Motilal Oswal Financial Services

ConCall Summary & Earnings Release

Quarter ended Sept 2011

19 Oct 2011

Motilal Oswal Financial Services Limited (MOFSL) posted consolidated revenues of ₹1.1b for the quarter ended 30 Sept 2011, up 2% QoQ and down 27% YoY. Reported PAT increased by 65% QoQ and 6% YoY to ₹350m. Adjusted PAT increased by 24% QoQ and down 18% YoY to ₹262m. Broking-related revenues was ₹807m, up 5% QoQ and down 29% YoY. Fund-based income at ₹198m was down 5% QoQ and up 38% YoY. Asset management fees was down 3% QoQ and down 5% YoY to ₹100m, while investment banking fees decreased by 34% on a QoQ basis to ₹14m.

For a deeper insight into the company's performance and the management's expectations, we present extracts from the post-results conference call. We have edited and rearranged the transcript for greater lucidity. We have also included exhibits from the company's presentation on its performance for the quarter ended Sept 2011. This presentation is available at www.motilaloswal.com.

Corporate Participants

Mr Motilal Oswal

Chairman and Managing Director

Mr Raamdeo Agrawal

Joint Managing Director & Co-founder

Mr Navin Agarwal

Director

Mr Sameer Kamath

Chief Financial Officer

Ladies and gentlemen, good afternoon and welcome to the Q2 FY12 earnings conference call of Motilal Oswal Financial Services Limited. We have with us Mr. Motilal Oswal, Chairman and Managing Director, Mr. Raamdeo Agarwal, Co-Founder and Joint Managing Director, Mr. Navin Agarwal, Director and Mr. Sameer Kamath, Chief Financial Officer. For the duration of this presentation, all participants' lines will be in the listen-only mode. I will be standing by for the Q&A session. I would now like to invite Mr. Navin Agarwal to make his opening remarks. Thank you and over to you sir….

MOFSL CONSOLIDATED FINANCIALS (₹ Mn)

	Q2 FY12	Q1 FY12	CHG. QOQ	Q2 FY12	Q2 FY11	CHG. YOY	6M FY12	6M FY11	CHG. YOY	FY11
Total Revenues	1,143	1,120	2%	1,143	1,576	-27%	2,263	3,090	-27%	6,004
EBIDTA	397	348	14%	397	554	-28%	745	1,167	-36%	2,296
PBT (before E & EOI)	362	312	16%	362	508	-29%	675	1,075	-37%	2,107
Reported PAT (after E & EOI)	350	212	65%	350	331	6%	561	707	-21%	1,371
Adjusted PAT	262	212	24%	262	318	-18%	474	670	-29%	1,336
EPS - Basic	2.4	1.5		2.4	2.3		3.9	4.9		9.5
EPS - Diluted	2.4	1.5		2.4	2.3		3.9	4.9		9.5
No. of Shares O/s (Mn) - FV ₹1/share	145	144		145	143		145	143		144

E & EOI = Exceptional & extraordinary items

Source: MOFSL's presentation on Sept 2011 earnings

REVENUE COMPOSITION (₹ Mn)

	Q2 FY12	Q1 FY12	CHG. QOQ	Q2 FY12	Q2 FY11	CHG. YOY	6M FY12	6M FY11	CHG. YOY	FY11
Brokerage & operating income	807	770	5%	807	1,130	-29%	1,577	2,242	-30%	4,334
Investment banking fees	14	22	-34%	14	166	-91%	36	295	-88%	398
Fund based income	198	209	-5%	198	144	38%	407	287	42%	738
Asset management fees	100	103	-3%	100	105	-5%	203	182	12%	427
Other income	23	17	39%	23	32	-27%	40	85	-53%	107
Total Revenues	1,143	1,120	2%	1,143	1,576	-27%	2,263	3,090	-27%	6,004

Source: MOFSL's presentation on Sept 2011 earnings

Opening remarks

Good afternoon everybody. It is my pleasure to welcome all of you to the Motilal Oswal Financial Services earnings call for the Second Quarter ended September 2011. I will start by giving a brief backdrop of the broad market, the industry segments, and then run you through our own performance for the quarter ended September 2011.

Equity markets

Indian equity markets went through a challenging quarter with persistent macro-economic concerns, global worries, corporate earnings downgrade and corporate inactivity affecting investor sentiments and activity adversely. The benchmark Sensex ended at 16,454, down 13% QoQ and down 18% YoY. Overall, the BSE market capitalization was US$1.25t in Sept 2011, down 17% QoQ and down 19% YoY.

Average daily market turnover (ADTO) of equities in Q2 FY12 was ₹1.47t, up 10% QoQ and up 21% YoY. The increase in market ADTO was contributed by the options segment, while cash segment remained depressed. ADTO in F&O segment was ₹1.33t in

Q2 FY12, up 11% QoQ and up 30% YoY. ADTO in the cash segment was ₹0.14t in Q2 FY12, down 2% QoQ and down 28% YoY.

With the disproportionate growth in options volumes continuing this quarter, a trend seen consistently over the last year, the volume composition continued to shift towards F&O. Cash segment comprised 9% of total market volumes in Q2 FY12, down from 11% in Q1 FY12 and 16% in Q2 FY11. Within F&O, options comprised a high of 69% of total volumes in Q2 FY12, up from 67% in Q1 FY12 and 53% in Q2 FY11. However, despite this shift away from the high-yield cash segment, an encouraging feature is that the proportion of cash delivery volumes to total market volumes has held firm at ~3% across the last 3 quarters.

Amongst cash market participants, Retail volumes declined this quarter by 5% QoQ and 37% YoY. FII volumes declined this quarter by 3% QoQ and 7% YoY. DII volumes increased this quarter by 8% QoQ but were down 17%YoY. DIIs now comprise 8% of cash volumes, up from 7% in Q1 FY12, while retail segment comprise 51%, down from 53% over the same period.

