Motilal Oswal Financial Services

ConCall Summary & Earnings Release

Quarter and Nine Month ended December, 2020

29th January, 2021

Motilal Oswal Financial Services Limited (MOFSL) posted consolidated revenues of Rs 10.09 bn for Q3FY21 and Rs 27.2 bn for 9MFY21. Consolidated PAT grew by 102% YoY at Rs 3.34 bn for Q3FY21 and 82% YoY at Rs 7.97 bn. Capital Market revenue was Rs 4.3 bn in Q3FY21 and Rs 11.98 bn in 9MFY21. Asset and Wealth Management revenues were Rs 1.89 bn in Q3FY21 and Rs 5.14 bn in 9MFY21. Housing finance-related net revenues were Rs 0.63 bn in Q3FY21 and Rs 1.76 bn in 9MFY21.

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 Q3 and Nine Month 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	Q3 FY21	Q3 FY20	CHG. YoY	Q2 FY21	CHG. QoQ	9M FY21	9M FY20	CHG. YoY
Total Revenues	**10,088**	**6,972**	**45%**	**9,411**	**7%**	**27,230**	**20,269**	**34%**
EBITDA	5,365	3,234	66%	4,944	9%	14,334	8,962	60%
PBT	4,214	1,954	116%	3,739	13%	10,785	5,003	116%
PAT	**3,339**	**1,650**	**102%**	**2,965**	**13%**	**7,973**	**4,371**	**82%**

REVENUE COMPOSITION (Rs Mn)

Particulars	Q3 FY21	Q3 FY20	CHG. YoY	Q2 FY21	CHG. QoQ	9M FY21	9M FY20	CHG. YoY
Broking	4,307	3,083	40%	4,216	2%	11,957	8,867	35%
Investment Banking	2	27	-	20	-	25	112	-
Asset Management	1,291	1,439	-10%	1,162	11%	3,489	4,246	-18%
Private Equity	266	261	2%	268	-1%	754	756	-
Wealth Management	330	252	31%	349	-6%	900	752	20%
Fund Based	2,523	535	-	2,035	24%	6,043	1,169	-
Housing Finance	1,369	1,377	-1%	1,360	1%	4,062	4,367	-7%
Total Revenues	**10,088**	**6,972**	**45%**	**9,411**	**7%**	**27,230**	**20,269**	**34%**

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 the Nine Month ended December 31, 2020. We hope that each one of you and your families are safe and in good health.

Financial performance

- Consolidated PAT grew by 102% YoY at Rs 3.34 bn in Q3FY21 and by 82% YoY at Rs 7.97 bn in 9MFY21. Adjusted for gains on investments that accounts for nearly two-third of net worth.
- Operating profits grew by 11% in Q3FY21 to Rs 1.2 bn and by 16% for 9MFY21 to Rs 3.5 bn.
- Consolidated net worth stood at Rs 39.3 bn, net debt is Rs 37.0 bn. Excluding Home finance, net debt is Rs 11.3 bn.
- Overall debt to equity has declined to 1.2 including the home finance business and 0.5 excluding the home finance business. Net of investments, we have net cash on balance sheet.
- ROE for the 9MFY21 stood at 34%.
- Company has completed buyback of equity shares of Rs 1.5 bn (including tax) resulting in increase in the promoter's equity to 70.67%. The board has also declared the highest ever interim dividend of Rs 5 per share on a face value of Rs 1 per share.

Key highlights for the Q3 and 9MFY21

- Broking business reported the highest ever quarterly revenue. Market share during the quarter went up by 20 basis points YoY to 2.8%. 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 at all-time highest. Our mutual fund gross sales and SIPs gained traction and we introduced digital platform for on boarding PMS clients.
- We have launched IREF V with a target size of Rs 8 bn.
- In the Home Finance business, we saw a sharp reduction in the cost of funds and a tight leash on opex which drove our pre provisioning operating profit to a record high of Rs 439 mn in Q3FY21.
- Collection efficiency improved to 94% and we are expanding the sales force meaningfully in the fourth quarter and in FY22 to ramp up disbursements in the coming quarter.

