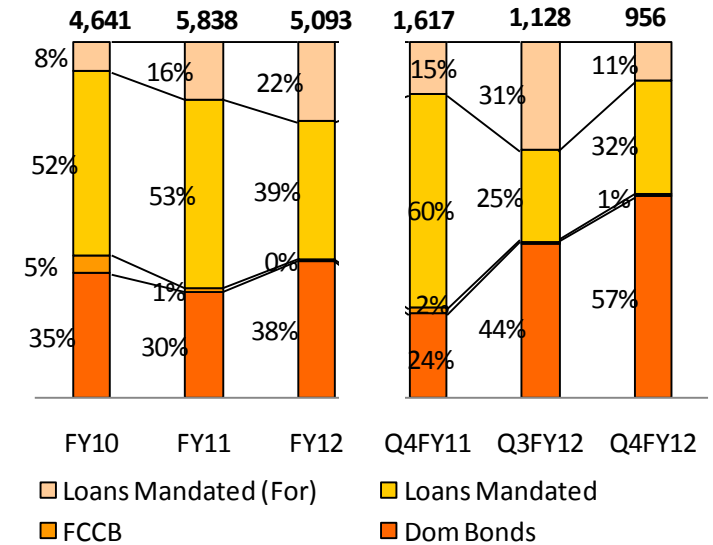
Capex freeze and volatile markets slows fund-raising this year

Equity raising slowed down this year, though this quarter saw a pick-up on a QoQ basis boosted by the ~₹120Bn ONGC auction (₹Bn)



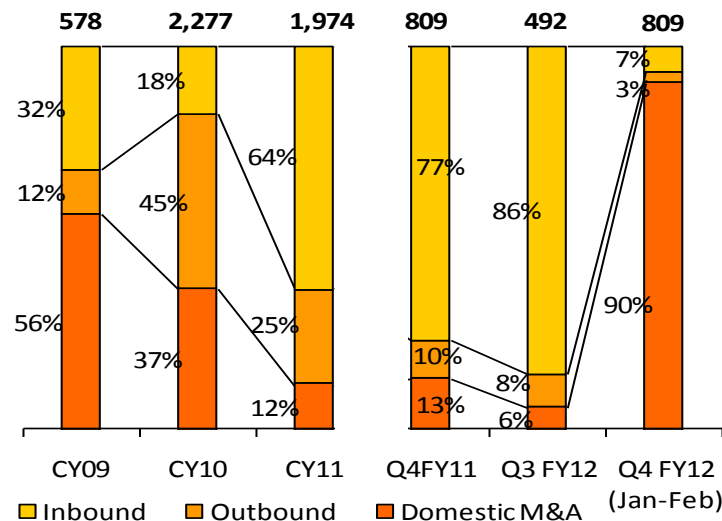
Source: Bloomberg League Tables

Debt raising also declined as the high interest climate pushed up borrowing costs for corporates (₹Bn)



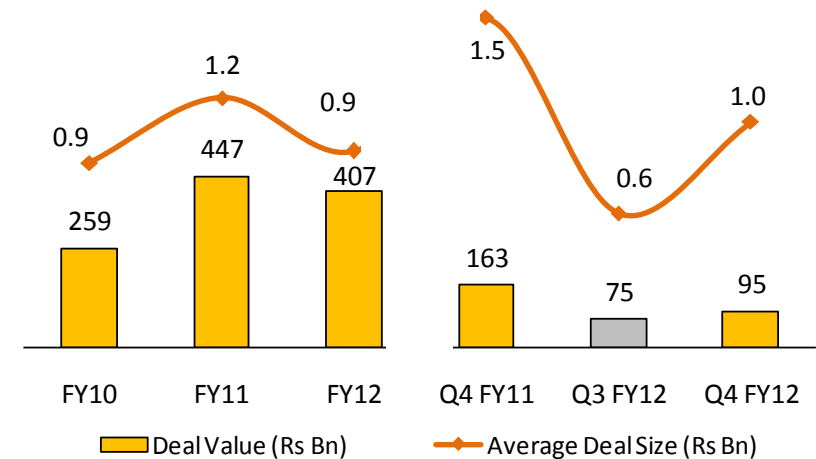
Source: Bloomberg League Tables

M&A deal value picked up this quarter QoQ on the back of the domestic transactions related to the Sesa-Sterlite merger (₹Bn)



Source: Grant Thornton

PE deal value saw a dip on YoY basis this quarter specifically, which pulled down FY basis deal values (₹Bn)

