

EQUITY EXPERTS
FOR OVER
30
YEARS



MOTILAL OSWAL

ANNUAL REPORT 2018-19



**DEEPER THE ROOTS
GREATER THE FRUITS**



DEEPER THE ROOTS GREATER THE FRUITS

At Motilal Oswal, we have strived to build a strong base for every business. It's this foundation that provides the launch pad for sustained growth. Be it people, products or processes, we have imbued each business with a strong foundation that will bear fruits in this year and years to come.



CONTENTS

MESSAGE FROM THE CHAIRMAN	02
BOARD OF DIRECTORS	04
KEY PEOPLE	05
PERFORMANCE AT A GLANCE	06
BUSINESS SNAPSHOT	08
5-YEAR PERFORMANCE HIGHLIGHTS	10
BOARD'S REPORT	13
MANAGEMENT DISCUSSION & ANALYSIS	45
CORPORATE GOVERNANCE	55
BUSINESS RESPONSIBILITY REPORT	73
ACCOUNTS	81



MESSAGE FROM THE CHAIRMAN



Mr. Motilal Oswal

Chairman, Managing Director &
Chief Executive Officer, MOFSL

Dear Shareholders,

The nature of FY2019 remained volatile and challenging for the overall markets with various macro-level headwinds like NBFC liquidity crisis, uncertainties at the political platform and cross-border tensions. As a result, the overall sentiment weighed heavily on the activities at capital market levels. However, the alleviation of the issues resulted in a pick-up of activity in the last leg of FY2019. Going forward, the fruition of long-term benefits of GST and demonetisation, smoothening of liquidity issues in conjunction with political stability will bring the sweet spot back for the markets. Despite such challenges during the year, our company withstood the volatility with some market-driven impacts and continued to march towards achieving linearity in the business. We continue to remain optimistic on the growth potential of all our business verticals given the robust fundamental

structure and revival in macro-conditions. Our company underwent Ind-AS transition during the year due to which the financial performance has accounted a MTM un-realised gain/loss. Our consolidated revenues for FY2019 stood at ₹ 2,468 crores with PAT of ₹ 298 crores including the share of associates. Our PAT of ₹ 298 crores in FY2019 was lower on YoY basis mainly on account of higher provisions and write-offs in our Housing Finance Business and lower MTM on fund-based investments as per Ind-AS. On account of the same, our ROE stands lower on YoY basis at 10%. Going forward, our focus on knowledge, talent, processes, technology, brand, culture and inter-segment synergies will pave the road for achieving milestones across all business verticals.

Our Asset Management business continued to gain traction despite regulatory changes during the year. Our AMC AUM, which includes MFs, PMS and AIFs stood at ₹ 38,893 crores at the end of FY2019. During the year, the asset management companies were exposed to various regulatory changes like the ban on upfront fee, change in direct TERs for MF (from October 23, 2018), and slab-wise TER changes (from April 1, 2019 (FY2020)). Our AMC business has always been the promoter of trail-based model and hence, the ban on upfront fee structure has been in our favour. With respect to the direct TER changes, we have accounted for the same and taken ~10bps impact on our MF TER. Coming to the slab-wise TER changes, the effect of which will be seen in FY2020, we do not foresee any material impact as our AUM is well positioned with 50% of it consisting of alternative assets (PMS and AIFs) as against industry dynamics. Also, the majority of the impact has been passed on to the distributors. Overall, we believe the customer-friendly regulatory changes will benefit the AMC industry in the long term. Our Private Equity funds have been successful in delivering robust IRRs adding to the profitability and potential scalability of the business. During the year, PE AUM has witnessed strong growth of 36% YoY to reach ₹ 6,370 crore led by the successful fund-raising of IBEF -3 and IREF-4 fund. Our carry income in this business was significantly low on YoY basis as we did not book any major exit during the year (unlike FY2018). Also, our Wealth Management Business has been successful in adding new families with AUM growth of 19% at ₹ 17,464 crores. With the improvement in the vintage of RMs, the profitability of our Wealth Management Business is poised for further traction.