Institutional activity

Net FII flows into equities remain muted this year, owing to global financial concerns affecting fund allocation towards emerging markets. Q2 FY12 saw net outflow of ~US$0.6b vs net inflow of ~US$1.2b in Q1 FY12 and vs net inflows of ~US$11.0b seen in Q2 FY11.

In contrast, DIIs have shown a steady pick-up in equity inflows, which is an encouraging sign. Net inflows into equities by DIIs this quarter were ~US$2.1b, higher than US$0.8b in Q1 FY12 and net outflow of US$5.1b seen in Q2 FY11.

Investment banking and private equity

M&A deal activity saw a slowdown in this quarter. M&A deal value was US$5.9b in Q2FY12, down 33% from Q1 FY12 and down 56% from Q2FY11. Cross border deals, led by outbound segment, comprised ~83% of total deal value this quarter, while domestic deals comprised 17%. This is a reversal of the trend seen in the same quarter last year. In Q2FY11, domestic deals comprised 87% of total deal value, while cross border deals comprised 13%. Also, the absence of large deals this quarter due to poor market sentiments dragged the average value per deal.

Fund raisings via IPOs was US$0.5b by 12 companies in Q2 FY12, largely attributable to the US$0.3b L&T Finance Holdings issue in July. This was down from the US$1.6b raised by 14 companies in Q1 FY12. Fund raising via QIPs also declined, with US$0.1b raised by 3 companies in Q2 FY12, down from US$0.2b by 2 companies in Q1 FY12. Private equity deal value was US$2.2b across 98 deals in Q2 FY12, lower than the US$2.9b across 122 deals in Q1 FY12. However, this is in line with the deal values seen across the previous few quarters, indicating that the activity in PE space has remained largely intact in CY11 so far.

Asset management

Assets under management of mutual funds were ₹6.4t as on Sept 30, 2011, as compared to ₹5.9t on Mar 31, 2011. This increase is mainly attributable to liquid/money market funds, whose proportion within mutual fund assets grew from 12% in March to 20% in September, on the back of higher interest rates. The mutual fund industry witnessed a net inflow of over ₹550b during the 1H FY12, with liquid fund inflows contributing above ₹460b. Equity funds witnessed positive inflows of ~₹33b during 1H FY12, in contrast with net outflows of ₹153b in equity funds seen in 1HFY11.

Indian ETF assets were US$1.3b as of Sept 30, 2011, as compared to US$1.7b as of June 30, 2011. Volatility in equity markets caused a dip in both Indian and global ETF assets this quarter. We believe that the long term attraction of this product amongst investors remains strong due to the product's inherent advantages and we are well positioned in this space.

MOFSL's Performance

- Consolidated revenue for Q2 FY12 was ₹1.1b, up 2% as compared to Q1 FY12 but down 27% from Q2 FY11.
- Reported PAT for Q2 FY12 at ₹350m was up 65% as compared to Q1 FY12 and up 6% from Q2 FY11
- Adjusted PAT for Q2 FY12 at ₹262m was up 24% as compared to Q1 FY12 but down 18% from Q2 FY1. The Reported PAT has been adjusted for certain onetime items like profit on sale of fixed assets for better comparison of operating performance. For Q2 FY12, MOFSL has sold an existing office premise for a profit of ₹130m (PAT impact ₹88m) towards consolidation of office premises at the soon to be commissioned Corporate Headquarters at Prabhadevi.
- EBITDA and Adjusted PAT margins for Q2 FY12 were 35% (31% in Q1 FY12) and 23% (19% in Q1 FY12), respectively. Margins were in line with the long term trend.
- Strong balance sheet with net worth of ₹11.2 billion, net cash of ₹1.7 billion and negligible debt, as of Sept 30, 2011. Company's strategy of maintaining low gearing and focusing on its core businesses has helped sustain strong performance in the present high interest rate scenario

Segment-wise business performance:

- Broking and related revenues were ₹807m in Q2 FY12, up 5% QoQ and down 29% YoY. Equity market share went up from 1.8% in Q1 FY12 to 1.9% in Q2 FY12. However, blended yield declined from 5.1 bps in Q1 FY12 to 4.6 bps in Q2 FY12 on account of the rising proportion of options within the overall market volumes. Yield pressures were not seen at an intra-segmental level and MOSL continues to enjoy a high market share in the high-yield cash segment. As on Sept 30, 2011, total client base has increased to 732,173 while Pan-India distribution reach stood at 1,538 business locations across 563 cities.
- Fund based income was ₹198m, down 5% from Q1 FY12 and up 38% from Q2 FY11. It contributed 17% of total revenues. The loan book size was ₹3.0b as of Sept 30, 2011.

- Asset management fees in Q2 FY12 were ₹100m, down 3% QoQ. It contributed 9% of total group revenues. Total Assets under Management for the Group were ~₹22.6 billion as of Sept 30, 2011. This includes PMS AUM of ₹12.7 billion, mutual funds AUM of ₹2.4 billion and private equity AUM/AUA of ₹7.5 billion
- Investment banking fees in Q2 FY12 were ₹14m, down 34% QoQ.
- Wealth Management business - "Purple Client Group" managed assets of ~₹11.9b, as of Sept 30, 2011.
- Other income of ₹23m in Q2 FY12.

