

# Motilal Oswal Financial Services

**NEUTRAL**
**INDUSTRY FINANCIAL SERVICES**
**CMP (as on 01 Mar 2019) Rs 568**
**Target Price Rs 611**

Nifty 10,864

Sensex 36,064

**KEY STOCK DATA**

Bloomberg MOFS IN

No. of Shares (mn) 145

MCap (Rs bn) / (\$ mn) 83/1,165

6m avg traded value (Rs mn) 77

**STOCK PERFORMANCE (%)**
**52 Week high / low Rs 1,177/545**

	3M	6M	12M
Absolute (%)	(7.5)	(31.8)	(50.8)
Relative (%)	(7.1)	(25.1)	(56.7)

**SHAREHOLDING PATTERN (%)**

Promoters 70.3

FIs &amp; Local MFs 1.0

FPIs 13.9

Public &amp; Others 14.8

Source : BSE

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## QGLP but for Aspire

Motilal Oswal Financial Services (MOFS) runs India's largest PMS (AUM Rs 150bn), is an emerging MF (rank 16) and is 8<sup>th</sup> among retail brokers. The group has investments of Rs 19.8bn, of which ~82% is invested in own funds. MOFS has a differentiated client franchise and will gain from financialisation of savings. We initiate coverage with a **NEUTRAL rating and SoTP of Rs 611 (+7.6%)**.

- Emerging asset manager:** With listed markets AUM, growing to Rs 371bn (58.4% CAGR over FY16 to 3QFY19), AMC profits have grown 4.1x to Rs 1.1bn in FY18. Given higher share of alternatives (PMS + AIF) and ~100% equity allocation, MOAMC earns industry highest NOPLAT (39bps of AAUM). With AUM of Rs 60bn (FY16-3QFY19, CAGR 32%), the group has also developed a credible private investments business. Over FY18-21E, we expect Asset Management to deliver Rev/EBITDA/PAT CAGR of 8.1/13.4/11.7%.

- The Capital Markets segment** houses a franchisee-driven retail brokerage (70% of broking revs), retail and HNI wealth advisory and investment banking. As at Dec-18, it has ~318k active clients (4% market share, rank 8) and an ADTV market share of 2.6%. Non-cyclical revenues have risen from 14.0 to 20.2% in the mix over FY16-18, and will increase to 30.9% by FY21E. Overall segment Revenue/EBITDA/PAT are set to grow at 3.6/5.0/4.6% over FY19-21E.

- Aspire turn-around:** MOFS's housing finance venture, Aspire has stumbled with high delinquencies (3QFY19 NNPL at 7.0%). Top management has now been revamped with a new CEO, CFO, CRO and teams for

collections, legal and technical. Co has virtually shut the tap on disbursements (-83.2% YoY in 9MFY19) and taken huge credit costs (8.76% in FY19E). **We value Aspire at 0.5x FY21E ABV in our SoTP.**

- We expect FY19E PAT (ex-Aspire) to fall to Rs 3.6bn (-34.2% YoY), driven by a cyclical fall in investment banking revenues and virtually zero treasury gains (on investments). We expect FY19-21E revenue/PAT (ex-Aspire) to grow at 11.9/28.9% CAGR, with improving mix quality. We will monitor recovery and repair at Aspire. **Our SoTP for MOFS is Rs 611 based on 10x/20x capital markets/AMC FY21E PAT + 0.8x FY21E market value of the treasury book.**

- Key risks:** Macro weakness in equity markets, disproportionate rise in ETFs/ULIPs, decline in broking volumes or yields, changes in fee and commission payment regulations for PMSs. Higher than anticipated NPLs in housing finance business.

**MOFS (ex. Aspire Home): FINANCIAL SUMMARY**

(Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Revenues	12,555	19,837	15,870	17,907	19,857
Growth (%)	58.1	58.0	-20.0	12.8	10.9
EBITDA	4,325	7,762	5,294	7,079	7,994
EBITDA margin (%)	34.5	39.1	33.4	39.5	40.3
Growth (%)	39.9	13.6	(14.8)	18.5	1.8
PAT	2,984	5,543	3,646	5,392	6,054
PAT growth (%)	131.3	85.7	-34.2	47.9	12.3
Adj. EV/EBITDA (x)	10.4	15.3	11.4	10.1	8.9
Adj. P/E (x)	26.6	14.5	22.5	15.2	13.6
RoE (%)	19.7	25.9	12.9	16.9	17.0

Source: Company, HDFC sec Inst Research estimates

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**Around 12% of MF AUM is sourced through B30 cities as against ~15% at the industry level.**

**Management highlighted they have never paid upfront commissions to distributors for distribution of MF products.**

**We are not too worried about scheme underperformance in the short run as outflows happen only when schemes underperform for a longer period of time.**

## Emerging asset management business

- MOAMC started as a pure play listed equities PMS, but over time it has built mutual fund, private equity and real estate capabilities.
- Group continues to have significant alternatives focus with almost 55% of total AUM from PMS, AIF, PE and Real estate funds.
- Given the higher share of alternatives the recently proposed reduction in TERs, which comes into effect from 1<sup>st</sup> April, 2019 will impact the AMC business to a lower degree.

### Asset management product

Product	3QFY19 AuM (Rs bn)	YoY Growth (%)	Trends	Distribution channel
Mutual fund	191	10.5	<ul style="list-style-type: none"> <li>Recent performance has been under pressure but over 90% of AUM still rated 4 star plus.</li> <li>Almost 100% of AUM is equity oriented.</li> </ul>	<ul style="list-style-type: none"> <li>Direct is ~35% of AUM. Substantial portion of AUM from urban areas and from HNIs. Co does not pay upfront commissions.</li> </ul>
PMS	154	-1.7	<ul style="list-style-type: none"> <li>PMS operations have scaled up to become the largest in the country.</li> </ul>	<ul style="list-style-type: none"> <li>Distribution has been driven by internal wealth management and distribution arms.</li> </ul>
AIF	27	35.0	<ul style="list-style-type: none"> <li>Fastest growing segment as AUM has grown from NIL to Rs 27bn in under 3 years.</li> </ul>	<ul style="list-style-type: none"> <li>AIFs have high upfront distribution costs.</li> </ul>
Private equity & Real estate	60	27.8	<ul style="list-style-type: none"> <li><b>PE:</b> Fund 1 has returned an IRR of ~27.7% and a multiple of 6x+. Other two funds are at Rs 9.5 and Rs 2.3bn respectively.</li> <li><b>RE:</b> Has launched three real estate funds over time. Has completely exited RE fund 1. IREF 2 has so far delivered an IRR of 22%.</li> <li><b>Funds assure a continuous exit pipeline and carry income.</b></li> </ul>	<ul style="list-style-type: none"> <li>Group companies sell the funds and so do other distributors.</li> </ul>

Source: Company, HDFC sec Inst Research

**TER cuts to benefit smaller sized AMCs.**

**AIF AUM is performance linked while only ~7% of PMS AUM is; management aspires to increase performance linked AUM.**

**PMS scale up over last few years has been very impressive- 58.4% CAGR FY16-3QFY19. Scaling up is very difficult operationally for PMSs.**

## Listed Equities business

### Mutual fund

- MOAMC launched its mutual fund operations in FY10. Growth in the initial years was slow as focus was more towards index products.
- Strategy was changed from FY14 when it launched 3 schemes.
- MOAMC's MF segment is primarily equity focused as only 2% of total MF AUM is fixed income oriented.
- In recent years MF assets have grown at CAGR of 147% from 4.8bn in FY14 to 181.5bn in FY18. As of 3QFY19 MF assets are at Rs 191bn.
- Given the late entry in this business segment MOAMC has built a considerable scale with an equity assets market share of 1.9% and a net inflow share of ~2.4% in 3QFY18.
- SIP book is Rs 5.1bn/qtr (3QFY19) up from Rs 1.4bn/qtr in (3QFY17).
- Scheme performance has been top notch with 4 stars and above forming 92.1% of rated AUMs. This is significantly higher than other fund houses.
- FYTD Performance has been sub-dued with quartile rankings taking a dip. This has also been the case given that mid-caps concentration has been high and mid-cap valuations have come off.

- We believe as the company's core investment philosophy is in place a turnaround is imminent and underperformance will not last for long.

### PMS and AIF

- MOAMC has historically been a PMS provider and over the years has been able to build an AUM of Rs 154bn (3QFY19) in this space.
- Company now is ranked no. 1 with a PMS market share of 15%. AIF share stands at 2.7%.
- PMS book is very granular with 30k+ accounts contributing a total AUM of Rs 154bn.
- Company charges a fixed PMS fee of 2.5% (92% of AUM).
- About 50-60% of the fee is paid out to distributors.
- Net yield for the company is between 100bps to 125bps.

### Business outlook

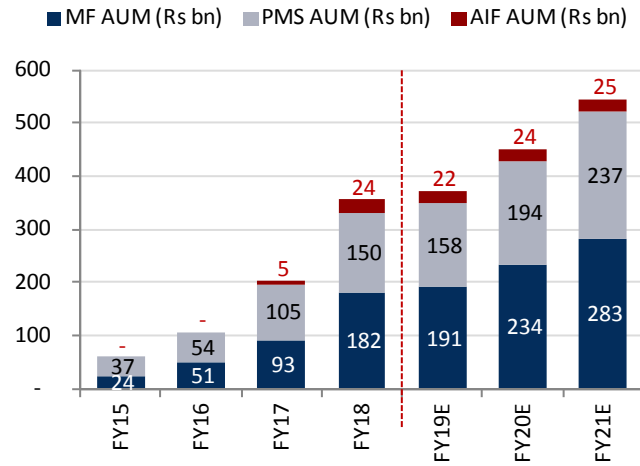
- We expect MF AUM to grow at a FY18-21E CAGR of 16.0%, whereas PMS and AIF are expected to grow at 16.6% and 0.5% CAGRs respectively.
- MOAMC currently does not have any offshore mandates. Such a mandate should provide additional growth levers.

*For MOAMC, HNI dominates in the MF AUM mix.*

*MF AUM is expected to grow at a CAGR of 16.0% over FY18-21E.*

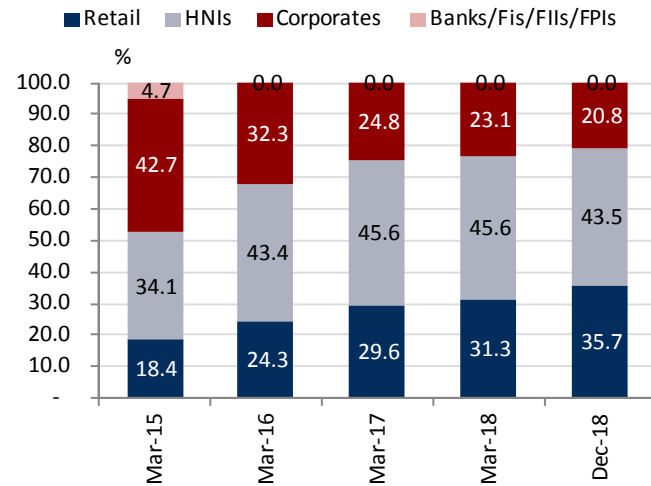
*IFA share has increased from 9% in FY16 to 27% as of Dec-18.*

**AUM break up**



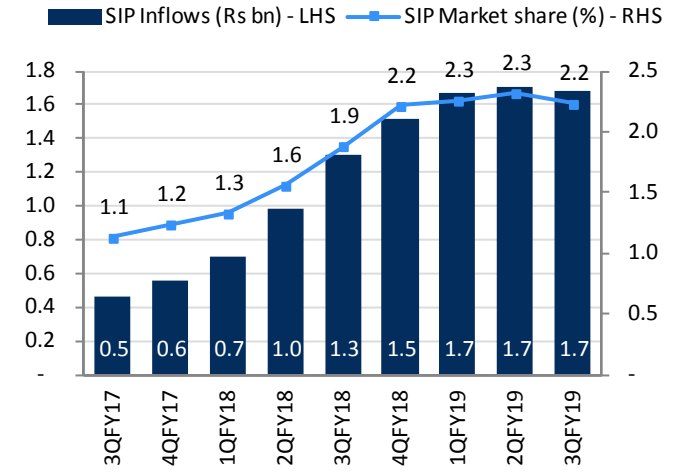
Source: Company, HDFC sec Inst Research

**HNIs dominate MF AUM Mix**



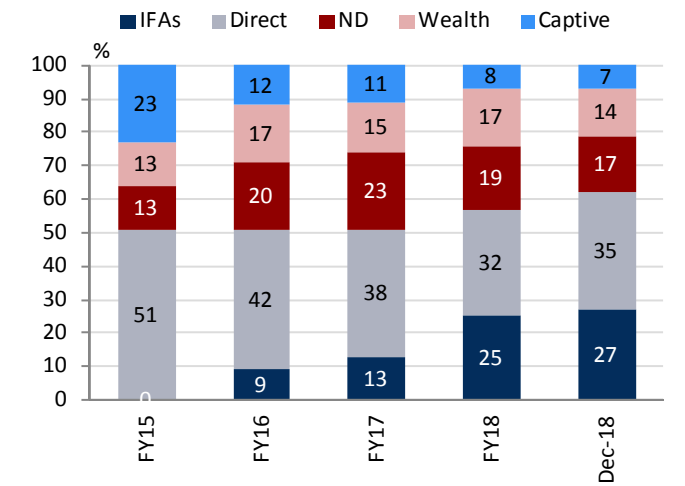
Source: Company, HDFC sec Inst Research

**SIP inflows grew more than 3x in 2 years**



Source: Company, HDFC sec Inst Research

**Rising IFAs share in MF AUM**

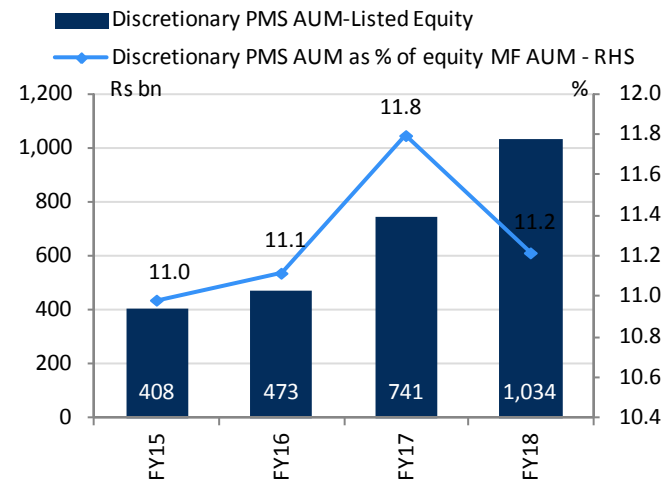


Source: Company, HDFC sec Inst Research

**MOAMC has the highest market share among PMS providers.**

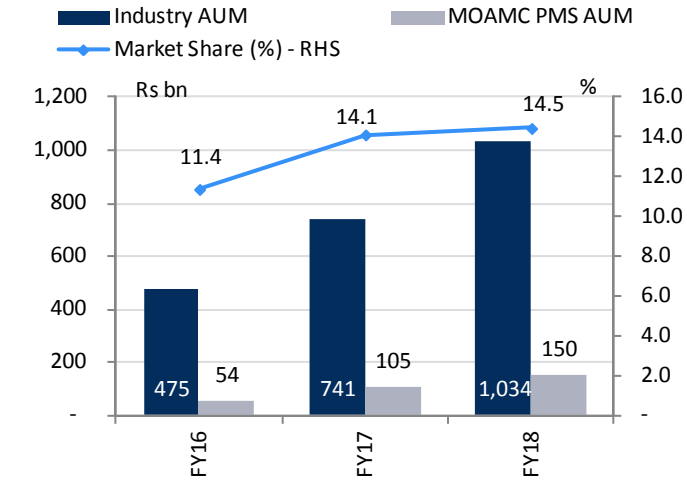
**Overall PMS industry AUM has grown more than 2.5x in last 4 years.**

### Rising alternatives Industry AUM



Source: Company, HDFC sec Inst Research

### Highest market share among portfolio managers



Source: Company, HDFC sec Inst Research

Note: Industry discretionary listed equity (ex-EPFO/PF) AUM considered.

