

Earnings Update – Q2 FY14



Oct 26, 2013

Motilal Oswal Financial Services Limited

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

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Consolidated Financials

- Revenues in Q2 FY14 were ₹1.2 billion (up 5% QoQ and up 2% YoY)
- Adjusted PAT was ₹188 million (up 2% QoQ and down 18% YoY). Reported PAT in Q2 FY14 was ₹56 million (down 70% QoQ and 75% YoY). The Group has exposure to NSEL of ₹570.7 million with respect to proprietary positions and ₹13.6 million with respect to funded positions. NSEL has not been able to adhere to its payment obligations over the past few months. The Group has perused legal action against NSEL and others by filing writ petition in Bombay High Court and criminal complaint in Economic Offences Wing (EOW). Pending final outcome which is uncertain, the Company has provided for an amount of ₹131.6 million (post tax) in respect of these positions for the quarter and half year ending Sep 2013, which is disclosed under the head “Exceptional Items”
- EBITDA and Adjusted PAT margins for Q2 FY14 were 31% (32% in Q1 FY14) and 16% (17% in Q1 FY14) respectively
- The balance sheet had net worth of ₹12.0 billion and net cash of ₹1.7 billion, as of Sep 30, 2013
- 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 6.4 million shares as of Sep 2013
- Interim dividend of ₹1 per share was declared

Volumes and Market Share

- Total ADTO in secondary equities was ₹31.7 billion in Q2 FY14 (₹31.9 billion in Q1 FY14 and ₹23.2 billion in Q2 FY13)
- Equity market share was 1.4% in Q2 FY14 (1.7% in Q1 FY14 and 1.4% in Q2 FY13)

Distribution Reach

- Retail distribution stood at 1,495 business locations across 511 cities, as of Sep 2013
- Total client base increased to 786,688 which includes 690,011 retail broking and distribution clients

Assets Managed

- Total assets under management/advice across mutual funds, PMS and private equity businesses was ₹33.0 billion. Within this, our mutual funds AUM was ₹4.1 billion, PE AUA was ₹17.0 billion, while PMS AUM was ₹11.9 billion
- Private Wealth management business managed assets of ₹20.5 billion
- Depository assets were ₹110.0 billion

Business Updates

- Motilal Oswal Private Equity made the final close of its 2nd growth capital fund – IBEF II with total commitments of approximately ₹9.5 billion raised from both domestic and offshore investors
- MOSL bagged Best Performing Equity Broker (Natl.) Award at CNBC TV18 Financial Advisor Awards for 3rd year in a row
- Institutional Equities conducted the 9th Annual Global Investor Conference in Mumbai
- Invested in building a new housing finance company – Aspire Home Finance Corporation Limited. This will be led by Anil Sachidanand, who brings with him 22 years of rich experience in the mortgage space.

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Particulars	Q2 FY14	Q1 FY14	Change	Q2 FY14	Q2 FY13	Change	6M FY14	6M FY13	Change	FY13
₹million	Sep 30, 2013	Jun 30, 2013	(%) Q-o-Q	Sep 30, 2013	Sep 30, 2012	(%) Y-o-Y	Sep 30, 2013	Sep 30, 2012	(%) Y-o-Y	Mar 31, 2013
Total Revenues	1,160	1,108	5%	1,160	1,135	2%	2,267	2,238	1%	4,729
EBIDTA	358	356	1%	358	400	-10%	714	766	-7%	1,744
PBT (before E & EOI)	290	288	1%	290	332	-13%	578	630	-8%	1,437
Adjusted PAT	188	185	2%	188	229	-18%	373	431	-14%	969
Reported PAT	56	185	-70%	56	229	-75%	241	431	-44%	1,091
EPS - Basic	0.5	1.3		0.5	1.6		1.8	3.0		7.6
EPS - Diluted	0.5	1.3		0.5	1.6		1.8	3.0		7.6
No. of shares outstanding (million) - FV Rs 1/share	139	145		139	145		139	145		145

E & EOI = Exceptional items & Extraordinary items

- Motilal Oswal Group has exposure to National Spot Exchange Limited (NSEL) of ₹570.7 million with respect to the proprietary positions and ₹13.6 million with respect to funded positions. NSEL has not been able to adhere to its payment obligations over the past few months. Motilal Oswal Group has perused legal action against NSEL and others by filing writ petition in Bombay High Court and criminal complaint in Economic Offences Wing (EOW). Pending final outcome which is uncertain, the Company has provided for an amount of ₹131.6 million (post tax) in respect of its proprietary and funded positions for the quarter and half year ending Sept 2013 which is disclosed under the head “Exceptional Items”

Revenue composition

Particulars	Q2 FY14	Q1 FY14	Change	Q2 FY14	Q2 FY13	Change	6M FY14	6M FY13	Change	FY13
₹million	Sep 30, 2013	Jun 30, 2013	(%) Q-o-Q	Sep 30, 2013	Sep 30, 2012	(%) Y-o-Y	Sep 30, 2013	Sep 30, 2012	(%) Y-o-Y	Mar 31, 2013
Brokerage & operating income	732	679	8%	732	733	0%	1,410	1,442	-2%	2,964
Investment banking fees	35	8	318%	35	23	50%	43	50	-14%	78
Fund based income	179	267	-33%	179	214	-16%	447	421	6%	1,005
Asset management fees	206	126	63%	206	136	52%	332	285	17%	599
Other income	8	28	-69%	8	30	-72%	36	40	-11%	82
Total Revenues	1,160	1,108	5%	1,160	1,135	2%	2,267	2,238	1%	4,729

- Broking and related revenues were ₹732 million in Q2 FY14, up 8% on a QoQ basis and flat on a YoY basis. This segment contributed 63% of the total group revenues
- Investment banking fees at ₹35 million, up 50% YoY. Transaction closures remain impacted as multiple macro concerns continue to affect the investment mood in the economy
- Fund based income was ₹179 million, down 33% from Q1 FY14 and down 16% from Q2 FY13. The loan book was ₹4.4 billion, as of Sep 2013
- Asset Management fee were ₹206 million for Q2 FY14, up 63% QoQ and up 52% YoY. The uptick was largely owing to incremental fees related to our new private equity fund – IBEF-II, which saw its final close during this quarter
- Other income was ₹8 million in Q2 FY14

₹million	As on Sep 30, 2013	As on Mar 31, 2013
Sources of Funds		
Networth	11,951	12,179
Loan funds	7	-
Minority interest	41	30
Deferred tax liability	95	179
Total	12,094	12,388

Application of Funds		
Fixed assets (net block)	3,024	3,111
Investments	1,590	1,481
Deferred tax asset	-	-
Current Assets (A)	13,215	13,138
- Sundry debtors	4,528	4,359
- Stock-in-trade	1,261	1,456
- Cash & Bank Balances	1,755	2,144
- Loans & Advances	5,654	5,156
- Other Assets	16	24
Current liabilities (B)	5,735	5,341
Net current assets (A-B)	7,479	7,797
Total	12,094	12,388

₹million	As on Sep 30, 2013	As on Mar 31, 2013
Networth	11,951	12,179
Debt (A)	7	-
Cash & Bank balances (B)	1,755	2,144
Net cash (B - A)	1,748	2,144
Debt : Equity	0.00x	0.00x
Cash (% Networth)	15%	18%

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Retail Broking & Distribution and Institutional Equities

Particulars	Q2 FY14	Q1 FY14	Change	Q2 FY14	Q2 FY13	Change	6M FY14	6M FY13	Change	FY13
₹million	Sep 30, 2013	Jun 30, 2013	(%) Q-o-Q	Sep 30, 2013	Sep 30, 2012	(%) Y-o-Y	Sep 30, 2013	Sep 30, 2012	(%) Y-o-Y	Mar 31, 2013
Total Revenues	774	775	0%	774	852	-9%	1,549	1,644	-6%	3,369
EBIDTA	212	233	-9%	212	290	-27%	445	548	-19%	1,076
PBT (before E & EOI)	169	195	-13%	169	247	-31%	364	461	-21%	887
Adjusted PAT	122	124	-1%	122	171	-28%	246	315	-22%	588
Reported PAT	4	124	-96%	4	171	-97%	128	315	-59%	821

