Motilal Oswal Financial Services

ConCall Summary & Earnings Release

Quarter and Half Year ended September, 2020

2nd November, 2020

Motilal Oswal Financial Services Limited (MOFSL) posted consolidated revenues of Rs 7.47 billion for Q2FY21 and Rs 13.8 billion for H1FY21. Consolidated PAT grew by 108% YoY at Rs 2.97 bn for Q2FY21 and 70% YoY at Rs 4.63 bn. Capital Market revenue was Rs 4.24 bn in Q2FY21 and Rs 7.67 bn in H1FY21. Asset and Wealth Management revenues were Rs 1.78 bn in Q2FY21 and Rs 3.26 bn in H1FY21. Housing finance-related net revenues were Rs 0.56 bn in Q2FY21 and Rs 1.14 bn in H1FY21.

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 Q2 and Half 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	Q2 FY21	Q2 FY20	CHG. YoY	Q1 FY21	CHG. QoQ	H1 FY21	H1 FY20	CHG. YoY
Total Revenues	**7,472**	**6,549**	**14%**	**6,328**	**18%**	**13,800**	**12,832**	**8%**
EBITDA	3,005	2,411	25%	2,622	15%	5,627	5,264	7%
PBT	1,800	1,066	69%	1,428	26%	3,228	2,585	25%
Operating PAT	**1,233**	**926**	**33%**	**1,030**	**20%**	**2,263**	**1,919**	**18%**

REVENUE COMPOSITION (Rs Mn)

Particulars	Q2 FY21	Q2 FY20	CHG. YoY	Q1 FY21	CHG. QoQ	H1 FY21	H1 FY20	CHG. YoY
Broking	4,216	3,007	40%	3,434	23%	7,650	5,785	32%
Investment Banking	20	83	-76%	4	-	23	86	-73%
Asset Management	1,162	1,364	-15%	1,036	12%	2,198	2,807	-22%
Private Equity	268	255	5%	219	23%	487	495	-2%
Wealth Management	349	279	25%	221	58%	570	500	14%
Fund Based (Ex-MTM)	96	99	-3%	82	18%	178	169	6%
Housing Finance	1,360	1,463	-7%	1,333	2%	2,693	2,990	-10%
Total Revenues	**7,472**	**6,549**	**14%**	**6,328**	**18%**	**13,800**	**12,832**	**8%**

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 Q2 and the Half Year ended September 30, 2020. We hope that each one of you and your families are safe and in good health.

Financial performance

- Consolidated PAT for the quarter grew by 108% YoY to Rs 2.97 billion. Operating profit excluding the mark-to-market on fund based investment grew by 33% YoY at Rs 1.23 billion.
- Reported profit was higher due to mark-to-market gains of Rs 1.7 billion on fund based investment.
- Operating profit for H1FY21 grew by 18% YoY to Rs 2.26 billion and consolidated profits grew by 70% YoY to Rs 4.63 billion, which includes mark-to-market gains of Rs 3.3 billion.
- Consolidated net worth stood at Rs 34.9 bn, net debt is Rs 35.4 bn. Excluding Home finance, net debt is Rs 8.3 bn which is down by 2% YoY.
- Overall debt to equity has declined to 1.3 including the home finance business and 0.4 times excluding the home finance business. Net of investments, we have net cash on balance sheet.
- ROE for the first half stood at 36%.
- Company has completed buyback of equity shares of Rs 1.5 bn (including tax) resulting in increase in the promoter's equity by 1.3% to 70.67%.

Key highlights for the Q2 and H1FY21

- Broking business reported the highest ever quarterly revenue and profit. Market share during the quarter went up by 80 basis points YoY and 10 basis points QoQ. We had very strong pace of client addition and made significant investments in the last 12 months in expanding our talent pool as well as our distribution network for the retail broking business.
- Our AMC AUM is back to pre COVID levels. Our gross sales are gaining traction.
- We digitally launched India's first NFO of S&P 500 index funds as well as multi asset fund, both of which received good response.
- In the Home Finance business, we saw a sharp reduction in the cost of funds driving margin expansion.
- There was continued traction in collection efficiency during as well as post moratorium periods.
- We made a special COVID related provisioning of Rs 23 crores till now. Our provision coverage ratio has now increased to 100% and we continue to see superior quality of the new book underwritten.
- We have on-boarded two industry veterans Mr. Arvind Hali, as MD and CEO of the Home Finance Business and Mr. Amar Bahl who has joined as Deputy MD and Chief Operating Officer for the Home Finance business.