MOFSL General Highlights

- MOFSL won the 'Best Capital Markets & Related NBFC' award for FY11 at the CNBC TV18 India Best Banks and Financial Institutions Awards 2011 in Mumbai
- Motilal Oswal Securities won the 'Best Equity Broking House' award for FY11 at the Dun & Bradstreet Equity Broking Awards 2011 in Mumbai
- The Group also won two awards, 'Excellence in HR through Technology' and 'Excellence in Healthcare' at Asia's Best Employer Brand Awards 2011 in Singapore. Companies from 37 countries participated in these awards
- Institutional Equities hosted the 7th Annual Motilal Oswal – Global Investor Conference in August 2011 in Mumbai, where ~100 leading Indian companies interacted with over 500 institutional clients from across the world
- Retail Broking business of Motilal Oswal Securities, in association with Zee Business, held seminars of its investor education initiative - 'Investor Ki Kahani Usi Ki Zubani' in Mumbai, Ahmedabad, Kolkata, Delhi and Pune this quarter. These 5 seminars saw a total participation of over 2,600 investors
- Motilal Oswal Commodities Broker Pvt Ltd took up membership of the National Spot Exchange Ltd. This would allow it to trade gold and silver in demat form with no AMC charges, purity or security issues
- The Private Equity business is working on raising the second growth capital PE fund, India Business Excellence Fund (IBEF-II)

Outlook

Markets led by uncertainty and fear have gone through a significant correction over the last one year and are relatively more attractive now for long term investing. While the negatives on the domestic side seem to have largely played out, risks from global factors still loom large. We believe that the long-term Indian growth story is intact and would present several growth opportunities for financial services companies. We are focused on this opportunity and are methodically building a customer focused organization with low financial leverage that has helped the company deliver reasonable performance in the current high interest rate environment. We believe that our focus on knowledge driven efforts and building a robust franchise will help us garner a meaningful market share in the profitable parts of the capital markets space.

With these remarks, I would now like to open the floor for Q&A. Thank you.

Broking & Distribution, Wealth Management and Institutional Broking

KEY FINANCIALS: BROKING & DISTRIBUTION, WEALTH MANAGEMENT & INSTITUTIONAL BROKING (₹ Mn)

	Q2 FY12	Q1 FY12	CHG. QOQ	Q2 FY12	Q2 FY11	CHG. YOY	6M FY12	6M FY11	CHG. YOY	FY11
Total Revenues	868	864	1%	868	1,287	-33%	1,732	2,559	-32%	4,871
EBIDTA	281	260	8%	281	433	-35%	541	894	-39%	1,667
PBT (before E & EOI)	248	226	10%	248	388	-36%	474	804	-41%	1,490
Reported PAT (after E & EOI)	270	154	75%	270	263	3%	425	542	-22%	1,008
Adjusted PAT	183	154	18%	183	249	-27%	337	506	-33%	972

E & EOI = Exceptional & extraordinary items *Source: MOFSL's presentation on Sept 2011 earnings*

Blended yield has come down from 5.1 bps to 4.6 bps on a QoQ basis. How has it moved on a YoY basis?

In Q2 FY11, the yield was about 4.8 bps. Over a period of time, although our cash market share has remained high, the proportion of F&O in the overall market has increased. This has caused the blended yield to come down. However, the intra-segment yields have remains the same.

What is the breakup between the F&O and cash in the market and in the company?

F&O volumes in the market were 91% as of last quarter whereas the cash market was 9%. Within that, the proportion of cash delivery volumes was 3%, cash intraday volumes was 7%. The proportion of options to total market volumes was very large at about 69% while futures were about 21%. This is the broad industry breakup.

At the company level specifically, we enjoy a much larger market share in the cash side of the business. Also, we enjoy good market share in both retail and institutional segments. We don't give out specific breakups and only share the consolidated market share across all segments, as there are different investors participating in equities. Our blended yield is still probably one of the highest in industry which stresses the fact that our cash market share is much larger than our F&O market share.

There is an increasing trend each quarter, in terms of option volumes as a percentage of total volumes. What is the reason this has been growing each quarter?

There has been a clear shrinkage in the cash volume market and most of the trading in the market is largely in which investors want to limit their losses through the options route. As long as the market does not show any momentum or positive direction, this trend may continue. As and when the sentiment and confidence in the markets shows an improvement, the resulting improvement in market activity should correct this issue to some extent. Even if the ratio does not correct, there should definitely be a trend of the significant YoY decline in cash market turning into an even more significant YoY increase in cash market volume at that stage. We are not so focused on the proportion as much as on absolute values. The absolute level of cash market volumes are low currently and this is what needs to change. We are confident that it will change as and when there is some improvement in the outlook of both the domestic and the global economy.

Another reason for the increase in options turnover is that STT is levied only on the premium and not on the price of the stock. As the cost of transaction in options is very less and market is totally speculative driven, the focus of all the traders is on intraday or on option volumes. Hence, any change in the regulatory environment in terms of STT may also kick some change in the lop-sided proportion in market volumes currently. There are active signals from the Finance Ministry on this front and some changes may be announced in the foreseeable future.

Would there be an increase in the cash market volumes if the proposed changes in STT happen? What would be the company's strategy to grab that market share?

We have a higher market share in the cash volume segment as compared to F&O segment. The firm is focused on the cash business which is more profitable and sustainable. So we are well positioned and leveraged to benefit out of any such trends. We are looking forward to a change like that to benefit from improved market activity.

Is the company doing anything internally to perform better over the next 2-3 years, instead of just depending on external forces like market conditions to improve, FIIs to come in etc?

Unfortunately, this business is impacted a lot by external environment like the conditions currently in Europe, America and all. Internally, we are challenging ourselves day in day out. We are working continuously on certain initiatives like our branding efforts, upgrading technology, better and bigger distribution on the retail side. The research effort is continuous and is our basic fulcrum. We are continuously putting more and more effort in that.

There has been some consolidation in terms of retail locations. Is this in line with the trend seen in the industry, or have you consolidated a bit more comparatively?

We wouldn't want to comment on the industry. What we have done is to close a number of small outlets which were not profitable, which have not given revenue and consolidate in those cities so that we can attract larger-sized business partners there. So while we may be down on a net outlet basis, we have still been adding about 30-40 outlets every month. We have closed more than what we are opening, hence the net number is down. The focus is to have more productive and profitable outlets rather than just number of outlets.

With some institutional brokerages closing shop, is the competition in the industry easing out or is it still at similar levels?