E & EOI = Exceptional items & Extraordinary items

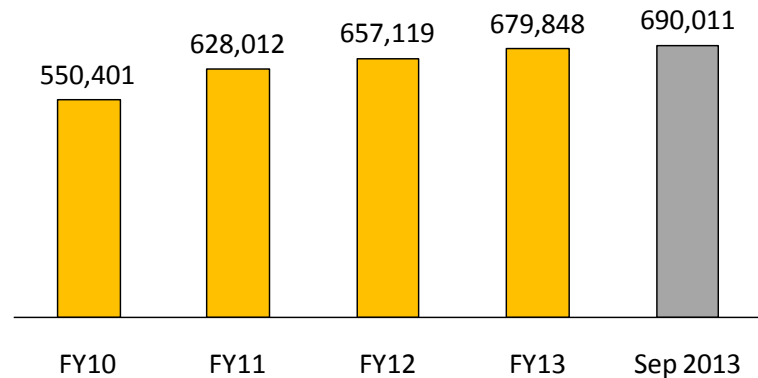
- Revenues were ₹774 million for Q2 FY14, flat on a QoQ basis and down 9% as compared to Q2 FY13
- Adjusted PAT was ₹122 million, marginally down 1% QoQ and down 28% YoY. Reported PAT was ₹4 million for Q2 FY14, down 96% QoQ and down 97% YoY. MOSL had exposure to NSEL of ₹523.1 million with respect to proprietary positions. NSEL has not been able to adhere to its payment obligations over the past few months. MOSL has perused legal action against NSEL and others by filing writ petition in Bombay High Court and criminal complaint in Economic Offences Wing. Pending final outcome which is uncertain, the Company has provided for an amount of ₹117.8 million (post tax) in respect of its proprietary position for the quarter and half year ending Sept 2013 which is disclosed under the head “Exceptional Items”
- MOSL ADTO was ₹31.7 billion in Q2 FY14 (₹31.9 billion in Q1 FY14 and ₹23.2 billion in Q1 FY13)
- Equity market ADTO reached a high of ₹2.2 trillion in Q2 FY14, led by a 15% QoQ growth in both futures and options. Options now comprise over 78% of market volumes, while futures comprise over 15%. Cash volumes were up by 9% QoQ, led by increased volumes in August and September. It now comprises 6.2% of market volumes, marginally down from 6.5% in the previous quarter. Within cash, the delivery segment showed an 11% uptick and held its share of market volumes at ~2%. Given the continued disproportionate rise of derivatives volumes in the market, our overall equity market share dipped from 1.7% to 1.4% on a QoQ basis. However, we continue to maintain our market share in the cash segment. Due to this, our blended yield has in fact picked up to 3.7 bps in Q2 FY14, up from 3.4 bps in Q1FY14

- 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

Pan-India distribution footprint



Retail broking and distribution clients



- MOSL bagged the Best Performing Equity Broker (National) Award at CNBC TV18 Financial Advisor Awards for the 3rd year in a row
- In its equity trading platform, it introduced Intraday TradeGuide Signal (a trend-guiding tool for intraday traders), ValuePlus for commodities (intraday order placement feature for select liquid commodities); and added a Screener tool (which includes real-time event tracker, intraday deals tracking bulk/block deals, F&O watchlist, unusual activity tracker)
- Strong focus on currency trading and research, with a dedicated HNI & corporate desk in addition to the retail advisory desk

CNBC Financial Advisor Awards 2013



Screener tool



Intraday TradeGuide tool



Mission: Save the Investor

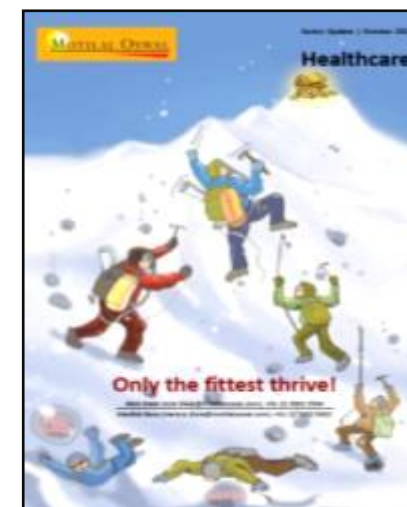
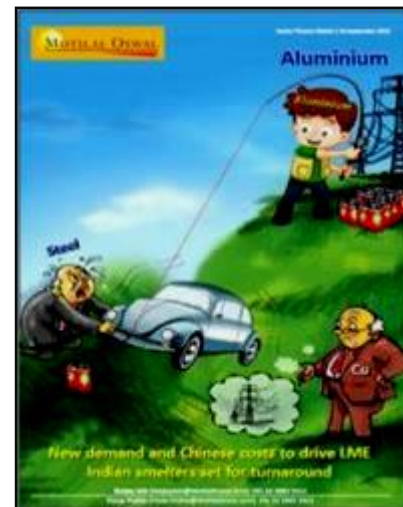
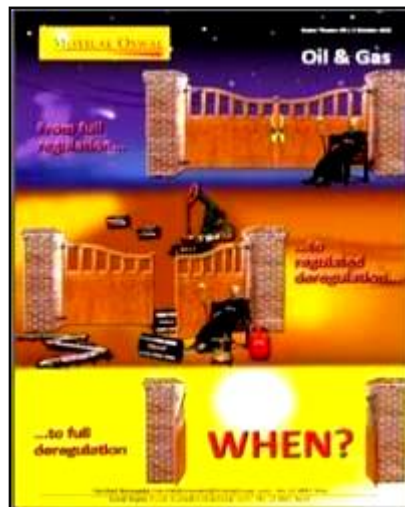
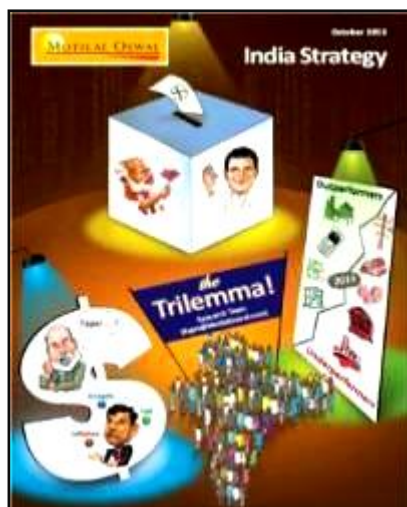
- The recent exodus of Investors has been due to reasons ranging from blindly following tips to not holding stocks long enough
- At MOSL, we believe equities as an asset class is the most important medium of wealth creation over the long term
- This idea has been brought forward in our new television advertisement concept “Mission: Save the Investor”. In this, the Man from Motilal Oswal brings to the fore the importance of “Buy Right, Sit Tight”, explaining that money is made by the patient investor, who bases decisions on solid research and holds stocks long enough for it to create wealth
- **Please watch** <http://www.motilaloswal.com/Save/watch.html>



Institutional Equities – Quality Research

- Cash and derivatives broking to institutional clients, along with a strong research and corporate access group
- Client base of 538 institutions, as of Sep 2013
- Won the Best Market Analyst Award for the category Equity-Auto at Zee Business India's Best Market Analyst Awards 2013

Recent Research Reports



Institutional Equities – Corporate Access

- Institutional Equities conducted the 9th Annual Motilal Oswal Global Investor Conference in Mumbai in Sep 2013
- Over 100 leading companies interacted with more than 600 investors from all over the world, translating into 3,000+ company-investor meetings



- Private wealth management business had a total AUM of ₹20.5 billion, as of Sep 2013
- 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

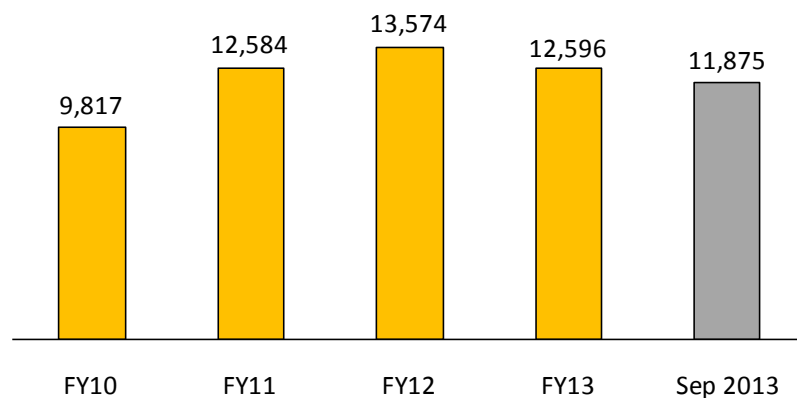
Professional Money Managers	Trading	Alternative Assets
<ul style="list-style-type: none"> • Mutual Funds • PMS • Alternative Invst. Funds 	<ul style="list-style-type: none"> • Equity • Fixed Income • Commodity & Currency 	<ul style="list-style-type: none"> • Private Equity • Real Estate • Structured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