I will now deep dive into individual businesses.

Capital market business:

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

Particulars	Q2 FY21	Q2 FY20	CHG. YoY	Q1 FY21	CHG. QoQ	H1 FY21	H1 FY20	CHG. YoY
Total Revenues	4,216	3,007	40%	3,434	23%	7,650	5,785	32%
EBITDA	1,515	1,049	45%	1,214	25%	2,729	2,016	35%
PBT	1,115	655	70%	814	37%	1,928	1,251	54%
PAT	**815**	**540**	**51%**	**613**	**33%**	**1,427**	**941**	**52%**

Capital markets comprises of Retail Broking, Institutional Equities and Investment Banking business. Revenues for this segment stood at Rs 4.24 billion in Q2FY21, up by 37% on a YoY basis and Rs 7.67 billion in H1FY21, up by 31% on a YoY basis. Capital market businesses have contributed 57% to our revenues. Profits excluding exceptional item stood at Rs 797 million up by 44% YoY and contributed to about 27% of the consolidated profit.

Broking and Distribution

In the retail broking and distribution business, our market share improved by 80 bps YoY to 3.1%. We have witnessed strong traction in new client addition driven by Franchisee and retail channel , total ~117,000 clients acquired in Q2FY21, +227% YoY. Active clients have registered 35% YoY growth at 4.5 lacs as of September 2020.

Our distribution AUM stood at Rs 111 billion. Only 14% of our 1.65 million broking client base tapped for cross sell 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, Strong improvement in domestic client rankings in H1 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. We hosted two large conferences in September, AGIC & Ideation conference where >200+ corporate participated. Frequency of arranging webinars and expert calls has gone up significantly.

Investment Banking

KEY FINANCIALS: INVESTMENT BANKING (Rs Mn)

Particulars	Q2 FY21	Q2 FY20	CHG. YoY	Q1 FY21	CHG. QoQ	H1 FY21	H1 FY20	CHG. YoY
Total Revenues	20	83	-76%	4	-	23	86	-73%
EBITDA	-16	24	-	-51	-	-67	-28	-
PBT	-20	21	-	-52	-	-72	-35	-
PAT	**-18**	**12**	**-**	**-39**	**-**	**-57**	**-27**	**-**

Investment banking business continues to engage on a wide cross-section of mandated transactions across capital markets and advisory. In Q2, we participated in two large QIPs in BFSI space.

Asset and Wealth management businesses

KEY FINANCIALS: ASSET MANAGEMENT (Rs Mn)

Particulars	Q2 FY21	Q2 FY20	CHG. YoY	Q1 FY21	CHG. QoQ	H1 FY21	H1 FY20	CHG. YoY
Total Revenues	1,162	1,364	-15%	1,036	12%	2,198	2,807	-22%
EBITDA	411	509	-19%	335	23%	746	1,074	-31%
PBT	399	502	-20%	330	21%	729	1,063	-31%
PAT	**290**	**468**	**-38%**	**240**	**21%**	**530**	**830**	**-36%**

Asset management business AUM across mutual funds, PMS and AIFs stood at Rs 386 billion, which is up by 10% QoQ. Profits for the quarter stood at Rs 290 million, as AMCs profit was impacted on account of lower average AUM, post the unprecedented market correction in March and also due to cut in TER in MF. However, this impact would be neutralized post TER revision in October month.

Our equity mutual fund AUM stood at Rs 222 billion which is just 1.9% of the industry equity AUM. Our share of alternates is 42%. Several of our schemes ranked in the top decile in performance terms over the last one year as well as since inception.

MOAMC digitally launched NFO of Multi Asset fund in Q2FY21.

Private Equity

KEY FINANCIALS: PRIVATE EQUITY (Rs Mn)

Particulars	Q2 FY21	Q2 FY20	CHG. YoY	Q1 FY21	CHG. QoQ	H1 FY21	H1 FY20	CHG. YoY
Total Revenues	268	255	5%	219	23%	487	495	-2%
EBITDA	110	96	14%	75	47%	185	195	-5%
PBT	107	90	19%	74	45%	181	184	-1%
PAT	**68**	**56**	**21%**	**52**	**31%**	**121**	**107**	**13%**

Private equity business committed investment AUM till date stands at Rs 65 billion across three growth private equity funds and four real estate funds. The 1st growth fund (IBEF 1) has delivered an XIRR of ~27%. Average IRR on exited investments in Real estate funds is 21%+. Strong performance and positioning has also aided new fund raise, we have have achieved final close of IREF IV fund at ~Rs. 11.5 bn in February 2020. The fund has deployed Rs 5.8 bn across 10 investments.