### Leading portfolio managers in India

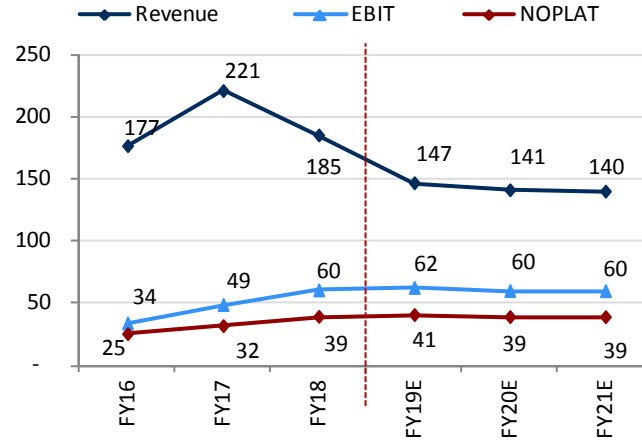
Company	Discretionary AUM (Rs bn)
Motilal Oswal AMC	139
Enam AMC	138
ASK Inv. managers	123
Alchemy Capital Management	52
Kotak Mahindra AMC	32
ICICI Prudential AMC	26
Birla Sun Life AMC	21

Source: SEBI, HDFC sec Inst Research

Note: Data as of Jan-19

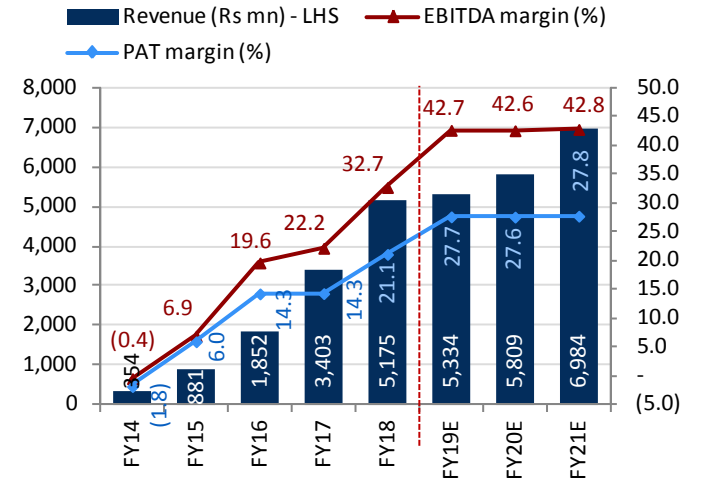
**Changed accounting and reducing TERs (wef FY20) will result in lower overall yields for the AMC.**

**As % of AAUM (bps)**



Source: Company, HDFC sec Inst Research

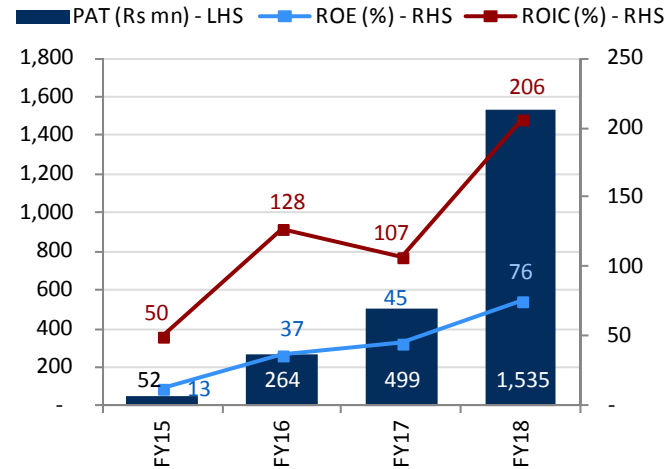
**Improving margins**



Source: Company, HDFC sec Inst Research

**Overall we factor in 8.1/13.4/11.7% CAGR growth in Revenue/EBITDA/PAT for the asset management business during FY18-21E.**

**MOAMC : Return ratios improving**



Source: Company, HDFC sec Inst Research

**MOAMC and Kotak are the best performing AMCs amongst the top AMCs.**

**Kotak MF has the highest share of 5 star rated AUM.**

## Fund Performances

- Value research indicates that Motilal Oswal AMC (MOAMC) has the highest percentage of equity assets which are rated 4 stars and above. MOAMC is closely followed by Kotak MF (82.8%) and SBI MF (75.6%).
- At the bottom of the table are RNAMC at 53.1% and HDFCAMC at 52.1% of rated AUMs.
- We believe that fund performance is important but is not the most determining factor to attract flows; this is evident from the fact that fund houses have grown assets despite low rating.
- In more recent times performance has been under pressure as a result of investments in names such as Manpasand and HPCL.
- In general the high concentration of mid-caps in the portfolio has also resulted in sub-dued performance.
- MOAMC has a strong investment team and solid investment framework (QGLP), which we believe will ensure return to strong performance.
- However, given recent underperformance and lackluster markets, we believe fund management charges remain under pressure as one can expect some renegotiation of fees on the PMS AUM.**

### Performance comparison of top AMCs

	ICICI Pru	HDFCAMC	RNAMC	Birla-Sunlife	SBI MF	Kotak MF	MOAMC
5 Star	3.3	-	8.2	10.5	26.3	38.2	6.6
4 Star	70.3	52.1	44.9	59.1	49.3	44.6	85.6
3 Star	25.2	14.9	9.4	25.9	9.8	13.3	-
2 Star	1.3	31.0	22.4	-	12.6	3.8	7.9
1 Star	-	2.1	15.1	4.6	2.0	-	-
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Rated AUM (as % of total AUM) – a</b>	<b>82.2</b>	<b>62.3</b>	<b>89.2</b>	<b>82.7</b>	<b>86.6</b>	<b>90.8</b>	<b>82.9</b>
<b>Not rated schemes (% of equity AUM) - b</b>	<b>17.8</b>	<b>37.7</b>	<b>10.8</b>	<b>17.3</b>	<b>13.4</b>	<b>9.2</b>	<b>17.1</b>
Balance advantage/multi asset/dynamic schemes	7.6	24.0	-	3.5	-	-	9.4
Theme based/global/retirement funds	4.6	0.1	-	3.8	4.2	-	-
Others	5.6	13.6	10.8	10.0	9.2	9.2	7.7
<b>Total (a + b)</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Total actively managed equity AUM (Rs bn)</b>	<b>1,471</b>	<b>1,602</b>	<b>935</b>	<b>934</b>	<b>869</b>	<b>503</b>	<b>195</b>
<b>As a percentage of Rated AUM</b>							
Outperforming Schemes- 4 star plus (%)	73.6	52.1	53.1	69.6	75.6	82.8	92.1
Underperforming Schemes- 1 to 3 star (%)	26.4	47.9	46.9	30.4	24.4	17.2	7.9
<b>Rated AUM (Rs bn)</b>	<b>1,209</b>	<b>998</b>	<b>834</b>	<b>773</b>	<b>753</b>	<b>457</b>	<b>162</b>
<b>Rank Outperforming schemes- 4 star plus</b>	<b>4</b>	<b>7</b>	<b>6</b>	<b>5</b>	<b>3</b>	<b>2</b>	<b>1</b>

Source: Value Research Nov-18, HDFC sec Inst Research

*ICICI Pru AMC receives highest rank based on our weighted average ranking system*

*Rise of direct is favorable for AMCs as it reduces their dependence on distributors.*

*But at the same time AMCs haven't promoted direct channel as it can upset distributors.*

### Overall AMC comparison

	Brand	Scheme performance	Equity AUM CAGR	Share of direct in equity	Distribution	Profitability	RoIC	Overall Rank
ICICI Pru MF	1	3	3	4	1	3	3	1
HDFC AMC	1	5	6	3	1	2	2	2
<b>Motilal AMC</b>	<b>6</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>6</b>	<b>1</b>	<b>4</b>	<b>3</b>
SBI MF	3	2	4	6	3	4	5	4
ABSL AMC	4	4	2	2	4	6	1	5
RNAMC	5	6	5	5	5	5	6	6

Note: Rank of Scheme performance is on basis of Value research rating. Equity AUM CAGR during FY14-18.

Source: Value Research, AMFI, HDFC sec Inst Research

### Leader in direct

- MOAMC MF schemes have the highest share of equity AUM sourced through direct channel among top AMCs. Direct equity AUM share is at 36% (includes promoter contribution) and 24% (excluding promoter contribution).
- Rise in share of direct reduces dependence on distributors and increases bargaining power of asset managers.

### Equity AUM sourced directly (%)

Direct equity AUM (%)	FY16	FY17	FY18	Sep-18
Motilal Oswal	39.9	35.2	36.5	36.6
Kotak MF	21.3	23.6	28.5	25.5
Franklin MF	13.9	16.4	17.7	18.2
Aditya Birla MF	12.0	15.9	19.0	18.2
HDFC MF	11.4	14.4	15.3	16.0
ICICI MF	9.8	13.2	15.7	15.2
RNAM	11.1	12.4	14.3	14.3
SBI MF	11.5	14.0	14.2	14.3
UTI MF	33.2	8.4	9.6	8.7
Axis MF	5.8	6.2	7.6	7.4

Source: AMFI, HDFC sec Inst Research

*The company received very good response in fund raising for IBEF-III which was fully raised in quick succession.*

*IREF I was able to give only 1.2x return over capital invested.*

*Total PE AUM stands at Rs 60bn as of Dec-18.*

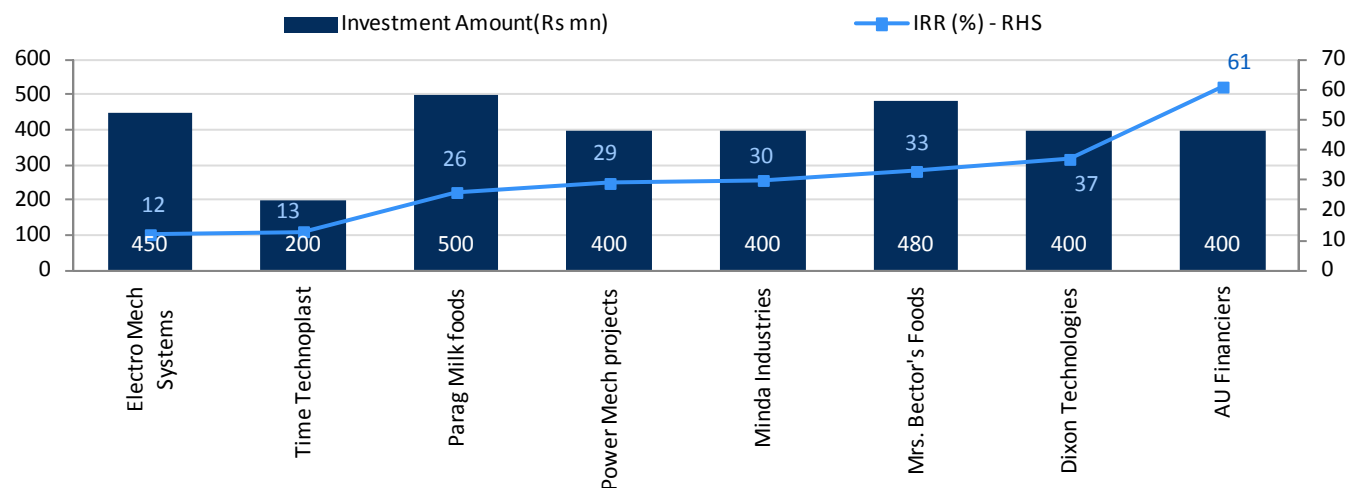
## Private equity and Real estate funds

- MOPE has had a stellar run over the last few years- with spectacular exits and fund raising for the next leg of growth.
- Private equity:** IBEF1 (Rs 5.5bn) has delivered a portfolio IRR of 27.7% and is expected to return over 6x MoC (Multiple of Cost) on a gross basis. IBEF2 (Rs 9.5bn) is fully committed with 11 investments. Fund III (Rs 23bn) was launched in FY18 which, after exhausting its green-shoe option, stands fully raised at ~Rs 23bn. At end of 3QFY19 fund III has already deployed ~Rs 8.2bn across four investments.
- Real estate fund: IREF1 (Rs 2bn)** has fully exited from all 7 investments, translating into ~120% capital returned to investors. IREF II (Rs 4.9bn) is fully deployed across 14 investments. The Fund has secured 6 complete exits and 1 structured exit and

has returned money equaling ~82% of the Fund Corpus back to the investors. Average IRR on exited investments is ~22%. IREF III (Rs 10.3bn) is ~81% deployed across 19 investments. The Fund has secured 3 full exits and has returned money equaling ~27.7% of Investible Funds back to the investors. Average IRR on exited investments is ~22.1%. IREF IV (target size Rs 15bn) launched with a target size of Rs 15bn has achieved 1st close at ~Rs. 5.6 bn. The fund has made 2 investments.

- As the company now has a large AUM it will continue to get exits and earn carry. The carry will over a period of time become recurring though will continue to be volatile.
- We are building in a management fee of 1.8% of AUM and carry of Rs 500mn over FY19-21E.

### Exits by Private equity business



Source: Company, HDFC sec Inst Research

*Since almost 100% of MF assets are equity which is the highest yielding class, overall yields are better than other AMCs.*

*50% of AUM consists of alternative assets. This has also contributed to higher yields.*

*Since company now reports MF revenues net of distributor commissions, we have also restated FY18 MF revenues in the same way. Thus revenues and cost for FY17-18 are not directly comparable.*

### Financial summary: Asset management & Private equity

(Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Total revenue	4,597	6,498	6,319	6,867	8,218
EBITDA	1,404	2,420	2,738	3,052	3,525
PAT	989	1,650	1,809	1,996	2,301
<b>Asset management (public equities)</b>					
<b>Revenue</b>	<b>3,403</b>	<b>5,175</b>	<b>5,334</b>	<b>5,809</b>	<b>6,984</b>
Growth (%)	84	52.0	3.1	8.9	20.2
<b>AUM (Rs bn)</b>					
Mutual fund	93	182	191	234	283
PMS	105	150	158	194	237
AIF	5	24	22	24	25
<b>AUM growth (%)</b>					
MF	83.4	95.5	5.3	22.2	21.3
PMS	93.5	42.8	5.5	23.2	22.0
AIF	-	347.8	(7.9)	7.6	2.4
<b>As % of AAUM (bps)</b>					
Revenues	<b>221</b>	<b>185</b>	<b>147</b>	<b>141</b>	<b>140</b>
Staff expenses	19	19	15	14	13
Brokerage expenses	130	92	61	60	60
Admin and other opex	23	14	8	8	7
Total exp	172	125	84	81	80
EBITDA	49	61	63	60	60
EBIT	49	60	62	60	60
<b>NOPLAT</b>	<b>32</b>	<b>39</b>	<b>41</b>	<b>39</b>	<b>39</b>
PBT	49	60	62	60	60
PAT	32	39	41	39	39
<b>Private equity &amp; Real estate funds</b>					
<b>Revenue (Rs mn)</b>	<b>1,193</b>	<b>1,323</b>	<b>985</b>	<b>1,057</b>	<b>1,234</b>
Growth (%)	156	10.9	(25.5)	7.3	16.7
Fee income	528	699	885	957	1,034
% of AuM	1.8	1.8	1.8	1.8	1.8
Carry income	665	624	100	100	200
AUM (Rs bn)	31	47	51	55	60
Growth (%)	9.9	52.7	9.6	6.8	9.1

Source: Company, HDFC sec Inst Research Note: Post 22<sup>nd</sup> October circular, the company reports MF revenues net of distributor commissions. We have restated FY18 MF revenues to net of distributor commissions. Thus FY17-18 revenues and cost are not directly comparable.

