Motilal Oswal Financial Services

ConCall Summary & Earnings Release

Quarter and Year ended March, 2021

30th April, 2021

Motilal Oswal Financial Services Limited (MOFSL) posted consolidated revenues of Rs 12 bn for Q4FY21 and Rs 39.2 bn for FY21. Consolidated PAT grew by 34% QoQ at Rs 4.48 bn for Q4FY21 and 579% YoY at Rs 12.45 bn. Capital Market profit was Rs 0.8 bn in Q4FY21, up 93% YoY and Rs 2.9 bn in FY21, up 63% YoY. Asset and Wealth Management profits were Rs 0.86 bn in Q4FY21, up 108% YoY and Rs 2.12 bn in FY21, up 13% YoY. Housing finance profit was Rs 180 mn in Q4FY21 and Rs 398 mn in FY21.

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
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 Q4 and full year ended FY21 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	Q4 FY21	Q4 FY20	CHG. YoY	Q3 FY21	CHG. QoQ	12M FY21	12M FY20	CHG. YoY
Total Revenues	**12,004**	**2,888**	**316%**	**10,088**	**19%**	**39,235**	**23,157**	**69%**
EBITDA	6,583	-1,068	-	5,365	23%	20,917	7,895	165%
PBT	5,364	-2,450	-	4,214	27%	15,260	2,553	498%
PAT	**4,481**	**-2,537**	**-**	**3,338**	**34%**	**12,454**	**1,834**	**579%**

REVENUE COMPOSITION (Rs Mn)

Particulars	Q4 FY21	Q4 FY20	CHG. YoY	Q3 FY21	CHG. QoQ	12M FY21	12M FY20	CHG. YoY
Broking	5,131	3,381	52%	4,307	19%	17,088	12,249	40%
Investment Banking	5	9	-47%	2	129%	30	121	-75%
Asset Management	1,831	1,316	39%	1,291	42%	5,320	5,561	-4%
Private Equity	245	283	-14%	266	-8%	998	1,039	-4%
Wealth Management	371	255	45%	330	12%	1,271	1,007	26%
Fund Based	3,029	-3,754	-	2,523	20%	9,072	-2,585	-
Housing Finance	1,394	1,398	0%	1,369	2%	5,455	5,764	-5%
Total Revenues	**12,004**	**2,888**	**316%**	**10,088**	**19%**	**39,235**	**23,157**	**69%**

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 Q4 and the year ended March 31, 2021. We hope that each one of you and your families are safe and in good health.

Financial performance

- We are happy to report our highest ever quarterly and full year profits. Reported PAT for Q4FY21 grew 34% QoQ at Rs 4.48 bn and for FY21 grew 579% at Rs 12.45 bn. Adjusted for gains on investments that account for nearly 2/3 of net worth.
- Operating profit grew 87% for Q4FY21 to Rs 1.8 bn and 33% for FY21 to Rs 5.3 bn.
- Consolidated net worth touched all time high and stood at Rs 44.3 bn, net debt is Rs 40.6 bn. Excluding Home finance debt, net debt is Rs 15.5 bn. Total D/E declined to 1.3x. Ex-MOHF D/E stood at 0.6x. We are a net cash company net of our equity investments.
- RoE for FY21 stands at 38%.
- During FY21, company has completed Buyback of its equity shares amounting to Rs 1.5 bn (including tax) resulting in a small increase in promoter holding by 1.3% to 70.67%, still well below the permissible limit of 75%.
- The board has also declared final dividend of Rs 5 per share (FV Re 1/share).

Key highlights for the Q4 and FY21

- **Broking–** Despite constant chatter of the rise of discount brokerages, our broking biz reported highest ever revenues market share improved by 30 bps YoY to 2.7%, saw highest ever quarterly & yearly clients' addition. 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 launched with target size of Rs 8 bn.
- **Home Finance-** Sharp reduction in cost of funds and tight leash on Opex drove record PPOP of Rs 540 mn in Q4FY21. Collection efficiency improved to 97%, strong pick-up in disbursements and we have expanded the sales force in Q4FY21 and will continue to increase our sales force in FY22 to ramp up disbursements in the coming quarters

I will now deep dive into individual businesses.