On the capital markets front, the suppressed sentiments and dip in FII and DII flows for majority of the year had an impact on primary and secondary markets. Despite such headwinds, we were successful in adding 1.5 lakh clients taking the total retail client base to ~12 lakh. Also, we protected the margins led by our flexible cost structure and trail based distribution model which

supports this cyclical business in such down-cycles. Our distribution AUM has gained traction and reached ₹ 9,572 crore, (+27% YoY) and has huge headroom for growth as the client penetration stands at ~16% of our retail client base. In the Institution Business, our rankings and clientele continued to remain robust. The Investment Banking business during the year remained under pressure as primary market activities almost dried up as companies put their capital raising plans on hold. Given the robust pipeline, we believe the business will start showing results post the pick-up in markets.

On our Housing Finance Business, our efforts were concentrated in building a newer version of business with alignment of processes remaining the utmost priority. Our senior management team with all functional heads (Risk, Credit, Technical, Legal and Collections) is now in place. We have made a capital infusion of ₹ 200 crore during the year which is testimony to the conviction we have on our revival efforts. We have verticalised the organizational structure with independent sales, credit, collection and legal team. During the year, we have written off loans worth ₹ 290 crore to eliminate most of the doubtful assets. After implementing several changes in Aspire along with parent support, it has now culturally aligned with MOFSL group. Hence, we have changed the name from “Aspire Home Finance” to “Motilal Oswal Home Finance” which will yield multiple benefits. Going forward, our focus will continue to make our Housing Finance Business a turn-around story. In our fund based businesses (comprising of sponsor commitments to quoted equity and private equity funds), most of the gains are still unrealized and yet to be booked in our reported P/L. As per IND-AS, these gains are a part of our reported earnings. Our QGLP philosophy, niche expertise in equities, proven track record and belief in ‘skin in the game’, augurs well for our fund based business.

Some of the key highlights of FY2019 include 36% growth in PAT of Asset Management Business, 18% growth in PAT of Broking Business, 27% growth in Distribution Business AUM, return of profits with no write-offs for Aspire Home Finance in Q4FY2019, name change of Home Finance Business to “Motilal Oswal Home Finance”, maintained dividend and increased payout to 50% of profits despite lower PAT.

Our strategy to diversify our business model towards linear sources of earnings has shown results with the bulk of the revenue pie now coming from the new businesses. Our Asset and Wealth Businesses are now the largest contributor to profits and ahead of the Capital Market businesses for the first time. Going forward, with expectations of profits from our efforts in Housing Finance and scalability of other businesses, we remain excited for the future prospects of the company.

At a macro level, global markets continue to remain positive on India as an investment theme. There have been some positive trends recently with stabilization in some macro indicators and outcome of elections. Also, the growing demand for affordable housing stands positive for our business. Sustenance of macros at reasonable levels augurs well for our business and industry as a whole. As these macro trends open up opportunities, our experience and emphasis on ‘Knowledge First’ give us the ability to capture these growth prospects.

With best wishes,



Sincerely,
Motilal Oswal
Chairman, Managing Director & CEO
Motilal Oswal Financial Services Ltd.



BOARD OF DIRECTORS



MOTILAL OSWAL
Chairman, Managing Director
& Chief Executive Officer



RAAMDEO AGARAWAL
Joint Managing Director



NAVIN AGARWAL
Managing Director
(Appointed w.e.f. August 21, 2018)



VIVEK PARANJPE
Independent Director



PRAVEEN TRIPATHI
Independent Director



SHARDA AGARWAL
Independent Director



REKHA SHAH
Independent Director
(Appointed w.e.f. August 21, 2018)

Kailash Purohit

Company Secretary and Compliance Officer

Statutory Auditors

M/s Walker Chandok & Co. LLP, Chartered Accountants

Internal Auditors

M/s. Aneja Associates

Registrar and Share Transfer Agent

Link Intime India Private Limited.

C - 101, 247 Park, L.B.S. Marg, Vikroli (West), Mumbai - 400083

E-mail: rnt.helpdesk@linkintime.co.in

Registered Office

Motilal Oswal Financial Services Limited

Regd. Office: Motilal Oswal Tower, Rahimtullah Sayani Road, Opp. Parel ST Depot, Prabhadevi, Mumbai – 400025.