*Company has been focusing on growing its distribution business to counter cyclical.*

*Plans to cross sell products to existing clients. Distribution penetration at 11.5% of total client base (1.1mn) as of Dec-18 has huge room to grow.*

*MOFS is better positioned in case of Cash:F&O ADTV mix at 9:91 as against 3:97 of the industry. This has helped arrest yield decline.*

## Capital markets segment

MOFS has been an equity broker since 1987 and is primarily franchisee driven. As of Dec-18 the company has ~318k active clients (market share of 4%) - this is commendable given an intensely competitive environment. MOFS has also been able to reduce its dependence on this highly cyclical segment by adding distribution. Non-cyclical revenues as percentage of total capital markets revenues is 20.2% in FY18, We expect this number to grow to 30.9% by FY21E. We value the business at 10x earnings given cyclical in broking and the downward pressure the distribution business is set to face given reducing flows, and changing regulations especially on the MF distribution part of the business.

### Broking

- MOFS has been in the broking business since 1987 and is pre-dominantly a franchisee driven retail business model.
- The company has an active customer base of 0.33mn as of Dec-18 which has increased from 0.15mn in FY15. Share of active clients has increased to 4% in Dec-18 from 3.2% in FY15.
- The company has presence at over 2,200 locations all over India. Franchisees contribute 50% of trading volumes but 70% of overall broking revenues. Own revenues are 30% of total.
- MOFS also has a higher cash share of 9% in broking ADTVs as against 3% of Industry; Intra-day is 40% whereas industry is at ~75%. This mix has helped in arresting yield decline.

- The company also runs margin funding, T+5 and LAS book totaling to ~Rs 14bn in FY18 on which it earns ~16%. **We have reduced the entire interest expense on this book from the top-line itself so as to reflect net interest income.**
- The company is empanelled with several domestic and foreign funds (total 678) and covers more than 270 stocks.
- The company is also investing in technology so as to be able to provide online alternate to customers. Online penetration for clients (38% in number) and turnover (43%).
- Broking revenues for FY19E are not exactly comparable to that of FY18 as income on LAS book has been included in fund based income only from FY19. Until FY18 the LAS was part of fund based income.
- This division has also seen a few mishaps in the past:
  - MOFS wrote off ~Rs 700mn in FY13 as part of its LAS exposure became unrecoverable. We understand that some of this write-off will now be recovered.
  - MOFS has also written-off about ~Rs 560mn as part of the NSEL scam. The company had brokered and invested in paired contracts on which the exchange defaulted. Recent SEBI order has declared the commodities brokerage arm of the firm “unfit” to conduct the commodities brokerage business. This will not have an impact on this business as the commodities segment had already been transferred to the group entity under the unified license and no business is being carried out at MOCBL. MOFS group is also in the process of appealing against this order.

*Company recently has received license to distribute insurance products.*

*We have factored in a modest ADTV growth of 5% during FY20E-21E, while broking yields are expected to fall from 2.4bps in FY18 to 1.5bps in FY21E.*

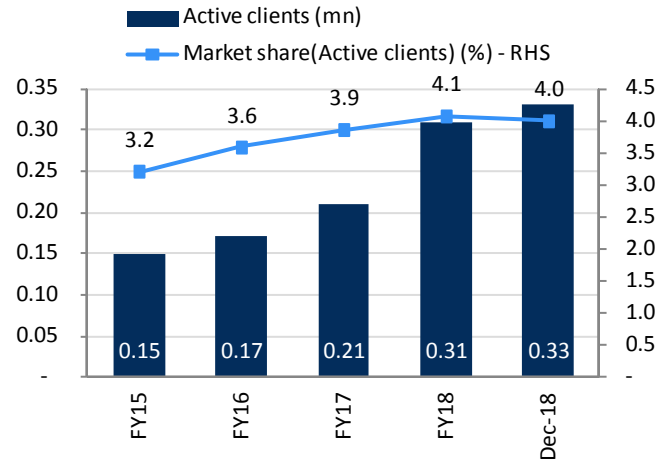
### Financial summary: Capital Markets: Broking, IB and Distribution (Includes Wealth management)

(Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Total revenue	8,163	12,218	11,680	11,868	12,547
EBITDA	2,415	3,899	3,013	3,031	3,322
PAT	1,592	2,581	1,935	1,931	2,119
<b>Broking revenues</b>	<b>5,101</b>	<b>8,030</b>	<b>7,129</b>	<b>7,112</b>	<b>7,318</b>
<i>Growth (%)</i>	NA	57.4	(11.2)	(0.2)	2.9
Broking yields (bps) calculated	2.4	2.4	1.6	1.5	1.5
Broking ADTV (Rs bn)	85	137	178	187	196
<i>Growth (%)</i>	44.7	60.4	30.0	5.0	5.0
<b>Distribution revenues</b>	<b>970</b>	<b>1,430</b>	<b>1,443</b>	<b>1,447</b>	<b>1,526</b>
<i>Growth (%)</i>	NA	47.4	0.9	0.3	5.5
Distribution AUM (Rs bn)	44	75	85	94	105
<i>Growth (%)</i>	147.1	71.4	13.0	10.0	12.0
Yield (%)	3.1	2.4	1.8	1.6	1.5
<b>Spread income</b>	<b>555</b>	<b>612</b>	<b>1,637</b>	<b>1,625</b>	<b>1,727</b>
<i>Growth (%)</i>	NA	10.1	167.6	(0.7)	6.3
Spreads on funding (%)	5.6	7.3	7.0	7.0	7.0
<b>Interest income</b>					
-T+5+LAS+MTF book	1,160	1,500	2,065	2,101	2,253
-Liened investments	39	40	666	706	741
Book Size (T+5+LAS+MTF)	7,250	11,500	12,810	13,451	14,717
Liened investments	680	9,019	9,763	10,252	10,764
Yield (%)	7.0	4.3	7.6	7.0	7.0
<b>Wealth Management</b>					
<b>Revenue</b>	<b>720</b>	<b>992</b>	<b>1,163</b>	<b>1,344</b>	<b>1,604</b>
<i>Growth (%)</i>	62	37.6	17.3	15.5	19.4
Wealth AUM (Rs bn)	101	147	163	195	232
<i>Growth (%)</i>	56.8	45.7	10.8	19.8	19.0
Net Sales (Rs bn)	18	27	16	16	18
Yield (%)	0.87	0.80	0.75	0.75	0.75
<b>Investment banking</b>					
<b>Revenue</b>	<b>872</b>	<b>1,135</b>	<b>284</b>	<b>312</b>	<b>337</b>
<i>Growth (%)</i>	250	30.1	(75.0)	10.0	8.0
<b>Other revenues</b>	<b>(56)</b>	<b>20</b>	<b>24</b>	<b>29</b>	<b>35</b>

Source: Company, HDFC sec Inst Research

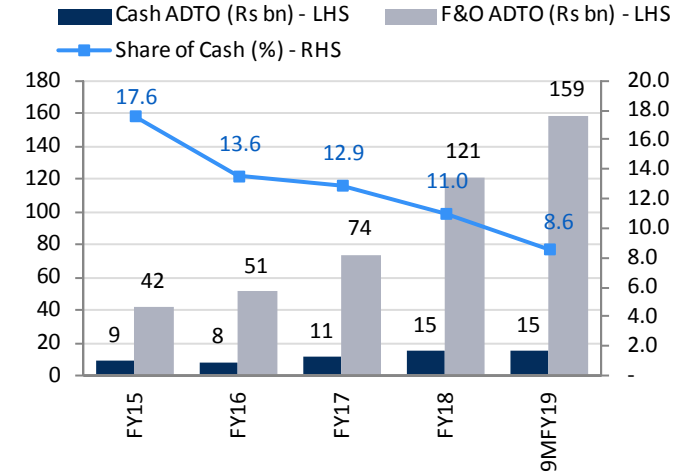
**MOFS**

**Rising share in active client**



Source: Company, HDFC sec Inst Research

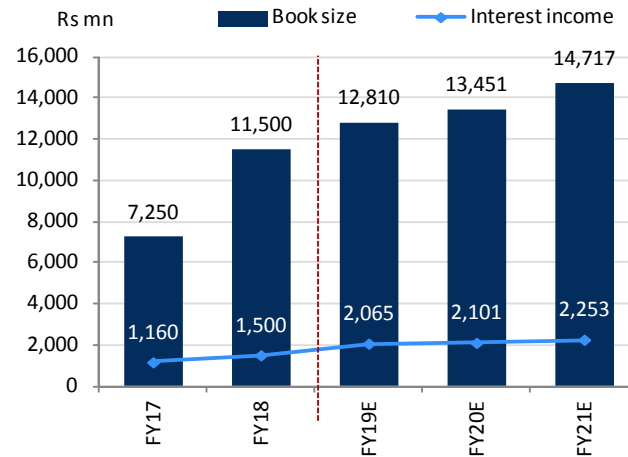
**Falling share in Cash ADTV**



Source: Company, HDFC sec Inst Research

*The company makes a yield of around ~6-7% on these lending books.*

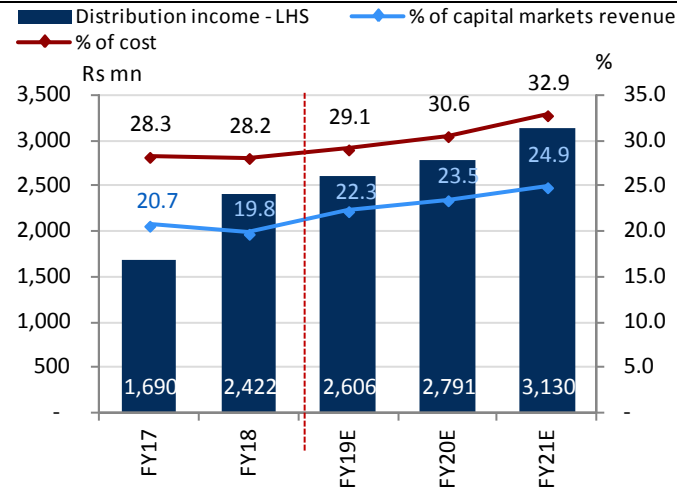
**Growing T+5/MTF/LAS book**



Source: Company, HDFC sec Inst Research

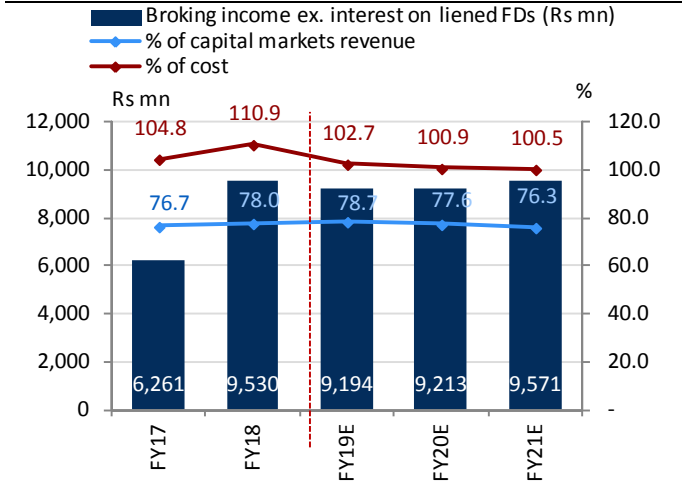
**Rise in distribution revenues counters cyclicity of the capital markets.**

**Non cyclical revenues picking up**



Source: Company, HDFC sec Inst Research

**Broking revenues cover all of costs**



Source: Company, HDFC sec Inst Research

**Industry cash delivery volumes fell from 30.4% in FY18 to 25.2% in FYTD.**

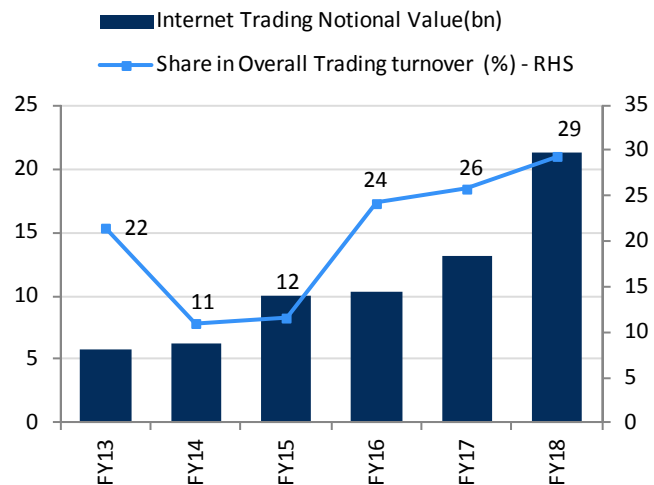
**Top 5 brokers account for ~20% of total revenues.**

**The industry is getting fragmented as revenue contribution from top 10 brokers has increased over years from 24% in FY13 and 31% in FY18.**

**F&O volumes now have around 97% share which has contributed to fall in blended yields for most brokerages.**

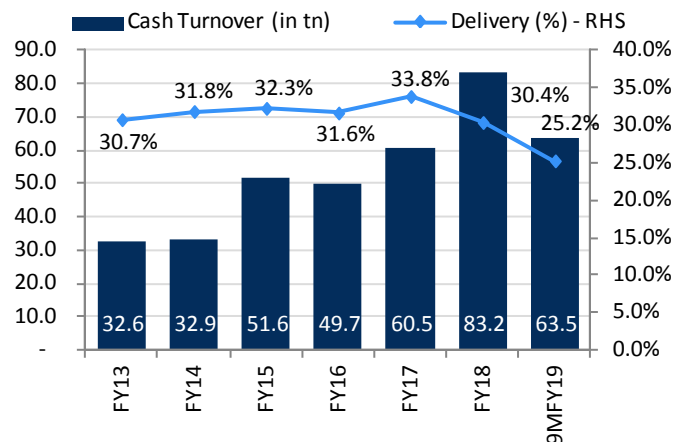
## Industry in Charts

### Industry internet trading volume trends



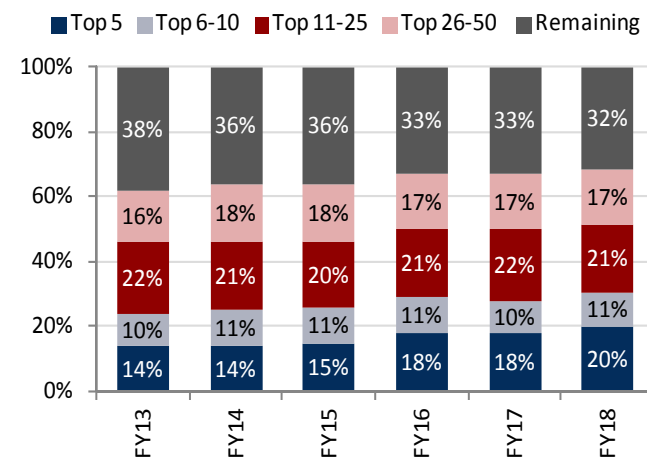
Source: NSE handbook, HDFC sec Inst Research