Capital market business:

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

Particulars	Q4 FY21	Q4 FY20	CHG. YoY	Q3 FY21	CHG. QoQ	12M FY21	12M FY20	CHG. YoY
Total Revenues	5,131	3,381	52%	4,307	19%	17,088	12,249	40%
EBITDA	1,753	1,185	48%	1,465	20%	5,947	4,224	41%
PBT	1,115	629	77%	1,029	8%	4,072	2,527	61%
PAT	**834**	**453**	**84%**	**769**	**9%**	**3,030**	**1,877**	**61%**

Capital markets comprises of Retail Broking, Institutional Equities and Investment Banking business. Revenues for this segment were Rs 5.14 bn, +51% YoY in Q4FY21 and Rs 17.12 bn in FY21, +38% YoY. Capital market businesses have contributed ~44% of consolidated revenues. Profits were Rs 2.91 bn (ex-exception item), +63% YoY and contributed ~22% of consolidated PAT during FY21.

Broking and Distribution

In Retail Broking & Distribution, In Retail Broking & Distribution, our Market share has improved by 30 bps on YoY basis to 2.7%. We have witnessed strong traction in new client addition driven by Franchisee and retail channel , total ~225,000 clients acquired in Q4FY21, +81% YoY and ~620,000 clients acquired in FY21, +150% YoY. NSE Active clients have also registered 50% YoY growth at 5.64 lacs as of March 2021.

Distribution AUM was Rs.128 bn, +42% YoY with 13% of 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.

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	Q4 FY21	Q4 FY20	CHG. YoY	Q3 FY21	CHG. QoQ	12M FY21	12M FY20	CHG. YoY
Total Revenues	5	9	-47%	2	129%	30	121	-75%
EBITDA	-35	-47	-	-35	-	-137	-101	-
PBT	-39	-48	-	-38	-	-149	-112	-
PAT	-32	-37	-	-29	-	-118	-87	-

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	Q4 FY21	Q4 FY20	CHG. YoY	Q3 FY21	CHG. QoQ	12M FY21	12M FY20	CHG. YoY
Total Revenues	1,831	1,316	39%	1,291	42%	5,320	5,561	-4%
EBITDA	754	456	65%	532	42%	2,033	2,097	-3%
PBT	750	445	69%	524	43%	2,003	2,071	-3%
PAT	**691**	**357**	**94%**	**382**	**81%**	**1,602**	**1,601**	**-**

Asset Management business AUM across MF, PMS & AIF stood at Rs 457 bn, +54% YoY. PAT for the quarter stood at Rs 691 mn, +94% YoY. In FY21, AMC's profit was Rs 1.6 bn flat on YoY basis as there was impact of lower average AUM post unprecedented market correction in March'20 and also due to cut in TER in MF. However, MF yields have improved during the quarter resulting in overall yield improvement.

Our Equity MF AUM of Rs 281 bn is just 1.8% of the Industry MF Equity AUM of Rs 15 tn. Our share of Alternate assets, comprising of PMS & AIF, is the highest among AMC's at ~38%. We have witnessed strong traction in SIP addition and realisation. We have seen improvement in performance of several products.

Private Equity

KEY FINANCIALS: PRIVATE EQUITY (Rs Mn)

Particulars	Q4 FY21	Q4 FY20	CHG. YoY	Q3 FY21	CHG. QoQ	12M FY21	12M FY20	CHG. YoY
Total Revenues	245	283	-14%	266	-8%	998	1,039	-4%
EBITDA	99	104	-5%	110	-10%	394	400	-1%
PBT	98	104	-5%	108	-9%	387	387	-
PAT	**55**	**44**	**25%**	**69**	**-20%**	**245**	**219**	**12%**

Private Equity has committed investment AUM of Rs 66 bn across 3 growth capital PE funds and 4 real estate funds. The 1st growth fund (IBEF 1) has delivered an XIRR of ~26%. Average IRR on exited investments in Real estate funds is 21%+. We have launched IREF V with target size of Rs 8 bn.