Wealth Management business:

KEY FINANCIALS: PRIVATE WEALTH MANAGEMENT (Rs Mn)

Particulars	Q2 FY21	Q2 FY20	CHG. YoY	Q1 FY21	CHG. QoQ	H1 FY21	H1 FY20	CHG. YoY
Total Revenues	349	279	25%	221	58%	570	500	14%
EBITDA	113	17	-	4	-	118	28	-
PBT	110	13	-	1	-	111	21	-
PAT	**82**	**7**	**-**	**0**	**-**	**82**	**13**	**-**

Wealth management AUM grew by 13% QoQ at Rs 200 bn in Q2FY21. Wealth business revenue grew by 25% & 14% YoY in Q2FY21 & H1FY21 respectively led by strong net sales of +317% YoY at Rs 13.4 bn in H1FY21. Gross & Net sales were multi-quarter high. Yield has improved in Q2FY21 by 24bps at ~78 bps led by higher net sales of high yielding equity product during the quarter. RM count of this business stood at 128. Our trail revenues predominantly cover our fixed costs.

Overall asset and wealth management revenues stood at Rs 1.78 bn & Rs 3.26 bn in Q2FY21 & H1FY21 respectively. Asset & Wealth contributes 24% of consolidated revenues. Profits were Rs 440 mn & Rs 732 mn in Q2FY21 & H1FY21 respectively and contributed 15% of consolidated profits.

Home Finance business:

KEY FINANCIALS: MOTILAL OSWAL HOME FINANCE (Rs Mn)

Particulars	Q2 FY21	Q2 FY20	CHG. YoY	Q1 FY21	CHG. QoQ	H1 FY21	H1 FY20	CHG. YoY
Net Interest Income	558	542	3%	568	-2%	1,126	1,119	1%
Total Income	563	565	0%	578	-3%	1,141	1,164	-2%
Operating Profit	360	316	14%	368	-2%	728	677	8%
PBT	167	-175	-	240	-30%	408	79	416%
PAT	**57**	**-118**	**-**	**111**	**-49%**	**168**	**53**	**217%**

Home finance business reported profit of Rs 57 million in the second quarter. Reported profit looks suppressed due to higher tax rate of 59% on account of reinstatement of tax asset post migration to the new tax regime; excluding this, PAT for the quarter would have been Rs 125 mn. Cash tax for the home finance business for the quarter and full year is zero.

The board appointed Arvind Hali as MD and CEO and Amar Bahl as Deputy MD and COO. Both are industry veterans in the home finance business and lending business in general with over 20 years of experience in the mortgage industry.

Yield on Advances improved by 10 bps YoY to 14.2% in Q2FY21 while of Cost of Funds is down by 50 bps QoQ / 120 bps YoY to 9.3%, resulting in expansion in Spread by 40bps QoQ to 4.9%.

Loan book stood at Rs 36.5 bn as of H1FY21. Disbursements in H1FY21 were Rs 835 mn. New book sourced from April'18 validates the new credit policy with only 1 case in NPA out of ~6700 loan cases.

GNPA at 1.6%, NNPA at 1.2%. We have further enhanced Covid provisioning in Q2FY21 to Rs 230 mn (~70 bps).

Opex was brought down to Rs 202 mn in Q2FY21 and is down ~30% from the high. As a result, Cost to Income ratio is down to 36% from 44% in Q2FY20.

Strong support from parent continues with total capital infusion to Rs 8.5 bn. Net Gearing stands at 3.1x and Tier 1 CAR remains robust at 44%.

Limited borrowing repayment for next 1 year, strong undrawn borrowing lines (Rs 7.2 bn), Cash on Balance sheet of Rs 5.1 bn places us in comfortable liquidity situation.

