Motilal Oswal Financial Services

ConCall Summary & Earnings Release

Quarter ended June, 2021

30th July, 2021

Motilal Oswal Financial Services Limited (MOFSL) posted consolidated revenues of Rs 9.6 bn for Q1FY22, up 25% YoY. Consolidated PAT grew by 32% YoY at Rs 2.2 bn for Q1FY22. Consolidated revenues ex- gain on investments grew by 36% YoY at Rs 8.6 bn, consolidated PAT grew by 25% YoY at Rs 1.3 bn. Capital Market profit was Rs 0.78 bn in Q1FY22, up 36% YoY. Asset and Wealth Management profits were Rs 0.54 bn in Q1FY22, up 83% YoY. Housing finance profit was Rs 85 mn in Q1FY22.

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. This presentation is available at www.motilaloswalgroup.com

Corporate Participants

Mr Raamdeo Agrawal

Chairman

Mr Motilal Oswal

Managing Director and CEO

Mr Navin Agarwal

Director

Mr Ajay Menon

CEO- Broking

Mr Arvind Hali

CEO- Home Finance

Mr Shalibhadra Shah

Chief Financial Officer

Mr Rakesh Shinde

Investor Relations

Welcome to the Q1FY22 Earnings Conference call for Motilal Oswal Financial Services Limited. We have with us today Mr. Motilal Oswal - MD & CEO; Mr. Raamdeo Agrawal - Chairman; Mr. Navin Agarwal - Director; Mr. Ajay Menon- CEO, Broking; Mr. Arvind Hali- CEO, Home Finance; Mr. Shalibhadra Shah - Chief Financial Officer and Mr. Rakesh Shinde - Investor Relations. For the duration of this presentation all participant lines will be in the listen-only mode. I will be standing by for the question-answer 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 (Rs Mn)

Particulars	Q1 FY22	Q1 FY21	CHG. YoY	Q4 FY21	CHG. QoQ
Total Revenues (ex-MTM)	**8,595**	**6,328**	**36%**	**9,039**	**-5%**
EBITDA	3,000	2,622	14%	3,617	-17%
PBT	1,826	1,428	28%	2,390	-24%
Operating PAT	**1,291**	**1,030**	**25%**	**1,818**	**-29%**
PAT	**2,211**	**1,670**	**32%**	**4,482**	**-51%**

REVENUE COMPOSITION (Rs Mn)

Particulars	Q1 FY22	Q1 FY21	CHG. YoY	Q4 FY21	CHG. QoQ
Broking	5,120	3,434	49%	5,131	0%
Investment Banking	12	4	243%	5	162%
Asset Management	1,381	1,036	33%	1,831	-25%
Private Equity	257	219	17%	245	5%
Wealth Management	396	221	79%	371	7%
Housing Finance	1,369	1,333	3%	1,394	-2%
Fund Based (ex-MTM)	59	82	-27%	63	-6%
Total Revenues	**8,595**	**6,328**	**36%**	**9,039**	**-5%**

Opening remarks

Good afternoon everybody. It is pleasure to welcome all of you once again to the Motilal Oswal Financial Services Earnings Call for the Q1 ended June 30, 2021. We hope that each one of you and your families are safe and in good health.

Financial performance

- We have reported strong and sustainable performance despite of impact of Covid 2nd wave. We have reported PAT growth of 32% YoY at Rs 2.2 bn. Operating profit grew 25% YoY for Q1FY22 to Rs 1.3 bn.
- The core business was robust with capital market business profit growth of 36% YoY, asset and wealth business profit growth of 83% YoY led by 48% YoY growth in PAT of AMC business and strong turnaround in the wealth management business performance.
- Consolidated net worth touched all time high and stood at Rs 46.1 bn, net debt is Rs 38.4 bn. Excluding Home finance debt, net debt is Rs 14.4 bn. Total D/E declined to 1.1x. Ex-MOHF D/E stood at 0.5x. We are a net cash company net of our equity investments.
- RoE for Q1FY22 stands at 23%.

Key highlights for the Q1FY22

- **Broking–** Despite constant chatter of the rise of discount brokerages, our broking biz continue to report strong growth of 49% YoY in revenues, continued traction in client addition, 104% growth in ADTO with mix favour in high yielding cash delivery, Online volume crossed 70% mark, strong growth in active clients, traction in banks tie-up. We continue to make significant investments in expanding talent pool & distribution network and also continue to benefit from rapid consolidation in the broking biz.
- **Asset Management–** Life time high markets have lifted AUM of the AMC biz to its highest ever, our MF gross sales and SIP's gained traction, Our AIFs are getting encouraging response. IREF V has achieved its 2nd close at Rs 8.1 bn.
- **Home Finance-** Strong pick-up in disbursements, traction in login/sanction pipeline, we are expanding the sales force meaningfully in Q4 and FY22 to ramp up disbursements in the coming quarters. We have also expanded footprint in 2 more states/UTs, Sharp reduction in cost of funds driving margin expansion.

