Motilal Oswal Financial Services

ConCall Summary & Earnings Release

Quarter & Nine Month ended December, 2021

28th January, 2022

Motilal Oswal Financial Services Limited (MOFSL) posted consolidated revenues of Rs 11.22 bn for Q3FY22, up 47% YoY and Rs 29.5 bn for 9MFY22, up 38% YoY. Consolidated PAT stood at Rs 2.38 bn in Q3FY22 and Rs 9.96 bn in 9MFY22, +25% YoY. Operating profit (excluding gains on investments & PE share of profit on investment) for the quarter and nine month was highest ever at Rs 2.33 bn and Rs 5.49 bn respectively. Capital Market profit was Rs 1.48 bn in Q3FY22 and Rs 3.46 bn in 9MFY22. Asset and Wealth Management profits were Rs 851 mn in Q3FY22 and Rs 1.99 bn in 9MFY22. Housing finance profit was Rs 188 mn in Q3FY22 and Rs 473 mn in 9MFY22. The board has declared highest ever interim dividend of Rs 7 per share.

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

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Corporate Participants

Mr Raamdeo Agrawal

Chairman

Mr Motilal Oswal

MD & 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 Q3FY22 and 9MFY22 Earnings Conference call for Motilal Oswal Financial Services Limited. We have with us today Mr. Raamdeo Agrawal - Chairman; Mr. Motilal Oswal- MD & CEO; 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	Q3 FY22	Q3 FY21	CHG. YoY	Q2 FY22	CHG. QoQ	9M FY22	9M FY21	CHG. YoY
Total Revenues (ex-MTM)	**11,223**	**7,621**	**47%**	**9,705**	**16%**	**29,502**	**21,421**	**38%**
EBITDA	4,584	2,898	58%	3,881	18%	11,466	8,525	34%
PBT	3,014	1,748	72%	2,624	15%	7,463	4,976	50%
Operating PAT	**2,332**	**1,216**	**92%**	**1,865**	**25%**	**5,489**	**3,479**	**58%**
PAT	**2,383**	**3,338**	**-29%**	**5,365**	**-56%**	**9,958**	**7,973**	**25%**

REVENUE COMPOSITION (Rs Mn)

Particulars	Q3 FY22	Q3 FY21	CHG. YoY	Q2 FY22	CHG. QoQ	9M FY22	9M FY21	CHG. YoY
Capital Market	7,259	4,309	68%	6,075	19%	18,440	11,982	54%
Asset Management	1,675	1,291	30%	1,472	14%	4,528	3,489	30%
Private Equity	323	266	21%	278	16%	837	754	11%
Wealth Management	593	330	80%	476	24%	1,465	900	63%
Housing Finance	1,290	1,369	-6%	1,328	-3%	3,986	4,062	-2%
Fund Based (ex-MTM)	84	56	50%	77	9%	246	234	5%
Total Revenues	**11,223**	**7,621**	**47%**	**9,705**	**16%**	**29,502**	**21,421**	**38%**

Opening remarks

Good morning everybody. It is pleasure to welcome all of you once again to the Motilal Oswal Financial Services Earnings Call for the Q3 and Nine month ended December 31, 2021. We hope that each one of you and your families are safe and in good health.

Financial performance

- We have reported operating PAT growth of 92% YoY at Rs 2.33 bn for Q3FY22, this was highest ever quarterly operating profit for us.
- For 9MFY22, we have reported PAT growth of 25% YoY at Rs 9.96 bn. Profit (ex-gains on investment) grew 58% YoY to Rs 5.49 bn, this was highest ever 9M operating profit for us.
- Core business was robust with Capital market business PAT +99%/22% YoY/QoQ respectively and Asset & Wealth +61% YoY led by +38% AMC, +186% YoY for Wealth and +46% Private Equity business.
- Consolidated net worth touched all time high and stood at Rs 53.8 bn, net debt is Rs 46 bn. Excluding Home finance debt, we are a net cash company net of our equity investments.
- RoE for 9MFY22 stands at 31%.
- The board has declared highest ever interim dividend of Rs 7 per share.
- We are happy to inform that during this quarter, we have on-boarded Digital Head, Mr Vipul Nirwani (ex-Amazon, McKinsey) in Broking & Distribution business. Also, we have on-boarded Mr P.H.Ravikumar (Ex-Vastu, Utkarsh SFB, BFIL, ICICI, BOI) on Housing Finance board.