There has been a mixed trend in terms of competition. While there have been some closures, there have also been some new openings in this space as well. So on a net basis, there has not been any meaningful change in the competitive landscape. In fact, there has been limited aggression from players given the overall market volumes remaining muted. However, the level of activity expected in the market and the resulting profitability for this business would definitely result in several new players. Also, some of the existing players would rethink whether this is a business offering long term potential for them to scale up or the time duration that will take to create a worthwhile cash flow generating business model. This will put a pause on the plans of some of the new entrants at least and we may continue to see a little more shake-out among the existing players if this trend continues for the next 2-3 quarters.

What is the outlook in terms of expansion and consolidation in the overall brokerage industry?

As far as retail business is concerned, there have not been any new entrants. Although all market data is not available, we are seeing the big players becoming bigger and some small players shutting shops. So to that extent, there is less competition in the retail business. There has been consolidation in the institutional business with some players shutting shop. If the market conditions continue in the same way, then some more players may exit from the business. Also, the industry is going through a change where technology is coming to play a very big role. So certain activities for which the companies used to get paid are now being done through computers and hence the price of that particular activity is coming down. At the same time, the overall canvas is becoming bigger. India is becoming a bigger international player. Domestic investors count to the population is about 1.5%-2%, and that has to increase in a big way as the market become safer, bigger and more liquid. So our sense is that the brand, technology, distribution and research will play a major role and they will eventually become entry barriers for the small players to enter into this business. Currently, we have a period of *'Samudramanthan'* at the end of which, fewer number firms will survive and prosper but the business itself will become much bigger.

It is uncertain when the 1.5% population investing in markets is eventually going to increase. In this timeframe, competition may increase further or more proportion of option volumes may be generated. How is the company equipped to handle this?

Globally, this proportion of 9% cash and 90% F&O does not exist. Across all continents, the cash market is roughly about 30% of the total volumes and F&O is roughly about 70%. What has happened is that the weak market sentiments and lack of clear directions resulted in lower retail participation which is down ~35% on a YoY basis on the cash side. Once the market gets more directional, the cash delivery side of the business goes up, as seen on earlier occasions. So, what is heartening is that while the cash market volumes are down to 9% from 11%, the contraction has happened in intraday and not on the delivery side. Delivery side continues to hold steady about 3%. Going forward, the retail opportunity is yet to open out. What we have seen is other peer countries like China, Korea is that once equity market gets more directional and good, high quality, primary issuances come in, it results in new inflows of equity clients. That is why those countries are seeing 10% of retail participation as against 1.5% in India currently. As the industry evolves with technology, information being easily accessible to retail investors, we would see more interest being created and more participation coming in. So as these pan out, we hope to see better participation from all segments.

How is the wealth business growing? On standalone basis, is this profitable, as of today?

As far as wealth business is concerned, we are in the third year of the build-up stage. We have been pushing few internal products and also some third party products. We have been able to increase the number of employees in wealth management to about 40-45 RMs across 5 cities. Our wealth business will be at breakeven.

There is news in the market time and again of increasing the market hours. Will that help the sector? Also, the possibility of shifts may come into picture with longer hours, adding to costs. How do brokerages see themselves handling it?

Looking at trading time historically, it has not really added substantial volume in the opening hour after the timing was preponed. In a city like Mumbai where commuting takes up substantial time, it will add inconvenience to the people and to regular activities like maintenance and so may not add much volume. Even in currency, it does not seem to be add much volumes although its open till 11'o clock. In terms of shifts, companies have readjusted to changing timings over the last many years. So we are well-geared in case there is such a change from an operational or from an employee perspective.

In general terms, is there any sign of the wallet share of Motilal Oswal going higher within its clients?

We do see a lot of AUM being gathered from our existing clients. That gives a sense that clients are happy with us and are willing to enhance relationship value with us. We have put in back-end systems, processes and technology in place to assess the client's relationship with us. The wealth market is fragmented with multiple players and the client has a choice to have relationships with multiple service providers. As the industry matures and service and value differentiation gets more profound, consolidation will be seen in the sector.

Fund Based Income

MOFSL STANDALONE FINANCIALS (₹ Mn)

	Q2 FY12	Q1 FY12	CHG. QOQ	Q2 FY12	Q2 FY11	CHG. YOY	6M FY12	6M FY11	CHG. YOY	FY11
Total Revenues	124	332*	-63%	124	90	38%	455	353	29%	642
EBIDTA	95	272	-65%	95	73	30%	366	322	14%	577
PBT (before E & EOI)	94	271	-65%	94	73	29%	365	322	13%	565
Reported PAT (after E & EOI)	65	249	-74%	65	52	25%	314	265	19%	427
PAT (after E & EOI)	65	249	-74%	65	52	25%	314	265	19%	427

E & EOI = Exceptional & extraordinary items *Source: MOFSL's presentation on Sept 2011 earnings*

*** Note:** Revenues for Q1 FY12 includes dividend received from subsidiaries (₹201.3m from Motilal Oswal Investment Advisors (P) Ltd and Motilal Oswal Securities Ltd in Q1 FY12) which gets adjusted in the consolidated financials

The fund based income has declined 5% QoQ. Would this trend be similar in the third and fourth quarters? What is the strategy to improve fund based income?

Our lending book is largely linked to the capital markets as this consists of margin funding and loan against shares. So it will mirror the market sentiments to a certain extent. If the market sentiments are a bit depressed then the loan book would also come down slightly. So, the sequential drop in income is proportionate to the drop in the loan book from ₹3.3b to ₹3.0b at the end of this quarter.