Wealth Management business:

KEY FINANCIALS: PRIVATE WEALTH MANAGEMENT (Rs Mn)

Particulars	Q4 FY21	Q4 FY20	CHG. YoY	Q3 FY21	CHG. QoQ	12M FY21	12M FY20	CHG. YoY
Total Revenues	371	255	45%	330	12%	1,271	1,007	26%
EBITDA	159	23	582%	106	50%	383	98	292%
PBT	157	20	703%	103	51%	371	83	345%
PAT	**115**	**14**	**732%**	**78**	**47%**	**275**	**61**	**352%**

Wealth Management business AUM stood at Rs 253 bn, +62% YoY in FY21. Wealth business revenue grew by 45% & 26% YoY in Q4FY21 & FY21 respectively led by strong net sales of Rs 27.1 bn in FY21. Our Net sales were multi-quarter high. RM count of this business stood at 123. Our trail revenues predominantly cover our fixed costs.

Overall Asset and Wealth Management revenues were Rs 2.45 bn & Rs 7.59 bn in Q4FY21 & FY21 respectively. Asset & Wealth contributes 19% of consolidated revenues. Profits were Rs 861 mn & Rs 2.12 bn in Q4FY21 & FY21 respectively and contributed 16% of consolidated profits.

Home Finance business:

KEY FINANCIALS: MOTILAL OSWAL HOME FINANCE (Rs Mn)

Particulars	Q4 FY21	Q4 FY20	CHG. YoY	Q3 FY21	CHG. QoQ	12M FY21	12M FY20	CHG. YoY
Net Interest Income	690	579	19%	629	10%	2,445	2,224	10%
Total Income	771	632	22%	655	18%	2,566	2,332	10%
Operating Profit	540	401	35%	439	23%	1,708	1,376	24%
PBT	343	281	22%	154	123%	904	609	48%
PAT	**184**	**176**	**4%**	**47**	**292%**	**398**	**390**	**2%**

Home finance business reported profit of Rs 184 mn in Q4FY21 and Rs 398 mn in FY21. Profit includes higher tax on account of reinstatement of tax asset post migration to new tax regime.

NII grew by 19% YoY and NIM expanded 73 bps YoY to 6.1% in Q4FY21.

Yield on Advances remained flat at 14.2% in Q4FY21 while of Cost of Funds is down by 18 bps QoQ / 130 bps YoY to 8.77%, resulting in expansion in Spread by 123bps YoY to 5.4%.

We have raised Rs 14 bn in FY21 at average cost of 7.5%. We expect average CoF to trend lower in coming quarters.

Loan book stood at Rs 35.1 bn as of FY21. Disbursements in FY21 grew by 42% YoY to Rs 2.7 bn. Business is geared up for growth in disbursements. Sales force expansion is currently underway.

GNPAs declined by 75 bps QoQ to 2.2% for Q4FY21 and NNPA stood at 1.5%. We have witnessed sharp traction in collection efficiency in the month of March which has reached to pre-Covid level at 97%.

Opex was brought down by 10% YoY, as a result Cost to Income ratio is down to 33% from 41% in FY20.

Strong support from parent continues with total capital infusion to Rs 8.5 bn. Net Gearing stands at 2.8x and Tier 1 CAR remains robust at 48%.

Limited borrowing repayment for next 1 year, strong undrawn borrowing lines, Cash on Balance sheet of Rs 3.5 bn places us in comfortable liquidity situation.

Fund-based activities

KEY FINANCIALS: (Rs Mn)

Particulars	Q4 FY21	Q4 FY20	CHG. YoY	Q3 FY21	CHG. QoQ	12M FY21	12M FY20	CHG. YoY
Total Revenues	3,029	-3,754	-	2,523	20%	9,072	-2,585	-
PAT	**2,645**	**-3,520**	**-**	**2,112**	**25%**	**7,788**	**-2.121**	**-**

Fund Based activities include commitments to our asset management products. Total quoted equity investment including unrealised gains was Rs 21.8 bn as of Q4FY21. Total equity investment including alternate funds was at Rs 31 bn as of Mar-21. Fund based investments have registered Highest ever gains in a quarter of Rs 2.6 bn and Rs 7.77 bn in FY21

Outlook: To sum up, this financial year has been a landmark year for us. We have achieved highest ever revenues and profits. Capital Market business which is our oldest and cash cow business has achieved new high on various parameters and continues to benefit from industry consolidation led by 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. Our Asset Management business is likely to gain from strong product performance and its niche offerings. Home Finance business is geared up for profitable growth. We remain excited about the headroom to grow and the ability to generate free cash by each of our existing businesses.

