

# Earnings Update – Q4 FY14 and FY14



Apr 26, 2014

## Motilal Oswal Financial Services Limited

BSE: 532892 • NSE: MOTILALOFS • Bloomberg:MOFS:IN • Reuters: MOFS.BO

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# Highlights – Q4 FY14 and FY14



## Consolidated Financials

- Revenues in Q4 FY14 were ₹1.2 billion (up 5% QoQ and down 8% YoY); FY14 revenue was ₹4.7 billion (down 1% YoY)
- Adjusted PAT in Q4 FY14 was ₹243 million (up 50% QoQ and down 26% YoY); ₹771 million in FY14 (down 20% YoY)
- Reported PAT in Q4 FY14 was ₹126 million (up 256% QoQ and down 66% YoY); ₹395 million in FY14 (down 64% YoY)
- EBITDA and Adjusted PAT margins for Q4 FY14 were 32% (26% in Q3 FY14) and 20% (14% in Q3 FY14) respectively. On a full year basis, EBITDA margin was 30% (FY13: 37%), while Adjusted PAT margin was 16% (FY13: 20%)
- Proposed final dividend for FY14 is ₹1 per share (Face Value of ₹1 per share)
- The balance sheet had net worth of ₹11.7 billion and net cash of ₹1.7 billion as of Mar 31, 2014

## Volumes and Market Share

- Total ADTO in secondary equities was ₹30.8 billion in Q4 FY14 (₹32.0 billion in Q3 FY14 and ₹30.3 billion in Q4 FY13)
- Equity market share was 1.5% in Q4 FY14 (1.7% in Q3 FY14 and 1.7% in Q4 FY13)

## Distribution Reach

- Retail distribution stood at 1,534 business locations across 507 cities, as of Mar 2014
- Total client base increased to 800,385 which includes 701,845 retail broking and distribution clients

## Assets Managed

- Total assets under management/advice across mutual funds, PMS and private equity businesses was ₹39.2 billion. Within this, our mutual funds AUM was ₹5.8 billion, PE AUA was ₹18.9 billion, while PMS AUM was ₹14.5 billion
- Wealth management business managed assets of ₹24.0 billion
- Depository assets were ₹133.4 billion

## Business Updates

- Motilal Oswal Private Equity announced the first close of its 2<sup>nd</sup> real estate fund – India Realty Excellence Fund II (IREF II), raising commitments of ₹1.9 billion
- Motilal Oswal Investment Banking appointed Girish Nadkarni as Managing Director, to head the ECM and PE business. He brings with him rich experience of over 23 years in investment banking, ECM and institutional equities
- Motilal Oswal Asset Management launched the MOST Focused Midcap 30 mutual fund, which would invest in 30 quality midcap companies

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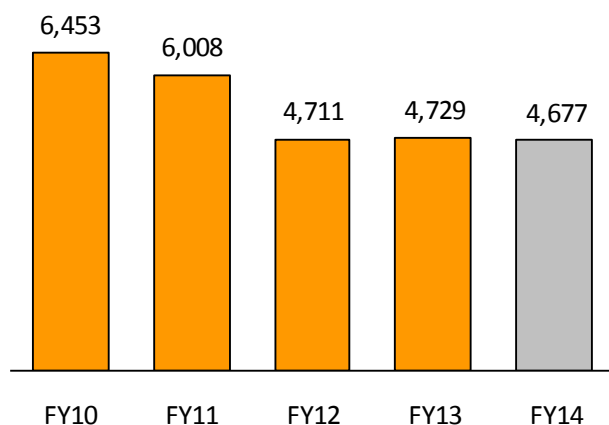
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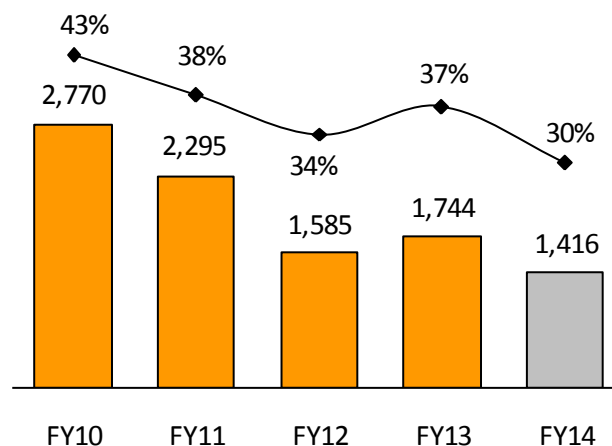
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# Annual Performance at a Glance

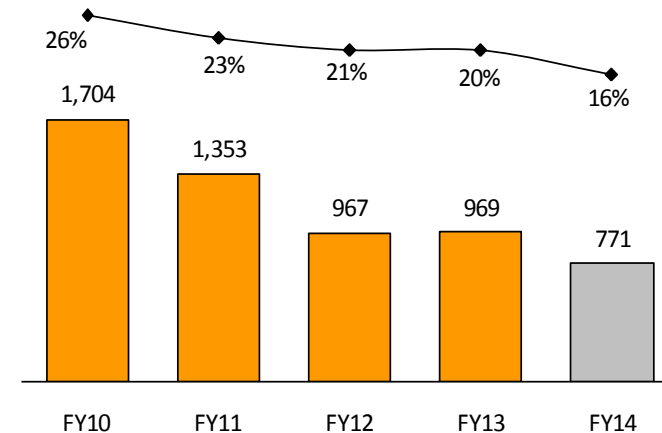
**Consolidated revenues (₹ million)**



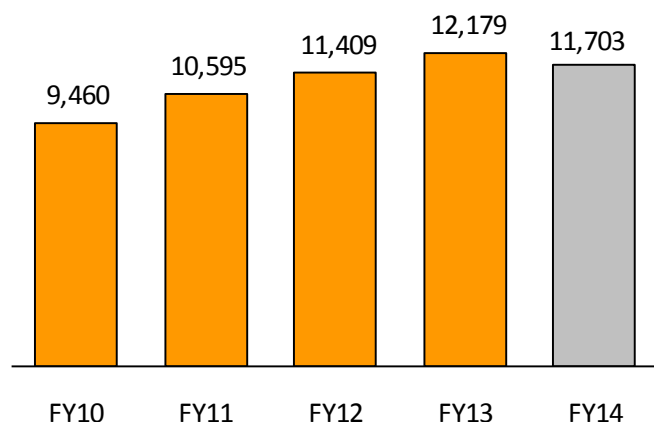
**EBIDTA (₹ million, margin %)**



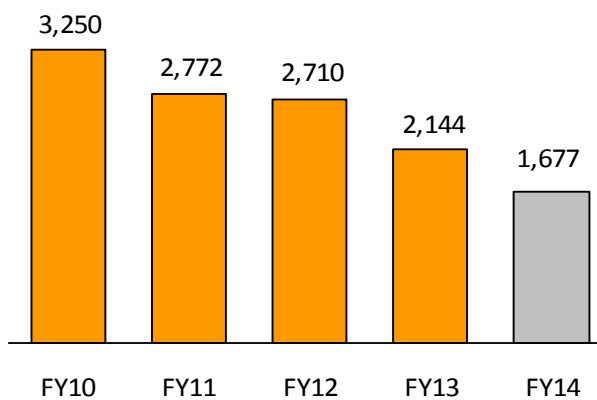
**Adjusted PAT (₹ million, margin %)**



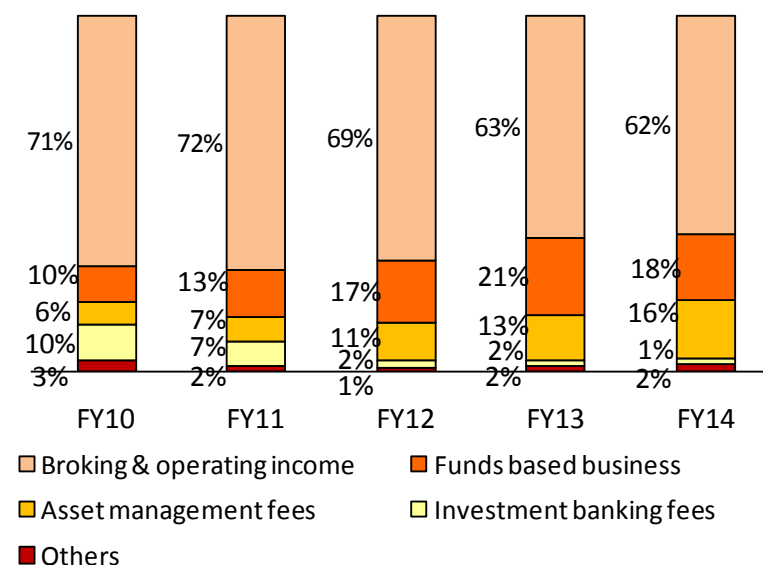
**Net worth (₹ million)**



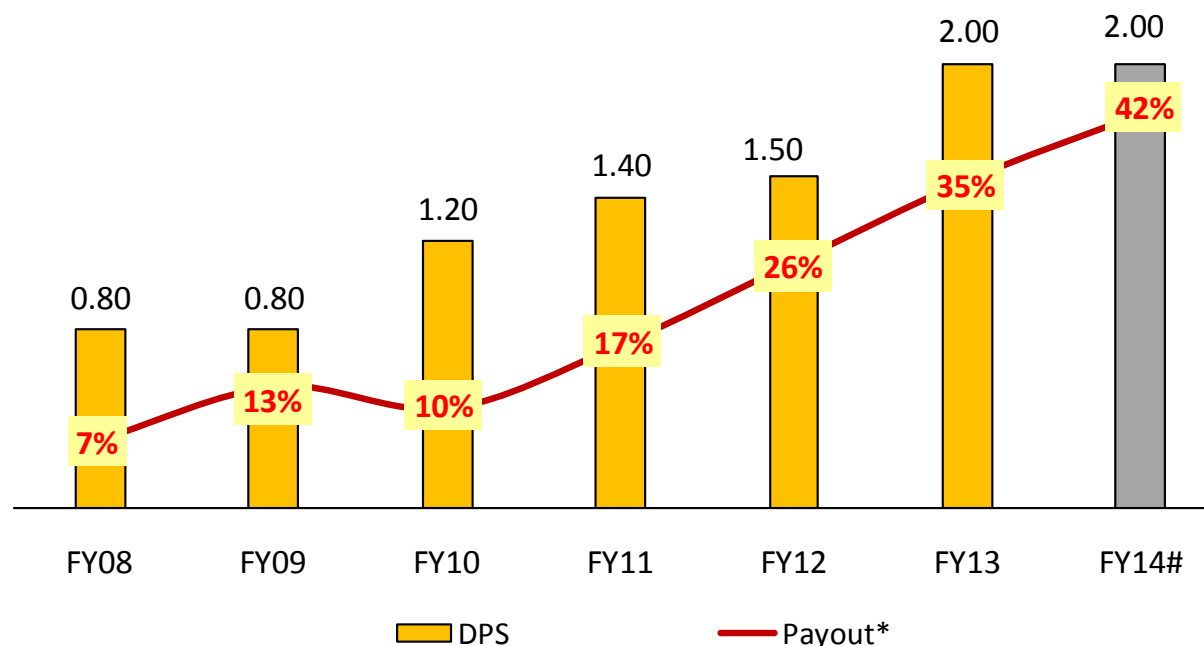
**Net Cash (₹ million)**



**Revenue Composition (%)**



# Consistently increasing dividends



# For FY14; ₹1 is paid as interim dividend + ₹1 is proposed dividend

Pursuant to the commencement of the buy-back programme of the company's shares at a price not exceeding ₹90 per share of upto a maximum of 7.5 million shares, the company has bought back 7.1 million shares as of Mar, 2014