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

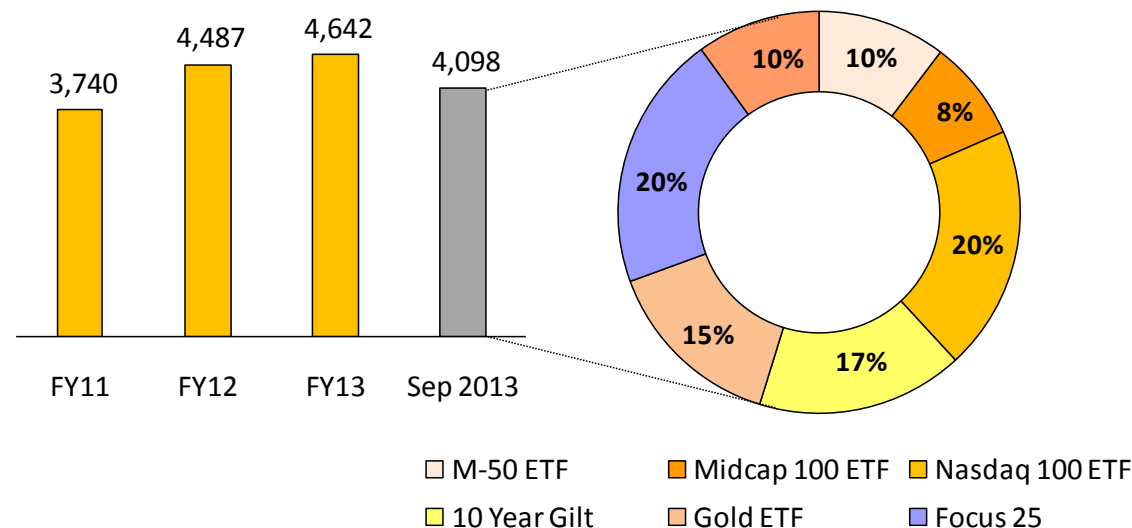
Particulars	Q2 FY14	Q1 FY14	Change	Q2 FY14	Q2 FY13	Change	6M FY14	6M FY13	Change	FY13
₹million	Sep 30, 2013	Jun 30, 2013	(%) Q-o-Q	Sep 30, 2013	Sep 30, 2012	(%) Y-o-Y	Sep 30, 2013	Sep 30, 2012	(%) Y-o-Y	Mar 31, 2013
Total Revenues	69	70	-1%	69	86	-19%	140	181	-23%	348
EBIDTA	(8)	(13)	nm	(8)	19	nm	(21)	34	nm	58
PBT (before E & EOI)	(9)	(15)	nm	(9)	18	nm	(23)	32	nm	53
Reported PAT	(9)	(13)	nm	(9)	18	nm	(22)	32	nm	53

E & EOI = Exceptional items & Extraordinary items

PMS AUM (₹ million)



Mutual Funds AUM (₹ million)



- As of Sep 2013, PMS AUM was ₹11.9 billion and mutual funds AUM across the 7 funds was ₹4.1 billion
- Launched its 7th MF scheme - MOST Ultra Short Term Bond Fund

Particulars	Q2 FY14	Q1 FY14	Change	Q2 FY14	Q2 FY13	Change	6M FY14	6M FY13	Change	FY13
₹million	Sep 30, 2013	Jun 30, 2013	(%) Q-o-Q	Sep 30, 2013	Sep 30, 2012	(%) Y-o-Y	Sep 30, 2013	Sep 30, 2012	(%) Y-o-Y	Mar 31, 2013
Total Revenues	45	9	421%	45	23	96%	54	52	4%	80
EBIDTA	16	(22)	nm	16	(7)	nm	(6)	(30)	nm	(60)
PBT (before E & EOI)	12	(25)	nm	12	(9)	nm	(13)	(33)	nm	(68)
Reported PAT	8	(17)	nm	8	(6)	nm	(9)	(23)	nm	(52)

E & EOI = Exceptional items & Extraordinary items

- The investment climate continues to be vitiated on the back of macro uncertainties as well as policy paralysis. Given these developments, transaction closures have been affected though the deal pipeline remains healthy
- The company continues to focus on building its capabilities in identified sectors and product lines
- 26 employees in investment banking, as of Sep 2013



Particulars	Q2 FY14	Q1 FY14	Change	Q2 FY14	Q2 FY13	Change	6M FY14	6M FY13	Change	FY13
₹million	Sep 30, 2013	Jun 30, 2013	(%) Q-o-Q	Sep 30, 2013	Sep 30, 2012	(%) Y-o-Y	Sep 30, 2013	Sep 30, 2012	(%) Y-o-Y	Mar 31, 2013
Total Revenues	143	60	140%	143	52	176%	203	114	78%	274
EBIDTA	83	22	272%	83	16	414%	105	22	389%	82
PBT (before E & EOI)	82	21	288%	82	15	436%	103	20	420%	78
Reported PAT	54	14	274%	54	10	417%	68	14	405%	53

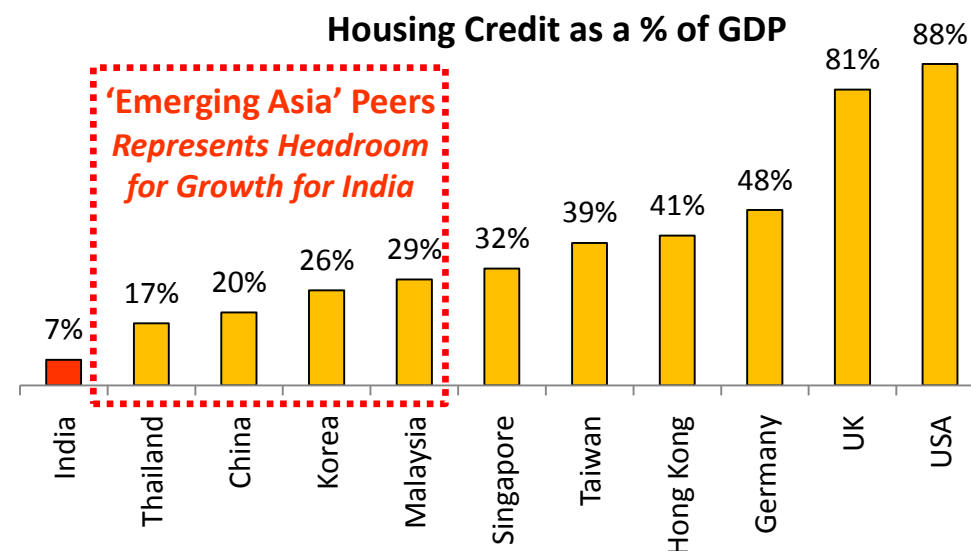
E & EOI = Exceptional items & Extraordinary items

- India Business Excellence Fund (IBEF) is a growth capital fund focused on the SME space with AUM of US\$ 125 million, which has been fully committed across 13 companies. The fund has partially exited two holding 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 four projects till date, the fund has returned approximately 44.5% of capital to its investors so far
- The 2nd growth capital PE fund, India Business Excellence Fund-II achieved its final closing this quarter. This fund has received total commitments of approximately ₹9.5 billion till date from both domestic and offshore investors. This fund is currently evaluating several investment opportunities and has made two investments so far
- Our 2nd real estate fund, India Real Estate Fund-II has received in-principle approval, and is now awaiting final approval from SEBI

We are investing into building a new housing finance company – **Aspire Home Finance Corporation Limited** (<http://www.ahfcl.com>). This will be led by Anil Sachidanand, who was previously with DHFL as CEO and 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. It will be our endeavor to build a high quality institution with a strong value proposition which we believe can help us capture a sizable portion of this opportunity and add significant value for all stakeholders

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



Other Positive developments

- Market share of HFCs vs. Banks has increased from 26% to 35% from FY05 to FY12, on the strength of their comparatively superior service levels, product innovation, customization and targeting of specific client segments not addressed by banks
- HFCs to be included as eligible borrowers for financing low cost housing projects through ECBs, which should help in funding
- Regulatory initiatives for customers, like removal of prepayment penalty and uniformity in rates for old and new clients