Q&A

On the broking side, could you comment on the banking partnership? Secondly, your retail client base is around 2 million out of which 5.5 lakhs are active, which is around 27-28%, what is the definition of active and what is this figure for the industry?

We are in talks with multiple banks. As on date, AU Bank is one of the big tie ups. We have hired more than 1,000 people in the last year on the branch side, however most of the hiring this year will be on online business.

Active client base for us is in line with the industry because we have got a very good advisory setup. Total client base figures are not available at the industry level. The numbers which come out is only about active client, which is defined as number of clients who traded at least once in last one year. But surely we have got a bigger say in this whole thing because of our advisory setup and we will try to engage the clients not only with broking, but also with all our distribution and asset products.

Margins in the broking segment this time were lower, any particular reason for this?

Margins in this quarter are lower because of the impact of the variable pay which is actually catching up over the course of the whole financial year based on the targets. However, on full year basis the PBT margins is up by 3% in FY21 over FY20 and that also includes the investment that we have made of about 1,600 employees in our business across North and South geographies. If you remove this, then there is a 5 basis operating leverage impact in the P&L on a year-on-year basis.

Market has been very supportive in the last one year and we have added a lot of employees in broking and our cost have also gone up, just wanted to understand what our fixed cost structure is and in case market is not supportive, what sort of cost cutting we could do? Second, if you could give the revenue mix between cash and F&O and is there any increase in these other distribution assets now that is almost 28% in the mix.

In our broking business there is a fixed cost between Rs 40 to 45 crores a month which is the total fixed cost comprising of people cost and the administrative cost. Rest all the expenses are variable in the sense that our revenue sharing with our business partner is variable and we also have a variable portion of the employee cost. Today, as we stand we have about Rs 90 to 95 crores a month of net revenues and about Rs 40 to 45 crores of fixed cost per month so that is the operating matrix, which is there, and rest are variable or discretionary cost.

The mix between the cash and F&O is 50-50 in terms of revenue. Other asset in distribution product mix, which is mostly debt related product like we have MLDs. Insurance is not getting counted in AUM. We have received a very good response this year in terms of insurance, almost Rs 42 crores of premium business we have done.

On the retail broking where you have got the client traction, how much of that will be because of small regional brokers?

We acquired almost 15 small brokers and almost 80,000-90,000 client addition would be on that basis.

Whatever client addition that we are seeing now, how much is the conversion rate?

Almost 40% is the conversion rate immediately within time frame of one month.

Given the margin requirement are going to become more stringent going forward, how do you see the brokerage revenue will be in next two to three years, will you be able to see a double-digit growth, or are you going to see some pressure here?

Last year has been a very good year, and even though the new margin regulations came in October and then December, there was no impact because the market momentum was on side. However, in March impact was witnessed, where we have seen some fall in volumes because of the margin requirement. We have got two more slides in June and September. Clearly, there will be impact on the F&O because on the option side, huge turnover was happening based on the intraday margins, but going forward we expect improvement in cash markets volume. Growth can be there in our business but naturally the markets will have to be in our favor. Looking at the last year's huge growth, we can see some amount of maintenance going forward for this year and the next year, but potentially the growth side is very much there. We have seen a lot of SEBI regulations coming in, which are short term triggers, but in the long term these are all good for the industry.

Will you be able to demonstrate a double-digit growth in brokerage revenue in

medium-term?

If the markets are performing, there is no reason why we cannot show double-digit growth.

On the dividend part, you are showing superb EPS for the last two quarters, so why aren't we increasing the dividend yield, like anywhere between 2.5% to 3% yield on your average market price which will be good for the long-term investor?