### Industry cash delivery volumes are falling



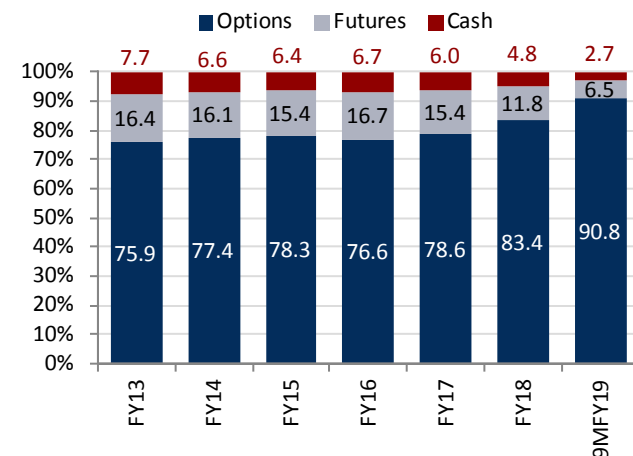
Source: NSE,BSE, HDFC sec Inst Research

### Share in revenues



Source: NSE,HDFC sec Inst Research

### Industry : Rising share of derivatives ADTV



Source: NSE,BSE, HDFC sec Inst Research

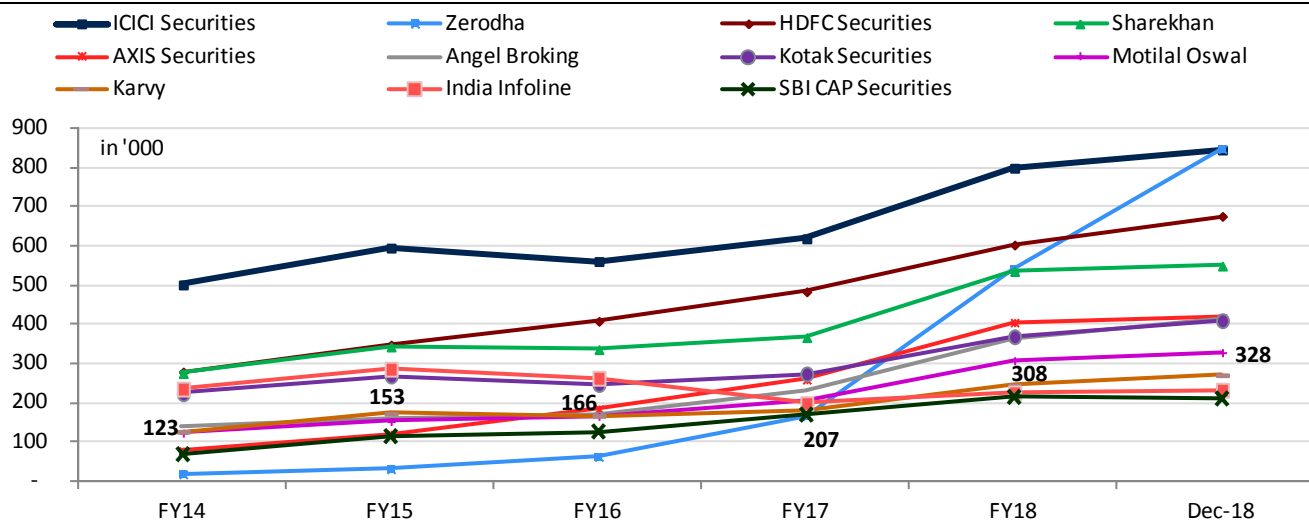
*MOFS active clients have grown at a CAGR of 22.9% during FY14-Dec-18, but it has consistently ranked 8<sup>th</sup> among top brokerages.*

**Active customers: Trend for top players**

Active clients (in '000)	FY14	FY15	FY16	FY17	FY18	Dec-18
Zerodha	18	30	62	166	541	847
ICICI Securities	501	595	560	618	798	845
HDFC Securities	279	348	408	483	602	676
Sharekhan	275	343	336	366	535	549
AXIS Securities	77	120	184	259	405	417
Angel Broking	140	160	171	230	364	416
Kotak Securities	223	268	247	274	369	410
<b>Motilal Oswal</b>	<b>123</b>	<b>153</b>	<b>166</b>	<b>207</b>	<b>308</b>	<b>328</b>
Karvy	126	172	167	181	245	271
India Infoline	235	286	263	198	225	232
SBI CAP Securities	68	114	126	169	214	210

Source: NSE handbook, HDFC sec Inst Research

**Active customers: Trend for top players**



*The rise of Zerodha is striking in the chart.*

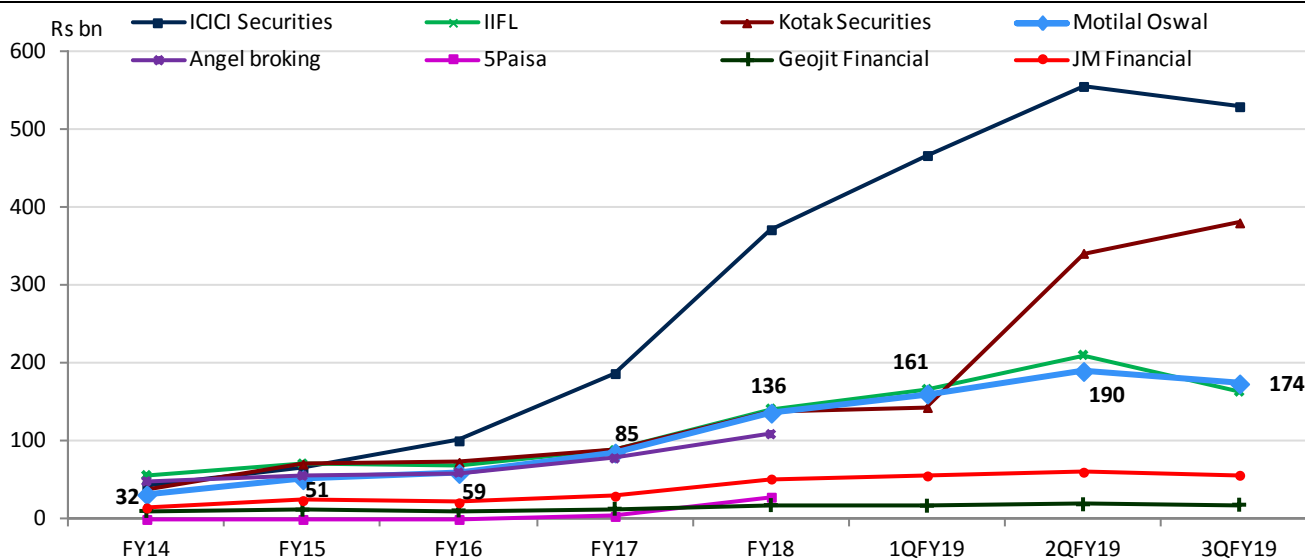
Source: NSE handbook, HDFC sec Inst Research

**MOFS ADTV growth has underperformed industry growth in 9MFY19. MOFS ADTV growth was 19.5% as against 57% of industry.**

**MOFS ADTVs grew by 44% CAGR during FY14-18, second only to ISEC which grew by 71%.**

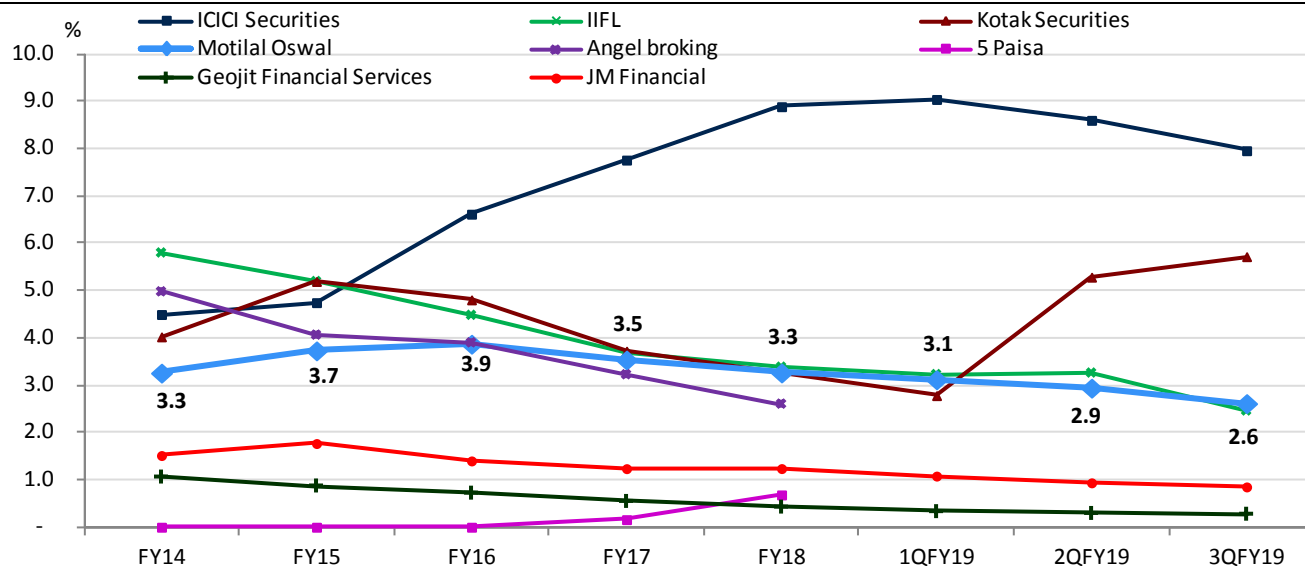
**MOFS volume market share has largely remained stable despite push from discount brokers on pricing to gain volume share. Although it has faced pressure in 9MFY19.**

### ADTV comparison



Source: Respective company investor presentation , HDFC sec Inst Research  
 Note: ADTV for 5Paisa capital is available only annually.

### Volume market share

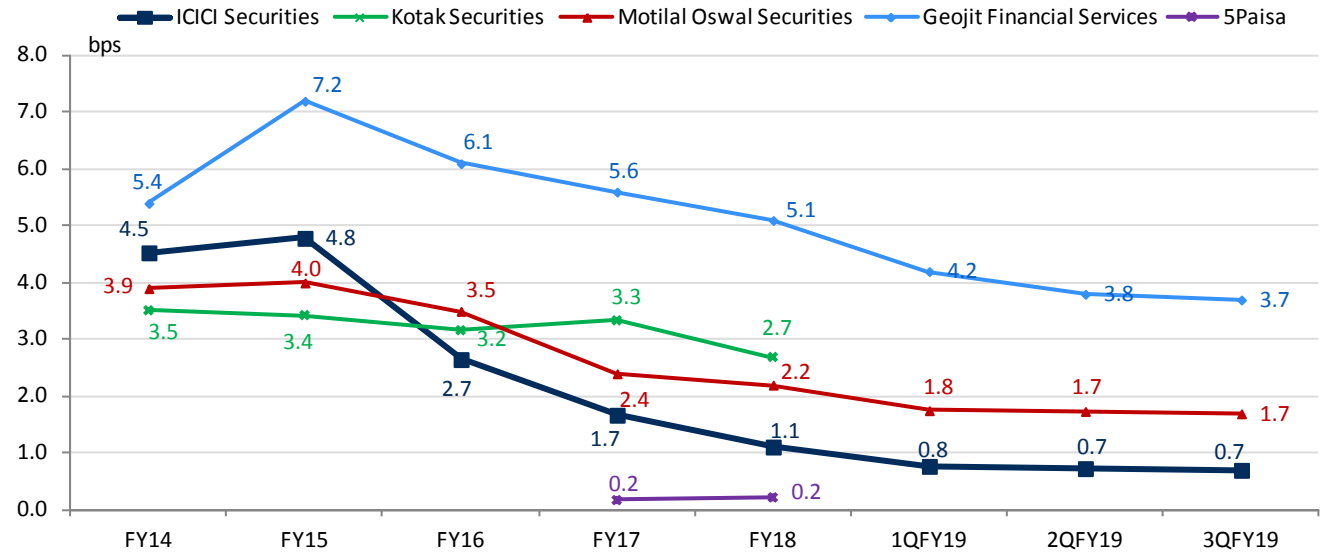


Source: Respective company investor presentations, HDFC sec Inst Research. ADTV for 5Paisa capital is available only annually.

*Broking yields are continuously facing downward pressure because to change in ADTV mix in favor of lower yielding F&O products.*

*Also rise of discount broking has contributed to fall in yields.*

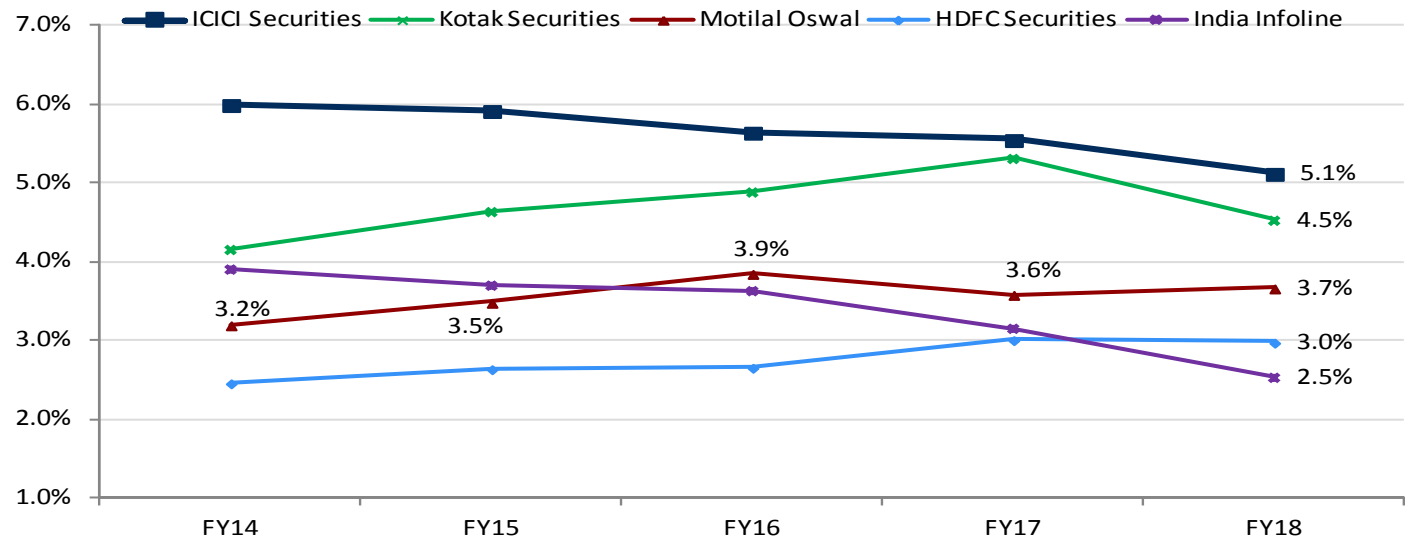
**Broking yields**



Source : Respective company investor presentations, HDFC sec Inst Research

Note: Kotak securities and 5 paisa capital's core broking revenues are available only annually, thus yields not calculated quarterly.