\* Payout is calculated on Adjusted PAT for the respective years

Particulars	Q4 FY14	Q3 FY14	Change	Q4 FY14	Q4 FY13	Change	FY14	FY13	Change
₹million	Mar 31, 2014	Dec 31, 2013	(%) Q-o-Q	Mar 31, 2014	Mar 31, 2013	(%) Y-o-Y	Mar 31, 2014	Mar 31, 2013	(%) Y-o-Y
Total Revenues	1,235	1,175	5%	1,235	1,341	-8%	4,677	4,729	-1%
EBIDTA	401	309	30%	401	570	-30%	1,416	1,744	-19%
PBT (before E & EOI)	335	239	40%	335	477	-30%	1,145	1,437	-20%
Adjusted PAT	243	162	50%	243	328	-26%	771	969	-20%
Reported PAT	126	35	256%	126	367	-66%	395	1,091	-64%
EPS - Basic	0.9	0.3		0.9	2.6		3.0	7.6	
EPS - Diluted	0.9	0.3		0.9	2.6		3.0	7.6	
No.of shares outstanding (million) - FV Rs 1/share	138	139		138	145		138	145	

E & EOI = Exceptional items & Extraordinary items

- MOFSL has provided for ₹117.1 million (post tax) in respect of positions in National Spot Exchange Limited (NSEL) for Q4 FY14 (cumulative ₹375.5 million post tax till date). Post this provision the total exposure of MOFSL has been fully provided for



# Revenue composition

Particulars	Q4 FY14	Q3 FY14	Change	Q4 FY14	Q4 FY13	Change	FY14	FY13	Change
₹million	Mar 31, 2014	Dec 31, 2013	(%) Q-o-Q	Mar 31, 2014	Mar 31, 2013	(%) Y-o-Y	Mar 31, 2014	Mar 31, 2013	(%) Y-o-Y
Brokerage & operating income	746	737	1%	746	758	-2%	2,884	2,964	-3%
Investment banking fees	19	5	263%	19	8	140%	68	78	-13%
Fund based income	201	199	1%	201	382	-47%	858	1,005	-15%
Asset management fees	226	194	17%	226	170	33%	759	599	27%
Other income	41	40	4%	41	23	82%	109	82	32%
<b>Total Revenues</b>	<b>1,235</b>	<b>1,175</b>	<b>5%</b>	<b>1,235</b>	<b>1,341</b>	<b>-8%</b>	<b>4,677</b>	<b>4,729</b>	<b>-1%</b>

- Broking and related revenues were ₹746 million in Q4 FY14, marginally up by 1% QoQ and down 2% YoY. It contributed 60% of the total group revenues. On a full year basis, broking revenues at ₹2.9 billion were down 3% as compared to previous year
- Fund based income was ₹201 million, up 1% from Q3 FY14 and down 47% from Q4 FY13. Q4 FY13 had included profit earned on partial exits in few investments of the Private Equity Fund in which MOFSL made sponsor commitments. On a full year basis, fund based income at ₹858 million was down 15% over the previous year. The loan book was ₹4.1 billion, as of Mar 2014
- Asset Management fee were ₹226 million for Q4 FY14, up 17% QoQ and up 33% YoY. AMC revenues also includes PMS performance fee of ₹69.9 million accrued in Q4 FY14 (Q4 FY13: ₹6.2 million). On a full year basis, asset management fees at ₹759 million were up 27% as compared to previous year
- Investment banking fees at ₹19 million was up 140% on a YoY basis. On a full year basis, fees at ₹68 million were down 13% YoY. Fee income was impacted due to delays in closure of few deals which are in advanced stages, although deal closures gathered some momentum this year
- Other income was ₹41 million in Q4 FY14 and ₹109 million in FY14

₹million	As on Mar 31, 2014	As on Mar 31, 2013
<b>Sources of Funds</b>		
Networth	11,703	12,179
Loan funds	1	-
Minority interest	51	30
Deferred tax liability	117	179
<b>Total</b>	<b>11,871</b>	<b>12,388</b>

<b>Application of Funds</b>		
Fixed assets (net block)	3,072	3,111
Investments	2,930	1,481
Deferred tax asset	-	-
<b>Current Assets (A)</b>	<b>12,260</b>	<b>13,138</b>
- Sundry debtors	4,644	4,359
- Stock-in-trade	606	1,456
- Cash & Bank Balances	1,678	2,144
- Loans & Advances	5,279	5,156
- Other Assets	53	24
<b>Current liabilities (B)</b>	<b>6,391</b>	<b>5,341</b>
<b>Net current assets (A-B)</b>	<b>5,869</b>	<b>7,797</b>
<b>Total</b>	<b>11,871</b>	<b>12,388</b>

₹million	As on Mar 31, 2014	As on Mar 31, 2013
Networth	11,703	12,179
Debt (A)	1	-
Cash & Bank balances (B)	1,678	2,144
Net cash (B - A)	1,677	2,144
Debt : Equity	0.00x	0.00x
Cash (% Networth)	14%	18%

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

**Q4 FY14  
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## Retail Broking & Distribution and Institutional Equities

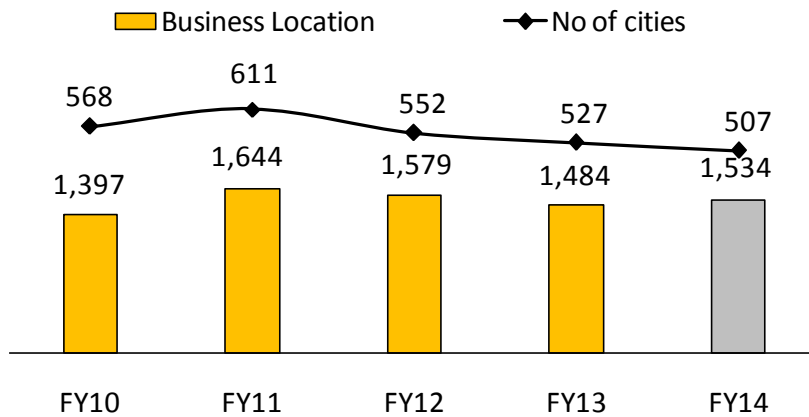
Particulars	Q4 FY14	Q3 FY14	Change	Q4 FY14	Q4 FY13	Change	FY14	FY13	Change
₹million	Mar 31, 2014	Dec 31, 2013	(%) Q-o-Q	Mar 31, 2014	Mar 31, 2013	(%) Y-o-Y	Mar 31, 2014	Mar 31, 2013	(%) Y-o-Y
Total Revenues	852	817	4%	852	883	-4%	3,218	3,369	-4%
EBIDTA	234	222	5%	234	286	-18%	902	1,076	-16%
PBT (before E & EOI)	195	177	10%	195	233	-16%	737	887	-17%
Adjusted PAT	138	123	12%	138	158	-13%	507	588	-14%
Reported PAT	33	9	253%	33	288	-89%	171	821	-79%

E & EOI = Exceptional items & Extraordinary items

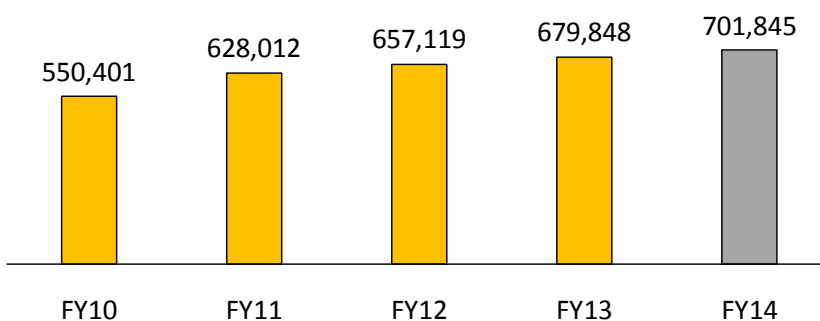
- Revenues were ₹852 million for Q4 FY14, up 4% on a QoQ basis and down 4% on a YoY basis. On a full year basis, revenues at ₹3.2 billion were down 4% as compared to previous year
- Adjusted PAT was ₹138 million for Q4 FY14, up 12% QoQ and down 13% YoY. On a full year basis, adjusted PAT at ₹507 million was down 14% as compared to FY13. Reported PAT for Q4 FY14 was ₹33 million, up 253% QoQ and down 89% YoY.
- MOSL has provided for ₹104.7 million (post tax) in respect of positions in NSEL for Q4 FY14 (cumulative ₹335.7 million post tax till date). Post this provision the total exposure of MOSL has been fully provided for
- MOSL ADTO in secondary equities was ₹30.8 billion in Q4 FY14 (₹32.0 billion in Q3 FY14 and ₹30.3 billion in Q4 FY13)
- Equity market ADTO reached a high of ₹2.1 trillion in Q4 FY14, up 12% QoQ. This was led by a 15% QoQ jump in options. Options now comprise 77% of market volumes. However, cash volumes, especially high-yield delivery, also saw an increase this quarter. Delivery volumes were up 9% QoQ, while total cash was up 5% QoQ. But the disproportionate rise in option volumes in the market meant our overall equity market share fell from 1.7% to 1.5% QoQ. However, we have held our market share in the cash segment in the same period. Our blended yield marginally increased from 3.7 bps to 3.9 bps on a QoQ basis

- Offers customized investment services to its retail customers
- ‘Customer first’ philosophy executed through strategic focus on:
  - Creating a robust Pan-India distribution network
  - Customer segmentation based on individual needs
  - Offerings include equity, PMS, MFs, commodities, currency
  - Develop in-house technology for better customer experience
  - Intensify customer connect through seminars and feedback
- MOSL organized a seminar on Wealth Creators for 2014 for prospect clients in Mumbai. It focused on how to create wealth over the long term by ‘Buying Right and Sitting Tight’
- Continuously innovating to ensure a superior experience for clients:
  - Introduced trading in interest rate derivatives and VIX futures in the online trading platform
  - Revamped the Franchise Dealer Productivity (CRM) module, to enable Business Associates to increase efficiencies and productivity
  - Implemented Franchisee Reactivation report, to provide a comprehensive view of reactivated clients to Business Associates
  - Enhanced the IFA portal under third-party distribution. This would enable IFAs to track revenues, portfolios and product maturities

**Pan-India distribution footprint**



**Retail broking and distribution clients**



**Franchisee Reactivation report**

Client Code	Client Name	MC Code	Profile Code	Reactivation Date	Min Sharing Date	Activated	Act
ABC12345	Shil K.	RETAILER	AB123	08 Jan 2014	08 Apr 2014	NO	
PQRS6789	Shil Pooja	RETAILER	AB890	08 Jan 2014	08 Apr 2014	NO	