Investment Banking

KEY FINANCIALS: INVESTMENT BANKING (₹ Mn)

	Q2 FY12	Q1 FY12	CHG. QOQ	Q2 FY12	Q2 FY11	CHG. YOY	6M FY12	6M FY11	CHG. YOY	FY11
Total Revenues	23	36	-36%	23	178	-87%	59	309	-81%	418
EBIDTA	(8)	(0)	NM	(8)	105	-108%	(8)	148	NM	197
PBT (before E & EOI)	(9)	(0)	NM	(9)	105	-108%	(9)	147	NM	196
Reported PAT (after E & EOI)	(6)	0	NM	(6)	69	-108%	(6)	97	NM	130
PAT (after E & EOI)	(6)	0	NM	(6)	69	-108%	(6)	97	NM	130

E & EOI = Exceptional & extraordinary items *Source: MOFSL's presentation on Sept 2011 earnings*

Is the investment banking business profitable and what is the deal pipeline like?

There was a minor loss in investment banking this quarter, in line with the industry trend being seen with overall corporate activity coming down. The deal pipeline is very strong, but the deal execution is taking time.

Asset Management

KEY FINANCIALS: ASSET MANAGEMENT (₹ Mn)

	Q2 FY12	Q1 FY12	CHG. QOQ	Q2 FY12	Q2 FY11	CHG. YOY	6M FY12	6M FY11	CHG. YOY	FY11
Total Revenues	76	76	0%	76	5	1458%	152	6	2342%	195
EBIDTA	0	(4)	-100%	0	(73)	-100%	(4)	(95)	-96%	(84)
PBT (before E & EOI)	(0)	(4)	-89%	(0)	(74)	-99%	(4)	(96)	-95%	(85)
Reported PAT (after E & EOI)	(0)	(4)	-89%	(0)	(51)	-99%	(4)	(66)	-93%	(85)
PAT (after E & EOI)	(0)	(4)	-89%	(0)	(51)	-99%	(4)	(66)	-93%	(85)

E & EOI = Exceptional & extraordinary items *Source: MOFSL's presentation on Sept 2011 earnings*

How is the PMS business growing? Has its AUM gone down? On standalone basis, is this profitable as of today?

As far as PMS is concerned, we have not seen any kind of redemption. The AUM may have come down slightly because of the market conditions. However, the performance of the PMS business has been very good. We have outperformed most of the active equity schemes. Our PMS business is profitable, as of today.

Given the recent news of stake divestment in your ETF funds, are you actually looking to do so?

We get enquiries regularly but have not taken any call yet. Depending on the offers, we would be open to any kind of alliance, be it in AMC or in I-Banking. However, no final decision has been made so far. We also issued a clarification to that news report saying we were misquoted. This is posted on NSE and BSE. We are a growing business and we do get enquiries from global players who are looking to enter India. We would look for opportunities where we see a strategic fit. Hence, these are open things which can be looked at opportunistically, but right now nothing is on the cards.

Private Equity

KEY FINANCIALS: PRIVATE EQUITY (₹ Mn)

	Q2 FY12	Q1 FY12	CHG. QOQ	Q2 FY12	Q2 FY11	CHG. YOY	6M FY12	6M FY11	CHG. YOY	FY11
Total Revenues	27	29	-8%	27	39	-32%	55	69	-20%	128
EBIDTA	1	4	-75%	1	13	-93%	4	24	-82%	34
PBT (before E & EOI)	0	3	-91%	0	13	-98%	4	24	-85%	33
Reported PAT (after E & EOI)	0	2	-82%	0	9	-95%	3	16	-83%	23
PAT (after E & EOI)	0	2	-82%	0	9	-95%	3	16	-83%	23

E & EOI = Exceptional & extraordinary items *Source: MOFSL's presentation on Sept 2011 earnings*

Overall

There been a fall in employee cost on a 6M basis, from ₹780m in 6M FY2010 to ₹575m in 6M FY2011? Is it due to higher bonus provisions in 6M FY2010?

Our people cost have a fixed and a variable component which are linked to the business performance of our respective verticals. Over the long term, the people cost as a percentage to top line has been more or less constant at ~25%, including in the 6M periods. Any change is largely driven by the business performance and the performance linked incentives. If the business performance goes up, the people cost goes up proportionately. The bonus provision would vary with the business performance but we provide our bonuses fully in each quarter, hence there is no lumpiness on account of that.

What percentage of employee cost is variable, at least in the top management? Is the dip in employee costs due to some ad-hoc cuts, retrenchment, or some understanding between the employer and employees?

The variable component in the total remuneration is meaningful. This would vary from year-to-year. In a bad year like this, the share of variable would fall meaningfully. In years like fiscal 2008 when we were peaking out of volumes, the variable component would be very high. Overall employee cost-to-revenue ratio has been stable, in turn providing stability to the overall EBITDA margins of the company. There is no requirement of any restatement of fixed salaries or any understanding that is defined between the management and the employees. We believe that people have very clear structures in terms of how they would be rewarded for the performance in terms of the variable component. So we don’t see any bilateral discussion required between the management and the employees to come to some kind of conclusion in these times.

In terms of new businesses, are there any plans to move into an NBFC business like many peers are doing, especially given the slowdown in the equity markets?

The focus will remain on the verticals we already have. There in zero borrowing on our balance sheet, and we have seen that any kind of leverage is not good for the agency businesses. We are conservative and want to maintain the trend where we don’t leverage or go into businesses where the ROE is less. The focus is completely on maintaining or increasing the ROE.

Are there any plans to enter into new areas of business like many other brokerages are doing?

We are already in the build-up stage in terms of our businesses like asset management, private equity and wealth management, apart from our agency business of retail and institutional broking, I-Banking, commodities broking etc. We feel we would like to focus more on our existing businesses rather than starting any entirely new business at this juncture.

INVESTOR UPDATE

Motilal Oswal Financial Services reports Q2 FY12 topline of ₹1.1 billion, up 2% QoQ; Adjusted PAT of ₹262 million, up 24% QoQ

Mumbai, October 17, 2011: Motilal Oswal Financial Services (MOFSL), a leading financial services company, announced its audited results for the quarter ended September 30, 2011 post approval by the Board of Directors at a meeting held in Mumbai on October 17, 2011.