CIN: L67190MH2005PLC153397

Website: www.motilaloswalgroup.com

Board: +91 22 7193 4200 / 4263

Fax: +91 22 5036 2365

Email: shareholders@motilaloswal.com

Motilal Oswal Securities Limited ("MOSL") has been amalgamated with Motilal Oswal Financial Services Limited ("MOFSL") w.e.f. August 21, 2018, pursuant to the order dated July 30, 2018 issued by Hon'ble National Company Law Tribunal, Mumbai Bench.

MOFSL Registration Nos.: INZ000158836 (BSE/NSE/MCX/NCDEX); CDSL and NSDL: IN-DP-16-2015; Research Analyst: INH000000412. AMFI: ARN -146822; Investment Adviser: INA000007100; Insurance Corporate Agent: CA0579, PMS: INP000006712



KEY PEOPLE

Capital Market Businesses



AJAY KUMAR MENON
CEO, Broking & Distribution Business,
Whole-time Director, MOFSL
(Appointed w.e.f. August 21, 2018)



RAJAT RAJGARHIA
CEO, Institutional Equities
Business



GIRISH NADKARNI
CEO, Investment Banking
Business

Asset & Wealth Management Businesses



AASHISH P SOMAIYAA
CEO, Asset Management Business



VISHAL TULSYAN
Managing Director & CEO,
Private Equity Business



VIJAY KUMAR GOEL
CEO, Private Wealth
Management Business

Housing Finance Business



MR. SANJAY ATHALYE
Managing Director & CEO



RAMNIK CHHABRA
Group Head, Marketing



SUDHIR DHAR
Group Head, Human Resources
& Administration



PANKAJ PUROHIT
Group Head,
Information Technology

Support Functions

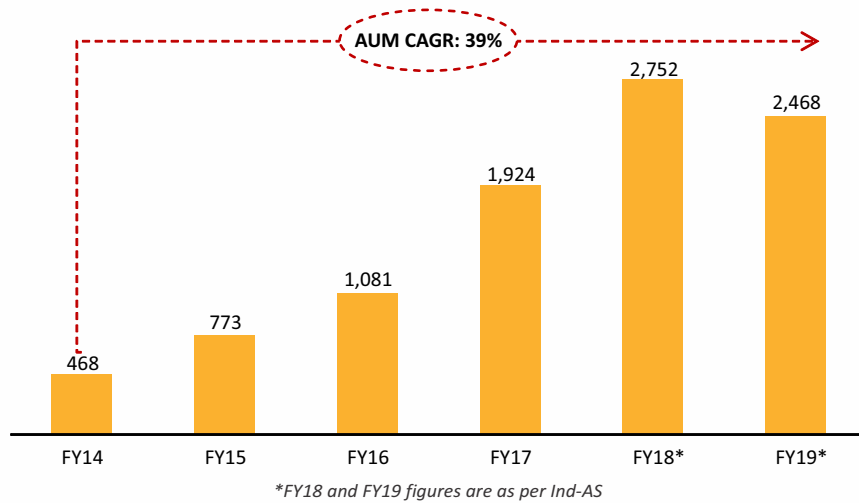


SHALIBHADRA SHAH
Chief Financial Officer

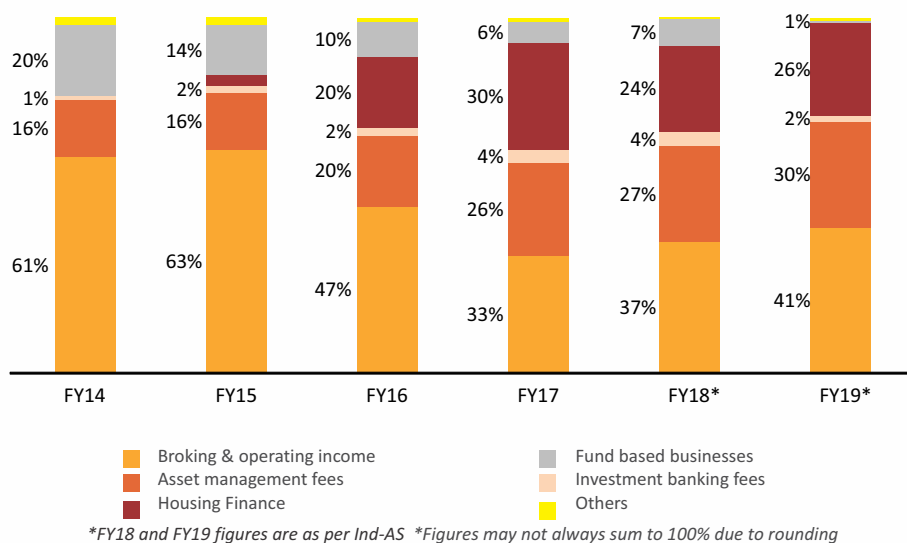


PERFORMANCE AT A GLANCE

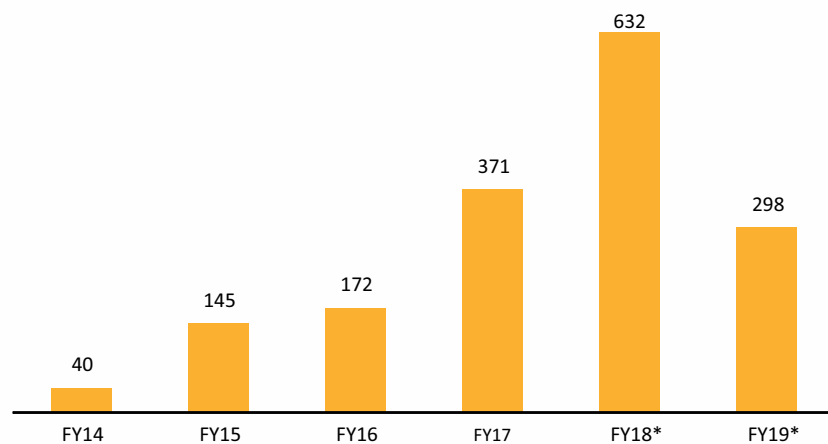
Consolidated Revenue (₹ Crore); & 5-Year CAGR



Revenue Composition %

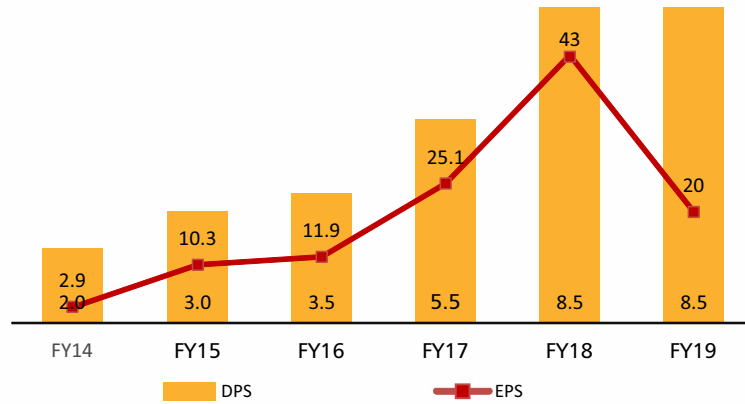


PAT Trend(₹ Crore)

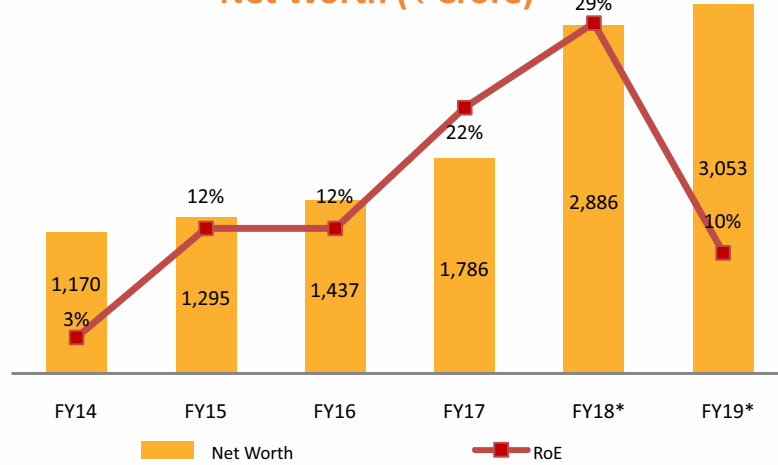


PAT for FY19 was down YoY mainly on account of lower MTM gains as per Ind-AS and higher discretionary write-offs in Aspire