Fund-based activities

KEY FINANCIALS: (Rs Mn)

Particulars	Q2 FY21	Q2 FY20	CHG. YoY	Q1 FY21	CHG. QoQ	H1 FY21	H1 FY20	CHG. YoY
Total Revenues	2,035	295	-	1,485	37%	3,521	634	-
PAT	**1,728**	**525**	**-**	**1,303**	**33%**	**3,031**	**849**	**-**

Fund Based activities includes commitments to our asset management products. Our total quoted, equity investment, including unrealized gain stood at Rs 14.3 billion. Our total equity investments including alternate funds stood at Rs 21.3 billion.

Outlook: To sum up, the capital market business, which is our oldest business and cash cow has achieved new highs on old parameters and continues to benefit from industry consolidation led by knowledge driven and digital offerings of the business. Our Asset Management business is likely to gain from strong product performance turnaround and its niche positioning as an equity only asset management company. Our Home Finance business with new leadership in place has geared up for profitable growth, lower cost of funds and growth in our AUMs ahead. We remain very excited about the headroom to grow in each of these businesses and our ability to generate cash flow by each of these businesses.

Q&A

First on the AMC business, can you tell me what were the net flows in second quarter and if you could split them between mutual funds and the alternatives?

In mutual fund, net inflows were Rs 3 billion and in PMS, we have witnessed Rs 6 billion of outflow.

Can you provide some commentary around what happened on the payback side and why are there outflows and now we have a new set of rules and new upfront commissions, how is the sales process changing over there?

PMS is a separate offering compared to mutual funds in terms of the strategy and the concentration of the portfolio. Limitations of the mutual fund products are not applicable to the PMS products and that is the value proportion for the high net worth individual or the family offices. The product will continue to remain relevant. However there was an arbitrage, where up fronting was possible in PMS products, but not in the mutual fund products, which led distributors to focus on this product more over the course of the last few years and that led to the growth in various PMS products. From October 1, 2020, no upfront fees can be charged on PMS products; hence you are likely to see reduced focus on the distribution of these products. The push part of the demand is likely to come down. The pull part obviously will remain because of the value proposition of the product. As far as Motilal Oswal Asset Management is concerned, we have seen a lag in some of our products for the period ending March 31, 2020 including a PMS product. They had all seen huge inflows from FY16 till FY19 and then we witnessed slowdown in the second half of last year, which has continued into the current year and so we were not really benefitted out of this last minute push by the distributors to take advantage of the PMS up fronting window getting over in the first half of this year. We have witnessed outflows in our PMS products, or alternative assets in overall in the first half of the year because of turnaround in the products. Our flagship PMS product has been one of the best performing products for the Q2 and is also performing well in terms of the trailing six months and 12-month performance. So these things do matter to distribution. We expect greater traction in these products in the coming quarters in the alternate asset business in general and the PMS products for us, but for the industry as a whole, you are likely to see a meaningful slowdown in terms of net sales for these products. The second half will definitely be much smaller than one half and the year as a whole may be smaller than last year. For us, we had our own performance plans reflecting the last four quarters. We expect some improvement from that base in the coming four quarters.

Can you put some numbers around what can be the net sales going forward?

Madhukar I must confess, you may believe that our crystal ball gazing capabilities of net sales are better, but when we were getting huge inflows, we had not estimated the size of the inflows for the four consecutive years ending March 2019 and from a management point of view, it is quite futile to try to predict and get the numbers right. What we do know is that there is a very strong review performance-based bias of the entire Indian distribution, closely talking to every bank and wealth management firm, IFAs and national distributors. I think all of the metrics are substantially focused on review returns and when the review returns are exciting for any asset management company, they end up getting huge flows, far in excess of their expectation; and vice versa are also true no matter what your brand, no matter what your distribution network is. We have to focus on our investment performance, which is what we are totally focused on. We believe that is a 90% rule for the asset management business. As you see our performance turning around like you are seeing in the last quarter and the last six months, hopefully the flows too will turn quite favorable. The good news is that we are much focused. We are a niche player. We are differentiated in the minds of our distributors and investors as an equity specialist and as and when growth happens in the economy, corporate profits and net sales, there is huge headroom for growth for us.

On the brokerage business, you have added substantial no. of branches in this quarter. You have also added about 600 employees. Going forward, are you going to scale up at this level? Can you also give a sense of what are the fixed costs and variable costs of this business?