Key highlights for the Q3FY22 and 9MFY22

- **Capital Market** business continues to report strong growth of 68% YoY and 19% QoQ in revenues, continued traction in client addition, 92% growth in ADTO with mix favour in high yielding cash delivery, we witnessed strong growth in active clients and traction in distribution business. We continue to make investments in augmenting our talent pool & distribution network and also continue to benefit from consolidation in the broking biz. We have also started adding talent at digital side to revamp our digital journey.
- **Asset Management** witnessed life time high markets have lifted AUM to its highest ever, MF gross sales and SIP's gained traction and AIFs are receiving very encouraging response among HNI's. IREF V has raised at Rs 10.9 bn. We have launched largest ever PE growth IBEF IV fund with target size of Rs 45 bn, we received huge response to the fund and achieved its 1st close at Rs 27 bn.
- **Home Finance** witnessed strong pick-up in disbursements, traction in login/sanction pipeline, and meaningful expansion in sales force to ramp up disbursements in the coming quarters. Finally, sharp reduction in cost of funds drove margin expansion in home finance. Further, with series of ratings upgrade we have received it will further benefit our liability franchisee.

I will now deep dive into individual businesses.

Capital market business:

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

Particulars	Q3 FY22	Q3 FY21	CHG. YoY	Q2 FY22	CHG. QoQ	9M FY22	9M FY21	CHG. YoY
Total Revenues	7,259	4,309	68%	6,075	19%	18,440	11,982	54%
EBITDA	2,983	1,430	109%	2,309	29%	6,876	4,093	68%
PBT	1,966	991	98%	1,621	21%	4,647	2,847	63%
PAT	**1,476**	**740**	**99%**	**1,211**	**22%**	**3,461**	**2,110**	**64%**

Capital markets comprises of Retail Broking, Institutional Equities and Investment Banking business. Revenues for this segment were Rs 7.26 bn, +19% QoQ / 68% YoY in Q3FY22 and Rs 18.44 bn, +54% YoY in 9MFY22. Capital market businesses have contributed ~55% of consolidated revenues. Profit grew by 22% QoQ / 99% YoY at Rs 1.48 bn in Q3FY22 and 64% YoY to Rs 3.46 bn in 9MFY22 led by healthy volume growth of 92% YoY / 29% QoQ.

Broking and Distribution

In **Retail Broking & Distribution**, we have witnessed strong traction in new client addition driven by digital acquisition, total ~640,000 clients acquired in 9MFY22, +62% YoY. NSE active clients have also registered 59% YoY growth at 7.9 lacs as of Dec 2021.

Distribution AUM grew by 39% YoY at Rs 166 bn as of Q3FY22. With only 16% of the ~2.6 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.

Institutional Broking

In **Institutional Broking**, team wins big in Asiamoney poll 2021. Ranked #1 Best local brokerage House, Best sales and Best Execution and 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

Investment Banking business has participated in 3 deals. Further, there is a strong pipeline of signed IPO mandates which has started entering the markets from Q4FY22 onwards, as a result revenue traction can be witnessed in coming quarters.

Asset and Wealth management businesses

KEY FINANCIALS: ASSET MANAGEMENT (Rs Mn)

Particulars	Q3 FY22	Q3 FY21	CHG. YoY	Q2 FY22	CHG. QoQ	9M FY22	9M FY21	CHG. YoY
Total Revenues	1,675	1,291	30%	1,472	14%	4,528	3,489	30%
EBITDA	684	532	29%	571	20%	1,753	1,279	37%
PBT	680	524	30%	565	20%	1,736	1,253	39%
PAT	**528**	**382**	**38%**	**417**	**27%**	**1,301**	**911**	**43%**

Asset Management business AUM across MF, PMS & AIF stood at Rs 507 bn, +20% YoY. Strong growth of 27% QoQ / 38% YoY in PAT at Rs 528 mn in Q3FY22 and 43% YoY at Rs 1.30 bn in 9MFY22.

Our Equity MF AUM stood at Rs 310 bn i.e. 1.5% of the Industry MF Equity AUM of Rs 21 tn. We have seen improvement in performance of several products. Our Gross sales and Net sales started improving.

We have witnessed favorable response towards alternate offerings under AIF strategy and expect continued flows in AIF strategies which are in pipeline.

Our share of Alternate assets, comprising of PMS & AIF, at ~37% is the highest among AMC's. We have added around 340k SIPs in 9MFY22, +57% YoY. New SIP count market share stood at 1.7% in 9MFY22.