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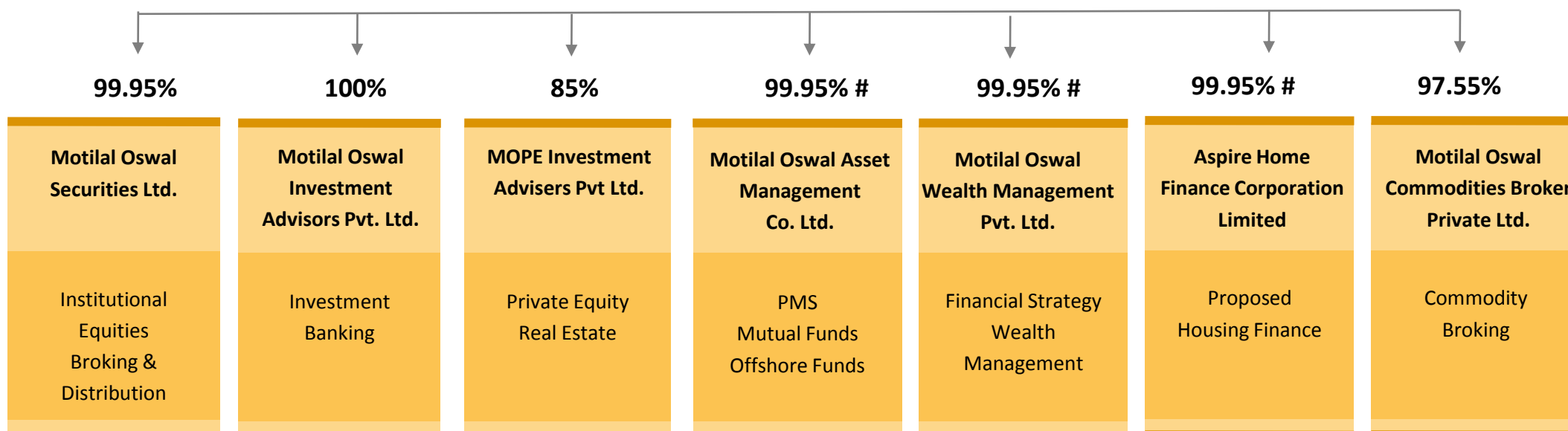
Group profile and structure



- 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 511 cities comprising 1,495 business locations operated by our business partners and us with 786,688 total registered customers
- Shares listed on the Bombay Stock Exchange and National Stock Exchange in Mumbai

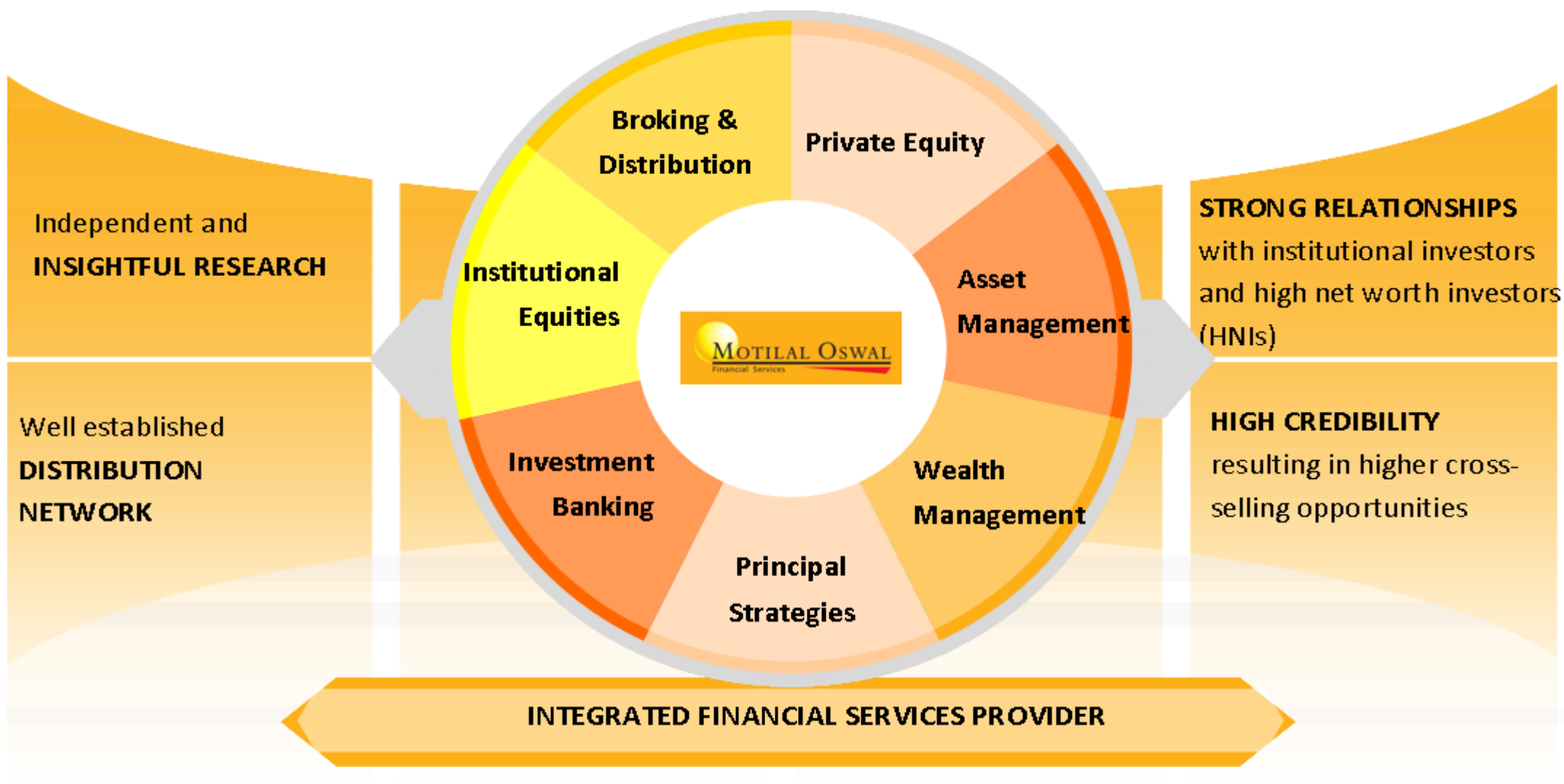


Motilal Oswal Financial Services Ltd.



through Motilal Oswal Securities Limited

Data as on Sep 2013



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



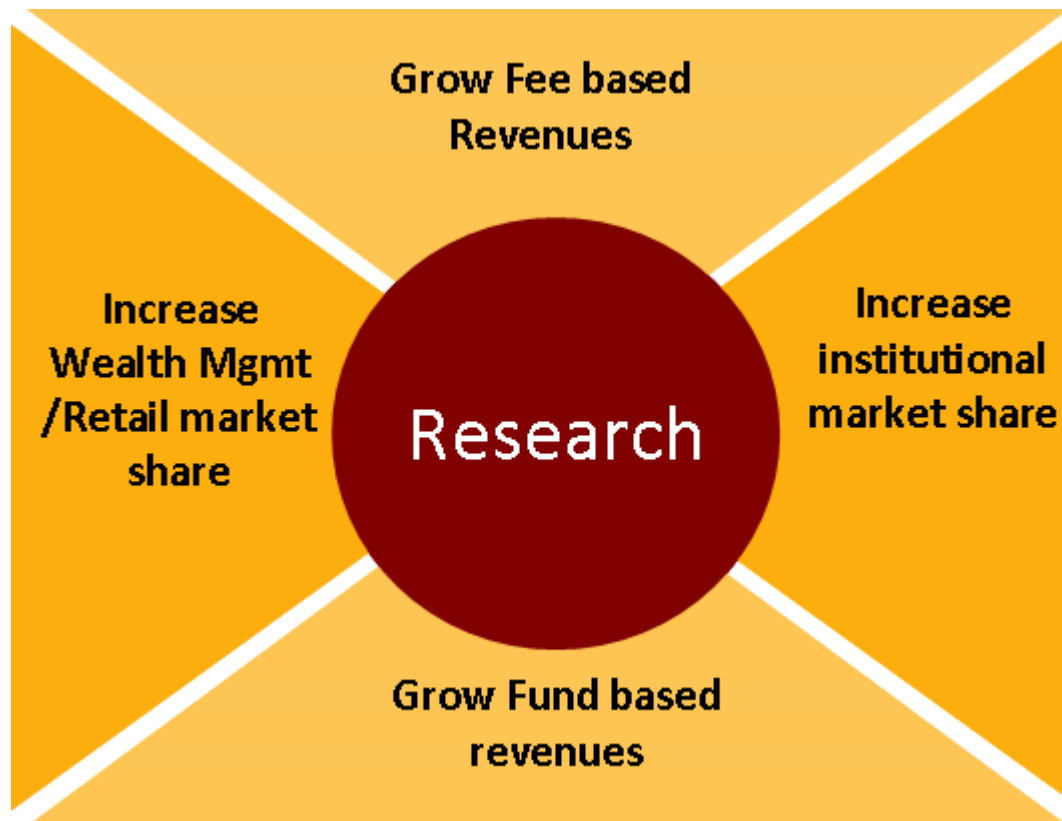
A company honoring commitment with highest ethical and business practices