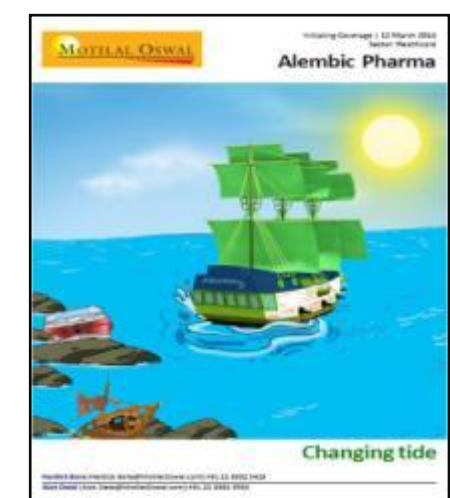
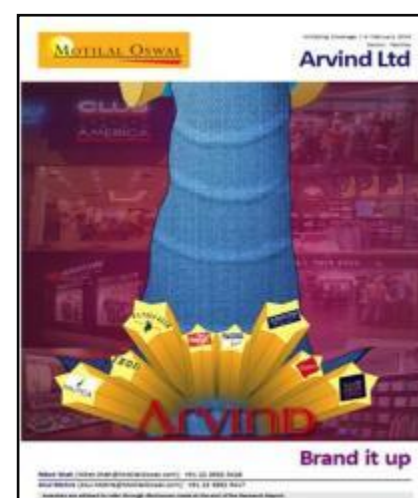
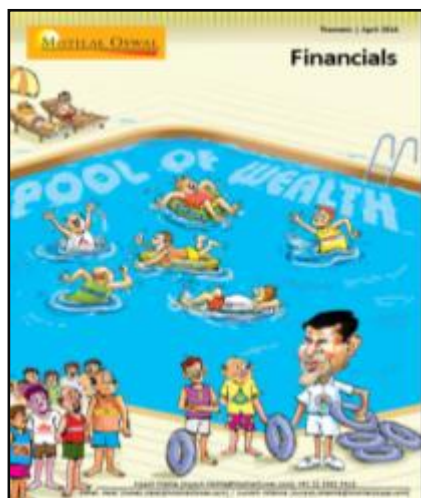
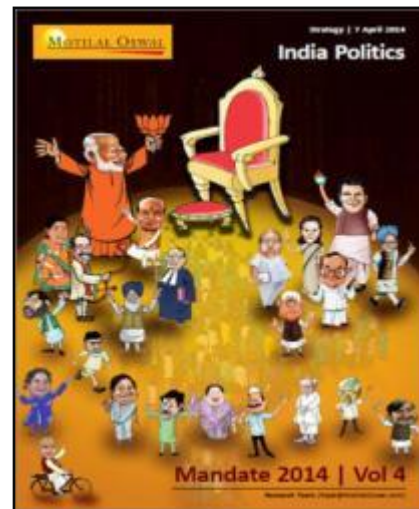
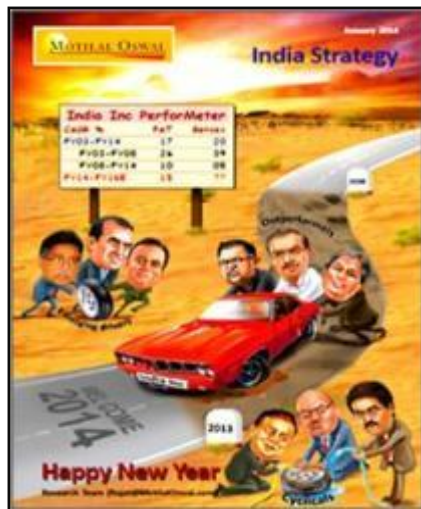
**Franchise Dealer Productivity module**

Client Code	Client Name	MC Code	Profile Code	Reactivation Date	Min Sharing Date	Activated	Act
ABC12345	Shil K.	RETAILER	AB123	08 Jan 2014	08 Apr 2014	NO	
PQRS6789	Shil Pooja	RETAILER	AB890	08 Jan 2014	08 Apr 2014	NO	



- Cash and derivatives broking to institutional clients, along with a strong research and corporate access group
- Client base of 546 institutions, as of Mar 2014

## Recent Research Reports



- Private wealth management business had a total AUM of ₹24.0 billion, as of Mar 2014
- Our new and improved advisory proposition 'Motilal Oswal Private Wealth Management (MOPWM)' with the motto 'Responsible Advisory' was launched in Q4FY13. The value proposition is based on comprehensive risk profiling leading to portfolio advice which can be objectively tracked for value addition. MOPWM also launched India's first Advisory Index and other indices which will help clients track the value addition by an advisor objectively - an Industry First
- Clients will have access to a multi asset class open architecture platform
- Present in Mumbai, Delhi, Kolkata, Bangalore, Hyderabad, Ahmedabad and Pune

## Our Offerings: A comprehensive menu of Multi Asset Class Advisory Solutions

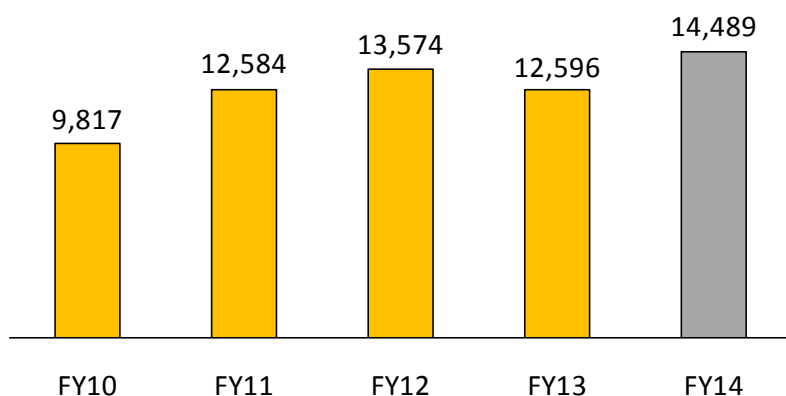
<b>Professional Money Managers</b>	<b>Trading</b>	<b>Alternative Assets</b>
<ul style="list-style-type: none"><li>• Mutual Funds</li><li>• PMS</li><li>• Alternative Invst. Funds</li></ul>	<ul style="list-style-type: none"><li>• Equity</li><li>• Fixed Income</li><li>• Commodity &amp; Currency</li></ul>	<ul style="list-style-type: none"><li>• Private Equity</li><li>• Real Estate</li><li>• Structured Products</li></ul>

<b>Credit Solutions</b>	<b>Wealth Transmission</b>	<b>Specialized Services</b>	<b>Ancillary Services</b>
<ul style="list-style-type: none"><li>• IPO Financing, ESOP Funding</li><li>• LAS/LAP</li><li>• Institutional Credit Solutions</li></ul>	<ul style="list-style-type: none"><li>• Estate Planning</li><li>• Trust services</li><li>• Wills</li></ul>	<ul style="list-style-type: none"><li>• Investment Bnkg. Services</li><li>• Offshore Advisory &amp; Solutions</li><li>• Hedging &amp; Insurance Advisory</li></ul>	<ul style="list-style-type: none"><li>• Tax Advisory</li><li>• Legal Advisory</li></ul>

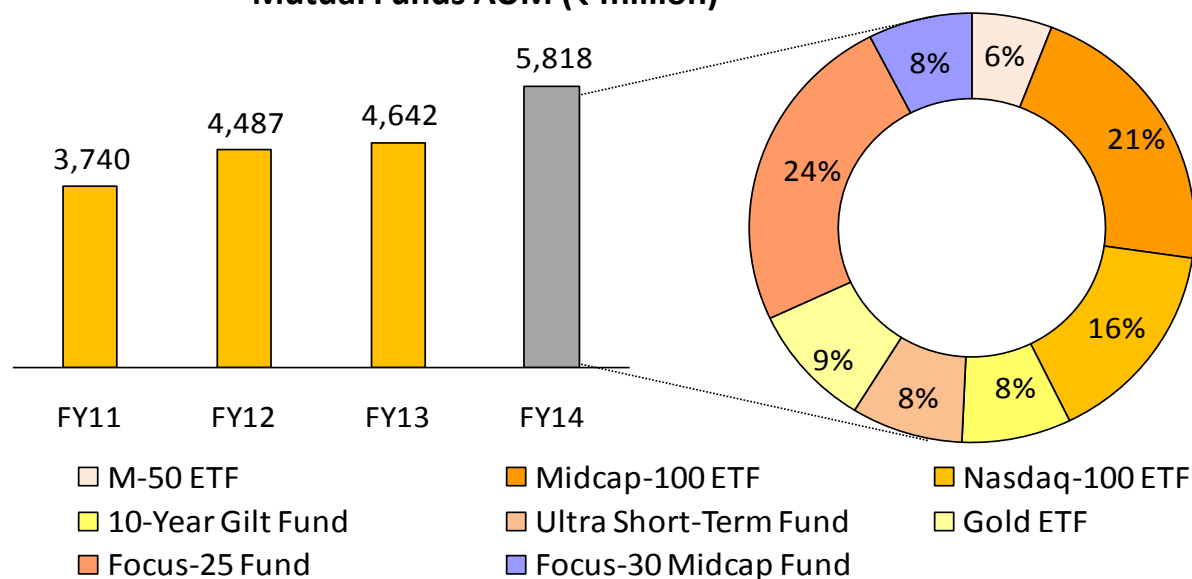
Particulars	Q4 FY14	Q3 FY14	Change	Q4 FY14	Q4 FY13	Change	FY14	FY13	Change
₹million	Mar 31, 2014	Dec 31, 2013	(%) Q-o-Q	Mar 31, 2014	Mar 31, 2013	(%) Y-o-Y	Mar 31, 2014	Mar 31, 2013	(%) Y-o-Y
Total Revenues	145	66	120%	145	88	64%	350	348	1%
EBIDTA	30	(8)	nm	30	11	181%	(6)	58	nm
PBT (before E & EOI)	29	(9)	nm	29	10	206%	(11)	53	nm
Reported PAT	32	(9)	nm	32	10	230%	(6)	53	nm

E & EOI = Exceptional items & Extraordinary items

**PMS AUM (₹ million)**



**Mutual Funds AUM (₹ million)**



- As of Mar 2014, PMS AUM was ₹14.5 billion and mutual funds AUM was ₹5.8 billion
- Launched the MOST Focused Midcap 30 mutual fund during the quarter, which would invest in 30 quality midcap companies



Particulars	Q4 FY14	Q3 FY14	Change	Q4 FY14	Q4 FY13	Change	FY14	FY13	Change
₹million	Mar 31, 2014	Dec 31, 2013	(%) Q-o-Q	Mar 31, 2014	Mar 31, 2013	(%) Y-o-Y	Mar 31, 2014	Mar 31, 2013	(%) Y-o-Y
Total Revenues	19	11	70%	19	8	141%	85	80	6%
EBIDTA	(11)	(19)	nm	(11)	(21)	nm	(36)	(60)	nm
PBT (before E & EOI)	(16)	(23)	nm	(16)	(24)	nm	(51)	(68)	nm
Reported PAT	(13)	(15)	nm	(13)	(20)	nm	(37)	(52)	nm

E & EOI = Exceptional items & Extraordinary items

- The investment climate continues to be vitiated due to macro uncertainties and policy paralysis. As a result, transaction closures have been affected, though closures have gathered some momentum
- The deal pipeline for MOIAPL remains healthy and the business sentiments appear to be improving in light of the evolving political scenario in the country
- The company continues to focus on building its capabilities in identified sectors and product lines
- Appointed Girish Nadkarni as Managing Director to head the ECM and PE business. He brings with him rich experience of over 23 years in investment banking, ECM and institutional equities
- Motilal Oswal Investment Banking also won 'M&A Boutique Firm of the Year' and 'Best Mid-Market Deal of the Year' awards at the M&A Atlas Awards in Mumbai

Particulars	Q4 FY14	Q3 FY14	Change	Q4 FY14	Q4 FY13	Change	FY14	FY13	Change
₹million	Mar 31, 2014	Dec 31, 2013	(%) Q-o-Q	Mar 31, 2014	Mar 31, 2013	(%) Y-o-Y	Mar 31, 2014	Mar 31, 2013	(%) Y-o-Y
Total Revenues	62	135	-54%	62	90	-31%	400	274	46%
EBIDTA	30	70	-57%	30	31	-5%	205	82	150%
PBT (before E & EOI)	29	69	-58%	29	30	-4%	201	78	157%
Reported PAT	20	46	-57%	20	21	-6%	134	53	150%

E & EOI = Exceptional items & Extraordinary items

- India Business Excellence Fund (IBEF) is a growth capital fund focused on the SME space with AUM of US\$ 125 million, fully committed across 13 companies. The fund has partially exited two companies till date via secondary sales at extremely healthy multiples. The fund has returned approximately 40% of capital to its investors so far
- India Realty Excellence Fund (IREF) is a domestic real estate fund with total AuA at ₹2 billion, which has been fully committed across 7 deals. Following full/partial exits from five projects till date, the fund has returned approximately 58% of capital to its investors so far
- The 2<sup>nd</sup> growth capital PE fund, India Business Excellence Fund-II, had received total commitments of approximately ₹9.5 billion from both domestic and offshore investors. This fund is currently evaluating several investment opportunities and has made two investments so far
- The first close of the 2nd real estate fund – India Realty Excellence Fund II (IREF II) was announced during the quarter, raising commitments of ₹1.9 billion. The fund is targeting to raise ₹3 billion with a Green-Shoe option of ₹2 billion. It has made two investments so far

During the year, we invested into building a new housing finance company – **Aspire Home Finance Corporation Limited**. This is being led by Anil Sachidanand, previously with DHFL as CEO. He brings with him 22 years of rich experience in the mortgage space.