Private Equity

KEY FINANCIALS: PRIVATE EQUITY (Rs Mn)

Particulars	Q3 FY22	Q3 FY21	CHG. YoY	Q2 FY22	CHG. QoQ	9M FY22	9M FY21	CHG. YoY
Total Revenues	323	266	21%	278	16%	837	754	11%
EBITDA	138	110	25%	103	34%	330	295	12%
PBT	137	108	28%	103	34%	328	289	13%
PAT	**100**	**69**	**46%**	**37**	**173%**	**199**	**190**	**5%**

Private Equity has fee earning AUM of Rs 83 bn across 3 growth capital PE funds and 4 real estate funds. In Q3FY22, revenues stood at Rs 323 mn and PAT stood at Rs 100 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 has raised Rs 10.9 bn. PE biggest fund launched with IBEF IV with a target size of Rs 45 bn, achieved its 1st close at Rs 27 bn.

Wealth Management business:

KEY FINANCIALS: PRIVATE WEALTH MANAGEMENT (Rs Mn)

Particulars	Q3 FY22	Q3 FY21	CHG. YoY	Q2 FY22	CHG. QoQ	9M FY22	9M FY21	CHG. YoY
Total Revenues	593	330	80%	476	24%	1,465	900	63%
EBITDA	303	106	185%	208	46%	682	224	205%
PBT	299	103	190%	204	46%	666	215	210%
PAT	**223**	**78**	**186%**	**154**	**45%**	**494**	**160**	**209%**

Wealth Management business AUM grew by 51% YoY at Rs 342 bn in Q3FY22. Wealth business revenue grew by 24% QoQ / 80% YoY to Rs 593 mn in Q3FY22 led by strong net sales at Rs 18.4 bn in Q3FY22. Yield stood at ~73 bps. RM count of this business stood at 139. 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 2.59 bn, +37% YoY in Q3FY22 and Rs 6.83 bn, +33% YoY in 9MFY22. Asset & Wealth contributes 20% of consolidated revenues. Profits were Rs 851 mn, +40% QoQ / 61% YoY in Q3FY22 and Rs 1.99 bn, +58% YoY in 9MFY22 and contributed 21% of consolidated profits.

Home Finance business:

KEY FINANCIALS: MOTILAL OSWAL HOME FINANCE (Rs Mn)

Particulars	Q3 FY22	Q3 FY21	CHG. YoY	Q2 FY22	CHG. QoQ	9M FY22	9M FY21	CHG. YoY
Net Interest Income	695	629	10%	694	0%	2,004	1,755	14%
Total Income	741	655	13%	733	1%	2,208	1,795	23%
Operating Profit	476	439	8%	479	-1%	1,439	1,168	23%
PBT	261	154	70%	277	-6%	651	561	16%
PAT	**188**	**47**	**301%**	**201**	**-6%**	**473**	**214**	**121%**

Home finance business reported profit of Rs 188 mn in Q3FY22, +301% YoY and Rs 473 mn in 9MFY22, +121% YoY.

NII grew by 10% YoY and NIM expanded to 7.6% in Q3FY22.

Yield on Advances stood at 14% in Q3FY22 while Cost of Funds was down by 85 bps YoY to 8.1%, resulting in expansion in Spread by 65 bps YoY to 5.9%.

We have raised Rs 5.97 bn in 9MFY22 at an average cost of 7.06%. vs overall CoF of 8.3% and this number to trend lower in coming quarters also aided by the latest rating upgrades on the company.

Disbursements in Q3FY22 stood at Rs 1.9 bn, +19% QoQ. Business is geared up for stronger growth in disbursements. Sales force expansion is currently underway.

In Q3FY22 provisions were higher due to new NPA recognition norms by RBI which led to rise in GNPA by 120 bps QoQ to 3.4%. Excluding this new norm impact, GNPA would have been 1.3%. However, our collection efficiency in December has reached to ~100%.

Net Gearing stands at 2.4x and Tier 1 CAR remains robust at 47%.

Fund-based activities

KEY FINANCIALS: (Rs Mn)

Particulars	Q3 FY22	Q3 FY21	CHG. YoY	Q2 FY22	CHG. QoQ	9M FY22	9M FY21	CHG. YoY
Total Revenues	87	2,523	-	3,100	-	4,321	6,043	-28%
PAT	**61**	**2,112**	**-**	**2,656**	**-**	**3,637**	**5,143**	**-29%**