We added huge number of people in this quarter and hiring for this year is finished by 80%. Now we are in the process of making sure that the product begins to perform and that is reflected in terms of number of accounts being opened. We have opened a lot of new branches. Now incrementally very few new branches will be opened. The idea will be to consolidate those branches and make them profitable.

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Mark-to-market gains were high this quarter, can you tell me what is the main reason behind that?

There was a huge draw down in the markets. Nifty closed at 8500 as of March 31, 2020 and now it is up by 30% to 40%. So we had reported a huge draw down in Q4FY20. What you saw in first half is really a reinstatement of that. Overall value has not gone up. It has come back to the same level where it was on February 1, 2020.

I understand that Sir, but my expectations were not that high this quarter. Can you spilt the figures between MF and other alternatives?

We have private equity valuation that happens six monthly based on the transactions. Since PE investments are unlisted, valuations of these investments are done by considering relative valuation of its listed peers. Since March 2020, we have witnessed market correction, valuation of listed peers impacted heavily and the same was reflected in our PE valuation. However as of September 2020, markets rebounded to pre Covid levels and hence valuation of our invested investment have also gone up. Due to this in Q2FY21 there was a high MTM on these investments.

Alternate and private equity side both are about 50:50% of the total mark-to-markets during the quarter, actually mutual fund is on the mid to single digit during the quarter and on the private equity side, we are seeing a higher jump in the valuations of about 13% to 14% especially due to our third fund.

I just wanted to get an update on the new broking regulation on peak margin reporting and how it is going to impact our business?

Starting December 1 of this year there is new SEBI regulation, where the clients have to bring margin at intraday on the basis of their peak trade and it is coming in phase wise manner. From Dec 1, a trader needs to have 25% of peak margin in his account. The quantum will be 50% from March 1, 75% in the next three months and 100% from September 1, 2021. There will be some impact coming in as the clients have to maintain a higher margin and we are discussing on this in terms of margins that can be funded.

What are your views on capital adequacy norms for stockbrokers?

There have been series of things that have changed from a regulatory perspective for the business over the last few years and all of that has led to consolidation in the retail broking business. We have seen in the markets over the last couple of years at least two out of the top 10 players have gone through various issues and there are other issues that have been detected with many other brokerages with decent size. We believe that tightening compliance and greater regulation will only ensure that the top four to five brokers see the bulk of the incremental new client addition and more importantly even the existing client will start shifting to them. We are quite well capitalized as a firm and the broking business now resides in the parent company. Thus, the well capitalized firms or the top four or five broking firms will see probably an accelerated case of consolidation in their hands.

What is this TER revision, which we are expecting in October and how much will it affect us?

There is no TER revision from a regulatory perspective, but as you know that there are under recovery that over recoveries scheme by where it keeps getting adjusted, which impacted the TER from the month of May third week, which got fully reflected in the Q2 and got completed in the month of September. These are more internal calculations across schemes, but you will see more than a 10% improvement in the mutual fund TERs on the active side from October 1, 2020. The impact that we saw in terms of reduction should come back. It should be more than 10% broadly in the active MF effective TER.

We have this huge share from the Associate and Joint Venture, can you please elaborate over what is that exactly and how much is our own assets there?

This pertains to our investments in our private equity funds, where we are the sponsor, so it is included in our fund-based revenues and profitability. As per the accounting standard, we have disclosed them on the basis of overall control that we have. We hold up about 10% to 15% of the overall corpus of those funds under management. It is done on a mark-to-market basis. The profits are already accounted in the quarter and that gets reported as fund raising.

Any update on the petition filed against client in the previous quarter?

We have already filed a suite for arbitration in Mumbai High Court against the client and the court has asked the client to sell off his assets and it has to earmark the assets separately for us and at the same time, we have filed a suite against client for arbitration and the hearing for that is expected to happen in the course of Q3. The client has resources to pay and thus we feel that there is a good chance of recovery.

We had some problems in housing finance loans, last fiscal. What is the current position regarding recovery of the loans?

We have a gross NPA of 1.6% and a net NPA of 1.2%. Whatever was the earlier provisioning that we did in FY2018 and FY2019, we have already completed the provisioning on account of those loans, which have turned NPAs. So, by virtue of this as we stand, our gross NPAs are very much comparative to the industry levels and in terms of the overall collection efficiency it is 103% in the month of September.

How much of that have we recovered?

We have sold off this book to ARC and we have recovered cash. The cash recovery was about 52% of the total principle outstanding. .