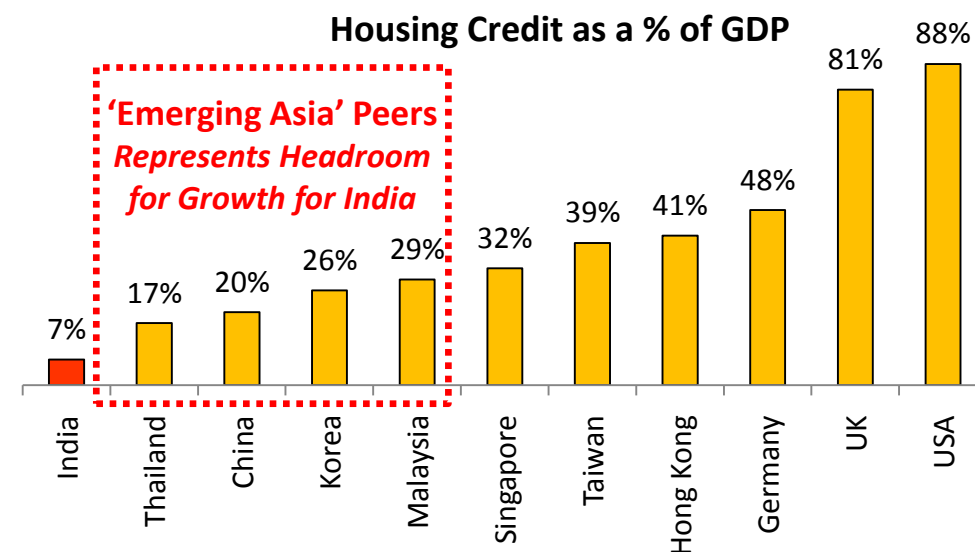
We are currently in the process of obtaining the necessary approvals for commencement of this business and it is at advance stage of consideration as all the required formalities for obtaining the same have been completed



We give your **aspirations** a home.

## Housing finance: A promising opportunity

- **Low Penetration:** India's mortgage/GDP ratio improved from 4.5% in FY04 to 7% in FY12. However, it is still low vs. peers
- **Potential in Tier II/III cities:** Mortgage growth has tilted towards tier-II/III cities in recent years
- **Young median age and its expected growth:** Translates into an increased working population and demand for housing
- **Changing social factors:** Increased urbanization and rise of nuclear families expected to boost the demand for dwelling



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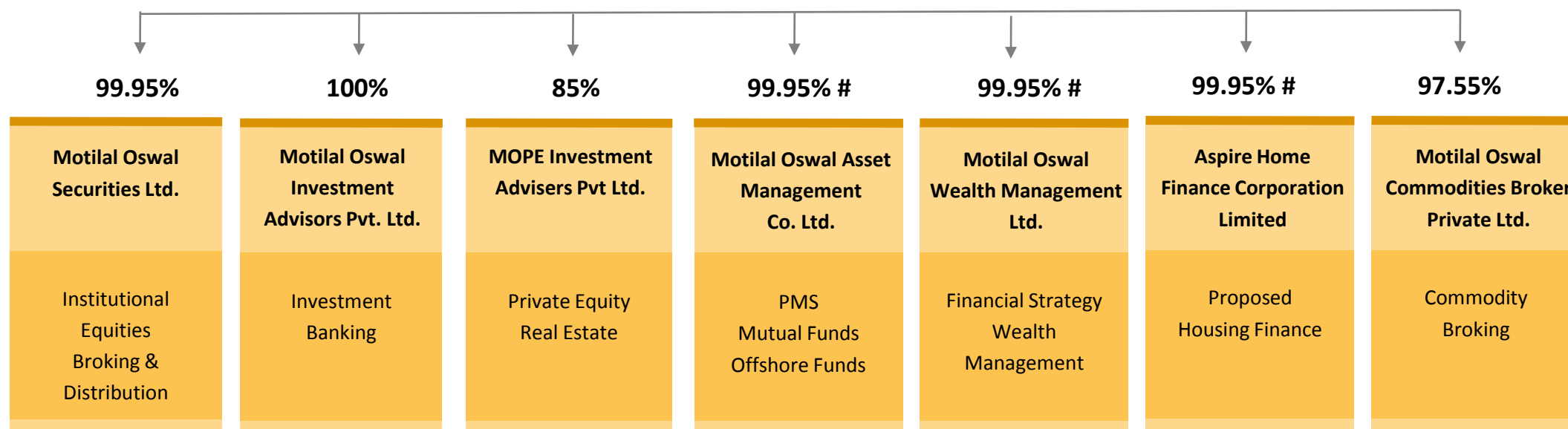
# Group profile and structure



- 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 507 cities comprising 1,534 business locations operated by our business partners and us with 800,385 total registered customers
- Shares listed on the Bombay Stock Exchange and National Stock Exchange in Mumbai



## Motilal Oswal Financial Services Ltd.



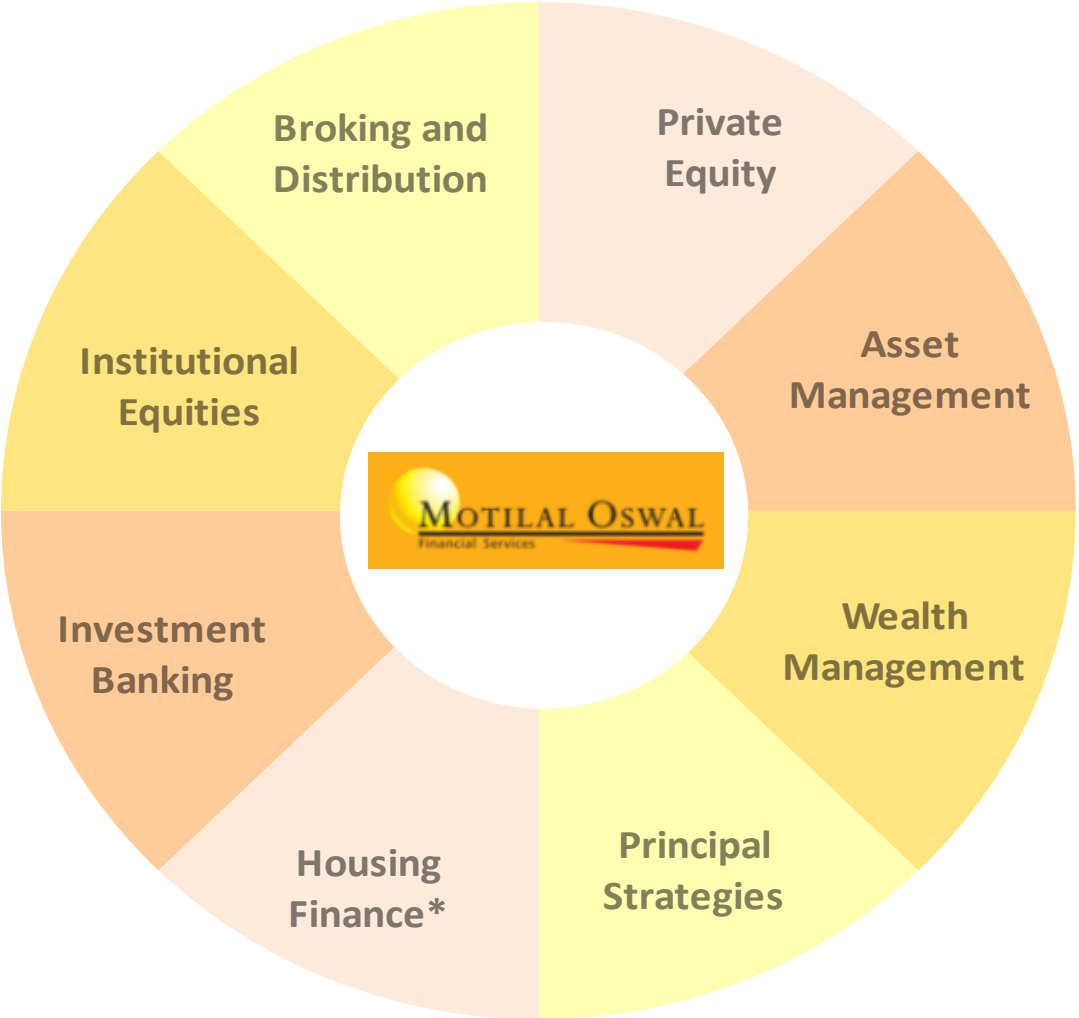
# through Motilal Oswal Securities Limited

Data as on Mar 2014



Independent  
and  
**INSIGHTFUL  
RESEARCH**

Well established  
**DISTRIBUTION  
NETWORK**



**STRONG  
RELATIONSHIPS**  
with institutional  
investors  
And HNIs

**HIGH  
CREDIBILITY**  
resulting in higher  
cross-selling  
opportunities

**INTEGRATED FINANCIAL SERVICES PROVIDER**

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



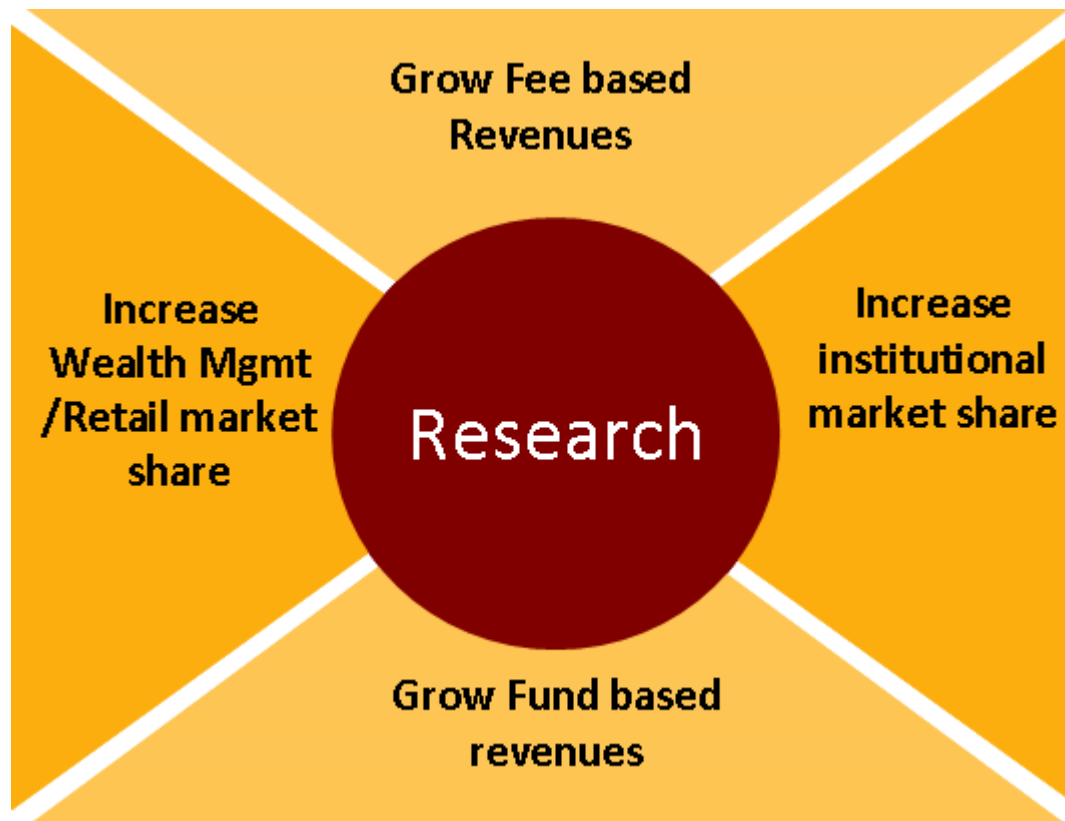
A company honoring commitment with highest ethical and business practices