**Revenue market share for top 5 brokers**



Source: Respective broker web-sites, Angel broking DRHP, HDFC sec Inst Research

*MOFS broking revenue market share has increased from 3.2% in FY14 to 3.7% in FY18.*

**Broking revenue for top 10 players (Rs bn)**

Broker	FY14	FY15	FY16	FY17	FY18
ICICI Securities	5.0	7.6	6.6	7.8	10.2
Kotak Securities	3.4	5.9	5.7	7.4	9.1
<b>Motilal Oswal</b>	<b>2.6</b>	<b>4.4</b>	<b>4.5</b>	<b>5.0</b>	<b>7.3</b>
HDFC Securities	2.0	3.4	3.1	4.2	6.0
India Infoline	3.2	4.7	4.3	4.4	5.1
Angel Broking	2.6	3.3	3.1	3.6	4.8
Edelweiss Securities	1.3	1.8	1.6	2.0	2.3
Geojit	1.4	2.2	1.7	1.9	2.2
JM Financial	0.9	1.5	1.3	1.6	2.2
Axis Securities	0.5	1.1	1.2	1.6	2.0
Others	60	92	84	100	149
<b>Total</b>	<b>83</b>	<b>128</b>	<b>117</b>	<b>140</b>	<b>200</b>

Source: Respective broker web-sites, Angel broking DRHP, HDFC sec Inst Research

*Distribution revenues provide trail based income which helps counter cyclicity.*

*We have factored in a modest 11.7% distribution AUM growth during FY19E-21E.*

*Despite rising AUM, pressure on yields may sustain as TERs fall and overall fund raising is also slow.*

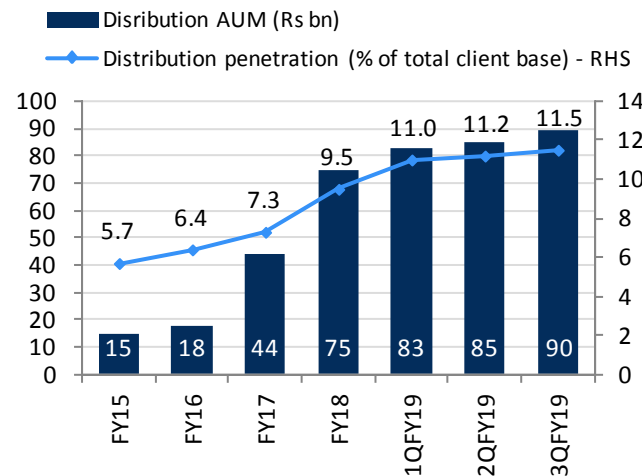
*Cross sell penetration currently is only 11.5%.*

## Distribution revenues

- Management’s strategy to increase non-cyclical revenues in capital markets segment is paying off as share has increased from 10.1% in FY15 to 20.2% in FY18. Expected to further increase to 30.9% by FY21E.
- Having said that, trail commissions on MF distribution will fall due to TER change from FY20. This shall negatively impact trail based income. Although the impact will be lower as only 22% of distribution AUM is MFs contributing around 15-20% to revenues.
- Total retail distribution asset base of Rs 90bn as of Dec-18 (CAGR of 73% over last 4 years). The yield on this book has been 2.4% in FY18, we believe this will drop to 1.5% by FY21E.

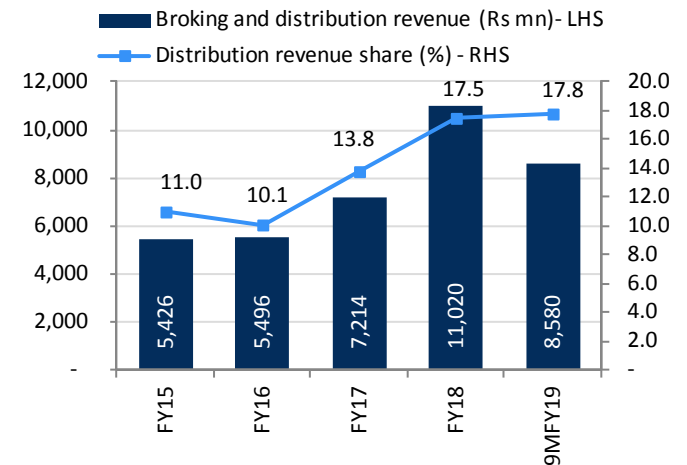
- In addition to distributing products manufactured by MOFS subsidiaries, this vertical also distributes products manufactured by other asset managers. Although group products are ~70% of total AUM.
- MOFS has also received increased traction by way of SIPs- ~91,200 live SIPs as of 3QFY19, with average ticket size of Rs 4k/month, which is higher than industry average of Rs 3.2k/month. This suggests company has higher share in higher ticket size SIPs.
- MOFS has also recently received a corporate insurance distribution license and will also focus on distributing higher yielding insurance products. The company is in talks with ICICI Pru and ICICI Lombard for distribution tie-up.
- Cross sell penetration as on 3QFY19 is ~11.5%. This still has a large room to grow.

### Rising distribution AUM



Source: Company, HDFC sec Inst Research

### Trail based income provides stability



Source: Company, HDFC sec Inst Research

*In the wealth business, only 25% of AUM is of mutual funds which contribute only 15% to revenues.*

*TER reduction will have limited impact on yields as they have lower share to MF AUM.*

*Given most RMs are recent hires, productivity is expected to improve with experience.*

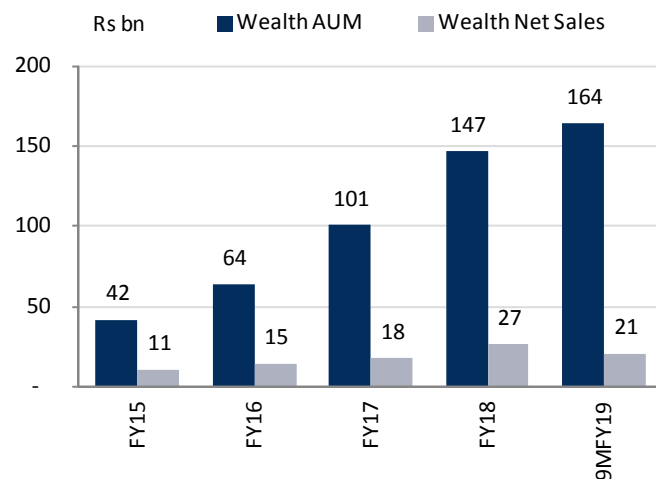
*Room to grow this business is immense. IIFL wealth is pioneer in wealth management with assets of over Rs 1.5tn.*

## Wealth management

- MOFS clubs this segment of the business with asset management, we however are including this business in the capital markets segment as it yet needs to scale up and prove itself to be counter-cyclical.
- MOFS's wealth management caters to the UHNI category where ticket sizes are > Rs 50mn. Currently the company caters to ~3400 families (+16% YoY).
- The division currently has ~135 relationship managers (RMs). With a huge ramp up happening in the last 6 quarters i.e. an addition of ~54 RMs.
- Given more recent hires costs are higher. The average age of RMs is ~3 years. RM productivity and profitability is expected to improve as vintage increases.

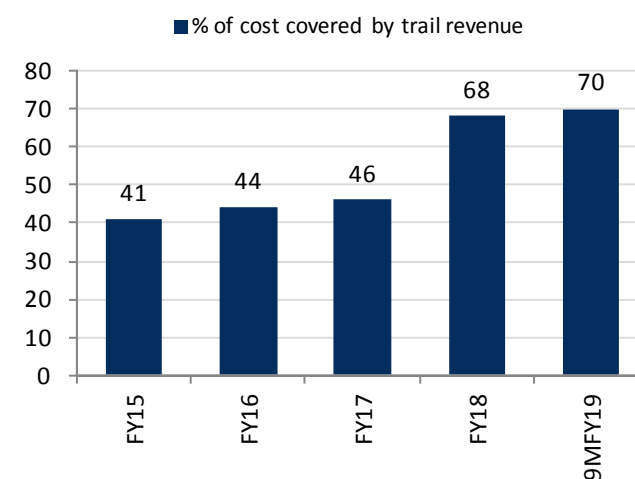
- Currently 70% of the AUM is captive while 30% is external. Further ~62% of the assets are equity.
- Net yield for the product is ~80bps.
- Wealth management division's focus is to build a long term trail focused business model.
- Management aspires for a 30-40% EBITDA margin for this business by FY21E. Additionally it targets to cover 70% of fixed costs through trail income. New sales would then drive profitability.
- The wealth management division reported 9MFY19 revenues and net profit of Rs 832mn and Rs 116mn respectively.

### Wealth AUM and net sales trajectory



Source: Company, HDFC sec Inst Research

### Trail based income provides stability



Source: Company, HDFC sec Inst Research

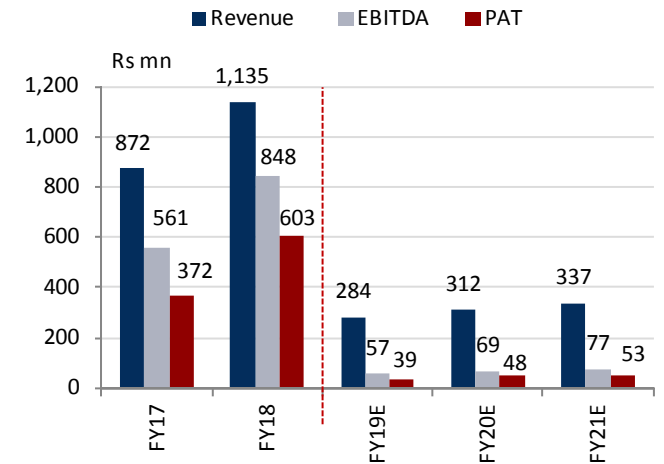
*With SEBI's new circular, large listed companies will be required to raise at least 25% of their long term borrowings through corporate bonds.*

*Due to tepid market conditions, fund raising have witnessed a sharp downturn in FY19, IB revenue during 9MFY19 fell 74% YoY.*

## Investment banking

- The company also has an investment banking operation within this vertical.
- As FY18 was a strong year and markets were supportive the division reported revenues of Rs 1,135mn and a PAT of Rs 603mn.
- In 9MFY19 the division however has just reported revenues of Rs 235mn and a PAT of Rs 26mn.

### IB revenues expected to remain soft



Source: Company, HDFC sec Inst Research

***The company ventured into housing finance business to counter inherent cyclical risk in the capital markets business.***

***Loan book stood at Rs 44bn as of Dec-18.***

***Low disbursements is limiting growth (9MFY19: Rs 2.1bn, -83.2% YoY)***

***Parent infused Rs 2bn in 3QFY19 taking total capital infusion to Rs 8.5bn.***

## Housing finance near bottom

- MOFS group's growth strategy faltered when it came to Aspire Home Finance- the low income low cost housing finance business.
- With a maximum ticket size of Rs 2.5mn and avg. ticket size of Rs 850k the business is focused on providing loans to the cash salaried and self employed. Aspire does not provide any construction finance or LAP.
- Average tenure of loans is 8 years and avg. lending rate is ~13.5%. LTV is ~60%.
- Given the above segment loan acquisition costs for the company is very high and thus it charges a processing fee of ~2.5-3%. This income is amortized over the period of loan.
- The company currently has ~60k customers and is present across 8 states.
- After 2QFY18 where the company witnessed a sharp rise in NPLs (see table), group management has stepped in and has taken an active role to identify and correct problems and get the business back on track.
- Company's credit policies currently allow cluster head to sanction loans of upto Rs 0.8mn, zonal regional head between Rs 0.8-1mn, national credit head between Rs 1-1.5mn while approval of chief risk officer is required for any loan sanctioning of Rs 1.5-2.5mn.
- With an addition of 400+ personnel in the recovery vertical, investors should see early detection of problematic areas and increased recovery.
- MOFS has also infused capital of Rs 2bn in 3QFY19, taking cumulative capital infusion till date to Rs 8.5bn.
- Aspire is also investing in technology to streamline operations and build operating efficiencies.
- RM targets for the month: 120 visits, 24 leads, 8 logins, 5 sanctions, 3 disbursements.
- Aspire is currently disbursing ~Rs 400-500mn/month and targets disbursements for Rs 12bn in FY20E.
- The business is still in process of turning around and stress levels in the legacy business are difficult to gauge. In 9MFY19 the company has only disbursed Rs 2.1bn (-83.2% YoY) while provisions and write-off itself have increased to Rs 3.3bn.
- While the company is in course correction mode and has invested large sums of capital in the business, we believe it is currently difficult to judge whether the business has hit rock bottom.
- We do believe that the turnaround will take a few more quarters as the book seasons.
- We suspect that the management may consider exiting this business once it has fixed the problems.

*The new MD and CEO of Aspire housing, Sanjay Athavale was on boarded in Sep-18.*

*We believe bottoming out of PAT in FY19E, while loan book growth to remain sub-dued.*

### Evolution of Aspire Home

Year	Particulars
FY14	Started business- Hired Anil Sachidanand as CEO. Started lending operations in Maharashtra.
FY15	Disbursed Rs 3.6bn in FY15.
FY16	Disbursements increased to Rs 18bn. Primarily from Maharashtra. Launched operations in Gujarat.
FY17	Disbursements touched a high of Rs 23.9bn with 4Q disbursements at Rs 9.25bn. GNPA's rose to 0.6%.
2QFY18	Disbursements continue strong pace at Rs 6.31bn; GNPA's shot up to 2.9%. Senior management suspects faulty business practices and decides to intervene.
2HFY18	Faulty lending practices and organizational structure identified as major problem areas. Disbursement consciously slowed down to Rs 4.7bn. GNPA's high at 4.6%. Aspire writes off Rs 715mn in FY18.
9MFY19	Disbursement growth slows further to just Rs 2.1bn. NNPA's shoot up to 7.0%. Management hires Mr. Sanjay Athavale as CEO of the business. Deficiencies of organization structure addressed and model changed from branch based to function/vertical based model. Several employees replaced- including CEO, CRO, CFO. Hired in house legal and technical team. Build collection vertical with addition of 450 employees. Added 25 new branches. Aspire wrote off and provided for a combined sum of Rs ~3.3bn during 9MFY19.