What is the average ticket? Is there any change in the average ticket size?

The average ticket size continues to be about around Rs 9 lakhs and there is no change on that.

We are now saying there is this disruption in the brokerage business by the discounted brokers or the flat pricing model and this is a cash cow business for us? So how do you view this space panning out in the next five years and how do you plan to prepare for this?

Our value proposition is the research and advisory services. We are not in the game of giving discounts, or charging zero brokerage and on the back of that only, we have added 117,000 customers in this quarter. We feel that with market expanding, there is a huge amount of need for the customers, whether old or young, to be getting the right advice and the right product. We are in a unique position where we give clients very high level of value addition and that is how we are positioned. I am very, very confident about our positioning and we are not going to change the positioning based on the pricing factors. There are around 1000 customers facing guys, who advise the customers both online and offline. We have invested a huge amount of money and time in technologies, so that our technology would be at par with the rest of the industry players. Thus, we have a very unique digital positioning with the physical built in relationship manager and also the best of technological capabilities backed by a very strong research and trained manpower.

Two questions on housing finance business- first, do we have any renewed strategy, now that new top management is in place and second, we have seen lot of housing finance businesses have been back to almost pre-COVID levels, so where do we stand?

In the last couple of years, we have done a lot of consolidation in terms of our processes, in terms of our risk management, in terms of building our collection team and in terms of collection architecture, all that coupled with huge focus on the technology, we are quite well placed to take the housing finance business forward. As far as our strategy is concerned, we are already present in nine states and have 108 branches. We do not foresee any further geographical expansion or addition of any branches. We will be increasing our feet on street and the foot soldiers on the sale side as well as on the branch credit side. Our collection strengths are more or less in place so not much addition in that. There is not much requirement in provisory staff. The idea would be to focus in certain states in terms of densification and increase in terms of penetration. Likely our focus would be on Rajasthan, North Gujarat and Southern states like AP, TL, and Tamil Nadu and Karnataka. We will continue to consolidate our huge distribution presence in Maharashtra and Madhya Pradesh.

We are seeing renewed traction in terms of the business opportunity on the affordable housing side. We have also reached to pre COVID levels in terms of disbursals. We have reached about Rs 20 crores to Rs 25 crores of disbursals per month. We received around 800 to 900 logins applications in the month of September and October and we see this doubling in the next three to four months and with the convergence of about 50%, we believe that we should be able to reach about Rs 50 crores by the end of this financial year in terms of disbursals. So the market is there. Potential is there and obviously there is enough space for us to grow and we are pretty much in line in terms of infrastructure and in terms of capacity to actually be able to reach to the Rs 50 crores disbursal level by March. There is going to be no change in terms of our customer segments or in terms of our average ticket size.

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 Q2 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, bye.

PRESS RELEASE

Motilal Oswal Financial Services reports Highest ever Q2FY21 PAT of Rs 2.97 bn, +108% YoY and Rs 4.63 bn, +70% YoY in H1FY21.

Mumbai, October 30, 2020: Motilal Oswal Financial Services Ltd. announced its results for the quarter and half year ended September 30, 2020 post approval by the Board of Directors at a meeting held in Mumbai on October 30, 2020.

Performance for the quarter and half year ended September 30, 2020:

Performance for the quarter and half year ended September 30, 2020:

- In Q2FY21, consolidated revenues grew by 14% YoY at Rs 7.47 bn, Operating Profit (PAT) grew by 33% YoY at Rs 1.23 bn, Consolidated PAT grew by 108% YoY at Rs 2.97 bn including MTM gains (Rs 1.7 bn, +246% YoY).
- Consolidated revenues in H1FY21 grew by 8% YoY at Rs 13.8 bn, Operating Profit (PAT) for H1FY21 grew by 18% YoY at Rs 2.26 bn and consolidated profit grew by 70% YoY at Rs 4.63 bn.