Fund Based activities include commitments to our asset management products. Fund based investments have registered gains in a quarter of Rs 61 mn in Q3FY22 and Rs 3.6 bn in 9MFY22. Total quoted equity investment including unrealised gains was Rs 26.9 bn as of 9MFY22. Cumulative XIRR of these investments is ~18% (since inception). Total equity investment including alternate funds was at Rs 37.6 bn as of Dec-21. XIRR of 33% 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 witnessing similar trend and we delivered highest ever quarterly & nine month operating profit. Our retail broking business which is our cash cow business has achieved new highs on various parameters benefitting from industry consolidation. Our Institutional Broking business has been ranked #1 local brokerage house consecutively for 2nd year in Asiamoney poll 2021. Our strategy to invest business profits in our own equity investment products led to highest ever profits and as a result our Net worth has touched new high. Moreover, our strategy to diversify our business model towards linear sources of earnings continue to deliver results. Our Asset Management business is likely to gain from process driven investing and its niche offerings. Our Wealth Management business has delivered stellar performance this year and on its way to achieve scale in this business. Our PE business has delivered on both successful exit of its investment and fund raise of its largest ever fund. Our Housing finance business is geared up for profitable growth. Each of our 7 businesses offers headroom for growth.

Q&A

What is the size of MTF book? What is your target for the overall cost to income considering the digital push?

The total funding book in our retail broking business stood at Rs 2,100 cr in Q3FY22. Cost to income has been coming down because of margin expansion, which has happened during this quarter as well. EBITDA margin was 41% in Q3FY22 and we are seeing the benefit of operating leverage playing out because not only brokerage has risen, but also other revenues like distribution income, advisory revenues and interest revenues have increased. We have invested in manpower and technology in last year as well as this year. We continue to do so out of our profits, however, given the operating leverage improvement year-on-year, definitely we would see the cost-to-income lowering ever year. As such we do not have any target number, but we can assume quickly 35% EBITDA margins which we have been consistently improving.

On the broking business side, what is the income from IPO financing in Q3FY22 and because of new lending norms some of the IPOs are getting preponed, so what is the benefit you have seen in Q3 and how it will change post Q4?

During the quarter, we had a spread of about Rs 40 crores included in our profitability on account of the IPO financing that we have done. As far as the new regulatory norms are concerned that have come so suddenly, it will have an impact on the HNI space but it will normalize over a period of time, as we have seen before when any new regulatory framework comes in, it gets settled in a span of two to three quarters.

On QoQ basis, cash ADTO QoQ was almost kind of flat, is that a market trend or in terms of cash market share was it flat or have we lost some market share there?

We are flattish on sequential basis in terms of the cash ADTO whereas for the F&O we have seen improvement in our market share by 20 basis points. We have not lost any market share on the retail cash side, the volumes have been shifted towards the derivatives in a big way.

Can you comment on technology spends we have done this year as the entire operating environment has changed, volumes have gone up, work from home was going on?

In terms of the technology spends in our retail broking and distribution business, we have spent an average of about Rs 10 crores per quarter in the course of this financial year.

And that would continue as we move forward?

It would continue, in fact, it has been enhancing year-on-year and this does not include the people cost. People cost is over and above this and we will continue to add more talent on the digital side of our business.

At the industry level, we have seen demat accounts have doubled, NFOs are doing well, basically, all the constituents are firing together. Based on your experience, what happens when the cycle turn, which business gets affected the most?

This is an unprecedented cycle. Till 2020, there were around 40 million demat accounts which has doubled now and my sense is that we are headed for 200 million in next two to three years. So, this cycle of horizontal expansion of the market particularly in retail is going to continue at a different pace for next three to four years. After that, once the market is expanded, then obviously the cycles will come, but it will be much shallower, but first market will expand by 2 to 3x from here. We have seen corrections before, volumes and brokerage will come down, but we will stabilize at much higher level from present levels. We are foreseeing the consolidation on both sides. In broking, top 4 players have combined 50% market share in terms of active clients. In terms of volume share, it will be 25% for the advisory based and 75% for the discounted brokers, but in that 25% you will see lot consolidation.

So, this is like what real estate went through 7, 8 years of super cycle from 2004 to 2012 or 2013?

Real estate is a physical business, this is a digital business. You do not need more than two, three players to cater to the whole country. So, consolidation is kind of a winner here.

In broking, our market share has been around 2% for quite a few year, how we are projecting this in the next few quarters?

Our cash market share has continue to rise whereas in terms of F&O market share we have seen gradual improvement. Market share is also function of market mix where if the F&O volumes dominate definitely the overall mix and the overall market share would look same. Our cash market share continues to rise and we are targeting to improve it by about 50 to 70 basis points every year.

PMS AUM has been flat for almost four years now, couple of quarters we had highlighted there was some performance related issues which had affected flow, so how is the performance been currently and could you comment on the market share, has there been some major loss?