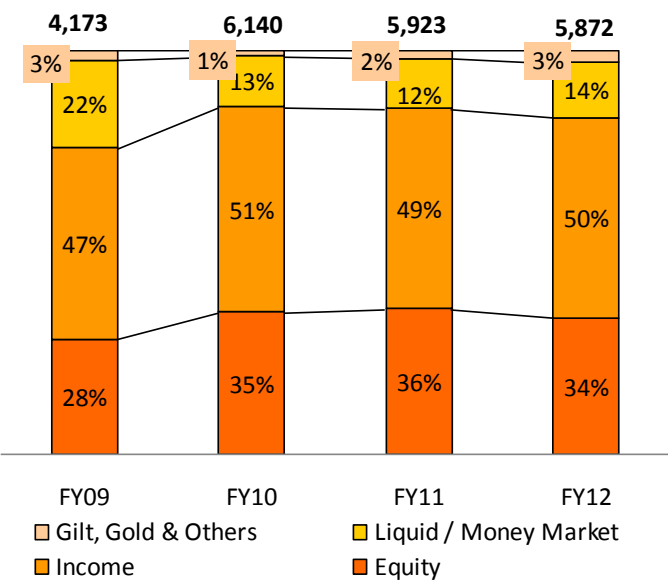


Source: Venture Intelligence

Equity mutual funds assets hit; Gold ETFs boost India ETF AuM

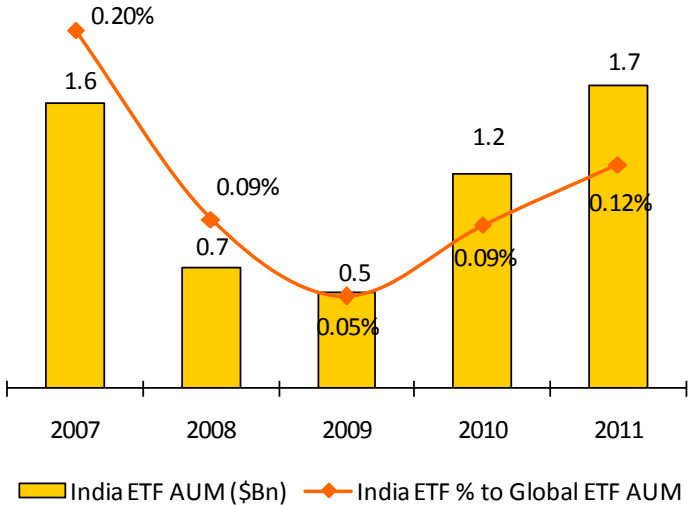


Mutual fund AuM largely flat on a YoY basis; Decline in equity funds AuM made up by increase in liquid ad gilt/gold assets (₹Bn)



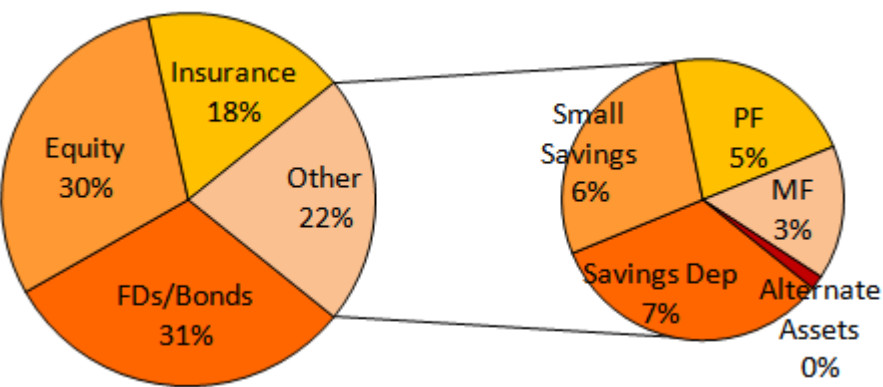
Source: AMFI

Gold ETFs has led the growth in Indian ETF AuM, which has seen sustained growth in its proportion to global ETF assets (US\$ Bn)



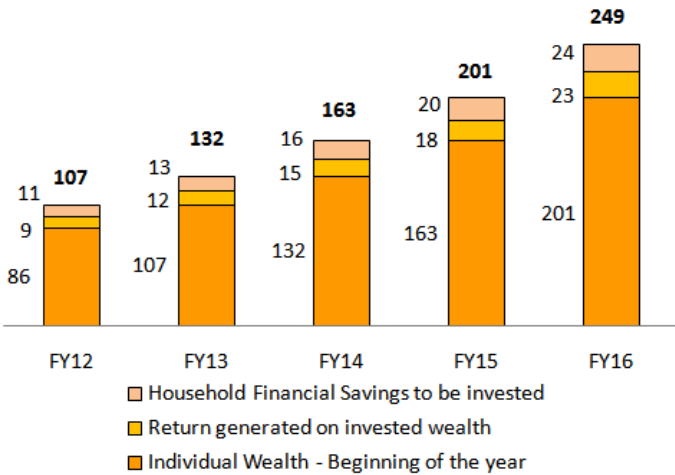
Source: Bloomberg/Blackrock report

Individual wealth in India is estimated at ₹86.4Tn in FY11, led by the fixed deposit/bonds, equity and insurance sectors



Source: Karvy Wealth report 2011

Individual wealth in India expected to reach ₹249Tn over the next 5 years



Source: Karvy Wealth report 2011

This report is for information purposes only and does not construe to be any investment, legal or taxation advice. It is not intended as an offer or solicitation for the purchase or sale of any financial instrument. Any action taken by you on the basis of the information contained herein is your responsibility alone and MOFSL and its subsidiaries or its employees or directors, associates will not be liable in any manner for the consequences of such action taken by you. We have exercised due diligence in checking the correctness and authenticity of the information contained herein, but do not represent that it is accurate or complete. MOFSL or any of its subsidiaries or associates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this publication. The recipient of this report should rely on their own investigations. MOFSL and/or its subsidiaries and/or directors, employees or associates may have interests or positions, financial or otherwise in the securities mentioned in this report.

Thank You

Contact:

Sameer Kamath

Chief Financial Officer

Motilal Oswal Financial Services Limited

Tel: 91-22-3982-5500 / 91-22-39825554

Fax: 91-22-2282-3499

Email: sameerkamath@motilaloswal.com

Sourajit Aiyer

Sr. Manager–Investor Relations

Motilal Oswal Financial Services Limited

Tel: 91-22-3982-5500 / 91-22-39825510

Fax: 91-22-2282-3499

Email: sourajit.aiyer@motilaloswal.com /
investorrelations@motilaloswal.com