Performance Highlights

₹Million	Q2 FY12	Q1 FY12	Comparison (Q1 FY12)	Q2 FY11	Comparison (Q2 FY11)
Total Revenues*	1,143	1,120	↑ 2%	1,576	↓ 27%
EBIDTA	397	348	↑ 14%	554	↓ 28%
Reported PAT	350	212	↑ 65%	331	↑ 6%
Adjusted PAT	262	212	↑ 24%	318	↓ 18%
EPS- ₹ (FV of ₹1)	2.4	1.5		2.3	

Performance for the Quarter ended September 30, 2011

- Revenues for the quarter at ₹1.1 billion is up 2% as compared to Q1 FY12, but down 27% from Q2 FY11
- Reported PAT for Q2 FY12 at ₹350 million is up 65% from Q1 FY12 and up 6% from Q2 FY11
- Adjusted PAT for Q2 FY12 at ₹262 million is up 24% from Q1 FY12, but down 18% from Q2 FY11 (adjusted for profit from sale of fixed assets and investments)
- EBITDA and Adjusted PAT margins were 35% (31% in Q1 FY12) and 23% (19% in Q1 FY12), respectively
- Strong balance sheet with net worth of ₹11.2 billion, net cash of ₹1.7 billion and negligible debt, as of Sept 30, 2011

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

“The Indian markets continued to face headwinds from increasing interest rates, high inflation, slowdown in core sector growth and global financial concerns. These factors have adversely impacted investor sentiments and participation in the capital markets. Our focus on building a customer focused organization with low financial leverage has helped the company deliver robust performance in the current high interest rate climate. We believe in the long term opportunity in financial services and are committed to build a robust and profitable franchise that we believe will be able to garner a meaningful market share in the capital markets space.”

Segment results for Q2 FY12

- Broking and related revenues were ₹807 million this quarter, up 5% from Q1 FY12. The growth of options within the volume mix continued during this quarter. Equity market share went up from 1.8% in Q1 FY12 to 1.9% in Q2 FY12. However, blended yield declined from 5.1 bps in Q1 FY12 to 4.6 bps in Q2 FY12 on account of the rising proportion of options within the overall market volumes. However, yield pressures were not seen at an intra-segmental level and MOSL continues to enjoy a high market share in the high-yield cash segment. As on Sept 30, 2011, total client base has increased to 732,173 while Pan-India distribution reach stood at 1,538 business locations across 563 cities
- Fund based income was ₹198 million, down 5% from Q1 FY12 and up 38% from Q2 FY11. It contributed 17% of total revenues. The loan book stood at ₹3.0 billion as of Sept 30, 2011
- Asset Management fees were ₹100 million, down 3% from Q1 FY12. This segment contributed 9% of total revenues
- Investment banking fees were ₹14 million, down 34% as compared to Q1 FY12
- Other income was ₹23 million in Q2 FY12

Business highlights for Q2 FY12

- Total client base increased to 732,173, which includes 646,232 retail broking and distribution clients
- Pan-India retail distribution reach stood at 1,538 business locations across 563 cities
- Total Assets under Management for the Group were ~₹22.6 billion as of Sept 30, 2011. This includes PMS AUM of ₹12.7 billion, mutual funds AUM of ₹2.4 billion and private equity assets under advice of ₹7.5 billion
- Wealth Management business - "Purple Client Group" managed assets of ~₹11.9 billion, as of Sept 30, 2011
- Depository assets of ₹110.1 billion, as of Sept 30, 2011
- MOFSL won the 'Best Capital Markets & Related NBFC' award for FY11 at the CNBC TV18 India Best Banks and Financial Institutions Awards 2011 in Mumbai
- Motilal Oswal Securities won the 'Best Equity Broking House' award for FY11 at the Dun & Bradstreet Equity Broking Awards 2011 in Mumbai
- The Group also won two awards, 'Excellence in HR through Technology' and 'Excellence in Healthcare' at Asia's Best Employer Brand Awards 2011 in Singapore. Companies from 37 countries participated in these awards
- Institutional Equities hosted the 7th Annual Motilal Oswal – Global Investor Conference in August 2011 in Mumbai, where ~100 leading Indian companies interacted with over 500 institutional clients from across the world
- Motilal Oswal Securities, in association with Zee Business, held seminars of its investor education initiative - 'Investor Ki Kahani Usi Ki Zubani' in Mumbai, Ahmedabad, Kolkata, Delhi and Pune this quarter. These 5 seminars saw a total participation of over 2,600 investors
- Motilal Oswal Commodities Broker Pvt Ltd took up membership of the National Spot Exchange Ltd. This would allow it to trade gold and silver in demat form with no AMC charges, purity or security issues
- The Private Equity business is working on raising the second growth capital PE fund, India Business Excellence Fund (IBEF-II)