I will now deep dive into individual businesses.

Capital market business:

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

Particulars	Q3 FY21	Q3 FY20	CHG. YoY	Q2 FY21	CHG. QoQ	9M FY21	9M FY20	CHG. YoY
Total Revenues	4,307	3,083	40%	4,216	2%	11,957	8,867	35%
EBITDA	1,465	1,023	43%	1,515	-3%	4,194	3,039	38%
PBT	1,029	647	59%	1,115	-8%	2,957	1,898	56%
PAT	**769**	**483**	**59%**	**815**	**-6%**	**2,196**	**1,424**	**54%**

Capital markets comprises of Retail Broking, Institutional Equities and Investment Banking business. Revenues for this segment were Rs 4.3 bn, +39% YoY in Q3FY21 and Rs 11.98 bn in 9MFY21, +33% YoY. Capital market businesses have contributed ~44% of consolidated revenues. Profits were Rs 2.11 bn (ex-exception item), +54% YoY and contributed ~18% of consolidated PAT during 9MFY21.

Broking and Distribution

Broking and distribution business profit grew by 59% YoY at Rs 769 mn in Q3FY21 led by healthy volume growth of 98% YoY and gain in market share.

In Retail Broking & Distribution, our Market share has improved by 20 bps on YoY basis to 2.8%. We have witnessed strong traction in new client addition driven by Franchisee and retail channel , total ~190,000 clients acquired in Q3FY21, +246% YoY. Active clients have also registered 46% YoY growth at 4.95 lacs as of December 2020.

Distribution AUM grew by 15% QoQ at Rs 119 bn as of Q3FY21. With only 13% of the 1.8 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.

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 in 9M 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	Q3 FY21	Q3 FY20	CHG. YoY	Q2 FY21	CHG. QoQ	9M FY21	9M FY20	CHG. YoY
Total Revenues	2	27	-	20	-	25	112	-
EBITDA	-35	-26	-	-16	-	-101	-55	-
PBT	-38	-30	-	-20	-	-110	-64	-
PAT	**-29**	**-23**	**-**	**-18**	**-**	**-86**	**-50**	**-**

Investment banking business continues to engage on a wide cross-section of mandated transactions across capital markets and advisory. In Q3, we participated in one large OFS in BFSI space.

Asset and Wealth management businesses

KEY FINANCIALS: ASSET MANAGEMENT (Rs Mn)

Particulars	Q3 FY21	Q3 FY20	CHG. YoY	Q2 FY21	CHG. QoQ	9M FY21	9M FY20	CHG. YoY
Total Revenues	1,291	1,439	-10%	1,162	11%	3,489	4,246	-18%
EBITDA	532	567	-6%	411	30%	1,279	1,641	-22%
PBT	524	563	-7%	399	31%	1,253	1,626	-23%
PAT	**382**	**414**	**-8%**	**290**	**32%**	**911**	**1,244**	**-27%**

Asset Management business AUM across MF, PMS & AIF stood at Rs 439 bn, +14% QoQ. Our AMC ranks 15 by total equity assets; in PMS we maintain a leading position. Strong growth of 32% QoQ in PAT for the quarter at Rs 382 mn. In 9MFY21, 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, MF yields have improved during the quarter resulting in overall yield improvement.

Our Equity MF AUM of Rs 262 bn is just 1.8% of the Industry MF Equity AUM of Rs 14 tn. We have seen improvement in performance of several products. Our gross sales market share was stable and redemption market share declined on sequential basis. However, we too witnessed net outflow in-line with Industry. We have witnessed strong traction in SIP addition and realisation.

Our share of Alternate assets, comprising of PMS & AIF, is the highest among AMC's at ~40%.