Source: Company, HDFC sec Inst Research

### Financial summary: Aspire Home

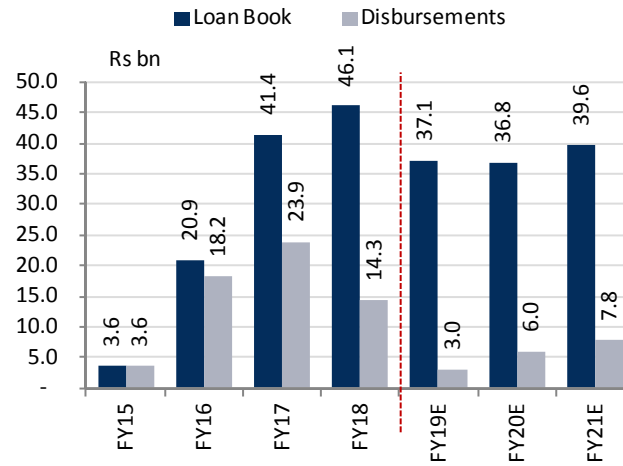
(Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
<b>Total income</b>	<b>2,209</b>	<b>2,848</b>	<b>2,605</b>	<b>2,466</b>	<b>2,665</b>
Net interest income	1,259	2,297	2,484	2,249	2,383
Pre-provision operating profit	1,379	1,765	1,509	1,320	1,464
PAT	821	315	-1,494	345	838
<b>Loan Book</b>	<b>41,413</b>	<b>46,074</b>	<b>37,114</b>	<b>36,843</b>	<b>39,612</b>
Growth (%)	98.4	11.3	(19.4)	(0.7)	7.5
<b>Disbursements</b>	<b>23,896</b>	<b>14,331</b>	<b>3,009</b>	<b>6,019</b>	<b>7,825</b>
Growth (%)	31.4	(40.0)	(79.0)	100.0	30.0
GNPA (Rs mn)	241	2,199	3,932	3,702	3,330
GNPA (%)	0.6	4.6	9.6	9.1	7.8
NNPA (Rs mn)	157	1,894	2,949	2,407	1,998
NNPA (%)	0.4	3.9	7.9	6.5	5.0

Source: Company, HDFC sec Inst Research

**As of Dec-18, NNPA stands at 6.97%, PCR at 40% whereas PCR (incl. write-offs) at 69%.**

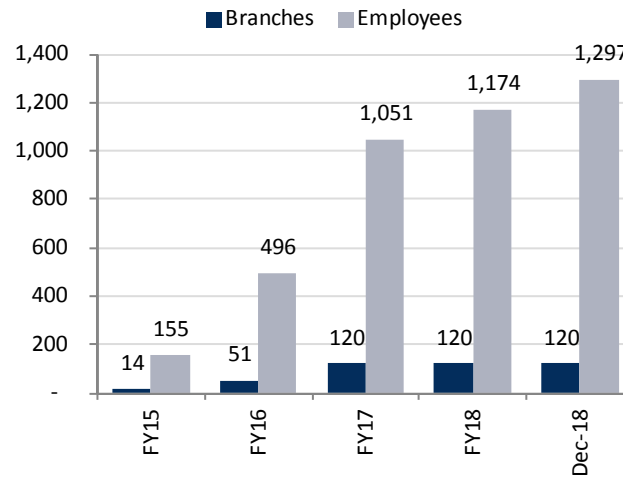
**We believe once the legacy books clean up is over, disbursements will pick up meaningfully.**

**Loan book expected to decline by 19.4% in FY19E**



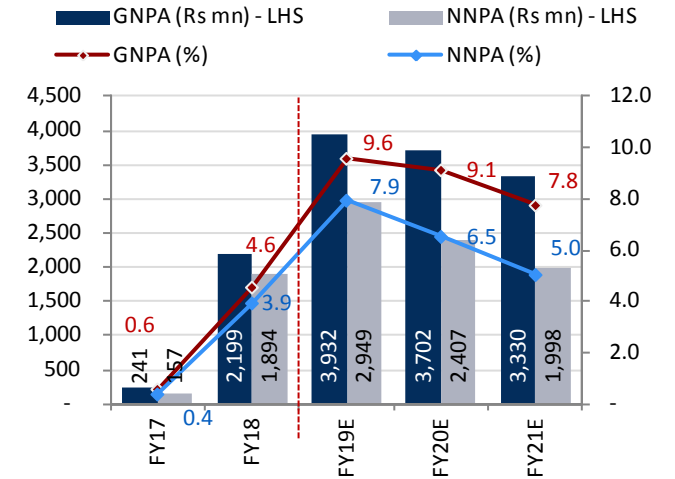
Source: Company, HDFC sec Inst Research

**Increasing footprint**



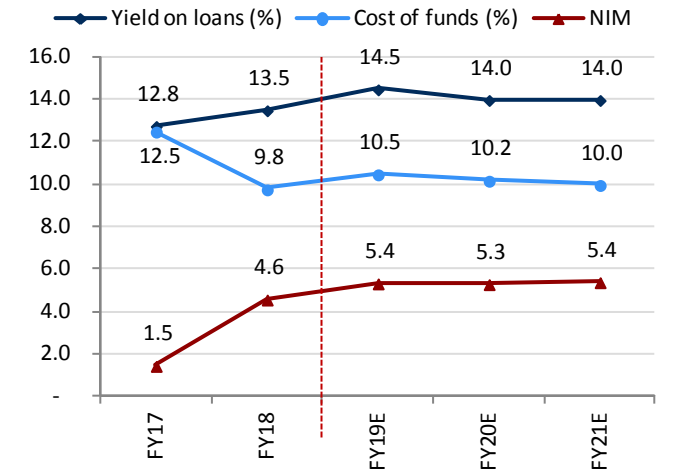
Source: Company, HDFC sec Inst Research

**NPAs rose sharply in 9MFY19**



Source: Company, HDFC sec Inst Research

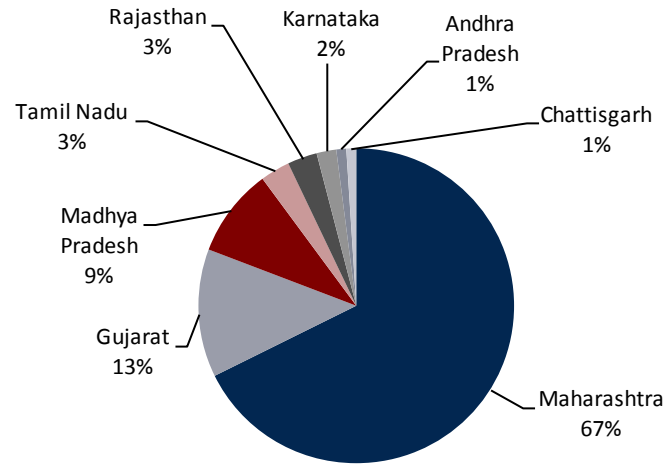
**NIMs to remain stable**



Source: Company, HDFC sec Inst Research

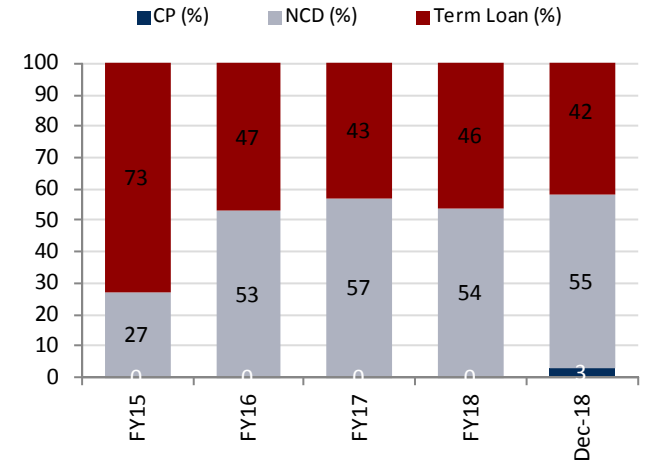
**Average cost of borrowing stood at 10.2% in 9MFY19.**

**80% of book is from Maharashtra and Gujarat**



Source: Company, HDFC sec Inst Research

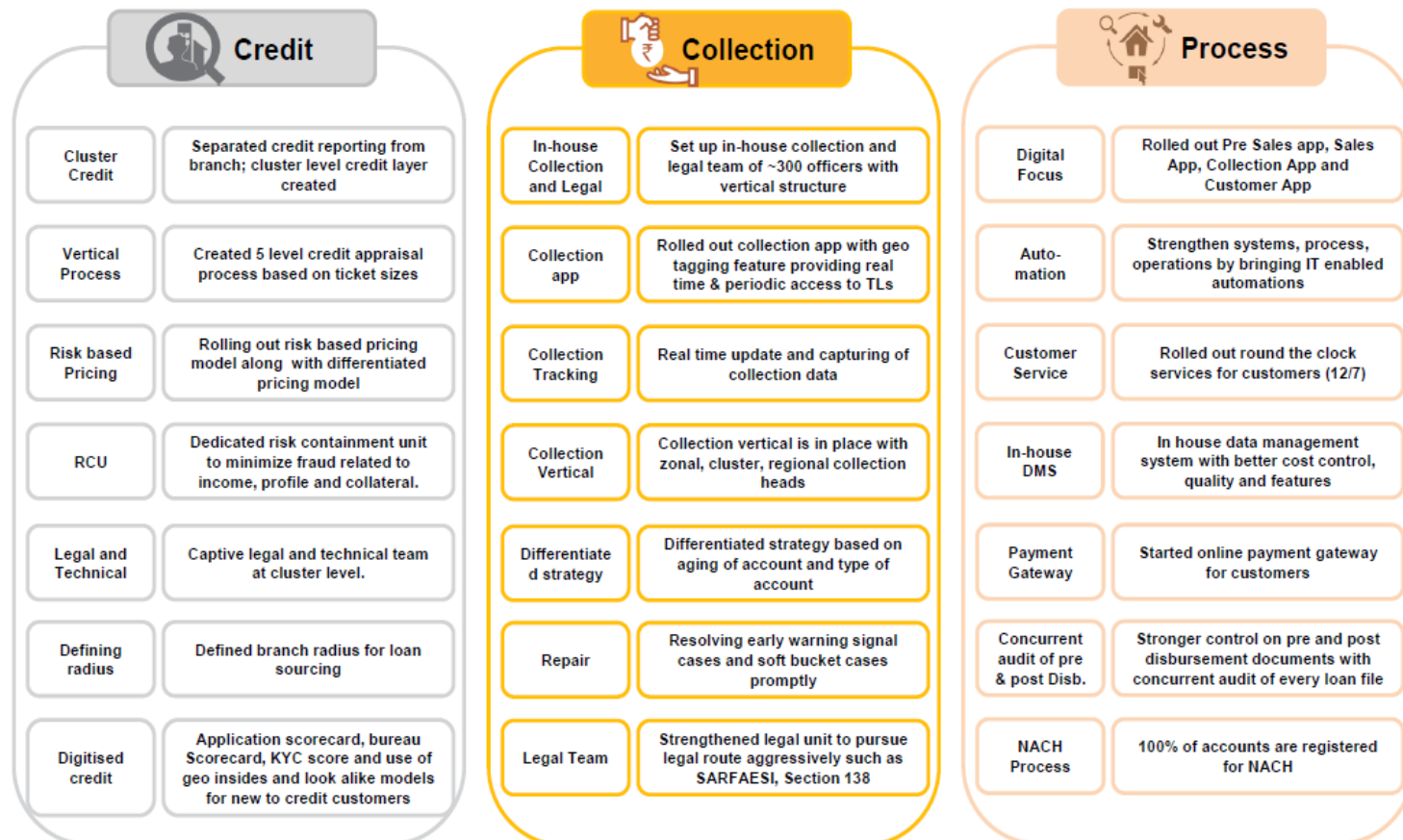
**Borrowing mix**



Source: Company, HDFC sec Inst Research

## Aspire Home new operational framework

*The company has been investing in technology and personnel to strengthen risk framework*



Source: Company, HDFC sec Inst Research

*Net interest income is expected to grow at a CAGR of 1.9%, whereas PAT is supposed to grow at 38.6% during FY18-21E.*

### Income Statement (Aspire Home)

(Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Interest earned	3,979	5,912	6,031	5,177	5,352
Interest expended	3,498	3,776	3,627	3,038	3,090
<b>Net interest income</b>	<b>480</b>	<b>2,136</b>	<b>2,404</b>	<b>2,139</b>	<b>2,262</b>
Other income	1,729	712	201	327	403
<b>Total income</b>	<b>2,209</b>	<b>2,848</b>	<b>2,605</b>	<b>2,466</b>	<b>2,665</b>
Total operating exp	830	1,083	1,096	1,146	1,200
Employee expense	405	545	555	583	612
<b>PPOP</b>	<b>1,379</b>	<b>1,765</b>	<b>1,509</b>	<b>1,320</b>	<b>1,464</b>
Provisions & contingencies	123	1,280	3,643	828	268
<b>PBT</b>	<b>1,257</b>	<b>486</b>	<b>(2,134)</b>	<b>492</b>	<b>1,197</b>
Provision for tax	436	171	(640)	148	359
<b>PAT (before minority interest)</b>	<b>821</b>	<b>315</b>	<b>(1,494)</b>	<b>345</b>	<b>838</b>

Source: Company, HDFC sec Inst Research

### Balance Sheet (Aspire Home)

(Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
<b>Sources of funds</b>					
Share capital	4,825	5,207	7,207	7,207	7,207
Reserves and surplus	1,503	2,487	993	1,338	2,176
<b>Shareholders' funds</b>	<b>6,328</b>	<b>7,694</b>	<b>8,200</b>	<b>8,544</b>	<b>9,382</b>
Total Borrowings	37,981	39,146	29,963	29,598	32,206
Other Liabilities, provisions	2,295	4,053	3,855	3,666	3,803
<b>Total</b>	<b>46,604</b>	<b>50,892</b>	<b>42,018</b>	<b>41,808</b>	<b>45,392</b>
<b>Application of funds</b>					
Advances	40,347	46,676	35,258	35,369	38,423
Investments	2,798	-	-	-	-
Fixed assets	112	133	175	177	181
Cash & Bank Balance	1,644	874	3,168	3,123	3,823
Other Assets	1,703	3,210	3,418	3,139	2,964
<b>Total</b>	<b>46,604</b>	<b>50,892</b>	<b>42,018</b>	<b>41,808</b>	<b>45,392</b>

Source: Company, HDFC sec Inst Research

*Loan book growth is expected to remain subdued.*

### Key Ratios (Aspire Home)

	FY17	FY18	FY19E	FY20E	FY21E
<b>Profitability</b>					
Yield On Advances (%)	12.8	13.5	14.5	14.0	14.0
Cost Of Funds (%)	12.5	9.8	10.5	10.2	10.0
Spread (%)	0.3	3.7	4.0	3.8	4.0
NIM (%)	1.5	4.6	5.4	5.3	5.4
<b>Operating Efficiency</b>					
Cost/Avg. Asset Ratio (%)	2.9	5.2	11.2	5.2	3.7
Cost-Income Ratio	43.1	83.0	181.9	80.0	55.1
<b>Balance Sheet Structure ratios</b>					
Loan Growth (%)	98.4	11.3	(19.4)	(0.7)	7.5
Borrowing Growth (%)	111.7	3.0	(23.4)	(1.2)	8.8
Equity/Assets (%)	13.6	15.1	19.5	20.4	20.7
Equity/Loans (%)	16.7	19.7	27.4	28.9	29.1
<b>Asset Quality</b>					
Gross NPAs (Rsmn)	241	2,199	3,932	3,702	3,330
Net NPAs (Rsmn)	157	1,894	2,949	2,407	1,998
Gross NPAs (%)	0.6	4.6	9.6	9.1	7.8
Net NPAs (%)	0.4	3.9	7.9	6.5	5.0
Coverage Ratio (%)	34.9	13.9	25.0	35.0	40.0
Provision/Avg. Loans (%)	0.4	2.9	8.7	2.2	0.7
<b>RoAA TREE (%)</b>					
Net Interest Income	3.8	5.0	5.8	5.9	6.0
Non Interest Income	2.9	1.2	0.3	0.6	0.7
Operating Cost	2.5	2.4	2.6	3.0	3.0
Provisions	0.4	2.8	8.6	2.2	0.7
Tax	1.3	0.4	(1.5)	0.4	0.9
ROAA	2.5	0.7	(3.5)	0.9	2.1
Leverage (x)	6.7	6.5	5.3	4.6	4.4
ROAE	16.7	4.5	(18.8)	4.1	9.3

Source: Company, HDFC sec Inst Research

***We are building in an average return of ~6.7% during FY20-21E on its investment book.***

## Treasury (Fund based segment)

- MOFS has a treasury book (net of debt) of Rs 19.8bn (MTM value) as of Mar-18.
- Major investments include equity (direct and MFs): 52.8% and debt MFs: 30.7%
- Unrealized gains on these investments are to the tune of Rs 1.3bn.
- The philosophy of the company through its treasury is 1) comply with regulatory co-investments requirements in mutual funds, and 2) invest as sponsor in its own private equity and real estate funds. New direct equity and private direct equity investments are very limited.
- More recently in FY17 the company has also taken a write-off of Rs 101.3mn on its direct equity investment in Shriram New Horizons Ltd.
- We are building in an average return of ~6.7% during FY20-21E on its investment book ex. investment in direct equity.
- **MTM gain or loss on direct equities will be accounted for through OCI directly in the balance sheet- as option available under IND-AS.**

### Financial summary: Treasury

(Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Revenue	1,493	2,270	35	1,614	1,800
EBITDA	1,298	2,048	25	1,603	1,790
PAT	873	1,584	24	1,602	1,789
AUM (Rs bn)	11.7	19.8	22.6	25.3	28.9
Yield (%)	12.8	14.4	0.2	6.8	6.7

Source: Company, HDFC sec Inst Research

## Financials and Valuation

- We expect revenues (ex-aspire) to grow at CAGR of 11.9% over FY19E-21E.
- Growth in revenues will be driven by growth in AMC business and turnaround of treasury book post a difficult FY19E.
- Consolidated EBITDA (ex. Aspire) is expected to deliver an FY19E-21E CAGR of 22.9% while PAT (ex. Aspire) is expected to deliver an FY19E-21E CAGR of 28.9%.
- We value MOFS on an SOTP basis and assign a Rs611/share value.