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

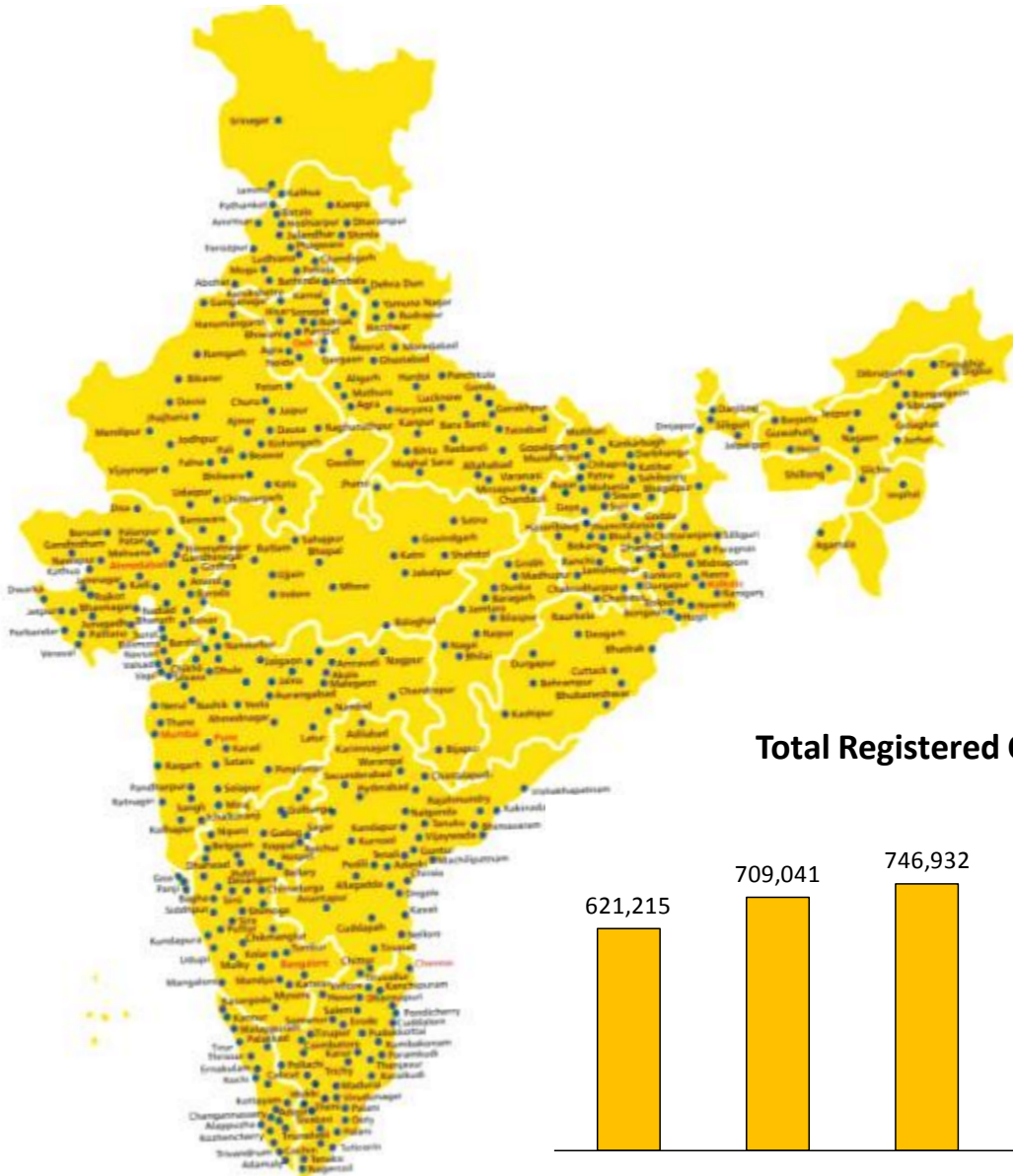
- Grow Investment banking business
- Build Asset management and Private equity business



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

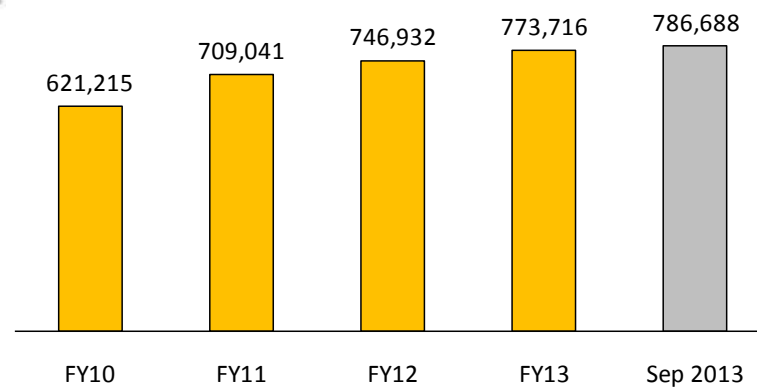
- Build stronger institutional relationships through wider and quality research
- Increase research support
- Grow institutional derivatives business

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

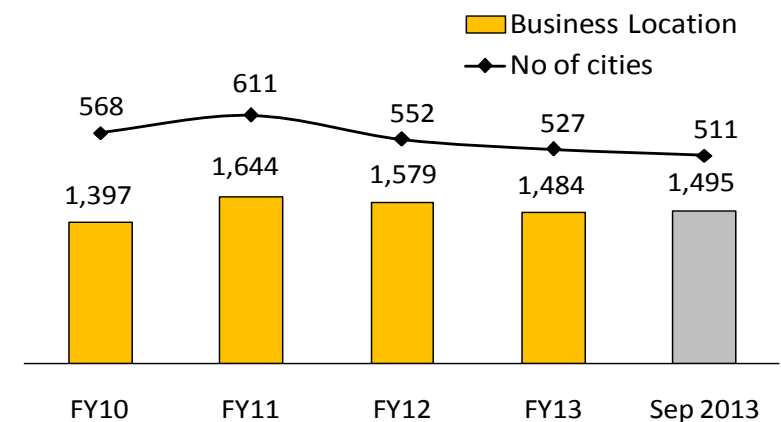


- Pan-India network with a presence in 511 cities across 1,495 business locations (branches plus franchisees), and complemented by a robust online channel
- Total registered client base of 786,688 which includes 690,011 retail broking and distribution clients
- Robust distribution network providing opportunities 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 over 20 sectors and 27 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



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“Fee-based advisory model in financial distribution: How it works, why adopt it & what it takes to make the transition succeed”

- Distribution of financial products in most countries is primarily based on the commission model
- There was often a tendency to push products which earned higher commissions leading to instances of misselling
- A higher commission product may not always be correct for the client. This led to dissatisfaction and lower stickiness
- Fee-based advisory model is believed to work in the best interest of clients in terms of achieving his long-term goals
- Remunerates advisor for advice rendered to grow clients’ assets, expected to enhance satisfaction and stickiness
- Following the ban on entry loads on MFs in India, many advisors here are also studying whether to make a transition

The purpose of this note is to understand how fee model works, why the transition from commission to fee model is happening and how advisors can make the transition more successful

How it works: What is the advice rendered and what are the types of fee structures...

- At the upper end, advice may assess suitability of asset classes/products given the client’s objectives for that money
 - do asset allocation/product selection based on a plan to best achieve those objectives
 - track its progress and take timely decisions to realign the portfolio as per stated objectives
 - budget for liquidity needs that may arise during that period
 - coach the clients for their lifestage needs
 - behavioral coaching to cut off the influence of noise that publicly available financial news makes on clients
- At the lower end, it may simply mean transactional access to a single product without sophisticated advice
- Fee model will unbundle the cost of advice from the product cost into a separate item which the client will then pay
- Fees might be based either on a percent of assets, an hourly fee for the advisor’s practice, a fixed annual retainer, a ‘turnkey’ fee solely for the advice (where client may not execute with him), or profit sharing based on performance.
- The type of fee structure used might depend on the client relationship, profile etc

Every client has a goal for his money, which advisors strive to achieve by rendering appropriate advice in order to win client satisfaction and stickiness. Planning is the key activity in the fee model, not simply investing

Why make this transition...

- Need for advice is more acute than ever, with the responsibility of building retirement savings increasingly on the individuals themselves. Asymmetry in financial literacy between households has also increased the need for advice
- Over-supply of free financial info creating noise which confuses clients about which plan is appropriate
- Need to rebuild trust of clients in advisors, given dissatisfaction of clients at not achieving their goals despite buying products. Fee model allows better decisions in line with client's objectives, since advisor's incentive is based on it
- Create predictable income flows: Misselling often led to dropouts and the constant need to acquire new clients spiked incremental opex and created uncertainties in income. Since fee model addresses goals better, hence improved satisfaction should lead to stickiness of assets, repeat business and gain predictability in income and profits
- Cushion during periods of downturn esp in % of AUM, as commissions can dry up fast during periods of downturn
- Transparency in fee. Fee model unbundles the individual fee items as per service, which helps bring in transparency
- Advisor creates an alpha component which helps build differentiation in a crowded market

Commission model impacted stickiness. Given new client acquisition costs are typically high, sustainable profits is a challenge here. Fee model addresses this to an extent

Fee model helps ensure only serious, quality advisors are there in the intermediary market. It also helps create some differentiation in an highly competitive market

Advisors might look to develop these metrics while deciding whether the transition is the correct choice...