I will now deep dive into individual businesses.

Capital market business:

KEY FINANCIALS: Capital Markets (Retail Broking & Distribution, Institutional Broking) (Rs mn)

Particulars	Q1 FY22	Q1 FY21	CHG. YoY	Q4 FY21	CHG. QoQ
Total Revenues	5,120	3,434	49%	5,131	0%
EBITDA	1,630	1,214	34%	1,753	-7%
PBT	1,095	814	35%	1,115	-2%
PAT	**799**	**613**	**30%**	**834**	**-4%**

Capital markets comprises of Retail Broking, Institutional Equities and Investment Banking business Revenues for this segment were Rs 5.13 bn, +49% YoY in Q1FY22. Capital market businesses have contributed ~53% of consolidated revenues. Profits were Rs 782 mn, +36% YoY and contributed ~34% of consolidated PAT during Q1FY22.

Broking and Distribution

In **Retail Broking & Distribution**, we have witnessed strong traction in new client addition driven by Franchisee and retail channel , total ~215,000 clients acquired in Q1FY22, +147% YoY. NSE Active clients have also registered 58% YoY growth at 6.5 lacs as of June 2021.

Distribution AUM was Rs.140 bn, +37% YoY with 14% of 2.2 million broking client base tapped and we expect continued increase in AUM and fee income as number of clients to whom we have cross sold and number of products per client cross sold rises.

There is a favorable arbitration award from MCX arbitral tribunal in the crude oil derivative case and now the matter is pending with MCX Appellate tribunal for further hearing.

Turning to the Institutional Broking business:

In Institutional Broking, team wins big in Asiamoney poll 2020. Ranked #1 Best local brokerage House, Best research team, Best sales and sales trading and Best Corporate access. Strong improvement in domestic client rankings with top 3 rank retained in most clients. This has been the result of focus driven differentiated research products with 250+ companies covering 21 sectors.

Investment Banking

KEY FINANCIALS: INVESTMENT BANKING (Rs Mn)

Particulars	Q1 FY22	Q1 FY21	CHG. YoY	Q4 FY21	CHG. QoQ
Total Revenues	12	4	243%	5	162%
EBITDA	-20	-51	-	-35	-
PBT	-25	-52	-	-39	-
PAT	**-17**	**-39**	**-**	**-32**	**-**

Investment banking business continues to engage on a wide cross-section of mandated transactions across capital markets and advisory. We have built pipeline of signed mandates which will start fructifying in H1FY22.

Asset and Wealth management businesses

KEY FINANCIALS: ASSET MANAGEMENT (Rs Mn)

Particulars	Q1 FY22	Q1 FY21	CHG. YoY	Q4 FY21	CHG. QoQ
Total Revenues	1,381	1,036	33%	1,831	-25%
EBITDA	497	335	48%	754	-34%
PBT	491	330	49%	750	-35%
PAT	**356**	**240**	**48%**	**691**	**-48%**

Asset Management business AUM across MF, PMS & AIF stood at Rs 465 bn, +35% YoY. Strong growth of 48% YoY in PAT for the quarter at Rs 356 mn.

Our Equity MF AUM of Rs 284 bn i.e.1.6% of the Industry MF Equity AUM of Rs 17 tn. We have seen improvement in performance of several products. Our gross sales started improving and redemption declined on a sequential basis.

We have witnessed favorable response towards alternate offerings under AIF strategy. Expect continued strong flows in a few more AIF strategies which are in pipeline.

Our share of Alternate assets, comprising of PMS & AIF, is the highest among AMC's at ~39%. We have added around 1 lakh SIPs in Q1FY22, +73% YoY. New SIP count market share stood at 2.0% in Q1FY22.

Private Equity

KEY FINANCIALS: PRIVATE EQUITY (Rs Mn)

Particulars	Q1 FY22	Q1 FY21	CHG. YoY	Q4 FY21	CHG. QoQ
Total Revenues	257	219	17%	245	5%
EBITDA	88	75	18%	99	-11%
PBT	88	74	19%	98	-11%
PAT	**62**	**52**	**18%**	**55**	**11%**

Private Equity has committed investment AUM of Rs 69 bn across 3 growth capital PE funds and 5 real estate funds. In Q1FY22, revenues stood at Rs 257 mn and PAT stood at Rs 62 mn. The 1st growth fund (IBEF 1) has delivered an XIRR of 26%+. Average IRR on exited investments in Real estate funds is 21%+. IREF V achieved its 2nd close at Rs 8.1 bn.