About Motilal Oswal Financial Services Limited

Motilal Oswal Financial Services Ltd. (NSE: MOTILALOFS, BSE: 532892, BLOOMBERG: MOFS IN) is a well-diversified, financial services company focused on wealth creation for all its customers, such as institutional, corporate, HNI and retail. Its services and product offerings include wealth management, retail broking and distribution, institutional broking, asset management, investment banking, private equity, commodity broking and principal strategies. The company distributes these products through 1,538 business locations spread across 563 cities and the online channel to over 732,173 registered customers. MOFSL has strong research capabilities, which enables them to identify market trends and stocks with high growth potential, facilitating clients to take well- informed and timely decisions. MOFSL has been ranked by various polls such as the Best Local Brokerage 2005, Most Independent Research - Local Brokerage 2006 and Best Overall Country Research - Local Brokerage 2007 in the Asia Money Brokerage Polls for India. In the StarMine India Broker Rankings 2009 from Thomson Reuters, we won awards in 3 out of 4 categories and also bagged the No. 1 Broker Award in the ET Now – StarMine Analyst Awards 2009. We were adjudged as the ‘Best Performing Equity Broker (National)’ at the CNBC TV18 Financial Advisors Awards 2010. MOSL won 4 awards in the ET-Now Starmine Analyst Awards 2010-11, placing it amongst the Top-3 award winning brokers, was ranked No. 2 by AsiaMoney Brokers Poll 2010 in the Best Local Brokerage Category and won the ‘Best Market Analyst’ Award for 2 sectors at the India’s Best Market Analyst Awards 2011. Our mutual fund product, M-50 ETF bagged the ‘Most Innovative Fund of the Year’ award at the CNBC TV18 CRISIL Mutual Funds Awards 2011. MOFSL won awards for Excellence in HR through Technology and Excellence in Healthcare at Asia’s Best Employer Brand Awards 2011 in Singapore, and the ‘Best Capital Markets and Related NBFC’ award at the CNBC TV18 Best Banks and Financial Institutions Awards 2011. MOSL also won the ‘Best Equity Broking House’ award for FY11 at the Dun & Bradstreet Equity Broking Awards 2011.

For further details contact:

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CONSOLIDATED UNAUDITED FINANCIAL RESULTS FOR THE QUARTER & HALF YEAR ENDED 30TH SEPTEMBER 2011

(Rs in Lacs)

Particulars	**Quarter Ended**		**Half Year Ended**		**Year Ended**
	30.09.2011	**30.09.2010**	**30.09.2011**	**30.09.2010**	**31.03.2011**
1. (a) Income from Operations	10,982	15,103	21,696	29,345	57,669
(b) Other Operating Income	219	345	537	714	1,316
Total	**11,201**	**15,448**	**22,233**	**30,059**	**58,985**
2. Expenditure					
a. Operating Cost	2,920	3,878	5,622	7,230	14,551
b. Employees cost	2,843	3,918	5,751	7,805	14,219
c. Depreciation	269	341	544	651	1,313
d. Other expenditure	1,694	2,431	3,802	4,199	8,311
e. Total	**7,726**	**10,568**	**15,719**	**19,885**	**38,394**
3. Profit from Operations before Other Income, Interest & Exceptional Items (1-2)	**3,475**	**4,880**	**6,514**	**10,174**	**20,591**
4. Other Income	228	315	392	844	1,052
5. Profit before Interest & Exceptional Items (3+4)	3,703	5,195	6,906	11,018	21,643
6. Interest	80	119	159	271	569
7. Profit after Interest but before Exceptional Items (5-6)	3,623	5,076	6,747	10,747	21,074
8. Exceptional Items - (Expense)/Income	1,299	-	1,299	-	-
9. Profit / (Loss) from Ordinary Activities before tax (7-8)	**4,922**	**5,076**	**8,046**	**10,747**	**21,074**
10. Tax expense	1,426	1,645	2,425	3,493	7,124
11. Net Profit / (Loss) from Ordinary Activities after tax but before minority interests (9-10)	3,496	3,431	5,621	7,254	13,950
12. Share of minority interests in (profits)/ loss	(1)	(120)	(7)	(188)	(244)
13. Net Profit from Ordinary Activities after tax and Minority Interests (11-12)	**3,495**	**3,311**	**5,614**	**7,066**	**13,706**
14. Paid-up equity share capital (Face Value of Re. 1/- Per Share)	1,451	1,443	1,451	1,443	1,444
15. Reserves excluding Revaluation Reserves					104,499
16. Earnings Per Share (EPS)					
a) Basic EPS	2.41	2.30	3.88	4.92	9.52
b) Diluted EPS	2.41	2.30	3.88	4.92	9.52
17. Dividend Per Share (Face Value Re. 1 each)					1.40
18. Public shareholding					
- Number of shares	44,543,618	44,364,636	44,543,618	44,364,636	44,531,979
- Percentage of	30.69%	30.75%	30.69%	30.75%	30.84%
19. Promoters and promoter group Shareholding					
a) Pledged/Encumbered					
- Number of shares	8,500,000	8,500,000	8,500,000	8,500,000	8,500,000
- Percentage of shares (as a % of the total shareholding of promoter and promoter group)	8.45%	8.51%	8.45%	8.51%	8.51%
- Percentage of shares (as a % of the total share capital of the company)	5.86%	5.89%	5.86%	5.89%	5.89%
b) Non-encumbered					
- Number of shares	92,075,851	91,390,193	92,075,851	91,390,193	91,387,250
- Percentage of shares (as a% of the total shareholding of promoter and promoter group)	91.55%	91.49%	91.55%	91.49%	91.49%
- Percentage of shares (as a % of the total share capital of the company)	63.45%	63.36%	63.45%	63.36%	63.28%

Notes

1)The above results were reviewed by the Audit Committee and taken on record by the Board of Directors of the Company at its Meeting held on Monday, 17th October, 2011. The results for the quarter ended 30th September, 2011 have been reviewed by the Statutory Auditors of the Company.

2) The consolidated results of the Company include the results of the subsidiaries – Motilal Oswal Securities Limited (99.95%), Motilal Oswal Investment Advisors Private Limited (93.75%), Motilal Oswal Private Equity Advisors Private Limited (85%), Motilal Oswal Commodities Broker Private Limited (97.55%), Motilal Oswal Capital Markets Private Limited (99.95%), Antop Traders Private Limited (99.95%), Motilal Oswal Insurance Brokers Private Limited (99%), Motilal Oswal Asset Management Company Limited (99.95%), Motilal Oswal Trustee Company Limited (99.95%), Motilal Oswal Securities International Private Limited (99.95%), Motilal Oswal Capital Markets (Singapore) Pte Ltd (99.95%) & Motilal Oswal Capital Markets (Hong Kong) Private Limited (99.95%).