Private Equity

KEY FINANCIALS: PRIVATE EQUITY (Rs Mn)

Particulars	Q3 FY21	Q3 FY20	CHG. YoY	Q2 FY21	CHG. QoQ	9M FY21	9M FY20	CHG. YoY
Total Revenues	266	261	2%	268	-1%	754	756	-
EBITDA	110	101	9%	110	-	295	296	-
PBT	108	99	9%	107	-	289	283	2%
PAT	**69**	**68**	**1%**	**68**	**1%**	**190**	**175**	**8%**

Private equity has committed investment AUM of Rs 65 bn across 3 growth capital PE funds and 4 real estate funds. In Q3FY21, revenues stood at Rs 266 mn and PAT stood at Rs 69 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:

KEY FINANCIALS: PRIVATE WEALTH MANAGEMENT (Rs Mn)

Particulars	Q3 FY21	Q3 FY20	CHG. YoY	Q2 FY21	CHG. QoQ	9M FY21	9M FY20	CHG. YoY
Total Revenues	330	252	31%	349	-6%	900	752	20%
EBITDA	106	46	129%	113	-6%	224	74	-
PBT	103	43	140%	110	-6%	215	64	-
PAT	**78**	**34**	**127%**	**82**	**-5%**	**160**	**47**	**-**

Wealth Management business AUM grew by 13% QoQ at Rs 227 bn in Q3FY21. Wealth business revenue grew by 31% & 20% YoY in Q3FY21 & 9MFY21 respectively led by strong net sales of +583% YoY at Rs 18.1 bn in 9MFY21. Gross & Net sales were multi-quarter high. RM count of this business stood at 124. Our trail revenues predominantly cover our fixed costs.

Overall asset and wealth management revenues were Rs 1.89 bn & Rs 5.14 bn in Q3FY21 & 9MFY21 respectively. Asset & Wealth contributes 19% of consolidated revenues. Profits were Rs 528 mn & Rs 1.26 bn in Q3FY21 & 9MFY21 respectively and contributed 16% of consolidated profits.

Home Finance business:

KEY FINANCIALS: MOTILAL OSWAL HOME FINANCE (Rs Mn)

Particulars	Q3 FY21	Q3 FY20	CHG. YoY	Q2 FY21	CHG. QoQ	9M FY21	9M FY20	CHG. YoY
Net Interest Income	629	526	20%	558	13%	1,755	1,646	7%
Total Income	655	540	21%	563	16%	1,795	1,700	6%
Operating Profit	439	302	45%	360	22%	1,168	975	20%
PBT	154	253	-39%	167	-8%	561	328	71%
PAT	**47**	**161**	**-71%**	**57**	**-18%**	**214**	**214**	**-**

Home finance business reported profit of Rs 47 mn in Q3FY21. Reported profit looks suppressed due to higher tax on account of reinstatement of deferred tax asset post migration to new regime.

NII grew by 20% YoY and NIM expanded 120 bps YoY/QoQ at 6.4% in Q3FY21.

Yield on Advances remained flat at 14.25% in Q3FY21 while of Cost of Funds is down by 37 bps QoQ / 163 bps YoY to 8.95%, resulting in expansion in Spread by 38bps QoQ to 5.3%.

We have raised Rs 11 bn in 9MFY21 at average cost of 7.4%. We expect average CoF to trend lower in coming quarters.

Loan book stood at Rs 35.4 bn as of 9MFY21. Disbursements in 9MFY21 were Rs 1.33 bn. Under new leadership, business is geared up for growth in disbursements. Sales force expansion is currently underway.

GNPA at 2.9%, NNPA at 2.3%. In 9MFY21 total credit cost at Rs 606 mn due to acceleration in Covid provisioning.

Opex was brought down to Rs 215 mn in Q3FY21 and is down ~25% from the high. As a result, Cost to Income ratio is down to 33% from 44% in Q3FY20.

Strong support from parent continues with total capital infusion to Rs 8.5 bn. Net Gearing stands at 2.9x 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 2.1 bn places us in comfortable liquidity situation.

Fund-based activities

KEY FINANCIALS: (Rs Mn)

Particulars	Q3 FY21	Q3 FY20	CHG. YoY	Q2 FY21	CHG. QoQ	9M FY21	9M FY20	CHG. YoY
Total Revenues	2,523	535	-	2,035	24%	6,043	1,169	-
PAT	**2,112**	**550**	**-**	**1,728**	**22%**	**5,143**	**1,399**	**-**

Fund Based activities includes commitments to our asset management products. Our total quoted, equity investment, including unrealized gain stood at Rs 18.9 bn. Our total equity investments including alternate funds stood at Rs 26 bn.