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

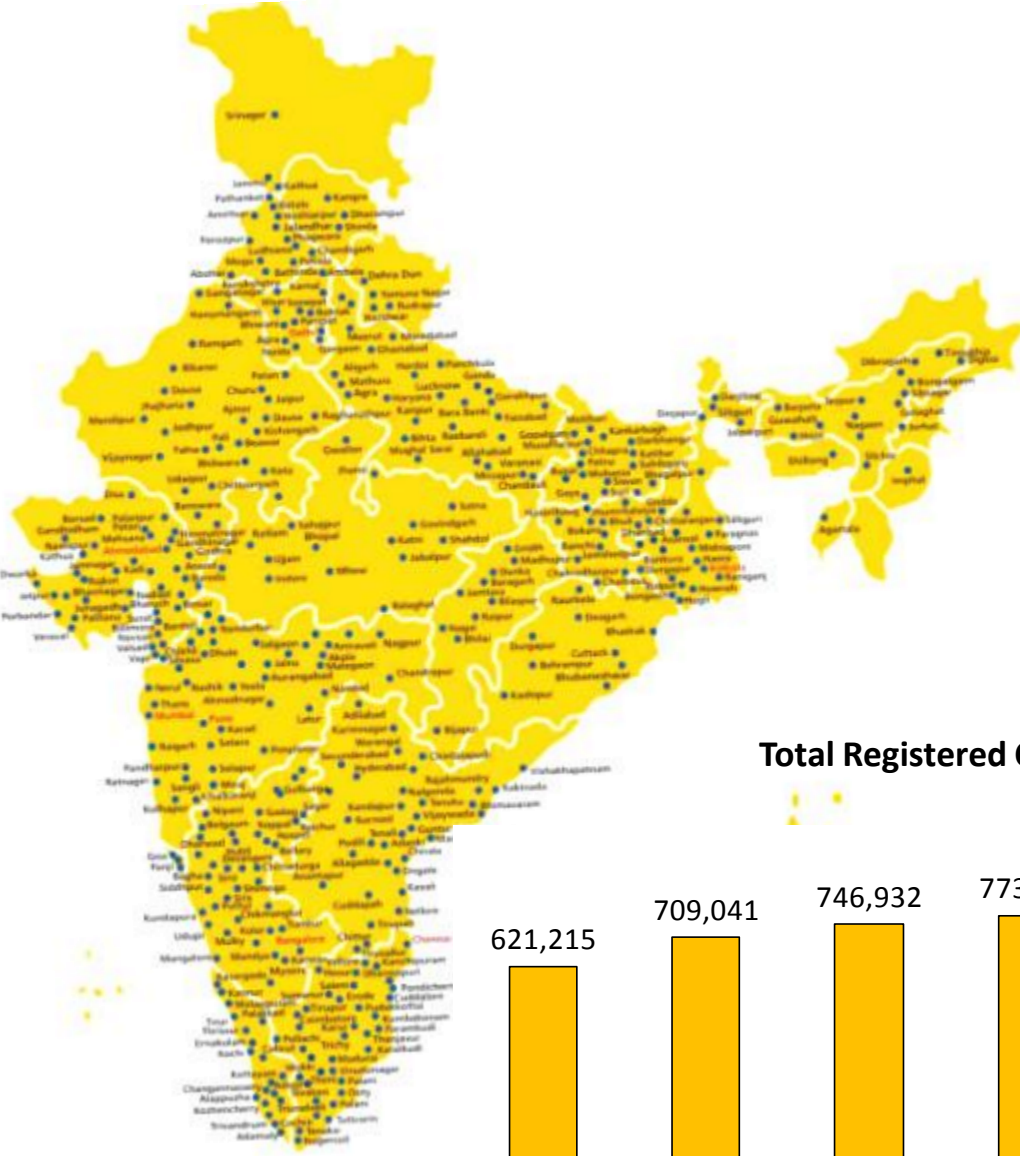


- Strong distribution network across India
- Leverage research and advisory capability
- Create products suited to customer needs
- Increase distribution of third party products

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

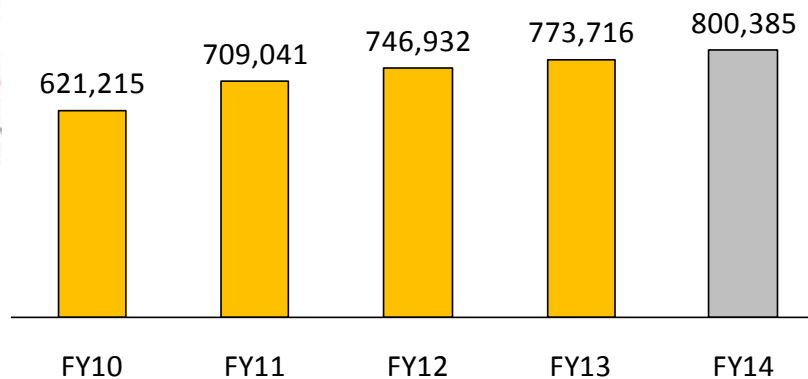
- Principal Strategies Group to maximize returns using risk free arbitrage strategies
- Grow capital market related lending business



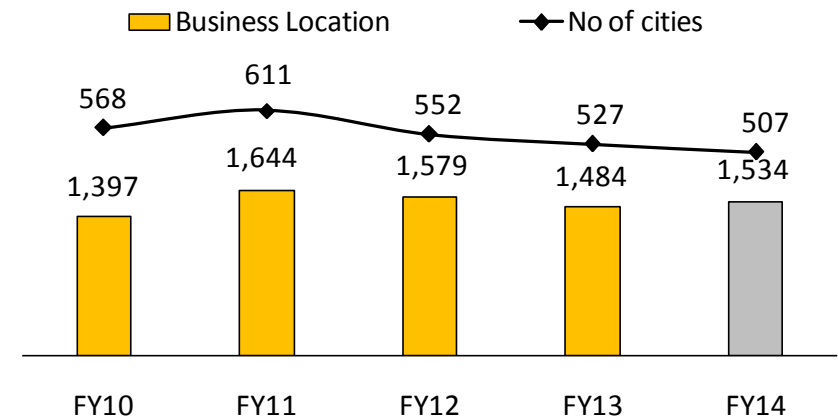


- Pan-India network with a presence in 507 cities across 1,534 business locations (branches plus franchisees), and complemented by a robust online channel
- Total registered client base of 800,385 which includes 701,845 retail broking and distribution clients
- Robust distribution network providing opportunities 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 over 30 research analysts covering over 200 companies across 20 sectors and 30 commodities
- Focused on cash equities, equity derivatives and commodities and services all our business segments

## Strong Sales and Corporate Access Team

- Research supported by an extremely strong sales trading team comprising of qualified professionals
- Conducts a number of corporate access events throughout the year. Its Annual Investor Conference is one the largest event formats of its kind in this industry

**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



**Q4 FY14  
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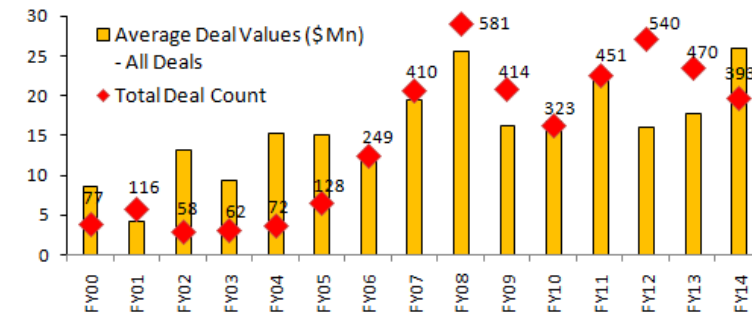
## “Private equity in India: Recent observations and emerging trends across various stages of the PE process”

- Indian PE total deal values rose successively to peak in FY08, thereafter dipping in FY09-FY10. While it did pick up again in FY11, it has been flattish till FY14
- Average deal value has risen successively since FY12 – indicating increasing comfort with larger commitments or preference for larger firms in uncertain environment
- First-movers in late 1990s saw good returns in mid 2000s as the economic cycle picked up
- This attracted further funds, though many fresh investments made during the boom years of mid 2000s were at high entry valuations
- As the economic cycle dipped post-2008, below-par performance of some holdings (in exit stage now), coupled with a damp IPO market has challenged exits and track records
- The industry will mature 360° only when the cycle of exits occurs systematically each year

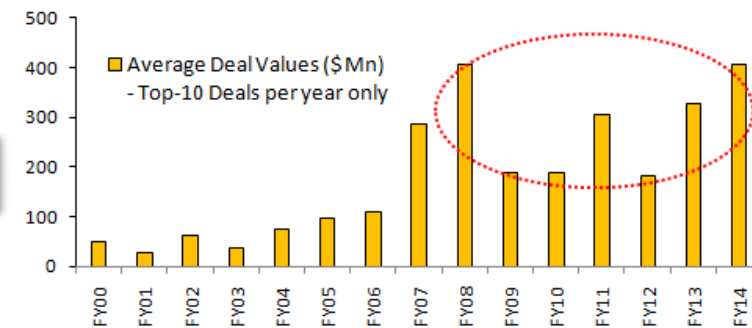
### Current challenges bringing changes in approach...