Key highlights for the Q2FY21

- Highest-ever Consolidated Quarterly Revenues & Profits. Strong Sequential growth revenues and profitability across businesses.
- **Broking** - Highest ever Revenues & PAT, market share gains 80 bps YoY & 10 bps QoQ, highest ever quarterly clients addition, significant investments made in last 12 months in expanding talent pool & distribution network.
- **AMC** - AUM back to pre-covid level, gross sales gaining traction, digitally launched NFO of S&P 500 index fund and Multi asset fund.
- **Home Finance** - Sharp reduction in cost of funds driving margin expansion, strong traction in collection efficiency during and post moratorium periods, aggressive covid-related provisions of Rs 230 mn, continued superior quality of new book underwritten, industry veterans on-boarded to run the business - Arvind Hali joined as MD & CEO and Amar Bahl joined as Deputy MD & COO.
- Consolidated net worth stood at Rs 34.9 bn, net debt is Rs 35.4 bn. Excluding Home finance, net debt is Rs 8.3 bn. Overall debt is down by 2% YoY. Total D/E declined to 1.3x. Ex-MOHF D/E stood at 0.4x. Net of investments, we have a net cash balance sheet. RoE for H1FY21 stands at 36% (ex-OCI & exceptional item).
- 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%.
- Besides financial performance, recent time has been very eventful in terms of our successes in brand building, advertising and several other fronts. MOFSL got inducted in **"Hall of Fame"** at 10th Financial Advisory Awards 2019. MOFSL rank 2nd "**Best Local Brokerage"** in Asia Money broker's poll 2019. 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 *"During this unprecedented time, we have successfully migrated all of our employees to WFH and despite WFH we haven't witnessed much impact on our businesses. In fact, in most of our fee based businesses we have seen strong traction; retail broking business which is our cash cow business has achieved new highs across every parameter. 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 strong product performance and its niche positioning. Our Housing finance business is geared up for profitable growth under new leadership. Our traditional broking business benefitted from industry consolidation with its knowledge driven phygital offerings. Each of our 7 businesses offers headroom for growth.*

Performance of Business Segments for the quarter and half year ended September 30, 2020

- **Capital markets Businesses (Broking & Investment banking)**
  - Capital markets comprises of Retail Broking, Institutional Equities and Investment Banking business. Revenues for this segment were Rs 4.24 bn, +37% YoY in Q2FY21 and Rs 7.67 bn in H1FY21, +31% YoY. Capital market businesses have contributed ~57% of consolidated revenues. Profits were Rs 797 mn, +44% YoY and contributed ~27% of consolidated PAT.
  - Broking and distribution business profit grew by 51% YoY and 33% QoQ at Rs 815 mn in Q2FY21 led by healthy volume growth of 70% YoY and gain in market share. (PAT growth on YoY basis would have been 69% after excluding the impact of adoption to new tax regime in Q2FY20).
  - In **Retail Broking & Distribution**, our Market share has improved by 80 bps on YoY basis to 3.1%. We have witnessed strong traction in new client addition driven by Franchisee and retail channel, total ~117,000 clients acquired in Q2FY21, +227% YoY. Active clients have registered 35% YoY growth at 4.5 lacs as of September 2020.
  - Our strategy to bring in linearity through the trail-based distribution business is showing results. Distribution AUM grew by 9% QoQ at Rs 111 bn as of Q2FY21. With only 14% of the 1.65 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**, Strong improvement in domestic client rankings in H1 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. We hosted two large conference in September, AGIC & Ideation conference where >200+ corporate participated. Frequency of arranging webinars and expert calls has gone up significantly.

  - **Investment Banking** business continues to engage on a wide cross-section of mandated transactions across capital markets and advisory. In Q2, we participated in two large QIPs in BFSI space.

- **Asset Management businesses (AMC, PE and PWM)**
  - **Asset Management** business AUM across MF, PMS & AIF stood at Rs 386 bn, +10% QoQ. Our AMC ranks 15 by total equity assets; in PMS we maintain a leading position. PAT for the quarter stood at Rs 290 mn as AMC's profit was impacted on account of lower average AUM post unprecedented market correction in March and also due to cut in TER in MF. However, this impact would be neutralised post TER revision in October month.
  - Our Equity MF AUM of Rs 222 bn is just 1.9% of the Industry MF Equity AUM of Rs 10.2 tn. We have seen improvement in performance of several products. Several schemes rank top decile in performance since inception as well as over the last 1 year. We witnessed traction in gross flows.
  - MOAMC digitally launched NFO of Multi Asset fund in Q2FY21.
  - Our share of Alternate assets, comprising of PMS & AIF, is the highest among AMC's at ~42%.
  - **Private Equity** has committed investment AUM of Rs 65 bn across 3 growth capital PE funds and 4 real estate funds. In Q2FY21, revenues stood at Rs 268 mn and PAT stood at Rs 68 mn. The 1st growth fund (IBEF 1) has delivered an XIRR of ~27%. Average IRR on exited investments in Real

estate funds is 21%+. Strong performance and positioning has also aided new fund raise, we have have achieved final close of IREF IV fund at ~Rs. 11.5 bn in February 2020. The fund has deployed Rs 5.8 bn across 10 investments.