Couple of aspects, first is that because of upfronting being banned on PMS we have seen a takeoff in the last one and half years in AIF. So, AIF commitment this year are up this year compared to the previous year. Second, as far as the PMS is concerned, our flagship NTDOP product as of 31st of December was among the best performing product in the category. So, in the first phase we have seen sharp slowdown in redemption there and we are hopeful that 2022 should see very strong uptick in net sales in PMS products. So, we are looking at continued strong traction in AIF sales and PMS where the flagship product is performing in line with the best performing product and we expect strong traction in that in the calendar year 2022.

What are the net sales in asset management for this quarter, can you divide in mutual fund, PMS, AIF?

Net sales are Rs 12.7 billion for the quarter, Rs 2.1 billion in alternate and rest in mutual funds.

There is an improvement in yields in this quarter and the profitability of the business has also improved, so there is a little bit of a margin improvement and the tax rate is also lower, can you explain what is actually happening because the growth in revenues QoQ is much stronger than the growth in assets?

Basically, if you look at the EBITDA margin of this business it is back to the peak margins that we have earned before because the AUMs have gone up also. Typically whenever you will see the benefit of mark-to-market, the benefits of gross sales coming in, there will be strong operating leverage. In fact, that is driver of a group profitability. As far as pricing across our products are concerned, we have never competed on pricing for any of our products. Thus, the only yield drop that you saw for our product in the last three years were driven by two regulatory changes, intermediated TER which was a big hit for us and the second, was size linked AUM yield that were defined by the regulators. So, these two regulatory changes, they are the only two drivers to yield correction. Our yields are best in class and stable and gross sales and mark-to-market impact cost are likely to be sticky and hence you will see operating leverage coming through.

But what I meant was your yields have improved in this quarter because the AUM has gone up only like 2% QoQ, but your revenue was up 14% QoQ and PMS in the mix has not gone up and is actually down on a closing basis, so is there something else that happening there?

I will urge you to avoid focusing too much on quarter-on-quarter because if you look at the yields, in the third quarter it is 75 basis points. In the same quarter last year it was 78 basis points so down by 3 basis points, but in the second quarter it was 72 basis points. Sometimes even adjustments are being made to the mutual fund yield to account for some overflow of expenses. So, may lead to two, three basis points up and down on a quarter-on-quarter basis.

On the wealth management business, there was significant growth that we had witnessed in this third quarter, is this transactional revenue or this is the annuity income that we see growing forward?

There was no lumpy up fronting or transactional revenues. Broking for the HNI clients is also a part of the overall revenues and there is a buoyancy in the overall broking revenues. In the third quarter the recurring revenues as a proportion of total revenues went up from 43% in the second quarter to 47% in the third quarter.

Maharashtra and Gujarat contributed 42% towards disbursement, where do we see this figure settling down? Delhi and Haryana contributed 14% towards disbursement, so is that a reclassification or have we built that from scratch in the last few quarters?

Historically, Maharashtra and Gujarat have been the initial states where we started our business and almost 50% of our current branches are in Maharashtra and Gujarat. Over a period of time concentration has reduced, not in terms of the business that they generate, but as a percentage of the overall business because we have started to increase our penetration in states like Rajasthan, Tamil Nadu, Karnataka, Andhra Pradesh. Delhi NCR and Haryana are states/UTs that we have just recently launched in the FY22, they are been in operations for the last 8 months and on an incremental basis they have been doing pretty well and therefore as an overall percentage they have shown significant contribution, but over a period of time we expect that Maharashtra and Gujarat will continue to remain about 30% of the overall disbursal on an incremental basis.

First question, I understand the NPA increase is due to the change in RBI norms, but in like-to-like comparison it has actually decreased, does this mean that for your customer segment delays are possible, but eventually the money comes back, the credit losses will be very low. Second, in Slide #27 we see securitization in liability mix, so is the company exploring alternative models like co-origination to ensure growth in the future, given the fact that most of the loans seem to be priority sector eligible. Third, there is incredible diversity in terms of your customer mix, product mix etc., is there any segment where you feel that there is a particular risk where you need careful watching or is this the way that the company is going to be in the future where it is going to spread across various segments and the last question is the cost-to-income which has been in the 35% to

40% range throughout, with increasing operating leverage, do you expect that this will come down sharply in the future to give better quality pre provision profits?