Wealth Management business:

KEY FINANCIALS: PRIVATE WEALTH MANAGEMENT (Rs Mn)

Particulars	Q1 FY22	Q1 FY21	CHG. YoY	Q4 FY21	CHG. QoQ
Total Revenues	396	221	79%	371	7%
EBITDA	171	4	-	159	7%
PBT	163	1	-	157	4%
PAT	**117**	**0**	**-**	**115**	**2%**

Wealth Management business AUM grew by 62% YoY at Rs 288 bn in Q1FY22. Wealth business revenue grew by 79% YoY to Rs 396 mn in Q1FY22 led by strong net sales at Rs 10.6 bn. Yield stood at ~56 bps. RM count of this business stood at 127. Our trail revenues predominantly cover our fixed costs. Strong operating leverage is visible led by improvement in RM productivity. We continue to invest in this business by adding RMs.

Overall Asset and Wealth Management revenues were Rs 2.03 bn, +38% YoY in Q1FY22. Asset & Wealth contributes 21% of consolidated revenues. Profits were Rs 535 mn, +83% YoY and contributed 23% of consolidated profits.

Home Finance business:

KEY FINANCIALS: MOTILAL OSWAL HOME FINANCE (Rs Mn)

Particulars	Q1 FY22	Q1 FY21	CHG. YoY	Q4 FY21	CHG. QoQ
Net Interest Income	615	568	8%	690	-11%
Total Income	734	578	27%	771	-5%
Operating Profit	484	368	32%	540	-10%
PBT	112	240	-53%	343	-67%
PAT	**85**	**111**	**-24%**	**184**	**-54%**

Home finance business reported profit of Rs 85 mn in Q1FY22.

NII grew by 8% YoY and NIM expanded 66 bps YoY to 6.5% in Q1FY22.

Yield on Advances stood at 13.8% in Q1FY22 while of Cost of Funds was down by 124 bps YoY to 8.6%, resulting in expansion in Spread by 71 bps YoY to 5.2%.

We have raised Rs 1.8 bn in Q1FY22 at an average cost of 6.25%. We expect average CoF to trend lower in coming quarters.

Loan book stood at Rs 34.7 bn as of Q1FY22. Disbursements in Q1FY22 grew by 282% YoY to Rs 910 mn. Business is geared up for growth in disbursements. Sales force expansion is currently underway.

Covid 2nd wave and subsequent lockdown in the states where we have a presence had impacted our business operations and collections in April and May month. As a result, our collection efficiency was down to 90% in Q1FY22 and GNPA/NNPA increased to 4.7%/3.3% respectively.

However, post reopening in June month, we have witnessed traction in collections with improvement in resolutions/rollbacks across buckets. During the quarter, we have on-boarded a senior resource as Chief Collection Officer (CCO) to strengthen our collection strategy. Further, we have seen traction in logins reaching to March levels along with improvement in sanction pipeline.

Strong support from parent continues with total capital infusion to Rs 8.5 bn. Net Gearing stands at 2.6x and Tier 1 CAR remains robust at 47%.

Limited borrowing repayment for next 1 year, strong undrawn borrowing lines, Cash on Balance sheet of Rs 3.7 bn places us in comfortable liquidity situation.

Fund-based activities

KEY FINANCIALS: (Rs Mn)

Particulars	Q1 FY22	Q1 FY21	CHG. YoY	Q4 FY21	CHG. QoQ
Total Revenues	1,108	1,485	-25%	3,029	-63%
PAT	**913**	**1,303**	**-30%**	**2,645**	**-65%**

Fund Based activities include commitments to our asset management products. Fund based investments have registered gains in a quarter of Rs 913 mn in Q1FY22. Total quoted equity investment including unrealized gains was Rs 22.4 bn as of Q1FY22. Cumulative XIRR of these investments is ~18% (since inception). Total equity investment including alternate funds was at Rs 32 bn as of June-21. XIRR of 28% on PE/RE investments.