On the dividend part, the way we look at it is distribution as the portion of our profit. We have no control over market size and trying to match dividend yield and market price by some kind is not the way we work. We have clearly articulated dividend payout policy of 25% to 35% and so our dividends will be in that range. Occasionally, in addition to this dividend payout, we also do buyback like you saw during last year and we have done it twice since our listing.

PMS AUM is around Rs 15,000 crores and this is same as it was three years ago, is it some market share loss for us or has PMS industry not grown, can you please comment on that and secondly on the AMC side, what is the percentage of passive funds to total mutual fund AUM as on FY21 vs FY20?

As far as PMS business is concerned there was a big mark-to-market down last year ending Mar-20 and then there was recovery in the current year. The overall market itself over the last year has not been significant and on top of that there have been redemptions across the board for active managers whether it is mutual funds or PMS. Both of these factors have impacted the overall AUM number. In terms of the share of passive in the overall business, our passive AUM is about Rs 52 billion in FY21 and Rs 8 billion in FY20.

You mentioned about redemption across the board, so it was not really market share loss as the PMS industry itself has not grown?

There are no market share number available for alternate assets unlike for the mutual fund business, but we had our own performance challenges which has also contributed to the redemption aside of the overall industry redemption trends.

On the asset management side there is an accrual of performance fees of Rs 22 cr in the quarter, how do you look at it from a steady state point of view. Secondly, the

PAT to AUM is around 41-42 bps, is there something on the mix that will help this move up?

If you take the passive the AUM, the rest of the business dynamic remains quite steady state. Performance fees varies from year-to-year, last year for instance there was no performance fees because market collapsed in the March quarter and this year there was performance fee because of the strong performance of the markets. Removing extra performance fees and passive business from the denominator you should be able to get a steady state now and as and when you see the AUMs growing as flows start coming in, the opex will have a meaningful leverage, our opex to asset ratio will be on the higher side given the smaller scale compared to the bigger AMC.

On our AMC business, our total AUM is approx. Rs 46,000 cr and does this includes this 7,400 crores of passive AUM?

It includes double counting of NASDAQ FoF which in turn invests in the NASDAQ ETF. Thus, the actual passive AUM would be lower to that extent.

What is the net sales for mutual fund and PMS business for this quarter?

MF net sales were 4 billion in Q4, for PMS there was outflow of around Rs 11.7 bn

On the alternate side, just wanted to understand what has led to strong performance this quarter?

In Q4, there was a performance fee impact which has come of Rs 22 crore at the net revenue level.

PMS has witnessed outflows of around 11.7 billion in the last quarter, can you explain what is actually happening because markets have sort of recovered, and sentiment has been good apart from the last 15 days of March so why are we seeing outflows?

On the overall alternate asset side, the outflow is less than Rs 7 billion as AIF have gained in importance and replaced PMS sales to some extent that is point number one. Point number two, the HNI segment is obviously more conscious about the fact that market have run up and there are risks and uncertainties and we are seeing a lot more activity there across the board in terms of profit booking. In our own alternate asset case, a lot of the AUM came in 2017-2018 when we had a three-year exit load which is now over and sometimes that could also be a motivation which is specific to us and finally it could be our own relative performance versus peers. It is the sum total of all of these factors that have contributed to the numbers that you saw.

When do you think this entire exit load phenomena will sort of get over or people in the PMS side will continue stick on?

I think that would be the least important of all the variables that I sighted. AIF require SEBI approval and there are the same product that gets registered with SEBI for different distributors. It is a lot more operational and regulatory approval intensive. To make the whole machine well-oiled and as it all started on this second half of this fiscal year, it will take a little while, but we are quite hopeful that we should be able to turn this trend around as there is some uptake in the performance.

About your strategy of investing your profit in your own fund, is there any plan other than that this strategy of investing in your own funds?

Whatever is the free cash flow year after year that after dividend distribution goes into two streams, one is private equity, the unlisted space and second is the listed space through our own AMC. There are lot of opportunities to invest in all these and we are also mindful of the liquidity of the investments. If the need arises for Rs 500 crores, Rs 1,000 crores to be invested in some operating business or any business opportunity, the funds should be available at fingertips to use that. That is the broad objective and as we go along, we are seeing of getting more vehicles of investing in the market in private as well as in public side.