First on NPA and the impact of the recent regulations of Reserve Bank of India. The segment in which we operate, which is economically weaker section and low income group, naturally the income earning has been impacted because of the COVID as well as the fact that the customer segments earns over a period of month. Earlier the way the things were operating in terms of classification of NPA, we used to get a little more time to collect the money. Now on the day of the billing cycle, if the customer has crossed 90 DPD, you have to classify it as an NPA. However, we believe that as the economy is improving and the external environment is showing resilience, the normalization of the sudden increase in the NPA will happen and we have already seen that in the last 45 days that our collection efficiencies has been improving and is almost touching 100% now. There has been a spurt in terms of NPA because of the regulation which was sort of a sudden add from the regulator. Now we are focusing on these cases. In earlier regime, by collecting one or two EMI you could basically roll back the NPA but now you have to collect all the outstanding installments. So, that makes it a little tough, but I think over a period of time given the improvement in economy we should be in a position to reduce the NPA. Secondly, securitization and direct assignment is an integral part of our strategy in terms of diversification of our liabilities and we will definitely evaluate securitization and direct assignment of the portfolio. For any housing finance company, it is a very important liability strategy. As far as co lending is concerned, we would like to build our book rather than to go for co-lending opportunity because our cost of funds is very good and therefore at this point of time we would rather like to build our own books but at some stage it might make sense for us to look into that. As far as customer diversification is concerned, we have a very balanced customer mix with 55% salaried and 45% self-employed. Over a period of time the mix may slightly be more in favor of the self-employed segment, but on an overall basis it would be a very marginal difference. FOIR and LTV are basically a determinants of the risk that you are taking on the underlying security and on the cash flows of the customers and these are very critical parameters for any lending business and not just housing finance business as such. If you look at our numbers they are very conservative and pretty much in control, 43% FOIR and 58% LTV. We have enough customer equity in the loans and are not very aggressive in terms of overleveraging the customers. As far as cost to income is concerned, because we are in the built-up phase, in the near future there might be a marginal increase but over a period of time, it will come down as there would be increase in the revenues and cost will stabilize. Most of our investment will obviously go in terms of hiring at the bottom of the pyramid. So, while the numbers will be large, but the per person cost would be relatively lower and as they become more and more productive we will see that cost income ratio will reduce. We will also invest in technology and we are already fairly well digitized and there are various projects which we keep doing in order to improve, reduce cost and manage the risk through technology intervention.

Would you go for a larger ticket size so that you can get quicker AUM growth?

We cater to EWS and LIG segment. Our average ticket size which is currently at about Rs 9 lakh would tend to increase marginally maybe to about Rs 11-12 lakh. We do source business with a maximum ticket size of Rs 40 lakh, but on an average basis it would remain range bound between 10 lakh to 12 lakhs.

What is the average loan tenure?

Maximum loan tenure is up to 25 years, but on an average basis actuarial life would be about around 8 years to 10 years.

We are doubling our headcounts in home finance business, what disbursements are we targeting for the next two years?

We disbursed Rs. 1.9 billion in the last quarter and it has seen an improvement of about 20% on a quarter-to-quarter basis and about 280% on year-to-year basis. In about five years we expect balance sheet from current Rs 3,500 crores will double to about Rs 7,000 to 8,000 crores and the idea is to increase our disbursals. We have added sales force and by virtue of slight improvement in ticket size and increase in the productivity of the incremental sales force, we should be able to reach about Rs 100 crores of disbursals in the next financial year and then from thereon keep on increasing, some locations would also be added, branches would be added.

What would be your credit cost guidance for next year?

About 1%, currently it is obviously elevated because of various impacts, but next year we want to keep it within 1%.

First, at what level of gearing would you like to run the business on a steady state basis and second, would you be looking at an IPO for the company and what would be the timeframe or asset base at which you would like to get the IPO?

Currently the leverage is below 2.5 times and we believe we can go up to 5 to 6 times which is a very comfortable level given the strong parent support as well as and the capital available with the group. As of now, we do not have any listing plans, but definitely once we have demonstrated growth in next three, four years, we would look at that point how to go about listing of this company.

Next year when the credit cost is around 1% and with your asset base expanded, the leverage will go up marginally. Would that lead to double-digit ROE?

Yes that would translate into a double-digit ROE because you will have a 2.5% to 3% ROA and with assignment, we will have a higher ROA.

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 Q3FY22 con call. In case of any further queries please do get in touch with me or our Investor Relations desk. Thank you and have a good day.

PRESS RELEASE

Motilal Oswal Financial Services reports highest ever operating PAT of Rs 2.33 bn, +92% YoY in Q3FY22 and Rs 5.49 bn, +58% YoY in 9MFY22.