Prepare comparison sheet of pay-outs of key clients as per the commission model, and what these would have been under the fee model. While transactions would have different in either model naturally, nevertheless, it might give a rough idea of which option would have been beneficial

Prepare an index of client satisfaction based on variables like extent of flows from repeat business, client churn rate, new client referrals from existing clients, feedback scores received, etc. Use this to estimate how the advisor ranks in terms of existing client satisfaction and if an improvement is required at all

Prepare separate fee matrix as per different asset sizes, along with fee per individual service, and assess if the final pay-out for the client is within acceptable limits. Might also explore the option to maintain part of advisor incentive structure based on actual asset growth achieved

Making the transition successful...

Communicate the transition plan effectively

- Communicate the value proposition along with its benefit, including the strengths of advisor's own service
- Communicate that advisors are working in the best interest of the clients to help them achieve their goals
- Meet key clients personally, Email/send ppt with the plan
- Reco of client feedback/concerns from initial interactions
- Start with older, experienced, wealthier, financially-educated clients who actually consult advisors more, or with our oldest clients making the delivery sound like you are seeking their advice/opinion about this plan

Pitch and deliver a holistic Service Promise proposition

- Define a compelling service promise based on client end-objectives, rather than simply on outperformance. Use asset allocation, rebalancing, low-cost investing, lifestage planning, tax efficiency, behavioral coaching etc
- Complemented with quality advice which creates value and satisfaction for clients, and enables advisor to get more word-of-mouth referrals from them for new clients
- Lack of proactive communication is a major factor determining client satisfaction and client dropouts
- Process-map to ascertain dependencies for the outcome

Estimate a break-even AUM level for profitability

- Do not expect to retain every client or try to acquire every new prospect, due to viability reasons
- Estimate minimum client AUM level required at which you can profitably render the service. Taking opex/other costs, divide break-even revenue by fee of 1-1.5% to get break-even AUM at which costs are at least met
- If this AUM is higher than realistic standards, relook at costs to do the business at lower minimum AUM
- Identify a range of AUM levels for different target clients based on different costs of servicing

Deliver on that service promise entirely

- Delivering the service promise without gaps means that goals and satisfaction are most likely achieved
- Ensure no gap exists between what was promised to clients and what they actually experienced. Clients' willingness to stick and do repeat business depends on it
- Successful advisory relationships often generate sizable business through sticky relationships. Repeat business lowers the incremental opex - good for profitability
- Align the advisor's incentive structure with client satisfaction levels & repeat business volumes

Challenges that may arise...

- May lose some assets/revenues initially, advisors need to be financially capable to handle it
- Convincing clients to pay since they are used to getting advice 'for free'
- Advisors need to justify their fees by showing the value they are bringing for the client
- Mind-set challenge, given advisors are set in the established way of doing this business
- Advisors need to assess their current capabilities/skills and close any gaps, if they exist
- Cost of investment might increase in some cases, especially of buy and hold
- Ensuring low-cost products are combined into the portfolio to minimize portfolio costs
- Ensuring incremental portfolio cost due to transition is minimal
- Measuring quality of advice using periodic reporting, checklists, structured feedback etc
- Fee model creates a natural incentive to advice richer, larger-account clients
- Linking incentives to advice and client satisfaction may not always increase advisors' quality
- Creating hybrid models for different client groups, if existing clients are disinclined to shift

In conclusion, advisors need to assess their client's profile, investing behavior, longevity and satisfaction, and their own capabilities and strengths to ascertain whether transition will be the right move. Advisors need to understand the objectives of their client for that money & implement an advice to achieve it by deciding on allocation, tenors, rebalancing, costs, review etc. At the end, profitable growth makes a valuable and sustainable business. Hence, sustaining profitability should be the ultimate objective advisors need to think of.

Clients place trust based on advisor's success. Hence, it might be better to underpromise and overachieve, rather than overpromise and then fall short



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**Q2 FY14
performance**

**Consolidated
financials**

**Business
snapshots**

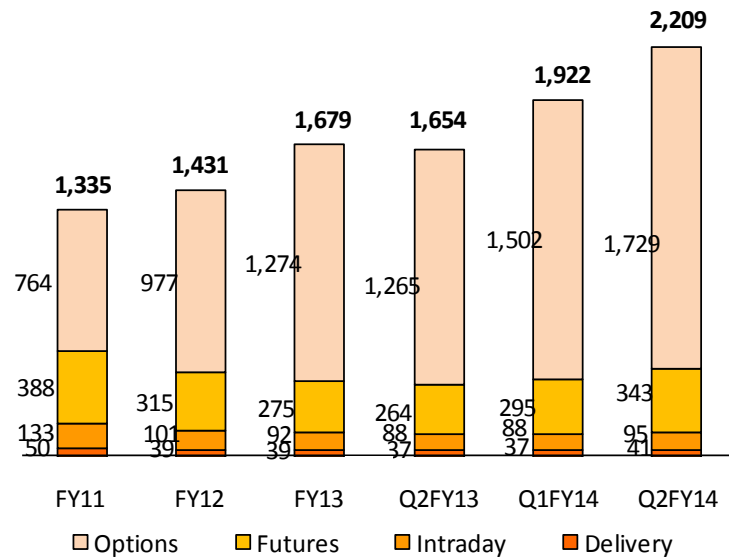
About us

**Thematic
series**

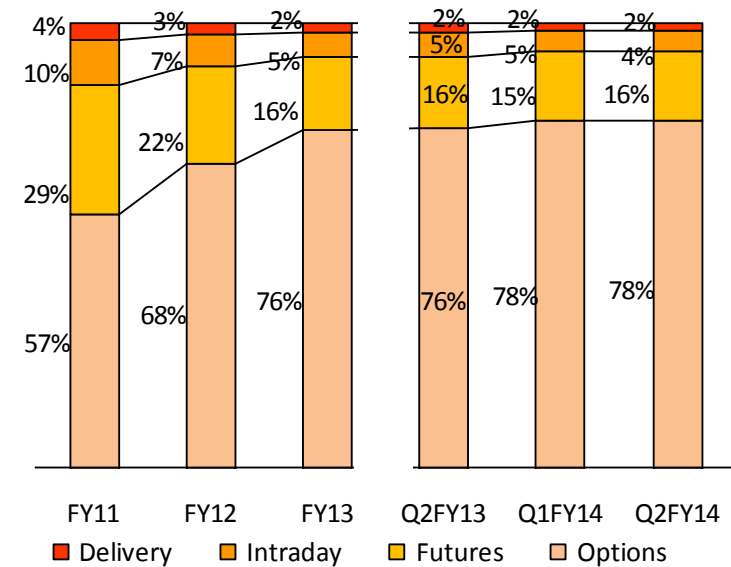
**Industry
facts**

F&O continues to grow in market; Delivery posts an uptick too

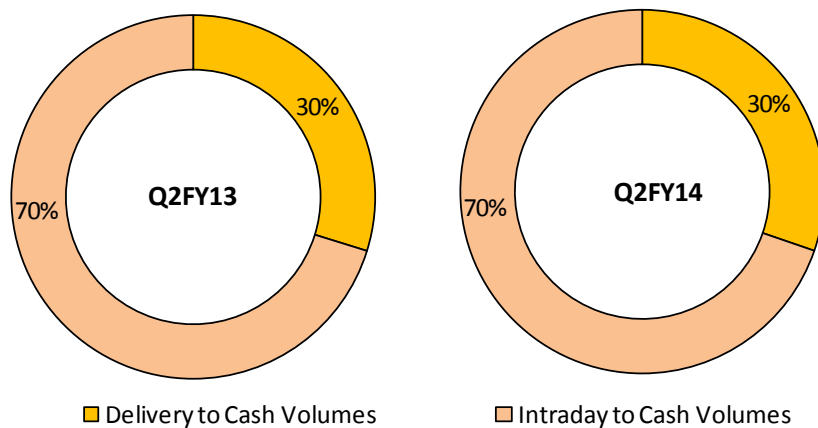
Market ADTO continued to hit highs, buoyed by F&O;
However, cash, incl. delivery, also saw growth this quarter (Rs Bn)