Outlook: To sum up, last financial year was a landmark year for us with highest ever revenues and profits. This year also we are seeing further traction building up in most of the businesses. Our retail broking business which is our cash cow business has achieved new highs on various parameters and benefitting from industry consolidation with its knowledge driven phygital offerings. Our Institutional Broking business has been ranked #1 as local brokerage house in Asiamoney poll 2020. Our strategy to invest business profits in our own equity investment products has registered highest ever profits and as result our Net worth has touched new high. Moreover, our strategy to diversify our business model towards linear sources of earnings continues to deliver results. Our Asset Management business is likely to gain from process driven investing and its niche offerings. Our Housing finance business is geared up for profitable growth. Each of our 7 businesses offers headroom for growth.

Q&A

On broking business side, would not there be any discount broker kind of plan for the customers, the customers who are from the pool as we have launched passive fund in the AMC business where some of the existing customers who wanted to go for passive, we tried to catch those customers?

We have been expanding our reach in terms of customers through our branch channel and the digital mode along with our old franchise model. We are very clear that we will be expanding our research and advice base where we want to add value to our customers, so as of now there is no such plan to open any discount model in our overall broking model. We are seeing very good traction in the business in the way we have been able to provide the research and advice as well as the distribution business which is well aligned with our broking overall business model.

On the broking business side, we are seeing a very good traction in client addition, especially through the online medium, please clarify what is driving this growth?

We are strengthening our digital business, we have got a team of more than 700 people acquiring clients digitally, apart from the clients acquired by our branches and franchisees. In the last quarter with increased capital market activities, like IPOs coming in, there is a huge traction in terms of new account opening.

What is the reason behind decline in ADTO market share to 2.4% in Q1FY22 from 2.7% in FY21?

Overall market share was down mainly due to decline in F&O market share. However, our cash yields are improving and the cash market share has gone up on month on month basis.

We have already won that Rs 90 cr arbitration order, but we have not yet recognized in our P&L, so by when are we planning to recognize that?

Once again the client has gone into the higher authorities for this, as of now we do not have any tangible collateral against that to recognize it. However, the client has been forced by the court to earmark assets to that extent and that order still continues and if the client deposits the money with the court we can try to accrue the income from that order.

Few years back Investment Banking division was contributing significantly to our overall profitability, what has changed over a period of time because recently we have seen too many IPOs coming, but our revenues and profitability has not changed much?

We had seen a change in leadership in that business, which had some impact in the last few quarters, but we have a pretty good pipeline of IPO mandate for the rest of the year and we have already seen the recent GR Infra IPO that got close, those revenues will also get booked in Q2FY22.

What kind of income and profitability are we looking to book from this GR Infra IPO in the private equity and investment banking division?

As far as the private equity division is concerned, we can be booking a profit share would be around Rs 80 cr and as far as investment banking is concerned there would be a fee received by us from the IPO along with other bankers.

On the asset management side, revenue yields have shrunken sequentially, what has happened on that part of the business?

Fourth quarter included carry gain from AIF closure which when added to the overall yields will bump up the yield by almost 12 basis points. Apart from that, we have seen very rapid growth in the passive business, gross sales of almost Rs 18 bn coming during the current quarter and the yield there is much lower than the average yield of the business, so like to like yield of the mutual fund business or the alternate business yields have been very steady, the marginal correction is entirely because of the mix change.

Opex of AMC business is fairly heavy versus the rest of the AMC business, it roughly accounts to around 30 bps of the AUM and EBITDA margin is around 36%, while for other players it is at 60%-70%, what is the reason behind this? What is our aspiration in terms of opex as well as EBITDA margin? Secondly, what is your AUM sourcing mix?

Yields of our AMC business is very favorable compared to the peers because of the 39% proportion of alternate assets, whose yields are on higher side. Secondly, the sizes of our mutual find schemes are much smaller which allow a higher yield compared to some of the peers. The issue is not with the top line, but with the size of the AUM. Our AUM is around Rs 47,000 cr which is a lot smaller compared to the AMCs which have AUM ranging from 2 to 5 lakhs crores. The operating leverage that you get from a 10 to 15x in terms of your AUM without proportionate increase in cost gives them a benefit. In terms of the mix, our direct businesses is partly higher because of the highest skin in the game that we have compared to many of our peer and out of that AUM in excess of Rs 30 bn shows up within the direct sourcing. In terms of MF AUM mix, 37% is direct, 25% national distributors, 22% IFA and 15% banks and WMs. As far as alternate business is concerned, the mix is much more loaded in favor of banks and WMs which contribute around 56%, 30% from national distributors, 9% from IFA and 5% direct.

When we look at the difference of FY21 and Q1FY22 of the mutual fund AUM it is roughly Rs 2600 Crores, so how much of it is due to MTM gains and how much it is from flow?