Declares highest ever interim dividend of Rs 7 per share

Mumbai, January 27, 2022: Motilal Oswal Financial Services Ltd. announced its results for the quarter and nine month ended December 31, 2021 post approval by the Board of Directors at a meeting held in Mumbai on January 27, 2022.

Performance for the quarter and nine month ended December 31, 2021:

- In Q3FY22, consolidated revenues grew by 47% YoY at Rs 11.22 bn, Consolidated PAT stood at Rs 2.38 bn including gains on investments. Operating profit (excluding gains on investments & PE share of profit on investment) for the quarter was highest ever at Rs 2.33 bn, +92% YoY.
- In 9MFY22, Consolidated revenues grew by 38% YoY at Rs 29.5 bn, consolidated PAT grew by 25% YoY at Rs 9.96 bn. Operating profit for the nine month was highest ever at Rs 5.49 bn, +58% YoY.
- **Core business continues to fire all cylinders** – **Capital market** business PAT 22% QoQ / 99% YoY; **Asset & Wealth** +61% led by +38% AMC, +186% Wealth Management and +46% Private Equity business. Further, we have witnessed turnaround in **Housing finance** business.

Key highlights for the 9MFY22

- Most of our businesses have delivered strong and sustainable performance in Q3FY22 and 9MFY22.
- Our Asset under Advisory (AUA) has crossed Rs 3 tn mark led by all-time high AUM across AMC, Wealth and Distribution businesses.
- We have on-boarded Digital Head, Mr Vipul Nirwani (ex-Amazon, McKinsey) in Broking & Distribution business. Also, we have on-boarded Mr P H Ravikumar (Ex MD Vastu) on Housing Finance board.
- Our Net worth has touched all time high at Rs 53.8 bn.
- **Capital Markets** – Highest ever broking revenue and profit in Q3FY22 & 9MFY22, business has delivered consistent growth in profits over last several quarters, growth in client addition led by traction in digital acquisition channel, 92% YoY growth in ADTO, 20 bps QoQ rise in market share, strong growth in active clients, Investment banking mandate pipeline started fructifying.
- **Asset Management**– Highest ever AUM, gross & net sales gaining traction, strong response to AIF offerings, increase in SIP addition, continued traction in our international passive offerings. IREF V has raised Rs 10.9 bn. Our largest ever PE growth fund, IBEF-IV has achieved its 1st close at Rs 27 bn within 5 months of launch. It has a target size of Rs 45 bn.
- **Home Finance** – Strong pick-up in disbursements, traction in login/sanction pipeline, expansion in sales force and sharp reduction in cost of funds driving margin expansion.
- Consolidated net worth is at all-time high at Rs 53.8 bn, net debt is Rs 46 bn. Excluding Home finance, net debt is Rs 23.3 bn. Total D/E stood at 1x. Ex-MOHF D/E stood at 0.6x. Net of investments, we have a net cash balance sheet. RoE for 9MFY22 stands at 31%.
- The board has declared highest ever Interim dividend of Rs 7 per share (FV Re 1/share).
- Besides financial performance, recent time has been very eventful in terms of our successes in brand building, advertising and several other fronts. MOFSL ranked 1st in "**Best Local Brokerage"** category in Asia Money broker's poll 2021. MOFSL once again recognized as a "**Great Place to Work"** - India certified organization, Motilal Oswal won **"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 *"All of our businesses have delivered strong & sustainable performance in Q3FY22 & 9MFY22. Last financial year was a landmark year for us with highest ever revenue and profit. This year also we are witnessing similar trend and we delivered highest ever quarterly & nine month operating profit. Our retail broking business which is our cash cow business has achieved new highs on various parameters and benefitting from market expansion and industry consolidation. Our Institutional Broking business has been ranked #1 local brokerage house consecutively for 2nd year in Asiamoney poll 2021. Our strategy to invest business profits in our own equity investment products led to highest ever profits and as a result our Net worth has touched new high. Moreover, our strategy to diversify our business model towards linear sources of earnings continue to deliver results. Our Asset Management business is likely to gain from process driven investing and its niche offerings. Our Wealth Management business has delivered stellar performance this year and on its way to achieve scale in this business. Our PE business has delivered on both successful exit of its investment and fund raise of its largest ever fund. 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 and nine month ended December 31, 2021