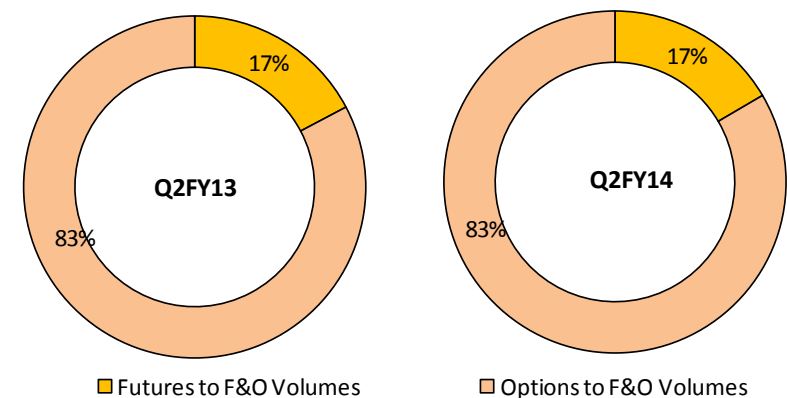
Options continue to dominate, comprising ~78% of market volumes; Proportion of cash dips from 6.5% to 6.2% QoQ



On a YoY basis, the proportion of delivery within cash volumes in the market has held at 30%

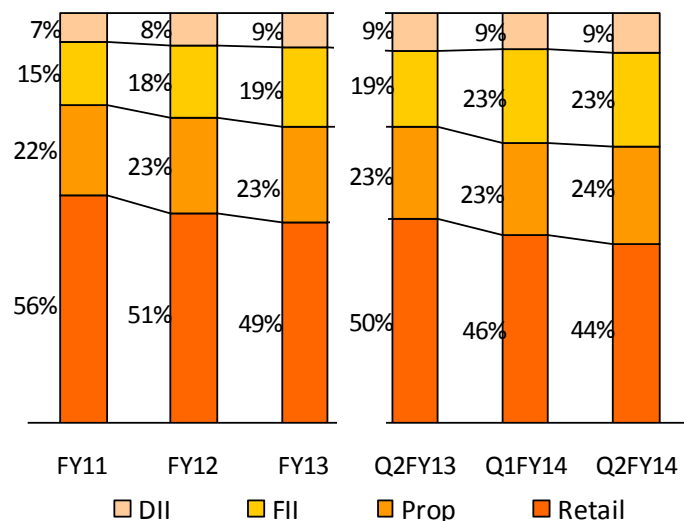


On a YoY basis, proportion of options within F&O volumes in the market has held at 83%

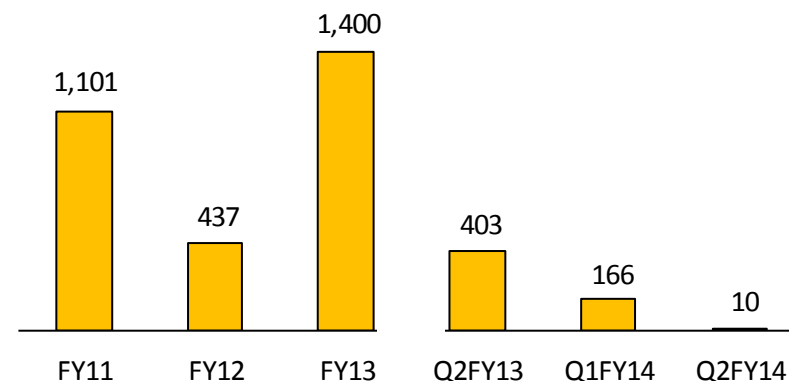


Retails' proportion dips in cash ADTO; FII inflows slows down

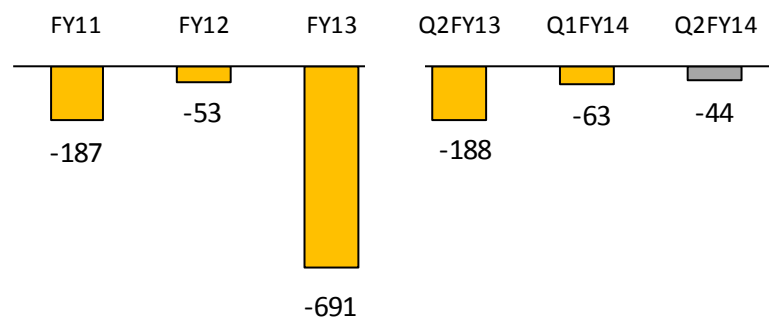
**QoQ growth in cash volumes led by DII, Prop and FII;
Hence, the proportion of retail in cash ADTO continues to dip**



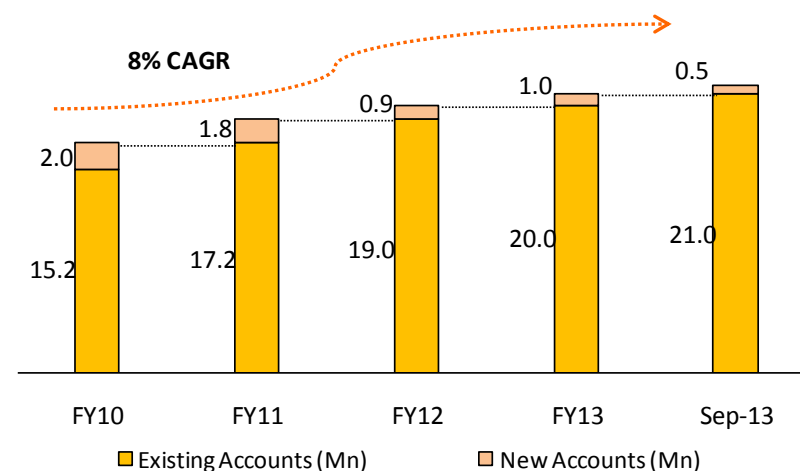
Net inflows from FIIs into equities have also slowed down after posting strong numbers in earlier quarters; Within Q2FY14, the months of Jul and Aug actually saw net outflows (Rs Bn)



DII continue to see net outflows from equities since the last 5 consecutive quarters, although the net outflow seen this quarter was lower than earlier quarters (Rs Bn)

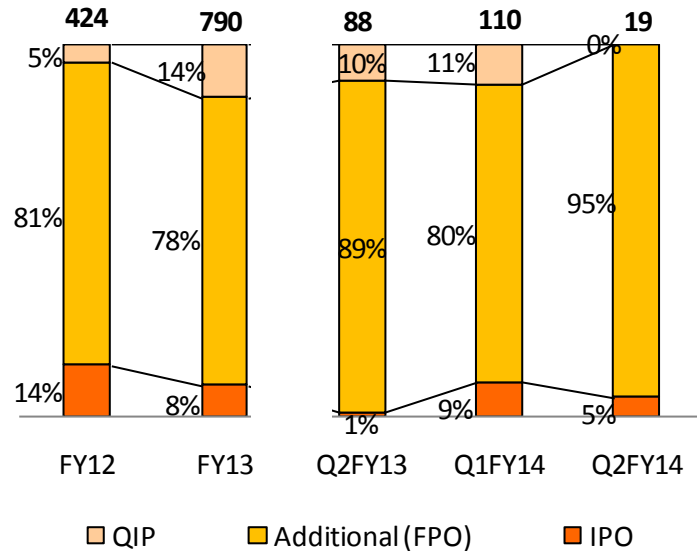


Growth in new demat accounts (Mn) dips to lows, as primary market activities have largely dried up

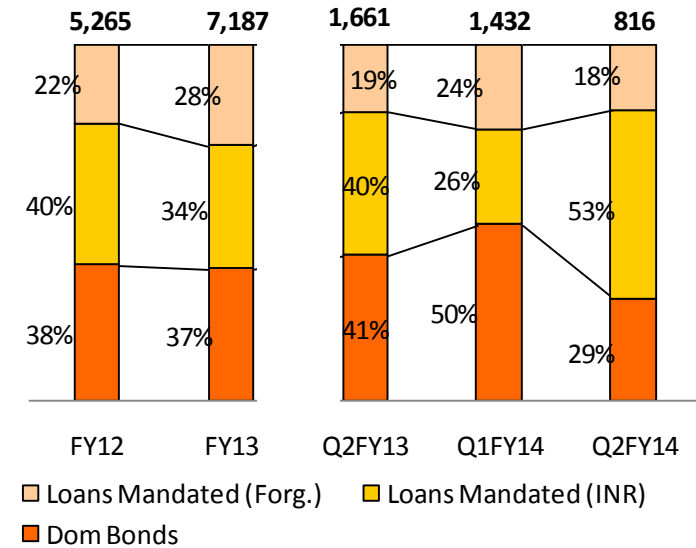


ECM and DCM slows down; M&A and PE deals also lower

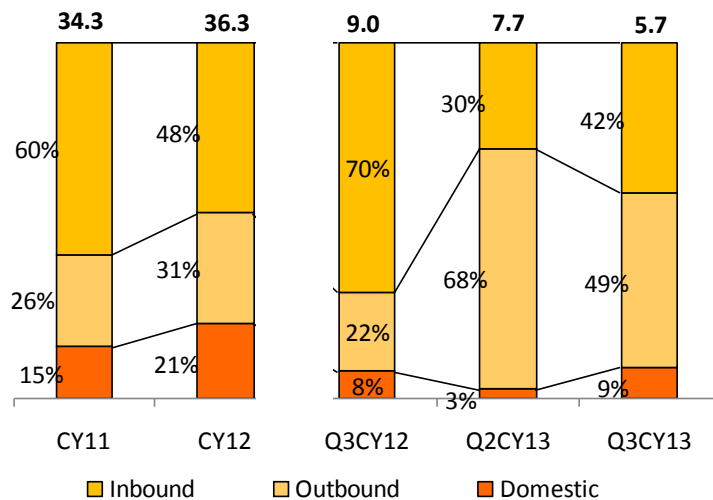
**ECM has largely dried up this year, and more so in the quarter;
Q2FY14 saw no QIPs and IPOs only on SME platform (Rs Bn)**