  - **Wealth Management** business AUM grew by 13% QoQ at Rs 200 bn in Q2FY21. Wealth business revenue grew by 25% & 14% YoY in Q2FY21 & H1FY21 respectively led by strong net sales of +317% YoY at Rs 13.4 bn in H1FY21. Gross & Net sales were multi-quarter high. Yield has improved in Q2FY21 by 24bps at ~78 bps led by higher net sales of high yielding equity product during the quarter. RM count of this business stood at 128. Our trail revenues predominantly cover our fixed costs.
  - Overall **Asset and Wealth Management** revenues were Rs 1.78 bn & Rs 3.26 bn in Q2FY21 & H1FY21 respectively. Asset & Wealth contributes 24% of consolidated revenues. Profits were Rs 440 mn & Rs 732 mn in Q2FY21 & H1FY21 respectively and contributed 15% of consolidated profits.

- **Housing finance business**
  - Motilal Oswal Home Finance (MOHFL) reported profit of Rs 57 mn in Q2FY21. Reported profit looks suppressed due to higher tax on account of reinstatement of deferred tax asset post migration to new regime. Excluding this, PAT for the quarter would have been Rs 125 mn.
  - MOHFL board has appointed Mr. Arvind Hali as MD & CEO and Mr. Amar Bahl as Deputy MD & COO. Both are industry veterans with over 20+ years of experience in mortgage industry.
  - NII grew by 3% YoY and NIM expanded 20 bps YoY at 5.2% in Q2FY21.
  - Yield on Advances improved by 10 bps YoY to 14.2% in Q2FY21 while of Cost of Funds is down by 50 bps QoQ / 120 bps YoY to 9.3%, resulting in expansion in Spread by 40bps QoQ to 4.9%.
  - We have raised Rs 10 bn in H1FY21 at average cost of 7.6%. We expect average CoF to trend lower in H2FY21.
  - Loan book stood at Rs 36.5 bn as of H1FY21. Disbursements in H1FY21 were Rs 835 mn. New book sourced from April'18 validates the new credit policy with only 1 case in NPA out of ~6700 loan cases.
  - GNPA at 1.6%, NNPA at 1.2%. We have further enhanced Covid provisioning in Q2FY21 to Rs 230 mn (~70 bps).
  - Opex was brought down to Rs 202 mn in Q2FY21 and is down ~30% from the high. As a result, Cost to Income ratio is down to 36% from 44% in Q2FY20.
  - Strong support from parent continues with total capital infusion to Rs 8.5 bn. Net Gearing stands at 3.1x and Tier 1 CAR remains robust at 44%.
  - Limited borrowing repayment for next 1 year, strong undrawn borrowing lines (Rs 7.2 bn), Cash on Balance sheet of Rs 5.1 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 like commitments to our asset management products.
  - Total quoted equity investment including unrealised gains was Rs 14.3 bn as of Q2FY21. Cumulative XIRR of these investments is ~13.3% (since inception).
  - Total equity investment including alternate funds was at Rs 21.3 bn as of September-20. XIRR of 27.9% on alternate equity investments.

About Motilal Oswal Financial Services Limited
Motilal Oswal Financial Services Ltd. 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. Motilal Oswal Financial Service won the 'Brand of the Year' award at the IBLA CNBC TV 18. Motilal Oswal Securities won the 'Best Performing National Financial Advisor Equity Broker' award at the CNBC TV18 Financial Advisor Awards for the 6th time. It was ranked the Best in Events/Conferences, ranked amongst Top-2 for Overall Sales Services & Best Roadshows/Company Visits & amongst the Top-3 in Best Local

Brokerage, Best Execution & Sales Trading Visits at the Asia Money Awards 2015. Motilal Oswal Private Equity won the 'Best Growth Capital Investor-2012' award at the Awards for PE Excellence 2013. Motilal Oswal Private Wealth Management won at the UTI-MF CNBC Financial Advisor Award in HNI Wealth Management category for 2015.