- **Capital markets Businesses (Broking & Investment banking)**
  - Capital markets comprise of Retail Broking, Institutional Equities and Investment Banking business. Revenues for this segment were Rs 7.26 bn, +19% QoQ / 68% YoY in Q3FY22 and Rs 18.44 bn, +54% YoY in 9MFY22. Capital market businesses have contributed ~55% of consolidated revenues.
  - Profit grew by 22% QoQ / 99% YoY at Rs 1.48 bn in Q3FY22 and 64% YoY to Rs 3.46 bn in 9MFY22 led by healthy volume growth of 92% YoY / 29% QoQ.
  - In **Retail Broking & Distribution**, we have witnessed strong traction in new client addition driven by Franchisee and retail channel, total ~640,000 clients acquired in 9MFY22, +62% YoY. NSE active clients have also registered 59% YoY growth at 7.9 lacs as of Dec 2021.
  - Our strategy to bring in linearity through the trail-based distribution business is showing results. Distribution AUM grew by 39% YoY at Rs 166 bn as of Q3FY22. With only 16% of the ~2.6 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 2021. Ranked #1 Best local brokerage House, Best sales and Best Execution and 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 participated in 3 deals. Further, there is a strong pipeline of signed IPO mandates which has started entering the markets from Q4FY22 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 507 bn, +20% YoY. Strong growth of 27% QoQ / 38% YoY in PAT at Rs 528 mn in Q3FY22 and 43% YoY at Rs 1.30 bn in 9MFY22.
  - Equity MF AUM stood at Rs 310 bn i.e. 1.5% of the Industry MF Equity AUM of Rs 21 tn. We have seen improvement in performance of several products. Our Gross sales and Net sales started improving.
  - Favourable response to alternate offerings under AIF strategy and international passive offerings.

- We have added around 340,000 SIPs in 9MFY22, +57% YoY. New SIP count market share stood at 1.7% in 9MFY22.
- Our share of Alternate assets, comprising of PMS & AIF, is the highest among AMC's at ~37%.
- **Private Equity** has fee earning AUM of Rs 83 bn across 3 growth capital PE funds and 4 real estate funds. In Q3FY22, revenues stood at Rs 323 mn and PAT stood at Rs 100 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 has raised Rs 10.9 bn. PE biggest fund launched with IBEF IV with a target size of Rs 45 bn, achieved its 1st close at Rs 27 bn.
- **Wealth Management** business AUM grew by 51% YoY at Rs 342 bn in Q3FY22. Wealth business revenue grew by 24% QoQ / 80% YoY to Rs 593 mn in Q3FY22 led by strong net sales at Rs 18.4 bn in Q3FY22. Yield stood at ~73 bps. RM count of this business stood at 139. 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 2.59 bn, +37% YoY in Q3FY22 and Rs 6.83 bn, +33% YoY in 9MFY22. Asset & Wealth contributes 20% of consolidated revenues. Profits were Rs 851 mn, +40% QoQ / 61% YoY in Q3FY22 and Rs 1.99 bn, +58% YoY in 9MFY22 and contributed 21% of consolidated profits.

- **Housing finance business**
  - Motilal Oswal Home Finance (MOHFL) reported profit of Rs 188 mn in Q3FY22, +301% YoY and Rs 473 mn in 9MFY22, +121% YoY.
  - NII grew by 10% YoY and NIM expanded to 7.6% in Q3FY22.
  - Yield on Advances stood at 14% in Q3FY22 while Cost of Funds was down by 85 bps YoY to 8.1%, resulting in expansion in Spread by 65 bps YoY to 5.9%.
  - We have raised Rs 5.97 bn in 9MFY22 at an average cost of 7.06%.
  - Disbursements in Q3FY22 stood at Rs 1.9 bn, +19% QoQ. Business is geared up for stronger growth in disbursements. Sales force expansion is currently underway.
  - In Q3FY22 provisions were higher due to new NPA recognition norms by RBI which led to rise in GNPA by 120 bps QoQ to 3.4%. Excluding this new norm impact, GNPA would have been 1.3%. However, our collection efficiency in December has reached to ~100%.
  - IND AA rating assignment by India Ratings, outlook upgrade by CRISIL to CRISIL AA-/Positive and rating upgrade by ICRA to ICRA AA-/stable. These ratings upgrade will further benefit us in lowering incremental CoF.
  - Net Gearing stands at 2.4x and Tier 1 CAR remains robust at 47%.

- **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 61 mn in Q3FY22 and Rs 3.6 bn in 9MFY22.
  - Total quoted equity investment including unrealised gains was Rs 26.9 bn as of 9MFY22. Cumulative XIRR of these investments is ~18% (since inception).
  - Total equity investment including alternate funds was at Rs 37.6 bn as of Dec-21. XIRR of 33% 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 ~9000 employees serving to 4.4 mn clients via distribution reach in 700+ cities. MOFSL has AUA of Rs 3 trillion.