There are three things there, first it is MTM, second in our active side we have had net redemption and third on the passive side we had very strong flows. Compared to the same quarter last year, Rs 34 bn is the impact of the mark to market within this and the rest of it is the net flows.

On the asset management side, overall revenues has seen a significant dip on sequential basis, apart from the one offs in the last quarter, is there any reason for the decline? What is the net flows for PMS and AIF?

The entire drop in the revenue was due to accrual of performance fees/sharing of profit on exit of investments from AIF which is typically booked at the time of the closure of the fund. Alternate segment witnessed around outflow of Rs 2.4 bn and for the mutual fund, there is Rs 7.3 bn of inflows, so cumulatively we had reported 4.8 bn of net inflows.

What will be the stage 2 and restructuring figure for housing finance business?

Stage 2 assets stood at 15% and overall 4.9% of the book is restructured till now which includes 1.4% done in Q1FY22 and 3.5% till March-21.

Restructured book of 4.9%, is that part of the stage 2?

The book which we had earlier restructured till March as well as the one done in Q1FY22 largely remain as a part of stage 1, although provisions for restructured book has been done as a part of stage 2.

What would be the incremental business that we are doing in the housing finance because given the current rate environment, yield of 14% would probably be on the higher side?

We have not reviewed the rates on the back book and our balance transfer figure is below the industry average. Given the segment that we are into, which has high bounce rate and overall higher cost of operation, we decided to keep at this level. However, our incremental yield is around 12.5% as incremental COF is also lower at 7.5%. We are maintaining 5% spread on the book.

What is your outlook on asset quality going forward?

We are seeing a very good improvement in the collection efficiency month-on-month, our collection efficiency was 92% in June and in July it improved to around 95%. We are very confident to bring the GNPA number down by the end of quarter two as now lockdowns have been relaxed and field officers can do the collections. In last financial year when the collection efficiency was down to 62% in Q1FY21, we bounced back to pre-Covid levels by quarter four, this time also we are confident. Our focus is on roll back as well and where there is a cash flow impact, there we would be restructuring.

On the home finance side, CRISIL has upgraded our outlook, so are we witnessing any incremental traction on funding side or any feedback from the bankers or debt markets? How are we looking at the cost of funds going ahead?

Over a period of last year, there has been a significant improvement in terms of our cost of funds, which has considerably gone down and therefore margins and spreads have improved. In the last quarter, we have raised money at 6.25%. Given the benign nature of the interest rates in the market and our improvement in the rating, we believe we will continue to have lower cost of funds and while the incremental disbursement is happening at around 12.5% to 12.9%, but overall margin will be maintained.

Going ahead what is your outlook on the disbursement side?

After the first wave of COVID, we had seen significant improvement in our disbursals in Q4FY21. In the month of March, retail disbursals were around Rs 31 cr to about 400 files with significant increase in logins. We increased our sales headcount in Q4FY21 and we continue to build our sales engine competence by increasing the manpower. Currently, we have 550+ sales personnel and are spread across 104 branches, we have added two new states/UTs, so now our sales engine is well-oiled machinery as our collection engine is and we are all geared for increase in the disbursals. June and July month has been fairly encouraging, we have touched almost 1000 files of login in July, which is more than March month login. Over a period of next three quarters we believe that from a current average monthly disbursal of about Rs 30 cr odd, we should be able to move towards Rs 100 cr of monthly disbursal by quarter four. We continue to hold this view because we have the capacity, manpower, products, technology and also geographically we are quite well spread out. We had moved in the right direction in the last quarter of last financial year, unfortunately April and May was a dampener, but we believe that we are all ready and without taking any significant risk going forward achieving a number of Rs 100 cr in last quarter should not be an issue.

Are we looking to do an IPO for our home finance business or will we be open to any strategic partnership, as there is a lot of interest currently towards mortgage business as witnessed in some of the IPOs?

Our housing finance business is well capitalized with net leverage of only 2.6 times. Even considering the kind of growth that we have planned for the next couple of years, we do not expect the leverage going beyond 5x and our internal approval from the board is up to 6x. Our tier 1 CRAR is also comfortable at 47%, so currently there is no pressing need for going for either a private equity or IPO. Going forward, it depends on how things move from here and once our business stabilizes and the growth is sustainable, it can be evaluated. We have the capability to do it in a very short span of time.

During the lock down, how was the customer behavior across various segments, which segment was more affected and which segment will you be looking to grow given your experience over the next one to two years?