On the home finance side you mentioned about sales force being ramped up, is there a possibility of AUM growth. On the collection side we are seeing consistent efficiency and repayment both, what is leading to this?

The house is in order in terms of the legacy book. We have made significant investments in our collection team which is nearly 500 people strong. We are now looking to ramp up our sales team as we are looking to increase our disbursements. Current level of disbursements of Rs 2.7 billion is very small in the context of 104 branches that we have as of March 21. If you look at the industry thumb rule of Rs 20-25 lakh disbursement per branch, then we will need more feet on the street. There is definitely an issue about COVID and its impact on disbursements, but we are building this business from a longer term perspective. We will be increasing our head count over the next three to six months' time, but our clear ambition is to grow our disbursements from the level of 2.7 billion that you saw last year.

Around 70% of the customers are documented customers whether it is self-employed or salaried and yield on the portfolio is 14%, so the question is given that mortgage is so competitive, would you see more business transfers going forward because good quality customers are banking friendly. Second, 65% of your liabilities are floating rate liabilities and on the asset side the yield is 14%, so is it all floating or is it going to be fixed at this rate because the vulnerability increases if interest rate start going up. Lastly would you be able to give the constructed versus under construction mix in your home loan portfolio?

About 55% of our borrower are salaried borrowers and therefore they come with documented income. On the self-employed side, out of the balance 45% that we have, almost 60% of them have documented income. We will continue to perceive that strategy in terms of focusing on similar kind of mix, on the incremental basis self-employed contribution may increase a little bit, but on a portfolio basis it will not have a significant impact. In last 6, 7 months we have seen some degree of impact on the interest rates, the rates have started to come down both on the asset side as well as on the liability side and therefore we will have to necessarily pass on some advantage to the customers as well. So, while the margins will remain intact and NIMs will increase because of the increase in the disbursal that we expect if COVID challenges permit us, but at the same time the yield on the portfolio is expected to slightly reduce because of the impact of the competitive forces and interest rates in the market.

We also started offering semi fixed rate loans to our customers in last year, where for the first three years interest rates will be fixed and then it will be floating. This takes care of interest rate sensitivity and at the same time gives some cushion to the yield given the benign interest rates in the market.

We have prime rate mortgages at 7% and our yield with 70% being documented customers is 14%. With this wide gap, wouldn't the customer go to another lender who is offering let's say at 10% yield on mortgages?

Our balance transfer rates are pretty much in line with the trends of the industry itself. Our BT out rate is about 0.2 to 0.3% per month and we also do spare degree of BT in. Balance transfer is a part and parcel of the mortgage business, irrespective of the segments in which you operate. As far as documented income is concerned, there are different target market segments within the documented income. We look at more of low-income, economically weaker section and even though they have documented income, ticket sizes are very different in nature because our average ticket size is around Rs 7 to 8 lakhs. When we look at other housing finance companies, they cater to a very different profile of documented income customers. While the balance transfer is a reality in housing finances business, that is a part and parcel of your business plan and you take it into cognizance when you are making your business plans. About 0.2-0.3% of balance transfer out is the reality and it will always continue to happen, and you will have to keep building up your book accordingly. Majority of our book continues to be of floating rate in nature and therefore the interest rate risk always lies with the customer. As our customers are basically of low income group and economically weaker sections, we will continue to pursue that strategy of underwriting these customers even though they have documented income. It is not that cases are approved without personal discussion and without meeting the customers, but the nature and type of properties that are involved are fairly different than what other housing finance companies target. They usually do lot of under construction kind of property.

Our percentage of under construction has substantially come down. Our focus is more on self-construction, resale and such kind of transactions. Around 35% of our customer base is new to credit segment and almost 90% of our customers are taking their first housing loan. Because of that, there was no competitive pressure from the banking channel and we are able to command premium on the interest rates.

On investment banking side of the business, how do we see the pipeline and what is our outlook?

We are looking at reasonably good pipeline and hopeful of turning around this business in the coming years from the losses that we have reported.