*Broking revenues to remain under pressure. We are factoring in a 1.7% CAGR growth during FY18-21E.*

*Fund based income is expected to post the highest growth over FY19E-21E.*

*Higher than expected credit losses at and longer duration to turnaround of Aspire pose risks to our forward estimates.*

### Revenue breakup

(Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
-Brokerage & operating income	6,570	10,091	10,233	10,212	10,606
-Investment banking	872	1,135	284	312	337
-Wealth management	720	992	1,163	1,344	1,604
<b>Capital markets</b>	<b>8,163</b>	<b>12,218</b>	<b>11,680</b>	<b>11,868</b>	<b>12,547</b>
Asset management	4,597	6,498	6,319	6,867	8,218
Fund based Income	1,493	2,270	35	1,614	1,800
Other income	176	200	-	-	-
<b>Gross Revenues (ex-aspire)</b>	<b>14,428</b>	<b>21,185</b>	<b>18,034</b>	<b>20,349</b>	<b>22,565</b>
Less: Inter-segment	(1,873)	(1,348)	(2,164)	(2,442)	(2,708)
<b>Net revenues (ex-aspire)</b>	<b>12,555</b>	<b>19,837</b>	<b>15,870</b>	<b>17,907</b>	<b>19,857</b>
Aspire Home (NIM + other operating income)	2,209	2,848	2,605	2,466	2,665
<b>Consolidated revenues</b>	<b>14,765</b>	<b>22,685</b>	<b>18,475</b>	<b>20,373</b>	<b>22,522</b>

Source: Company, HDFC sec Inst Research Note: FY19 onwards, other income has been clubbed into fund based income.

### EBITDA breakup

(Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
-Brokerage & operating income	1,631	2,700	2,731	2,673	2,840
-Investment banking	561	848	57	69	77
-Wealth management	223	351	225	289	405
<b>Capital markets</b>	<b>2,415</b>	<b>3,899</b>	<b>3,013</b>	<b>3,031</b>	<b>3,322</b>
Asset management	1,404	2,420	2,738	3,052	3,525
Fund based Income	1,298	2,048	25	1,603	1,790
Other income	50	71	-	-	-
<b>EBITDA (ex-aspire) pre-intersegment adj.</b>	<b>5,166</b>	<b>8,438</b>	<b>5,776</b>	<b>7,687</b>	<b>8,638</b>
Less: inter-segment	(841)	(676)	(482)	(607)	(643)
<b>Total EBITDA (ex-aspire)</b>	<b>4,325</b>	<b>7,762</b>	<b>5,294</b>	<b>7,079</b>	<b>7,994</b>
Aspire Home (PPOP)	1,412	1,829	1,575	1,385	1,530
<b>Total EBITDA (incl. Aspire)</b>	<b>5,738</b>	<b>9,592</b>	<b>6,869</b>	<b>8,464</b>	<b>9,524</b>

Source: Company, HDFC sec Inst Research Note: FY19 onwards, other income has been clubbed into fund based income.

*Asset management business to lead PAT growth, AMC PAT to grow at 11.7% CAGR during FY18-21E.*

*Aspire turn-around will contribute materially to profit growth.*

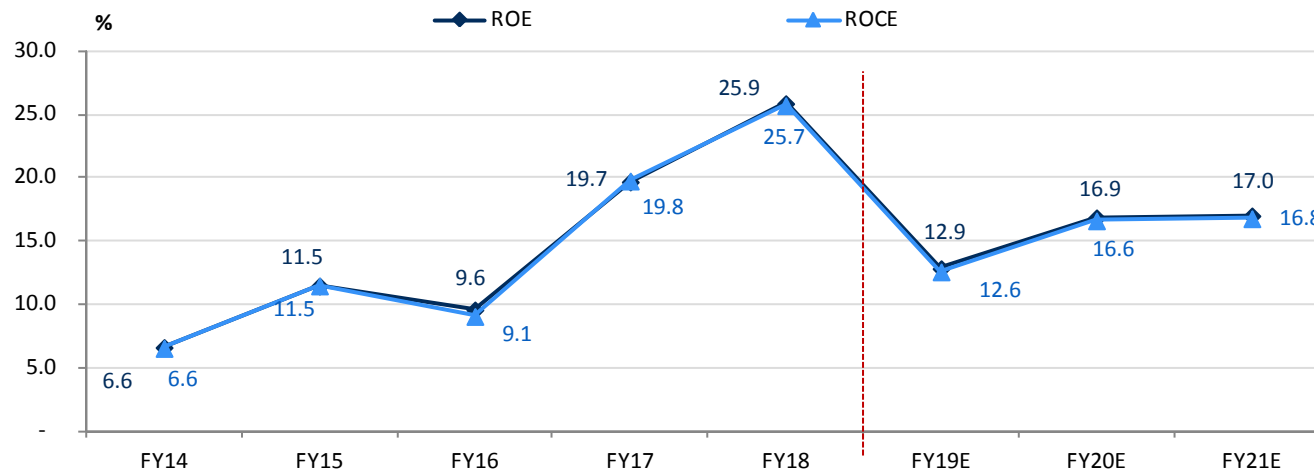
**PAT breakup**

(Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
-Brokerage & operating income	1,088	1,734	1,745	1,688	1,789
-Investment banking	372	603	39	48	53
-Wealth management	132	243	151	195	276
<b>Capital markets</b>	<b>1,592</b>	<b>2,581</b>	<b>1,935</b>	<b>1,931</b>	<b>2,119</b>
Asset management	989	1,650	1,809	1,996	2,301
Fund based Income	873	1,584	24	1,602	1,789
Other income	20	38	-	-	-
<b>RPAT (ex-aspire) pre-intersegment adj.</b>	<b>3,474</b>	<b>5,852</b>	<b>3,768</b>	<b>5,530</b>	<b>6,209</b>
Less: inter-segment	(652)	(545)	(194)	(212)	(233)
<b>Add: exceptional and others</b>	<b>162</b>	<b>235</b>	<b>71</b>	<b>75</b>	<b>78</b>
<b>RPAT (ex-aspire)</b>	<b>2,984</b>	<b>5,543</b>	<b>3,646</b>	<b>5,392</b>	<b>6,054</b>
Aspire Home	821	315	(1,449)	334	813
<b>Total RPAT (inc. Aspire)</b>	<b>3,805</b>	<b>5,857</b>	<b>2,197</b>	<b>5,726</b>	<b>6,867</b>

Source: Company, HDFC sec Inst Research

Note: FY19 onwards, other income has been clubbed into fund based income.

**MOFS (ex-Aspire Home): Return ratios to improve**



Source: Company, HDFC sec Inst Research

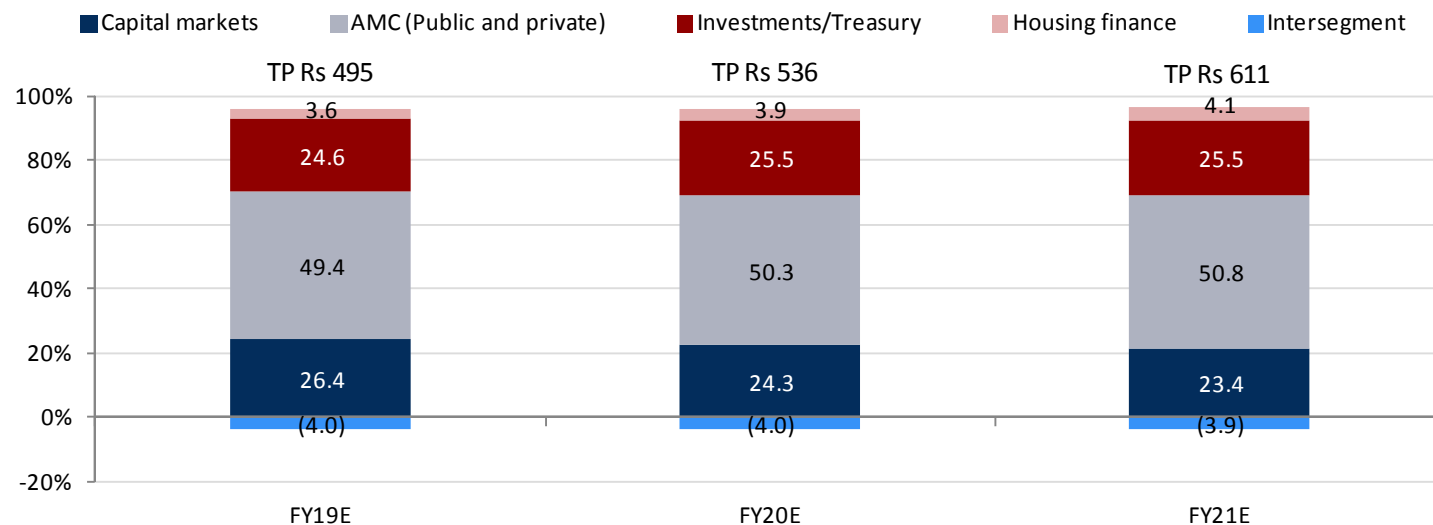
## Valuation

### Sum of the parts valuation

Business segments	Metric	FY19E	FY20E	FY21E	Multiple (x)	Valuation (M.cap. Rs mn)			Valuation (Rs/share)		
						FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Capital markets	PAT	1,935	1,931	2,119	10.0	19,352	19,310	21,190	131	130	143
AMC (Public and private)	PAT	1,809	1,996	2,301	20.0	36,176	39,924	46,022	244	270	311
Investments/Treasury	MTM value	22,553	25,253	28,880	0.8	18,043	20,202	23,104	122	136	156
Housing finance	ABV	5,251	6,138	7,384	0.5	2,625	3,069	3,692	18	21	25
<b>Total</b>						<b>76,196</b>	<b>82,505</b>	<b>94,008</b>	<b>515</b>	<b>557</b>	<b>635</b>
Less: intersegment		-194	-212	-233	15.0	-2,903	-3,186	-3,496	(20)	(22)	(24)
<b>Total</b>						<b>73,293</b>	<b>79,319</b>	<b>90,511</b>	<b>495</b>	<b>536</b>	<b>611</b>

Source: Company, HDFC sec Inst Research

### Valuation breakup



Source: Company, HDFC sec Inst Research

*AMC business contributes ~51% to SOTP valuation.*

*We believe multiples will rerate only when flows improve considerably or downward pressure on broking yields eases.*

*Any regulatory clamp down on PMS fees by the regulator poses a risk to the business.*

*Higher than expected credit losses at and longer duration to turnaround of Aspire pose risks to our forward estimates.*

*Management needs to demonstrate higher degree of prudence in capital allocation.*

## Risks

### ■ Asset management businesses

- **Macro slowdown especially when industry seems to have made a cyclical high:** The Indian mutual funds industry has had a spectacular run in the last few years and especially in FY18 where equity inflows touched an all time high of Rs 2.60tn. This seems to be a cyclical high given the equity flows FY19TD are Rs 1.06tn. Any significant slowdown in flows will impact profitability projections.
- **Underperformance risk:** While recent performance of Motilal's equity mutual funds and PMS's has been under pressure, in general the company's funds have done well over the last few years. Continued underperformance of its funds though remains as a key investment risk.
- **Increased competition in the alternatives space resulting in reduction of fees:** The company derives majority of its revenues from its PMS business. Increased competition within the PMS/AIF space may push down yields.
- **PMS business may see downward renegotiation of fees :** Over the last few years the PMS business has scaled up. As investment returns have been good investors have been willing to pay high fees. Given range bound markets we suspect that investors will be unwilling to pay high fees and may renegotiate fees downwards.
- **Regulatory risks:** SEBI may clamp down on management fees and distributor commissions for alternatives including PMSs.

- **Key man risk:** Mr. Raamdeo Agrawal is the mentor and face of the AMC. Loss of Mr. Agrawal may cause serious setback to the AMC business.

### ■ Broking and distribution:

- The broking industry is currently facing significant pressures on account of increased competition from discount brokers. While the capital market cycle over the last few years has been positive and volumes have compensated for declining yields, a reversal of investments into financial assets will have a significantly negative impact on both asset prices and trading volumes, which in-turn will significantly impair broking revenues and earnings.
- Investors moving to direct MF investing and/or reduction in commission payouts due to decrease in TERs are the key risks. However given that MFs are only 25% of its wealth AUM, the impact of these changes will be minimal.

- **Housing finance business:** Key risk facing Aspire currently is a higher than expected credit losses in its legacy book. Additionally lower rate of disbursements may impact earnings over FY20-21E.

- **Fund based business:** Company has a large proportion of its treasury invested in equities (public and private). Equity returns are almost always cyclical and unpredictable. We have assumed a blended return of ~6-7% on this portfolio.

- **Capital allocation:** MOFS has to be more prudent in its capital allocation decisions. The company has fumbled with its investments in housing finance, LAS book and funding in NSEL scam.

*Promoter holding stands at 70.3%.*

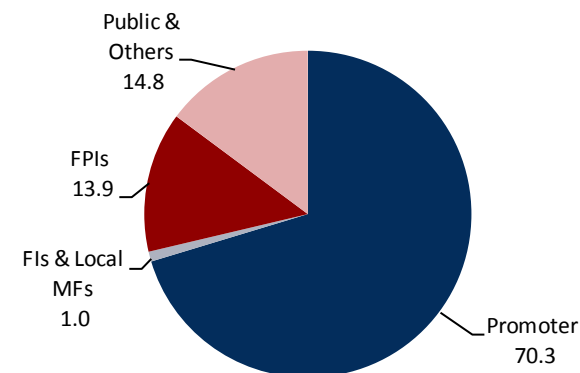
## Company background and management

- **Chairperson and MD – Motilal Oswal**, CA by qualification, he started MOFS along with Co-promoter, Raamdeo Agrawal in 1987. He has served on the Boards of the BSE, Indian Merchant’s Chamber (IMC), and on various committees of the BSE, NSE, SEBI and CDSL.
- **Joint Managing director - Raamdeo Agarwal**, CA by qualification, he started MOFS along with Mr. Motilal Oswal in 1987. He is a Joint MD of MOFS and also the co-founder of MOFS.
- **Managing director - Navin Agarwal** is a CA, ICWA, CS and CFA by qualification. He was responsible for the Institutional Broking & Investment Banking business and has been instrumental in building a market-leading position for the Group in Institutional Broking. He has been with MOFS since 2000.
- **CFO- Shalibhadra Shah** is a CA by qualification. He is finance professional with 17 years of experience in finance, accounts, Taxation and Compliance. He joined MOFS Group in 2006.

### Shareholding pattern

- Promoters own ~70.3% stake. Mutual funds own about 1% while foreign portfolio investors own ~14%.