In cash salaried and non-documented self-employed segment, we have witnessed some behavioral difference. During the COVID period, we had restricted certain profiles which were largely impacted by COVID. COVID 2nd wave has been different because in COVID 1 there was a lot of uncertainty and understanding was very limited. Even though few people did not want to part with cash given the emergency situation, cash flows were not so much impacted as it was impacted in the wave 1 because of very severe and very elongated lockdown during COVID 1. We believe that more than segment it is the underwriting philosophy in terms of what changes we have done in the organization, we have made certain changes in the policies, checker concept, fraud control department, segregation of duties, basic conventional risk management practices etc. We will follow that and will give due importance to the policies and products. Over a period of time, our mix would largely be 55% self-employed and 45% salaried.

Given the people did not want to part with the cash given the emergency situation, you have recorded a collection efficiency of 110% in June, so are you seeing that those customers are even clearing past dues, would you see them rolling back to stage 1, now that we seem to be on better footing?

During COVID 1, collection efficiency was as bad as 60% and it took a longer time for us to come back to 97%, but this time it was around 85% in April 2021, and we were back to 90s in 2 months. In the next one or two months, we should be back again at the pre-COVID collection efficiency levels. Our normalization and roll back numbers have doubled from 3% to 5%, and 10% to 15% roll back in bucket 2.

What is average yield on the book?

Average yield on the book is 13.8%. For non-home loan business in terms of loan against property, yield is around 15% to 16%, on home loan side it is about 11.5% for documented salaried customers.

What is the limits on NHB borrowing and what is the incremental borrowing rate?

We have a limit of Rs 1500 cr on NHB borrowing, currently we have outstanding limit of about Rs 250 cr. Incrementally NHB has been lending to us at 6%.

How many branches would we be in tier 3 and below cities in housing finance segment?

About 50% of our branches would be in tier 3 and below cities.

What percentage of home loans will be to professionals, but not in salary or self-employee category?

We don't lend to this category.

What is our business plan for the housing finance business? Our thought to start this business was to give some stability to our revenue for the each quarter, but from a long time the business is generating return on equity of just around 5%, which is below the government bond yield, so what is our view on that, and what is our expected return on equity from this business?

We started this business about 6 years back and there were certain challenges in the initial period in terms of the asset quality as the growth had been pretty fast. Although we had made a lot of effort in the last 3 years in terms of reversing the decline of the asset quality and bringing about change in terms of technology, people, collection, infrastructure, underwriting and so on and so forth, but unfortunately the COVID 1 and COVID 2 have slightly delayed our plans and impacted the kind of growth that we had anticipated to come back after making corrections. While there were challenges in the market which delayed our business growth, but on many other aspects whether it is in terms of the risk management, technology, liquidity, liability, we have done significant amount of investment in terms of time, effort and money, so that we are ready to grow. From a geographical expansion perspective we have about 1400 employees, we have the sales engine, collection capabilities, and if all goes well we should be back on in terms of disbursal of about Rs 100 cr in the quarter four and over the next 3 to 4 years delivering a 15% return on equity should not be a challenge.

Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Shalibhadra Shah for closing comments.

On behalf of Motilal Oswal Financial Services, I would like to thank every participant for attending the Q1 FY22 con-call. In case of any further queries, please do get in touch with me or our Investor Relations desk. Thank you, have a great day and take care.

PRESS RELEASE

Motilal Oswal Financial Services reports PAT of Rs 2.2 bn, +32% YoY in Q1FY22.

Mumbai, July 29, 2021: Motilal Oswal Financial Services Ltd. announced its results for the quarter ended June 30, 2021 post approval by the Board of Directors at a meeting held in Mumbai on July 29, 2021.

Performance for the quarter ended June 30, 2021:

- In Q1FY22, consolidated revenues grew by 25% YoY at Rs 9.6 bn, Consolidated PAT grew by 32% YoY to Rs 2.2 bn including gains on investments (Rs 913 mn).
- Consolidated revenues ex- gain on investments grew by 36% YoY at Rs 8.6 bn, consolidated PAT grew by 25% YoY at Rs 1.3 bn.
- Core business fired all cylinders – Capital market business PAT + 36% YoY and Asset & Wealth +83% led by +48% AMC and strong Wealth Management turnaround