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 Q4 FY21 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 Highest ever Q4FY21 PAT of Rs 4.48 bn, +34% QoQ and Rs 12.45 bn, +579% YoY in FY21.
Company declares final dividend of Rs 5 per share.

Mumbai, April 29, 2021: Motilal Oswal Financial Services Ltd. announced its results for the quarter and full year ended March 31, 2021 post approval by the Board of Directors at a meeting held in Mumbai on April 29, 2021.

Performance for the quarter and full year ended March 31, 2021:

- In Q4FY21, consolidated revenues grew by 316% YoY at Rs 12 bn, Consolidated PAT grew by 34% QoQ at Rs 4.48 bn including gains on investments (Rs 2.6 bn, +25% QoQ).
- Consolidated revenues in FY21 grew by 69% YoY at Rs 39.24 bn, consolidated profit grew by 579% YoY at Rs 12.45 bn including gains on investments (Rs 7.8 bn).

Key highlights for the Q4FY21 and FY21

- Highest-ever Consolidated Quarterly and yearly Revenues & Profits. Strong Sequential growth revenues and profitability across businesses.
- We added ~2000 employees (+34% YoY) and ~6+ lacs net customers addition (+28% YoY) in FY21. Our assets under advice (AUA) grew by 94% YoY to cross Rs 2 trillion mark in FY21.
- **Broking** - Highest ever Revenues & profitability, market share gains 30 bps YoY to 2.7%, highest ever quarterly clients addition, significant investments made in last 12 months in expanding talent pool & distribution network.
- **Asset Management**– Highest ever AUM, MF gross sales gaining traction, increase in SIP addition, strong traction in AIF gross sales. IREF V launched with target size of Rs 8 bn.
- **Home Finance** - Sharp reduction in cost of funds driving margin expansion, improvement in collection efficiency, strong pick-up in disbursements, traction in login/sanction pipeline, geared up for FY22 with expansion in sales force.
- Consolidated net worth is at all-time high at Rs 44.3 bn, net debt is Rs 40.6 bn. Excluding Home finance, net debt is Rs 15.5 bn. Total D/E declined to 1.3x. Ex-MOHF D/E stood at 0.6x. Net of investments, we have a net cash balance sheet. RoE for FY21 stands at 38% (ex-OCI).
- During FY21, company has completed Buyback of its equity shares amounting to Rs 1.5 bn (including tax) resulting in increase in promoter equity in the company by 1.3% to 70.67%.
- The board has declared final dividend of Rs 5 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 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 *"This financial year has been a landmark year for us. We have achieved highest ever revenues and profits. Most of our fee based businesses are touching new high in terms of scale. 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 and full year ended March 31, 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 5.14 bn, +51% YoY in Q4FY21 and Rs 17.12 bn in FY21, +38% YoY. Capital market businesses have contributed ~44% of consolidated revenues. Profits were Rs 2.91 bn (ex-exception item), +63% YoY and contributed ~22% of consolidated PAT during FY21.
  - Broking and distribution business profit grew by 84% YoY at Rs 834 mn in Q4FY21 and 61% YoY at Rs 3.03 bn in FY21 led by healthy volume growth of 87% YoY and gain in market share.
  - In **Retail Broking & Distribution**, our Market share has improved by 30 bps on YoY basis to 2.7%. We have witnessed strong traction in new client addition driven by Franchisee and retail channel, total ~225,000 clients acquired in Q4FY21, +81% YoY and ~620,000 clients acquired in FY21, +150% YoY. NSE active clients have also registered 50% YoY growth at 5.64 lacs as of March 2021.
  - Our strategy to bring in linearity through the trail-based distribution business is showing results. Distribution AUM grew by 42% YoY at Rs 128 bn as of Q4FY21. With only 13% of the ~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 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 Management businesses (AMC, PE and PWM)**
  - **Asset Management** business AUM across MF, PMS & AIF stood at Rs 457 bn, +54% YoY. Our AMC ranks 11 by total equity assets; in PMS we maintain a leading position. Strong growth of 94% YoY in PAT for the quarter at Rs 691 mn led by accrual of performance fees of Rs 220 mn in Q4FY21. In FY21, lower average AUM post unprecedented market correction in March-20 and also due to cut in TER in MF had resulted in lower accruals of revenues. However, MF yields have improved during H2FY21 resulting in overall yield improvement.
  - Our Equity MF AUM of Rs 281 bn is just 1.8% of the Industry MF Equity AUM of Rs 15 tn. We have seen improvement in performance of several products. Our gross sales started improving and redemption market share declined on sequential basis. However, we too witnessed net outflow in-line with Industry.
  - We have added 3.1 lakh SIPs in FY21 resulted in an increase in new SIP count market share by 90 to 2.2%.
  - Our share of Alternate assets, comprising of PMS & AIF, is the highest among AMC's at ~38%.