- Challenging times warrant a transformation in approach, both from investors and fund houses
- Investors (LPs) are increasingly focusing on manager-selection, identifying funds with differentiated strategies, investing capabilities and track record, rather than the India-story
- GPs are looking to use their global experience to build value-addition in portfolio companies to take them to the next level of growth
- Investing decisions are focusing on the quality, capability and integrity of management, apart from the sector opportunity and business model
- Fundraising strategies are changing, in context of target investors, talent hiring and marketing

Avg deal values peak in 2008; Recovering since 2011



Avg size of Top 10 Deals grew till 2008; Up since 2012



Largest Deals each year led by the foreign players

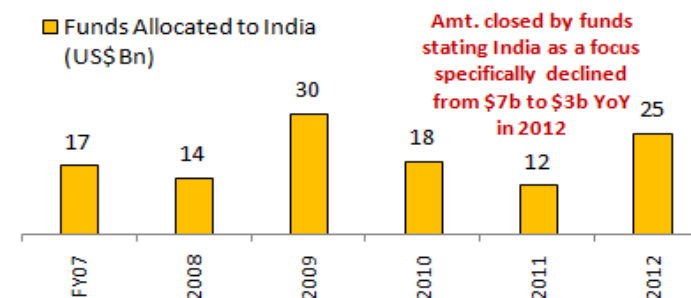
2000-2002	Warburg, IFC, Jacob Ballas, GIC, Pinebridge, Warburg, CS, BOA, Gen Atlantic, Intel, Actis, Symphony, eVentures, Walden, GE Cap, IFC
2003-2005	Gen Atlantic, Oakhill, Temasek, Warburg, TPG, Francisco, Stan Chart, Actis, Jacob Ballas, Citi, Henderson, IFC, FMO, ICICI Ven, Sequoia
2006-2008	GS, Temasek, Macquarie, Sequoia, Carlyle, Providence, Chrys, Farallon, SAIF, KKR, Gen Atlantic, Citi, NSR, LNM Internet, 3i, New Vernon, MS
2009-2011	GIC, Bain Cap, Providence, Apax, General Atlantic, GS, MS, Blackstone, 3i, Quadrangle, KKR, Arcapita, NSR, IDFC, Temasek, MS, GS, CS
2012-2014	Qatar Found, GIC, Bain Cap, JP Morgan, KKR, Apax, CPPIB, SGRF, IDFC, Apollo, Blackstone, Baring, CX, MS, GS, Softbank, Warburg, Fairbridge

### Fundraising...

- ~80% of funds raised is estimated to be from overseas, though Indian HNI interest has picked up
- Indian regulations forbid insurance, pension funds from investing in PE - key sources globally
- Investment arms of development banks and SWFs have also evinced deal interest in India
- Most European, GCC, East Asian nations have such arms or SWFs - potential fund raising targets
- Recent years stressed the need to send prospect teams where 'new money' is - China, GCC, etc
- As India's HNI wealth grows or if regulations allow institutions, domestic sources can pick up
- In a challenging fundraising environment, funds are now thinking strategically whom to approach
- Investors with mature portfolios may prefer niche sector-funds, while new investors might prefer core, generic portfolios
- New launches are stressing the team's experience, track record, deal pipeline.
- GPs have to pay for experienced managers who can network/negotiate to crack key client accounts
- Marketing collaterals need to showcase how the fund contributed value to its portfolio

**Fundraising universe is impacted as many LPs are yet to realize returns on prior investments. Multi-geography funds diversify country risk, hence should evince more interest during downturn. When an upswing returns, country-specific funds should evince more interest**

### Fundraising in 2012: India-allocation fundraising increasing while India-focused fundraising dips



### Deal Sourcing and Due Diligence...

- With more funds competing, deal sourcing has become a specialized competency. Intermediated deals are picking up. Only ~40% of recent deals is roughly estimated as proprietary/co-investments, with the rest being sourced from i-banks, etc
- Referrals from existing clients are emerging as a key source, preferable for funds as the need for paying commissions is not there
- The aim is to avoid situations of excessive dry powder, since that can lead to commitment risk/defaults
- Due diligence has become more stringent given the current economic slowdown, which has reduced the universe of investible companies
- Funds are now cautious in investment selection, backing only the best entrepreneurs and business models. Hence, hit-rate remains challenged



## Valuation Multiples...

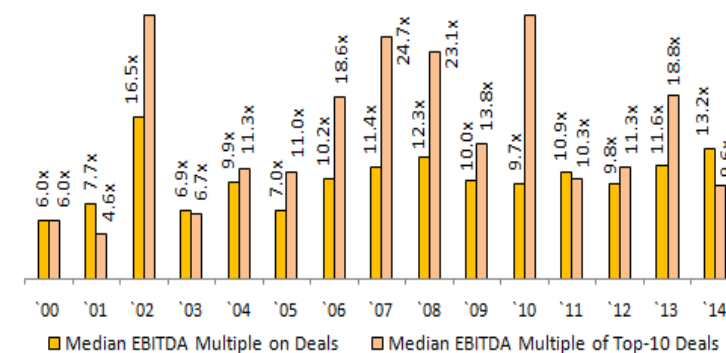
- Exuberance in capital markets during the FY05-08 boom years enhanced perceived worth and provided alternative capital raising opportunities – leading to high entry valuations
- High competition amongst funds for few good deals also meant competing on entry multiples
- However weak economic outlook post-2008 led to a mismatch in valuation expectations and weak participation impacted current valuations. This has slowed transaction closures now
- Average stake taken during mid 2000s was lower. When valuations are at the lower-end, this created a double whammy for sellers as absolute realizable amounts are also lower
- Services, Consumer sectors notched higher valuations than manufacturing, industrial or infra
- But investments made now when entry multiples are at the lower-end of the valuation cycle stand a better chance of realizing healthy returns in the next up-cycle

## Sectors and Geographies...

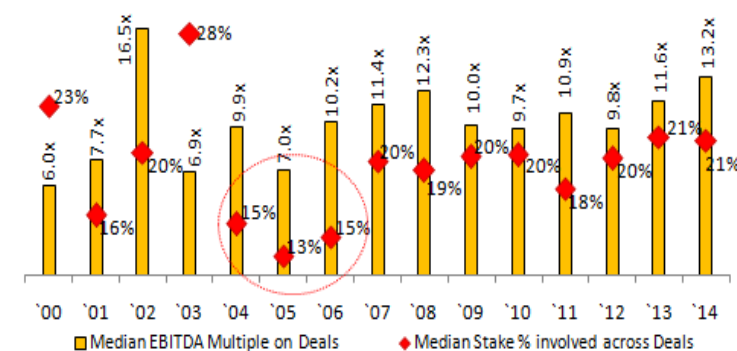
- Indian PE took off with dot-com; IT/ITes, manufacturing and BFSI were mainstays till mid 2000s
- Thereafter, telecom, healthcare, energy and engineering also clocked sizable values per year
- Recent capex slowdown reduced demand from infra, energy, telecom - large PE sectors historically
- Geographical expansion of sectors has seen concentration of IT/ITes & Energy in South, BFSI and IT/ITes in West, Telecom & IT/ITes in North and Manufacturing & Energy in East

The current slowdown has fuelled the debate whether to keep fund usage flexible: be it sector-agnostic or for inorganic growth. However, specializing into focus areas might actually help funds crack good-quality opportunities in those specific areas

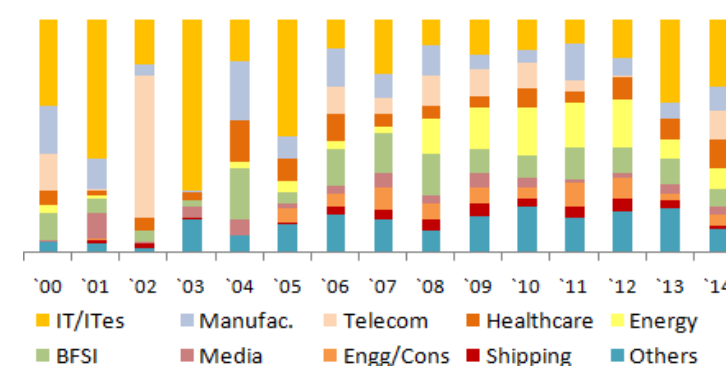
## Valuation of Top Deals outpace Overall Deals as deals peak



## 2004-06 period saw high multiples for lower stakes



## Deals more evenly distributed across sectors now



### During the Investment Period...

- Although some funds get a Board seat, a challenge that fund managers in India face is that a minority stake restricts their ability to influence strategic changes or decision making
- But, the current economic and sector challenges have kept many companies from realizing their true potential, and this calls for a change in approach
- Funds are concentrating on showcasing their competency in providing operating/strategic inputs in such a way that the companies realize the true value-addition they bring - ***that their businesses can become bigger and better once they engage with PE funds more as partners***
- This also creates a differentiator for the PE fund in front of prospective investee companies who might require funding in future, given that even companies have a choice of funds today
- But for this to happen, there has to be a change in attitude with which promoters view PE funds
- Funds who put in the effort to enhance value through strategic initiatives would want a higher stake, otherwise the incentive to invest in that effort would be low
- This can happen only when promoters realize the gains from a larger involvement by PE partners
- **In cases where higher stakes are unattainable, funds might explore delivering components of value-addition through a consultancy role for a fee, akin to management consulting firms**
- Focus on value-addition also takes the form of institutionalized support system. The US industry created support centres to share experiences, best practices, networking, mentoring and facilitation. Academic institutions also hold key, a reason why a large chunk of the US PE/VC industry is based in Boston and San Francisco – cities which host some of the best universities

PE funds can bring value-addition through benchmarking global best practices, enabling networking, senior talent hiring, operational improvements, monitoring, corporate governance, advising on acquisitions, product or markets, new technologies, guidance to directors and adding credence and reputation during future capital raising

Concentrating on value-addition requires funds to look inward, to build their resources, knowledge and expertise in such niches. However, shortage of experienced talent at reasonable costs would be challenge in India

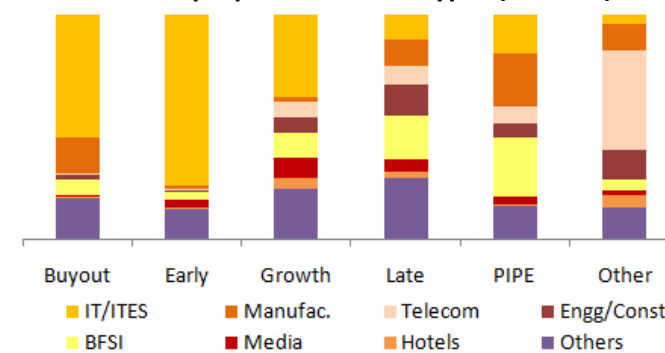
### Deal Types...

- In India, late-stage funding clocked the strongest CAGR from FY01 to FY14 (42% vs. 36% in buy-out, 29% in PIPE, 26% in growth and 6% in early-stage)
- Buy-outs comprised just 10% of all deals from FY01 to FY12, but picked up sharply in FY13 possibly as companies looked to offload troubled businesses in a struggling economy
- PIPE has seen healthy volumes since FY01. India has a high number of listed companies, many out of investors' radar. Continued paucity of quality private companies will keep PIPE in focus
- Early-stage was bogged down by risk perception, in a country where social acceptability of entrepreneurship is low and where support infrastructure for start-ups took time to develop

### Exits – a major concern...

- The single-biggest challenge for PE funds currently, even ahead of fundraising and investing
- Exit slowdown has impacted unrealized AUM, track record and scope for further fundraising
- The concern is both on the exit route and portfolio company performance. In either case, lower-than-expected IRRs or delay in returning capital has an impact on the funds' reputation
- IPOs have traditionally been a popular route. But volatile capital markets and low retail participation dampened the IPO market in recent years
- Secondary sale became dominant, more so when the investment had not done well, as another fund's guidance could help turn it around
- Strategic sale to peers has never picked up. However, the foreign strategic buyers may often be willing to pay a higher India-entry premium
- Recent economic weakness meant deviation of actual performances of many holdings from original business plans. Quite a few are still at cost
- Any revival in the IPO market will be closely watched. In UK, an Unlisted Securities Market in 1980s helped exit of small firms with easier listing requirements. Similar platforms might be a possibility in India. However sluggish retail investor interest in the exchanges does not evince confidence

Sector-wise proportion of deal-types (FY00-14)



**Co-investments into deals might be a way for GPs to diversify perceived risks of any deal**

**Concern is both on exit routes and portfolio company performance. In either case, lower IRRs or delay in returning capital has an impact on the funds' reputation. Depreciating rupee challenged exits further for offshore investors, impacting their dollar returns**