Dividend & Earning per Share (₹)

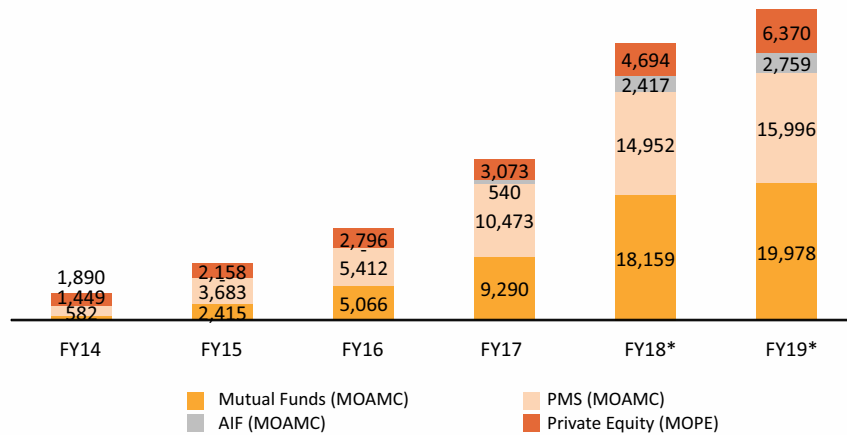


Net Worth (₹ Crore)



*FY18 and FY19 figures are as per Ind-AS

Assets under Management / Advice (₹ Crore)



*FY18 and FY19 figures are as per Ind-AS



BUSINESS SNAPSHOT

Broking & Distribution

- Total retail client base rose to 11,99,923 with a CAGR of 13% from FY15-19
- Client acquisition stood at ~1,50,000 during the year and has maintained the trend in the last two years
- Financial product distribution AUM was ₹ 9,572 crores as of Mar 2019, up 27% YoY with only 16% on total client base and ~20% of our distribution network tapped
- Research and advisory continue to be the differentiators of Broking Business

Institutional Equities

- No.1 ranking in events, conference and roadshows in Asia Money 2018 ranking
- No. 3 in three research categories, sales trading and overall sales in Asia Money 2018 ranking
- Research product portfolio of 250+ companies which generated 750+ reports
- Launched our 1st Annual Edition of “India Ideation Conference” in 2019
- Continued our successful trend in conducting ‘AGIC’ which had a highest ever participation of 1100 clients with 110 from offshore base

Investment Banking

- Successfully executed marquee transactions like acquisition of Aurangabad Electricals by Mahindra CIE
- Other key deals included PE advisory services to Happy Forgings (₹ 2 bn), QIP of HDFC Bank (₹ 28 bn), IPO of Indostar (₹ 18.4 bn), preferential issue of AU Small Finance Bank (₹ 10 bn) and OFS for LTI (₹ 18 bn)

Asset Management

- Public market AUM was ₹ 38,893 crores as of Mar 2019, up 9% YoY
- Mutual fund AUM was up 10% YoY to ₹ 19,979 crores, PMS AUM was up 7% YoY to ₹ 15,996 crores and AIF AUM was ₹ 2,759 crores
- Annual run-rate of SIP at the end of FY2019 was ₹ 20 bn.
- Rank in Equity AUM improved to 11 from 14 two years ago. We continued to remain the market leader in PMS industry
- Robust foundation of QGLP philosophy
- Strong brand creation

Private Equity

- PE AUM stood at ₹ 6,370 crores, +36% YoY across three growth capital funds and four real estate funds
- Growth capital funds have been successful in gaining investors’ confidence with stellar returns over the years
- IBEF I has delivered a portfolio XIRR of 27% and is expected to return ~6x MoC (Multiple of Cost)