- **Private Equity** has committed investment AUM of Rs 66 bn across 3 growth capital PE funds and 4 real estate funds. In FY21, revenues stood at Rs 1 bn and PAT stood at Rs 245 mn. The 1st growth fund (IBEF 1) has delivered an XIRR of ~26%. Average IRR on exited investments in Real estate funds is 21%+. We have launched IREF V with target size of Rs 8 bn.
- **Wealth Management** business AUM grew by 62% YoY at Rs 253 bn in FY21. Wealth business revenue grew by 45% & 26% YoY in Q4FY21 & FY21 respectively led by strong net sales at Rs 27.1 bn in FY21. Net sales were multi-quarter high. Yield stood at ~62 bps. RM count of this business stood at 123. Our trail revenues predominantly cover our fixed costs. Ashish Shanker has been promoted as MD & CEO. He joined MOPWM as Head Investment Advisory in 2012 and was instrumental in building the investment, research & advisory platform in our Wealth business.
- Overall **Asset and Wealth Management** revenues were Rs 2.45 bn & Rs 7.59 bn in Q4FY21 & FY21 respectively. Asset & Wealth contributes 19% of consolidated revenues. Profits were Rs 861 mn & Rs 2.12 bn in Q4FY21 & FY21 respectively and contributed 16% of consolidated profits.

- **Housing finance business**
  - Motilal Oswal Home Finance (MOHFL) reported profit of Rs 184 mn in Q4FY21 and Rs 398 mn in FY21. Profit includes higher tax on account of reinstatement of deferred tax asset post migration to new tax regime. Excluding this, PAT for the quarter would have been Rs 256 mn and Rs 675 mn, +73% YoY for the year.
  - NII grew by 19% YoY and NIM expanded 73 bps YoY to 6.1% in Q4FY21.
  - Yield on Advances remained flat at 14.2% in Q4FY21 while of Cost of Funds is down by 18 bps QoQ / 130 bps YoY to 8.77%, resulting in expansion in Spread by 123bps YoY to 5.4%.
  - We have raised Rs 14 bn in FY21 at average cost of 7.5%. We expect average CoF to trend lower in coming quarters.
  - Loan book stood at Rs 35.1 bn as of FY21. Disbursements in FY21 grew by 42% YoY to Rs 2.7 bn. Business is geared up for growth in disbursements. Sales force expansion is currently underway.
  - GNPAs declined by by 75 bps QoQ to 2.2% for Q4FY21 and NNPA stood at 1.5%. We have witnessed sharp traction in collection efficiency in the month of March which has reached to pre-Covid level at 97%.
  - Opex was brought down by 10% YoY, as a result Cost to Income ratio is down to 33% from 41% in FY20.
  - Strong support from parent continues with total capital infusion to Rs 8.5 bn. Net Gearing stands at 2.8x and Tier 1 CAR remains robust at 48%.
  - Limited borrowing repayment for next 1 year, strong undrawn borrowing lines, Cash on Balance sheet of Rs 3.5 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 Highest ever gains in a quarter of Rs 2.6 bn and Rs 7.8 bn in FY21
  - Total quoted equity investment including unrealised gains was Rs 21.8 bn as of Q4FY21. Cumulative XIRR of these investments is ~18% (since inception).
  - Total equity investment including alternate funds was at Rs 31 bn as of March-21. XIRR of 29% 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 ~8000 employees serving to 2.9 mn clients via distribution reach in 700+ cities. MOFSL has AUA of Rs 2 trillion.