Key highlights for the Q1FY22

- Most of our businesses have delivered strong and sustainable performance in Q1FY22 despite of Covid 2nd wave impact.
- Our Asset under Advisory (AUA) crossed Rs 2.5 tn mark led by all-time high AUM across AMC, Wealth and Distribution businesses.
- Our organizational talent has reached to 8,500 mark serving over 3.2 mn clients.
- Our Net worth has touched a new high of Rs 46.1 bn.
- **Broking** – Growth in client addition led by traction in digital acquisition channel, online volume crossed 70% mark, 104% growth in ADTO with mix in favour of high yielding cash and delivery, strong growth in active clients, and traction in banks tie-ups.
- **Asset Management**– Highest ever AUM, gross & net sales gaining traction, strong response to AIFs offerings, increase in SIP addition, continued traction in our international passive offerings. IREF V has achieved its 2nd close at Rs 8.1 bn. Launch of largest ever PE growth IBEF-IV fund.
- **Home Finance** - Strong pick-up in disbursements, traction in login/sanction pipeline, expansion in sales force, expanded footprint in 2 more states/UTs, and sharp reduction in cost of funds driving margin expansion.
- Consolidated net worth is at all-time high at Rs 46.1 bn, net debt is Rs 38.4 bn. Excluding Home finance, net debt is Rs 14.4 bn. Total D/E declined to 1.1x. Ex-MOHF D/E stood at 0.5x. Net of investments, we have a net cash balance sheet. RoE for Q1FY22 stands at 23%.
- Besides financial performance, recent time has been very eventful in terms of our successes in brand building, advertising and several other fronts. MOFSL rank 1st **"Best Local Brokerage"** in Asia Money broker's poll 2020. MOFSL once again recognized as a "**Great Place to Work"** - India certified organization, Motilal Oswal Wins **"Best PMS in 10 years performance"** across all categories at India's Smart Money Manager Awards - 2021. Motilal Oswal Private Equity has been awarded as **"Growth Capital Investor of the Decade"** at the Venture Intelligence APEX PE-VC Awards. Our latest Ad on "**Skin in the Game**" has received appreciation in various media. These and several other recognitions of **Motilal Oswal** as a preferred consumer and employee brand in financial services space.

Speaking on the performance of the company, Mr. Motilal Oswal, MD & CEO said *"Despite of prolonged pandemic coupled with 2nd wave impact, most of our businesses have delivered strong and sustainable performance. Last financial year was a landmark year for us with highest ever revenues and profits. This* *year also we are seeing further traction building up in most of the businesses. Our retail broking business which is our cash cow business has achieved new highs on various parameters and benefitting from industry consolidation with its knowledge driven phygital offerings. Our Institutional Broking business has been ranked #1 as local brokerage house in Asiamoney poll 2020. Our strategy to invest business profits in our own equity investment products has registered highest ever profits and as result our Net worth has touched new high. Moreover, our strategy to diversify our business model towards linear sources of earnings continues to deliver results. Our Asset Management business is likely to gain from process driven investing and its niche offerings. Our Housing finance business is geared up for profitable growth. Each of our 7 businesses offers headroom for growth.*

Performance of Business Segments for the quarter ended June 30, 2021

- **Capital markets Businesses (Broking & Investment banking)**
    - Capital markets comprises of Retail Broking, Institutional Equities and Investment Banking business. Revenues for this segment were Rs 5.13 bn, +49% YoY in Q1FY22. Capital market businesses have contributed ~53% of consolidated revenues. Profits were Rs 782 mn, +36% YoY and contributed ~34% of consolidated PAT during Q1FY22.
    - Broking and distribution business profit grew by 30% YoY at Rs 799 mn in Q1FY22 led by healthy volume growth of 104% YoY.
    - In **Retail Broking & Distribution**, we have witnessed strong traction in new client addition driven by Franchisee and retail channel, total ~215,000 clients acquired in Q1FY22, +147% YoY. NSE active clients have also registered 58% YoY growth at 6.5 lacs as of June 2021.
    - Our strategy to bring in linearity through the trail-based distribution business is showing results. Distribution AUM grew by 37% YoY at Rs 140 bn as of Q1FY22. With only 14% of the ~2.2 million client base tapped, we expect a continued increase in AUM and fee income as number of clients to whom we have cross sold and number of products per client cross sold rises.
    - In **Institutional Broking**, team wins big in Asiamoney poll 2020. Ranked #1 Best local brokerage House, Best research team, Best sales and sales trading and Best Corporate access. Strong improvement in domestic client rankings with top 3 rank retained in most clients. This has been the result of focus driven differentiated research products with 250+ companies covering 21 sectors.
    - **Investment Banking** business has built strong pipeline of signed IPO mandates which will start entering the markets from Q2FY22 onwards, as a result revenue traction can be witnessed in coming quarters.