3) During the quarter ended 30th September 2011, the subsidiary Company Motilal Oswal Securities Ltd has floated two 100% subsidiary companies "Motilal Oswal Capital Markets (Singapore) Pte Ltd" & " Motilal Oswal Capital Markets (Hong Kong) Private Limited".

4)Pursuant to the approval of the members obtained at the 6th Annual General Meeting of the Company held on 21st July, 2011, a Committee of the Board of Directors of the Company at its Meeting held on 3rd August, 2011, has allotted 7,00,240 equity shares of the face value of Re.1 each at the rate of Rs. 131.37 per share to certain employees of Motilal Oswal Investment Advisors Private Limited (MOIAPL), a subsidiary of the Company, in discharge of the purchase consideration for acquisition of 62,500 equity shares of Rs. 10 each of MOIAPL acquired by the Company from them.

5) Exceptional item for the quarter ended & half year ended 30th September, 2011 consists of Profit on sale of Office Premises of Rs. 1299 Lacs.

6)The previous financial quarter /half year / year figures have been regrouped/rearranged wherever necessary to make them comparable.

7)Standalone financial results are summarised below and also available on the Company's website: www.motilaloswal.com.

Particulars	**Quarter Ended**		**Half Year Ended**		**Year Ended**
	30.09.2011	**30.09.2010**	**30.09.2011**	**30.09.2010**	**31.03.2011**
Gross Revenue	1,237	895	4,553	3,528	6,425
Profit Before Tax	940	728	3,648	3,223	5,654
Profit After Tax	651	521	3,137	2,647	4,266

8) Information on investor complaints pursuant to Clause 41 of the Listing Agreement for the quarter ended 30th September, 2011

Particulars	**Opening balance**	**Additions**	**Disposal**	**Closing balance**
Number of complaints	NIL	2	2	NIL

9) CONSOLIDATED UNAUDITED SEGMENT RESULTS FOR THE QUARTER AND HALF YEAR ENDED 30TH SEPTEMBER 2011

(Rs in Lacs)

Particulars	Quarter Ended		Half Year Ended		Year Ended
	30.09.2011	30.09.2010	30.09.2011	30.09.2010	31.03.2011
1. Segment Revenue					
(a) Equity Broking & Other related activities	9,847	12,648	18,424	25,278	48,299
(b) Financing & Other activities	1,238	895	2,541	2,187	5,084
(c) Investment Banking	228	1,723	574	3,016	4,052
(d) Unallocated	1,804	944	3,317	1,585	4,893
Total	**13,118**	**16,210**	**24,855**	**32,066**	**62,328**
Less: Inter Segment Revenue	390	447	931	1,164	2,291
Income From Operations, Other Operating income & Other Income	**12,728**	**15,763**	**23,924**	**30,902**	**60,037**
2. Segment Results Profit / (Loss) before tax and interest from Each segment					
(a) Equity Broking & Other related activities	3,727	3,785	6,007	8,006	14,955
(b) Financing & Other activities	940	727	1,636	1,882	4,314
(c) Investment Banking	(90)	996	(109)	1,397	1,832
(d) Unallocated	431	(292)	679	(231)	524
Total	**5,008**	**5,216**	**8,213**	**11,054**	**21,625**
Less: Interest	86	140	167	307	551
Profit/(Loss) from Ordinary Activities before Tax	**4,922**	**5,076**	**8,046**	**10,747**	**21,074**
3. Capital Employed					
(Segment assets – Segment Liabilities)					
(a) Equity Broking & Other related activities	44,938	50,308	44,938	50,308	51,842
(b) Financing & Other activities	56,093	51,997	56,093	51,997	54,149
(c) Investment Banking	664	657	664	657	1,050
(d) Unallocated	10,300	(1,052)	10,300	(1,052)	(1,090)
Total	**111,994**	**101,910**	**111,994**	**101,910**	**105,951**

Notes:

1. The above Segment information is presented on the basis of the unaudited consolidated financial statements. The company's operations predominantly relate to Equity broking and other related activities, financing and other activities, Investment banking, Private Equity, Asset Management & Commodities broking . In accordance with Accounting Standard -17 on segment reporting and Company (Accounting Standards) Rules,2006, the Company has Equity broking and other related activities, Financing and other activities & Investment banking as reportable segments. The balance is shown as unallocated items.

2.The previous financial quarter /half year / year figures have been regrouped/rearranged wherever necessary to make them comparable.

10) STATEMENT OF ASSETS & LIABILITIES (CONSOLIDATED)

(Rs in Lacs)

	As on Unaudited	
Particulars	**30.09.2011**	**30.09.2010**
1. Shareholder's Fund		
a) Share Capital	1,451	1,443
b) ESOP Outstanding	9	4
c) Reserves & Surplus	110,534	100,463
	111,994	101,910
2. Loan Fund		
a) Secured Loan	27	2,097
b) Unsecured Loan	-	9,396
	27	11,493
3. Minority Interest	423	461
4. Deferred Tax Liability (Net)	174	-
TOTAL	**112,618**	**113,863**
5. Fixed Assets	8,349	9,114
6. Capital Work in progress	23,010	17,176
7. Investments	7,860	6,134
8. Deferred Tax Assets (Net)	-	482
9. Current Assets, Loans & Advances		
a) Inventories	24,977	26,754
b) Sundry Debtors	20,832	34,321
c) Cash & Bank balances	17,053	35,155
d) Loans & Advances	65,388	67,321
e) Other current Assets	885	591
	129,135	164,143
10. Less: Current Liabilities & Provisions		
a) Current Liabilities	31,294	58,611
b) Provisions	24,443	24,574
	55,736	83,185
Net Current Assets	73,399	80,958
TOTAL	**112,618**	**113,863**

On behalf of the Board of Directors
Motilal Oswal Financial Services Limited

Motilal Oswal
Chairman & Managing Director

Mumbai, 17th October, 2011
investors@motilaloswal.com.