## Going ahead...

- India has a robust private sector, unlike many emerging/frontier markets where state-owned enterprises still dominate business
- High interest rates and banks' asset quality concerns means PE will remain a key source of capital raising, esp. to fund innovative business models
- Fundraising will concentrate where 'new money' is growing – like GCC, China, etc
- Foreign firms have dominated deal activity, esp. the larger deals. Some clarity on domestic taxation might be welcome
- Dry powder will remain as cracking quality deals in a challenged environment is a task
- When economic upswing returns, country-specific funds should evince more interest
- Funds which are incentivized to play a larger role in guiding the strategy/operations of their holdings, have a better chance of capturing alpha
- Passive investors will depend on sector outlook and promoters' capabilities
- As the economy and incomes grow, products which India's expanding middle-class spends on and high-value products demanded by the wealthy-class will benefit
- Changing aspirations means demand moves up the value-chain and shifts accordingly



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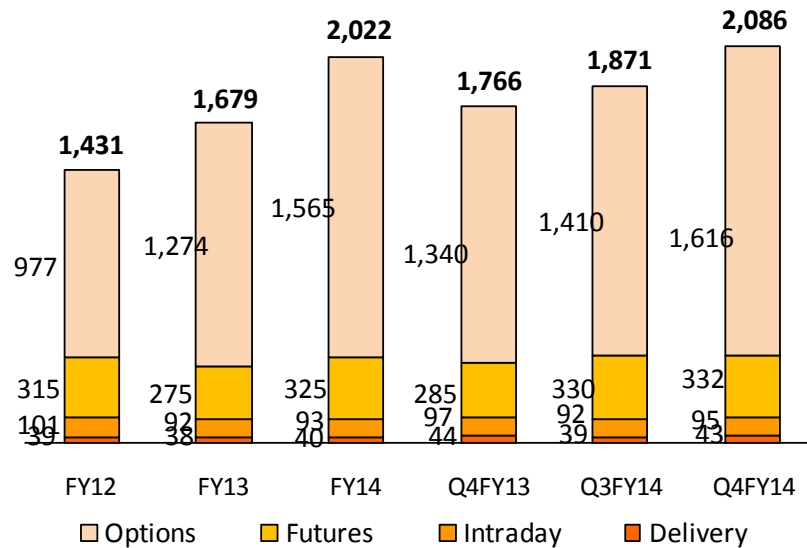
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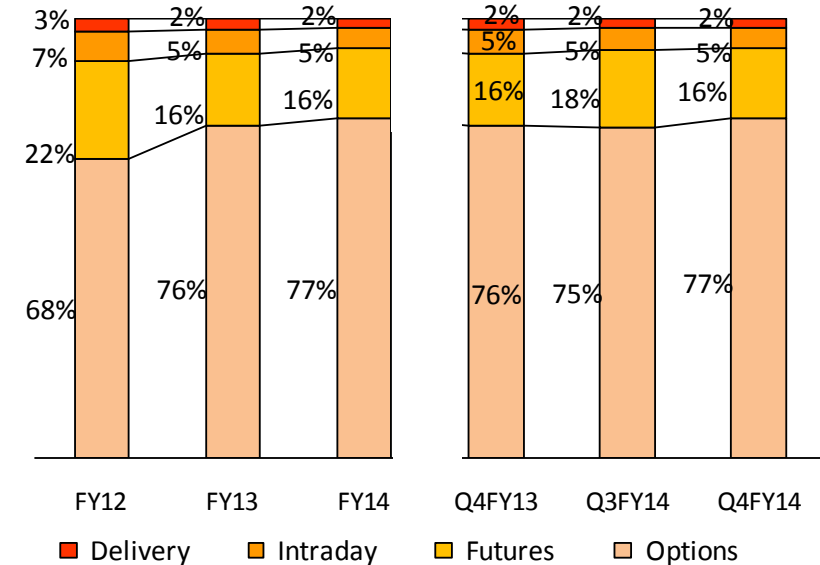
**Industry  
facts**

# Options continue to boost volumes; But delivery also up QoQ

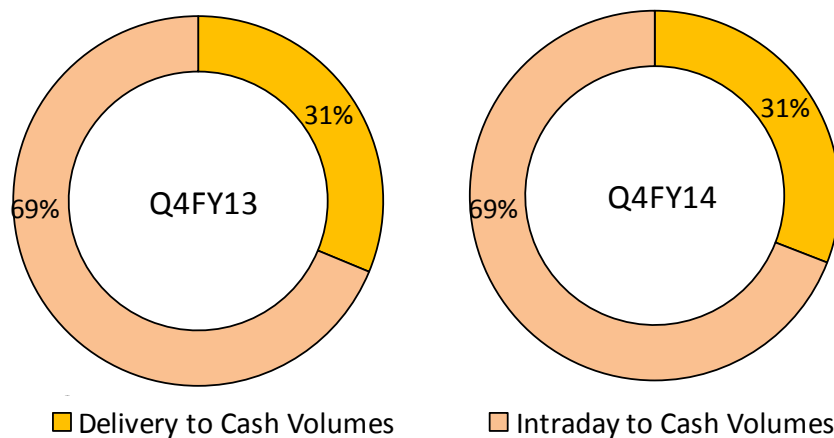
**Market ADTO up owing to continued uptick in options;  
However, delivery volumes also grew on QoQ basis (Rs Bn)**



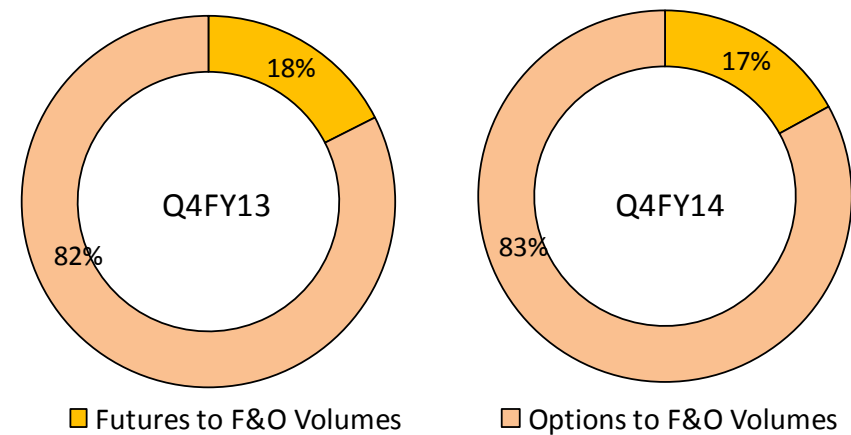
**Proportion of options within market volumes increases further; Proportion of cash dips slightly**



**On a YoY basis, the proportion of delivery within cash volumes in the market has held steady at ~31%**

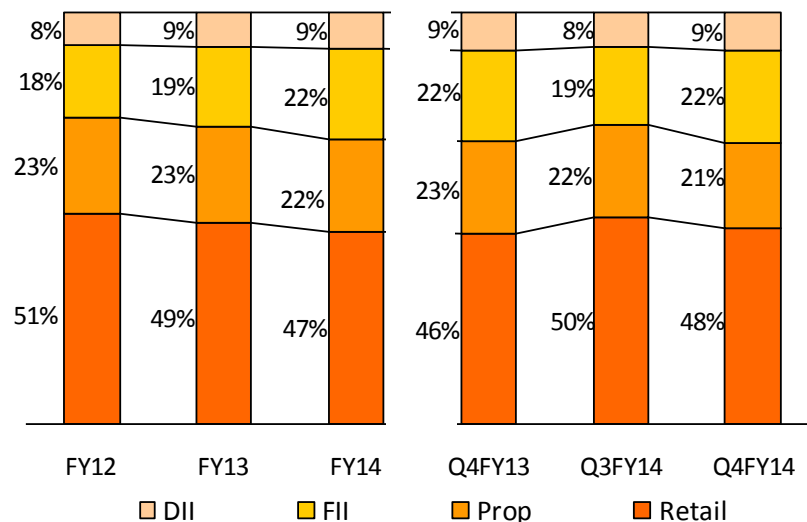


**Proportion of options within F&O in the market has tapered slightly owing to an uptick in futures volumes**



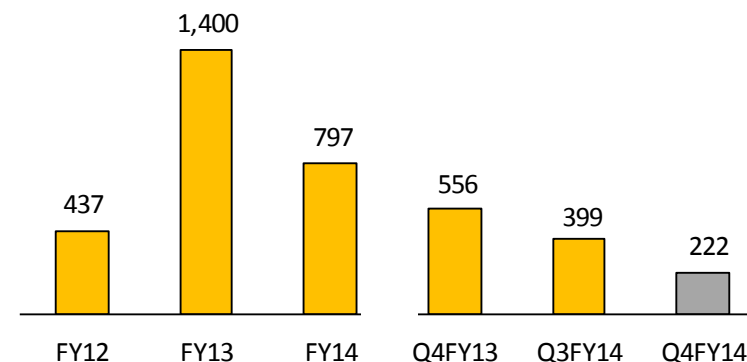
# FII and DII push up QoQ uptick in Cash ADTO; Retail ADTO flat

**Uptick in cash volumes this quarter on QoQ basis led by FIIs and DIIs; Retail cash volumes remain flat QoQ**



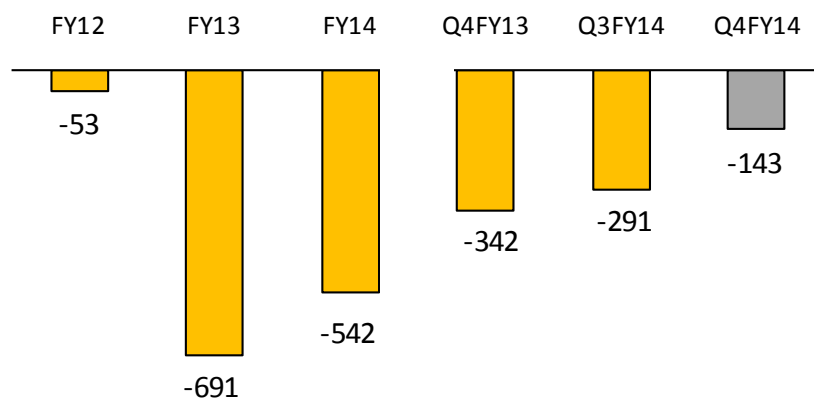
Source: NSE, BSE

**Net inflows from FIIs continued in Q4FY14. However, the major inflows came only in Mar while Jan and Feb saw muted inflows (Rs Bn)**



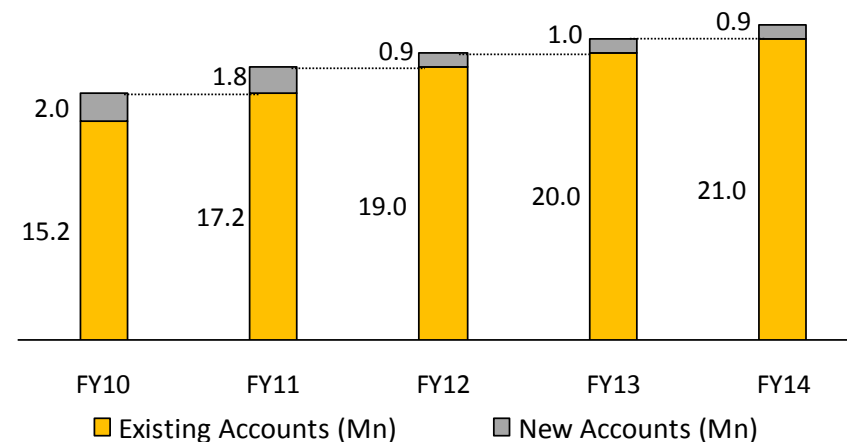
Source: SEBI

**DIIs have seen net outflows from equities since the last 7 consecutive quarters; However, the outflows seen this quarter was lower than that in the previous quarter (Rs Bn)**