#### Shareholding pattern (%)



Source: BSE, HDFC sec Inst Research

#### Top 10 Institutional shareholders

Holder	Stake (%)
Franklin Advisers LLC	2.53
DF International Partners	1.74
JP Morgan Chase	1.70
Steadview Capital Mauritius	1.32
Franklin Templeton AMC	0.92
Vanguard Group	0.71
Dimensional Fund Advisors LP	0.42
Blackrock	0.39
UTI AMC	0.32
British Columbia Inv. Management	0.22

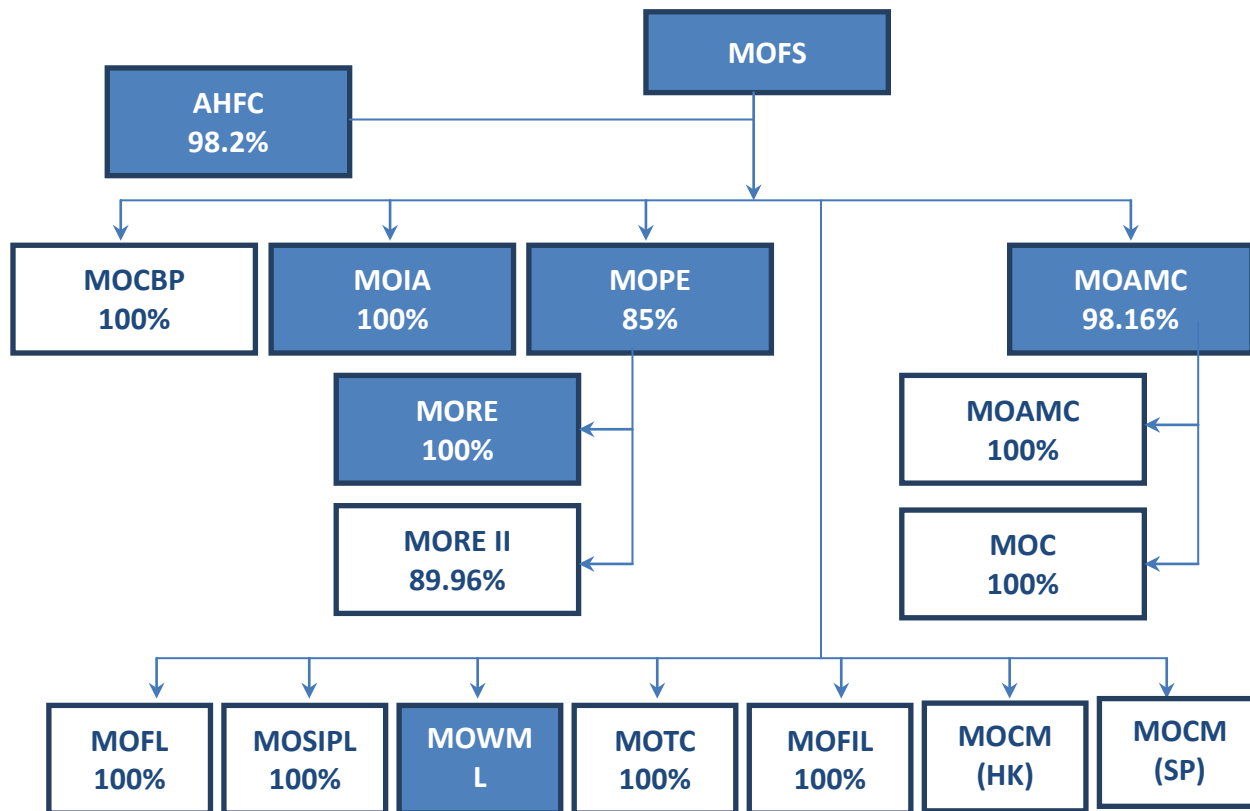
Source: Bloomberg, HDFC sec Inst Research

### Evolution of MOFS

Year	Particulars
1987	Starts as a sub broking outfit - Prudential Portfolio Services
1994	Enters Institutional Equities business
2003	Reach expands to over 100 business locations and customer base crosses 10,000 , FII clients crosses 300, Launched PMS business
2006	Enters into Investment Banking, Private Equity and Wealth Management business
2007	Goes public. The IPO was oversubscribed 26.4 times. Profits crosses Rs 1bn & group revenues crosses Rs 5bn
2010	Asset Management launches its maiden mutual fund offering (ETF)
2014	Enters into Home Finance business with the launch of AHFCL. Buy back of shares (Price range of Rs 70-90 per share)
2017	Asset Management Business crosses the milestone of Rs 250bn equity AUM. Aspire loan book Rs 41bn
2018	Group AUM Rs 1tn. Revenues and profits crosses Rs 20bn and Rs 5bn respectively - Mcap crossed \$3.5bn

Source: Company, HDFC sec Inst Research

**Holding structure of the group**



Source: Company, HDFC sec Inst Research

- MOFS: Motilal Oswal Financial Services
- AHFC: Aspire Home Finance Corporation
- MOCBP: Motilal Oswal Commodities Brokers
- MOAMC: Motilal Oswal Asset Management Company
- MORE: Motilal Oswal Real Estate
- MOPE: Motilal Oswal Private Equity
- MOIA: Motilal Oswal Investment Advisors

**Income Statement (ex-Aspire Home)**

(Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
<b>Net Revenues</b>	<b>12,555</b>	<b>19,837</b>	<b>15,870</b>	<b>17,907</b>	<b>19,857</b>
<b>Growth (%)</b>	<b>58.1</b>	<b>58.0</b>	<b>(20.0)</b>	<b>12.8</b>	<b>10.9</b>
Employee benefits expenses	3,129	4,129	5,162	6,091	7,309
Operating expenses	5,101	7,945	5,415	4,737	4,554
<b>EBITDA</b>	<b>4,325</b>	<b>7,762</b>	<b>5,294</b>	<b>7,079</b>	<b>7,994</b>
<b>EBITDA Margin (%)</b>	<b>34.5</b>	<b>39.1</b>	<b>33.4</b>	<b>39.5</b>	<b>40.3</b>
<b>EBITDA Growth (%)</b>	<b>39.9</b>	<b>13.6</b>	<b>(14.8)</b>	<b>18.5</b>	<b>1.8</b>
Depreciation	295	311	309	316	322
<b>EBIT</b>	<b>4,030</b>	<b>7,452</b>	<b>4,985</b>	<b>6,764</b>	<b>7,672</b>
Other Income (includes exceptional )	(232)	(271)	1	1	1
Interest & Financial Charges	-	-	-	-	-
<b>PBT</b>	<b>3,798</b>	<b>7,180</b>	<b>4,986</b>	<b>6,765</b>	<b>7,673</b>
Tax	975	1,872	1,411	1,448	1,697
<b>RPAT</b>	<b>2,823</b>	<b>5,308</b>	<b>3,575</b>	<b>5,317</b>	<b>5,976</b>
Minority Interest	(106)	(98)	(24)	(25)	(26)
Profit/Loss of Associate Company	60	91	95	100	105
EO (Loss) / Profit net of tax	207	242	-	-	-
<b>APAT</b>	<b>2,984</b>	<b>5,543</b>	<b>3,646</b>	<b>5,392</b>	<b>6,054</b>
<b>APAT Growth (%)</b>	<b>131.3</b>	<b>85.7</b>	<b>(34.2)</b>	<b>47.9</b>	<b>12.3</b>
<b>AEPS</b>	<b>20.6</b>	<b>37.7</b>	<b>24.3</b>	<b>35.9</b>	<b>40.4</b>
<b>EPS Growth (%)</b>	<b>129.5</b>	<b>83.4</b>	<b>(35.5)</b>	<b>47.9</b>	<b>12.3</b>

Source: Company, HDFC sec Inst Research

**Balance Sheet (ex-Aspire Home)**

(Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
<b>SOURCES OF FUNDS</b>					
Share Capital	145	145	148	148	148
Reserves	16,213	26,323	30,071	33,541	37,272
Minority Interest	285	354	378	403	429
<b>Total Shareholders Funds</b>	<b>16,643</b>	<b>26,822</b>	<b>30,597</b>	<b>34,092</b>	<b>37,849</b>
Long-term Debt	2,500	2,000	2,000	2,000	2,000
Short-term Debt	10,187	12,283	12,000	12,000	13,000
<b>Total Debt</b>	<b>12,687</b>	<b>14,282</b>	<b>14,000</b>	<b>14,000</b>	<b>15,000</b>
Other Financial Liabilities & Provisions	1,092	1,749	1,435	1,619	1,795
Other Non Current Liabilities	17	17	17	18	19
Net Deferred Tax Liability	334	1,434	1,465	1,496	1,528
<b>TOTAL SOURCES OF FUNDS</b>	<b>30,772</b>	<b>44,304</b>	<b>47,514</b>	<b>51,224</b>	<b>56,191</b>
<b>Net Block</b>					
Non current Investments	18,080	29,827	32,432	35,045	37,914
Loans & Deposits	1,269	1,342	1,304	1,472	1,632
Other Non Current Assets	36	185	185	185	185
<b>Total Non-current Assets</b>	<b>22,177</b>	<b>34,218</b>	<b>36,635</b>	<b>39,279</b>	<b>42,184</b>
Current Investments	1,650	3,466	3,466	3,639	3,821
Debtors	12,511	10,358	6,522	7,359	8,160
Inventories	2	3	3	3	3
Cash & Equivalents	2,981	3,619	4,910	5,377	7,011
Loans & Advances	3,150	8,772	8,934	10,237	11,278
Other Current Assets	103	120	87	49	54
<b>Total Current Assets</b>	<b>20,398</b>	<b>26,338</b>	<b>23,922</b>	<b>26,664</b>	<b>30,328</b>
Creditors	10,087	13,185	10,870	12,265	13,601
Other Current Liabilities	1,715	3,067	2,174	2,453	2,720
<b>Total Current Liabilities</b>	<b>11,802</b>	<b>16,252</b>	<b>13,044</b>	<b>14,718</b>	<b>16,321</b>
<b>Net Current Assets</b>	<b>8,595</b>	<b>10,086</b>	<b>10,878</b>	<b>11,946</b>	<b>14,007</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>30,772</b>	<b>44,304</b>	<b>47,514</b>	<b>51,224</b>	<b>56,191</b>

Source: Company, HDFC sec Inst Research

**Cash Flow (ex-Aspire Home)**

(Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
<b>Reported PBT</b>	<b>4,076</b>	<b>7,508</b>	<b>4,986</b>	<b>6,765</b>	<b>7,673</b>
Non-operating & EO Items	(527)	(1,002)	-	-	-
Interest Expenses	-	-	-	-	-
Depreciation	295	311	309	316	322
Working Capital Change	2,332	4,628	(29)	(379)	803
Tax Paid	(975)	(1,872)	(1,411)	(1,448)	(1,697)
<b>OPERATING CASH FLOW ( a )</b>	<b>5,201</b>	<b>9,571</b>	<b>3,855</b>	<b>5,254</b>	<b>7,102</b>
Net Capex	(201)	(384)	(159)	(179)	(199)
(Purchase)/sale of net operating financial assets	(6,102)	(7,067)	(2,510)	(2,686)	(2,946)
Free Cash Flow (FCF)	(1,102)	2,120	1,186	2,388	3,957
Investments	-	-	-	-	-
Non-operating Income					
<b>INVESTING CASH FLOW ( b )</b>	<b>(6,303)</b>	<b>(7,451)</b>	<b>(2,668)</b>	<b>(2,865)</b>	<b>(3,145)</b>
Debt Issuance/(Repaid)	1,500	(500)	-	-	-
Interest Expenses	-	-	-	-	-
FCFE	398	1,620	1,186	2,388	3,957
(Buyback)/Proceeds From Issue of Share Capital	429	208	1,102	-	-
Dividend	(518)	(1,190)	(793)	(2,068)	(2,480)
Others	-	-	(203)	146	158
<b>FINANCING CASH FLOW ( c )</b>	<b>1,411</b>	<b>(1,483)</b>	<b>106</b>	<b>(1,922)</b>	<b>(2,322)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>310</b>	<b>637</b>	<b>1,292</b>	<b>466</b>	<b>1,634</b>
Opening Cash & Equivalents	2,673	2,981	3,619	4,910	5,377
<b>Closing Cash &amp; Equivalents</b>	<b>2,982</b>	<b>3,619</b>	<b>4,910</b>	<b>5,377</b>	<b>7,011</b>

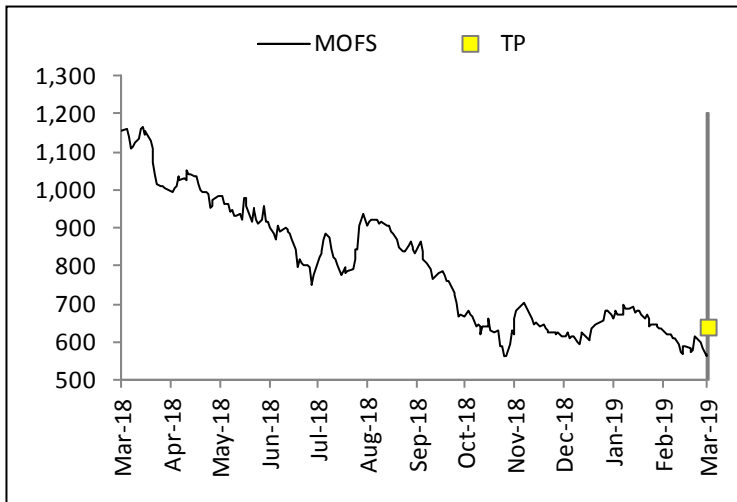
Source: Company, HDFC sec Inst Research

**Key Ratios (ex-Aspire Home)**

	FY17	FY18	FY19E	FY20E	FY21E
<b>PROFITABILITY (%)</b>					
GPM					
EBITDA Margin	34.5	39.1	33.4	39.5	40.3
EBIT Margin	32.1	37.6	31.4	37.8	38.6
APAT Margin	23.8	27.9	23.0	30.1	30.5
RoE	19.7	25.9	12.9	16.9	17.0
Core RoCE	19.7	25.9	12.9	16.9	17.0
RoCE	19.8	25.7	12.6	16.6	16.8
<b>EFFICIENCY</b>					
Tax Rate (%)	25.7	26.1	28.3	21.4	22.1
Asset Turnover (x)	4.5	6.9	5.8	6.9	8.1
Inventory (days)	0	0	0	0	0
Debtors (days)	364	191	150	150	150
Other Current Assets (days)	3	2	2	1	1
Payables (days)	293	243	250	250	250
Other Current Liab & Prov (days)	50	56	50	50	50
Working Capital (days)	24	(106)	(148)	(149)	(149)
Debt/EBITDA (x)	2.93	1.84	2.64	1.98	1.88
Net D/E	0.6	0.4	0.3	0.3	0.2
<b>Interest Coverage</b>					
<b>PER SHARE DATA</b>					
AEPS (Rs/sh)	20.6	37.7	24.3	35.9	40.4
CEPS (Rs/sh)	22.9	40.4	27.3	39.4	44.1
DPS (Rs/sh)	5.5	8.5	4.6	11.9	14.2
BV (Rs/sh)	115.2	184.9	206.6	230.2	255.6
<b>VALUATION</b>					
P/E	26.6	14.5	22.5	15.2	13.6
P/BV	4.9	3.0	2.7	2.4	2.2
EV/EBITDA	10.4	15.3	11.4	10.1	8.9
OCF/EV (%)	6.4	11.8	4.8	6.5	8.8
FCF/EV (%)	(1.4)	2.6	1.5	2.9	4.9
FCFE/MCAP (%)	0.5	2.0	1.5	2.9	4.9
Dividend Yield (%)	1.0	1.5	0.8	2.1	2.5

Source: Company, HDFC sec Inst Research

**RECOMMENDATION HISTORY**



Date	CMP	Reco	Target
05-Mar-2019	568	NEU	611

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- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

**INSTITUTIONAL RESEARCH**
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