- **Asset Management businesses (AMC, PE and PWM)**
    - **Asset Management** business AUM across MF, PMS & AIF stood at Rs 465 bn, +35% YoY. Strong growth of 48% YoY in PAT for the quarter at Rs 356 mn.
    - Equity MF AUM touched Rs 284 bn i.e. 1.6% of the Industry MF Equity AUM of Rs 17 tn. We have seen improvement in performance of several products. Our Gross sales started improving and redemption declined on a sequential basis.
    - Favourable response to alternate offerings under AIF strategy and expect continued strong flows.
    - We have added around 100,000 SIPs in Q1FY22, +73% YoY. New SIP count market share stood at 2.0% in Q1FY22.
    - Our share of Alternate assets, comprising of PMS & AIF, is the highest among AMC's at ~39%.
    - **Private Equity** has committed investment AUM of Rs 69 bn across 3 growth capital PE funds and 5 real estate funds. In Q1FY22, revenues stood at Rs 257 mn and PAT stood at Rs 62 mn. The 1st growth fund (IBEF 1) has delivered an XIRR of 26%+. Average IRR on exited investments in Real estate funds is 21%+. IREF V achieved its 2nd close at Rs 8.1 bn.
    - **Wealth Management** business AUM grew by 62% YoY at Rs 288 bn in Q1FY22. Wealth business revenue grew by 79% YoY to Rs 396 mn in Q1FY22 led by strong net sales at Rs 10.6 bn. Yield stood at ~56 bps. RM count of this business stood at 127. Our trail revenues predominantly cover our

fixed costs. Strong operating leverage is visible led by improvement in RM productivity. We continue to invest in this business by adding RMs.
  - Overall **Asset and Wealth Management** revenues were Rs 2.03 bn, +38% YoY in Q1FY22. Asset & Wealth contributes 21% of consolidated revenues. Profits were Rs 535 mn, +83% YoY and contributed 23% of consolidated profits.

- **Housing finance business**
  - Motilal Oswal Home Finance (MOHFL) reported profit of Rs 85 mn in Q1FY22.
  - NII grew by 8% YoY and NIM expanded 66 bps YoY to 6.5% in Q1FY22.
  - Yield on Advances stood at 13.8% in Q1FY22 while of Cost of Funds was down by 124 bps YoY to 8.6%, resulting in expansion in Spread by 71 bps YoY to 5.2%.
  - We have raised Rs 1.8 bn in Q1FY22 at an average cost of 6.25%. We expect average CoF to trend lower in coming quarters.
  - Loan book stood at Rs 34.7 bn as of Q1FY22. Disbursements in Q1FY22 were at Rs 910 mn. Business is geared up for growth in disbursements. Sales force expansion is currently underway.
  - Covid 2nd wave and subsequent lockdown in the states where we have a presence had impacted our business operations and collections in April and May month. As a result, our collection efficiency was down to 90% in Q1FY22 and GNPA/NNPA increased to 4.7%/3.3% respectively.
  - We have witnessed traction in collections to 92% in June with improvement in resolutions/rollbacks across buckets. During the quarter, we have on-boarded a senior resource as Chief Collection Officer (CCO) to strengthen our collection strategy.
  - Further, we have seen traction in logins reaching to March levels along with improvement in sanction pipeline.
  - Strong support from parent continues with total capital infusion to Rs 8.5 bn. Net Gearing stands at 2.6x and Tier 1 CAR remains robust at 47%.
  - Limited borrowing repayment for next 1 year, strong undrawn borrowing lines, Cash on Balance sheet of Rs 3.7 bn places us in comfortable liquidity situation.

- **Fund based investments** includes sponsor commitments to our AMC & PE funds and strategic equity investments.
  - Fund based investments have registered gains in a quarter of Rs 913 mn in Q1FY22.
  - Total quoted equity investment including unrealised gains was Rs 22.4 bn as of Q1FY22. Cumulative XIRR of these investments is ~18% (since inception).
  - Total equity investment including alternate funds was at Rs 32 bn as of June-21. XIRR of 28% on PE/RE investments.

About Motilal Oswal Financial Services Limited
MOFSL is a financial services company. Its offerings include capital markets businesses (Retail broking, Institutional broking & Investment banking), Asset & Wealth Management (Asset Management, Private Equity & Wealth Management), Housing Finance & Equity based treasury investments. MOFSL won the ‘Brand of the Year’ award at the IBLA CNBC TV 18. MOFSL employs ~8500 employees serving to 3.2 mn clients via distribution reach in 700+ cities. MOFSL has AUA of Rs 2.5 trillion.