Source: NSE

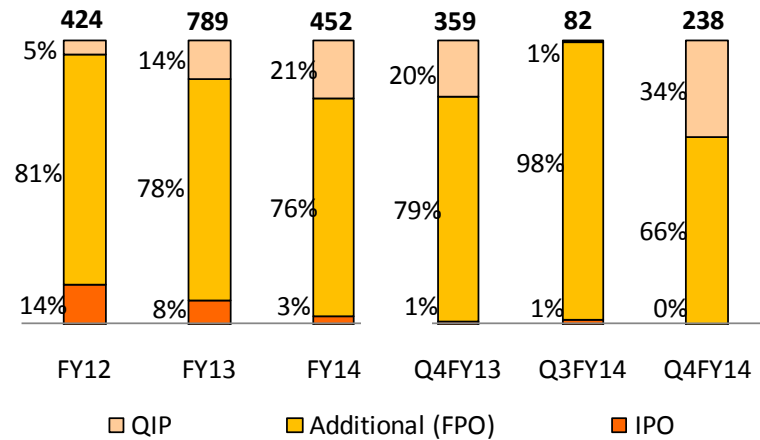
**With primary market activities largely drying up, the growth in new demat accounts (Mn) contracted this year as compared to earlier years**



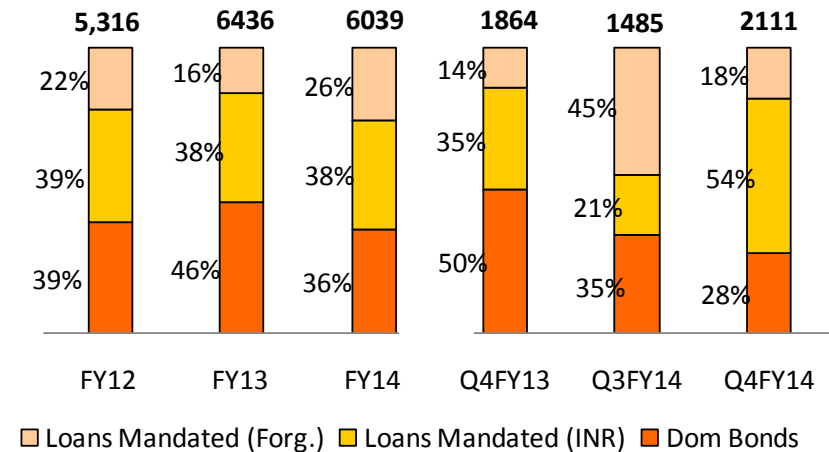
Source: CDSL, NSDL

# ECM up QoQ owing to QIP, FPO; Foreign loans push up DCM; PE up

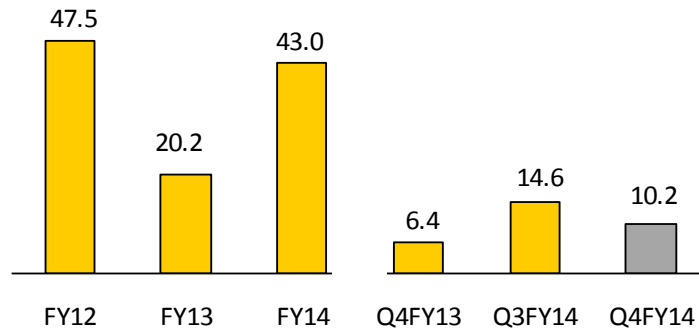
**ECM picked up QoQ owing to SBI QIP and EIL, NHPC FPOs, though activity levels are still lower vs. earlier years (Rs Bn)**



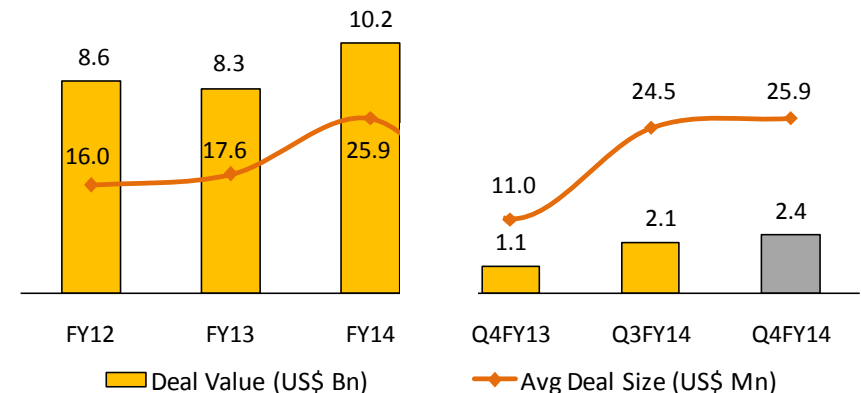
**DCM saw a QoQ uptick buoyed by increase in INR loans; Domestic bonds were flat QoQ; Foreign loans dipped (Rs Bn)**



**M&As deal value remained subdued this quarter on a QoQ basis, as companies preferred to wait and garner more clarity on the policy front post-elections (US\$Bn)**



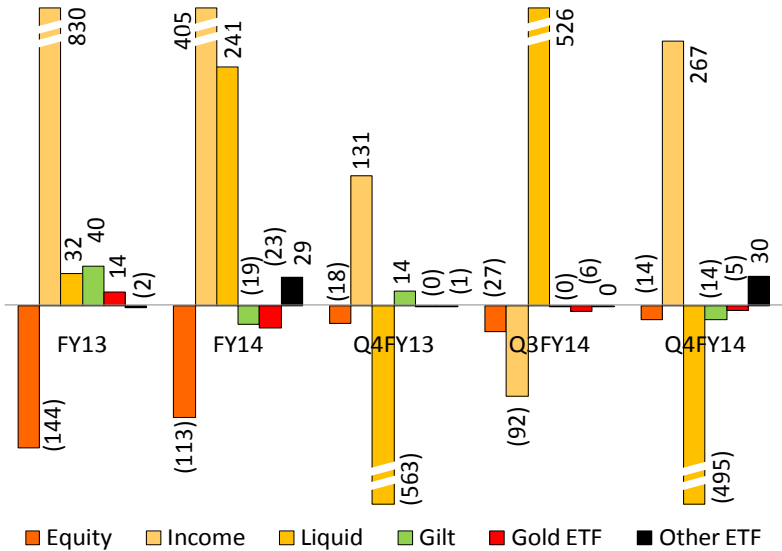
**Total deal value and average value per deal picked up QoQ, largely due to three ~US\$300 mn deals, each in the engineering, energy and IT sectors (US\$Bn/Mn)**



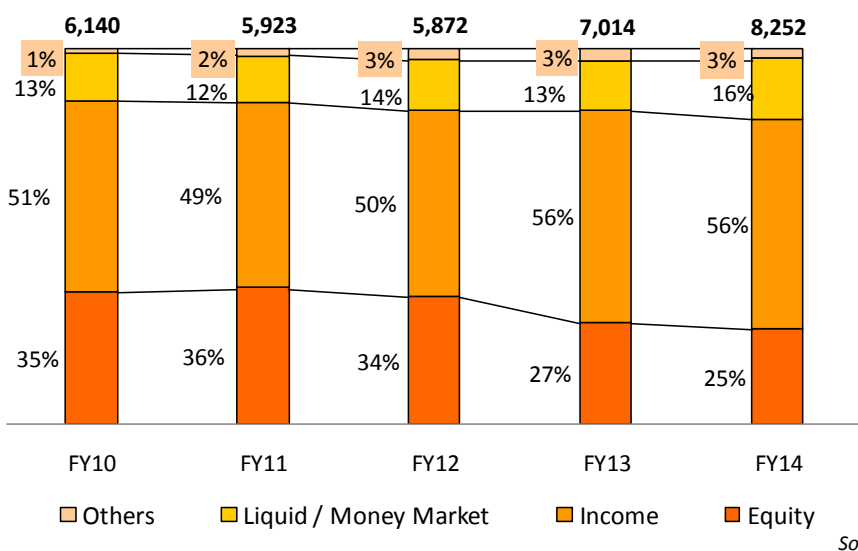
# Redemption continue in equity funds, though equity ETF see inflows



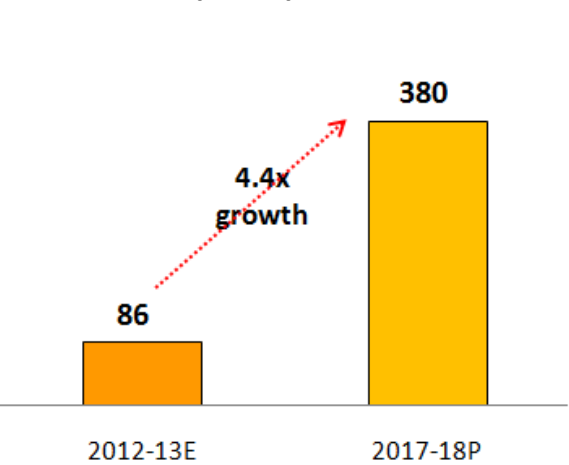
Major net inflows come in Income funds; Equity ETFs also saw inflows, though equity funds continue to see redemptions (Rs Bn)



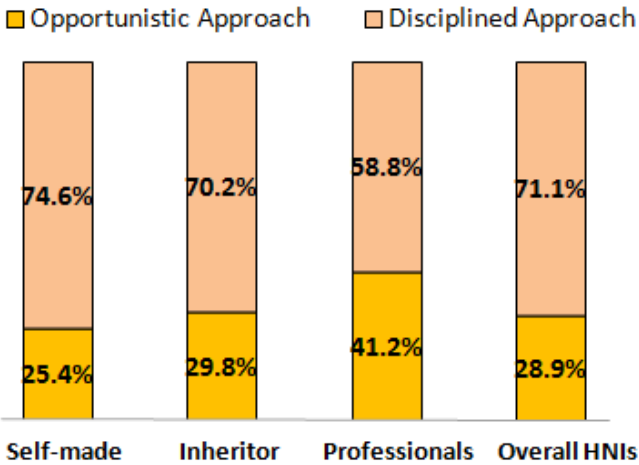
Income fund AUM up QoQ; Liquid and Gilt AUMs dip; Equity fund AUM up slightly QoQ owing to price appreciation (Rs Bn)



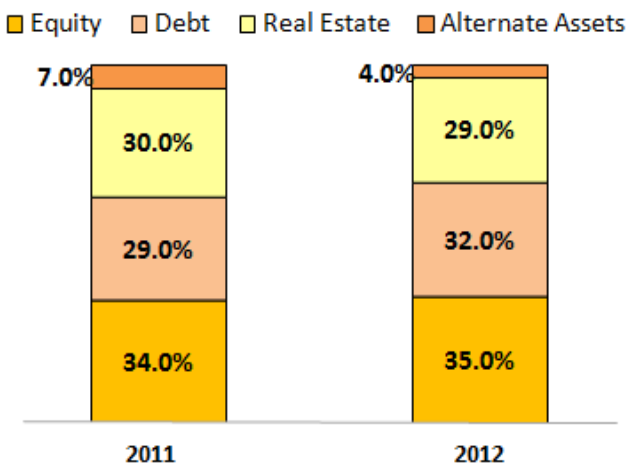
Total Net Worth of Indian HNIs (Rs Tn)



Approach towards Investments of Indian HNIs



Change in HNI Investment Portfolios



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