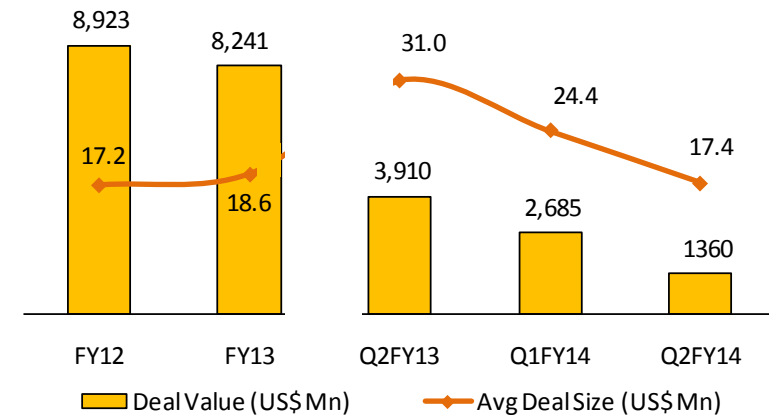
**DCM also slowed down as bond issues decreased this quarter;
While INR loans held ground, foreign loans declined (Rs Bn)**



**M&As deals have slowed down this quarter; Decline is more
apparent in cross-border segment, esp Inbound deals (US\$Bn)**



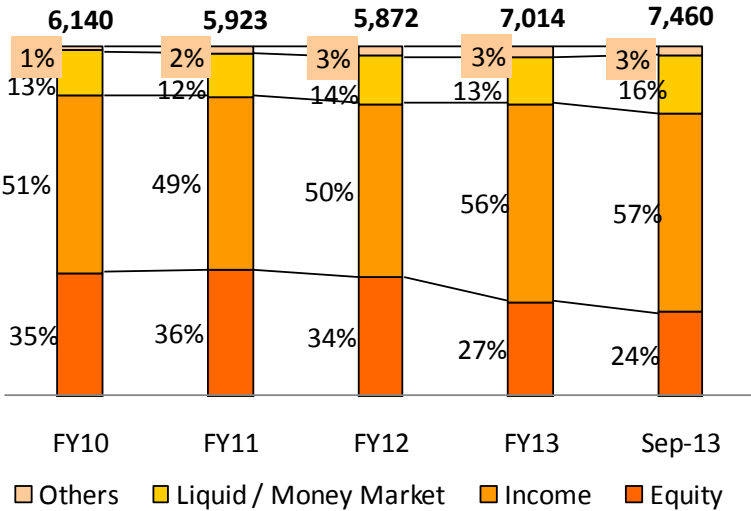
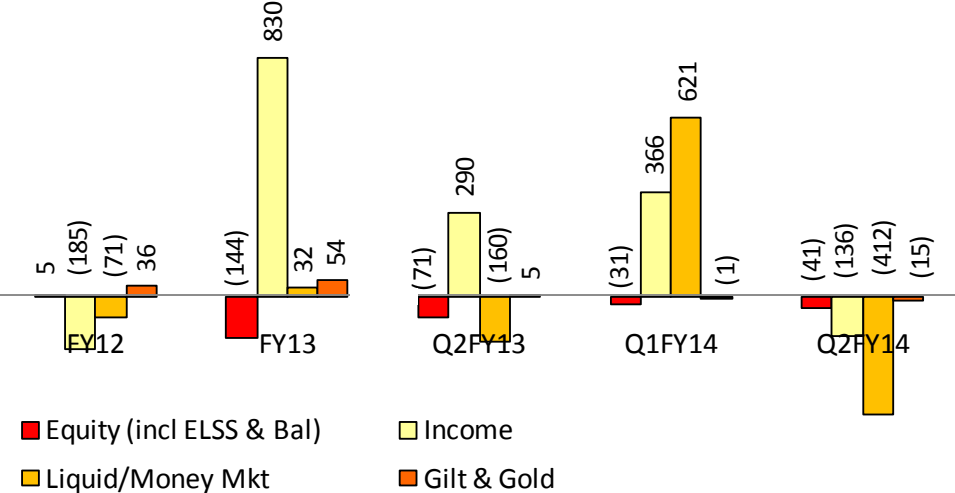
**PE investments have slowed down as PE industry faces certain
challenges; Absence of high-value deals also lowered both the
total and average deal values this quarter (US\$Mn)**



Redemptions hit MFs, MF AUM dips QoQ across major segments

Redemptions in all segments in Q2FY14 led to net outflows (Rs Bn);
In equities specifically, last 6 consecutive quarters saw net outflows

Liquid and Income funds led to MF AUM growth on YTD basis
(although both have dipped QoQ); Equities remain depressed

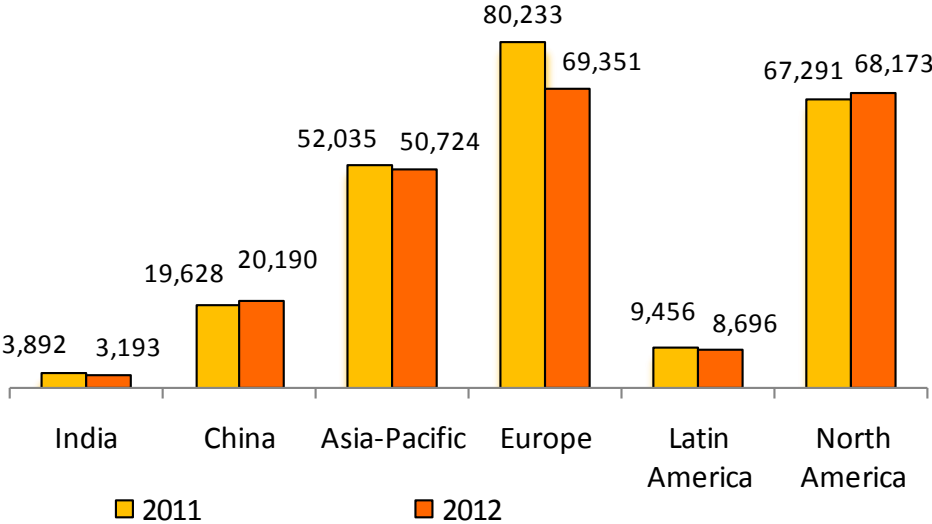
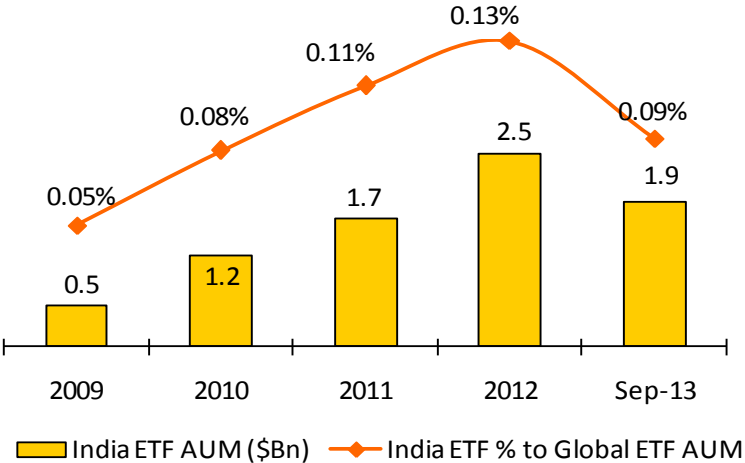


Source: AMFI

Source: AMFI

Indian ETF assets have been lower on YTD basis on the back of
lower gold/equity ETF AUM as well as currency movement;
Nevertheless, gold ETF AUM actually rose on QoQ basis (US\$Bn)

India's economic slowdown has impacted its Total Net Wealth in
2012 vs 2011 (US\$ Bn); While China has held its ground, net wealth
has also declined in 2012 in the broader Asia Pacific region



Source: AMFI/Blackrock report

Source: Hubbis report 36

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Thank You

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