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. Institutional broking business ranks number one local brokerage house in the Asia Money Poll. 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 improving product performance and its niche offering. Our Home Finance business is geared up for profitable growth under new leadership. 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

On the broking side new margin norms had been introduced by SEBI. By September, we will be seeing 100% margin requirement, I just wanted to get a sense of how that will be impacting your revenues and your volumes going forward?

The first phase, which came into effect from Dec 1 (min. 25% of peak margin) has not impacted us much, instead our overall cash market share has gone up. Going forward there will be new implementation in March, then June and finally in September when it goes to 100%. The methodology which SEBI has followed of implementing in phases will help the clients to get into the groove of how to manage the whole situation. There can be some impact, but it should not be much because of the delayed implementation in four quarters and people are very clearly getting aligned to the new margin mechanism. People are much more comfortable doing the pledge mark now to get the margin exemptions. Thus, there will not be much impact in the overall pie of the revenues, on the F&O side there can be some impact, but that can be compensated by the cash market share of the business.

Can you share your revenue split between the cash and derivative side on the revenues?

We have seen an increase in the cash market share whereas F&O declined marginally on a sequential basis. However, overall share on a year-on-year basis has gone up and in terms of the mix it is 95% F&O, 5% cash in terms of volume and 50-50 in terms of revenues.

Please explain, why are the margins low on broking side?

Margins are up year-on-year by about 100 bps in 9MFY21. This is after factoring the additional cost that we have taken on account of investing in the manpower. Over last 9 months we have added about 1,100 people in the business and we have added further 60 branches in the course of this financial year. So, there is an extra 5% overall cost because of this expansion. We are expanding where the opportunity is clearly visible in terms of extra market share and the consolidation opportunity available in the market. Largely additions are done; however, on the digital side we will be adding more people.

Do we have significant upfront cost for the new client acquisitions?

When the clients are added digitally, there is no significant upfront cost. In fact, the ARPU is very high for us. There is surely some amount of regeneration cost, but we are managing that in a much more consolidated way.

Has there been any pressure in cash yields because the market has been competitive off late?

There is no pressure on the cash yields; instead, cash yields have marginally gone up year-on-year.

On the margin funding what is the interest rate we are offering and what is the tenure?

Yield is about 13% on the book. For us, it is more of margin funding instead of LAS. We do not do any sort of promoter funding. Coming to the tenure part, HNI clients typically take funding for at least a year.

And we do not have any ESOP funding?

No.

There is huge competition from discounted brokerages and on the other end we are expanding the branches and people, so how do you see this?

As far as our strategy is concerned, we have been acquiring huge number of clients, we have added about close to 4 lakh customers over last 9 months and close to 2 lakh customers in Quarter 3 of this financial year. We have been able to acquire clients and take the opportunity of consolidation available in the market for us and we are focused on advice-based brokerage and profitable market share.

Over five, six years horizon, do you see that there is a value migration from normal broking to a discounted brokerage?

Discount brokerages are helping in increasing the industry size and surely the new customers, new millennial are coming into the market and we see that the value which we provide from the advice based broking will continue to grow in this bigger scheme of things. Surely there will be more number of customers with discount brokers, but when we look at our pie of the whole value chain, we will be able to get our quality of customers and advise them.

What are the gross inflows and outflows for both mutual fund and PMS?

For mutual funds, gross sales are Rs 18.7 billion and the net sales is minus Rs 3.9 billion. For PMS the gross sales are Rs 1 billion and the net sales is minus Rs 11 billion. For AIF, gross sales and net sales are both Rs 1.2 billion. For the AMC as a whole, gross sales are Rs 20.9 billion for the quarter and net sales is negative Rs 13.9 billion.

In the last two odd years you have seen a lot of churn in the leadership, what is your take on this? Second, you have always projected yourselves as active fund managers, then why are you entering into passive category?

We are a large organization with around 7,000 people. There will be some kind of changes which will happen, but there is no serious regrettable attrition at senior management level. Effort from our side is always to make sure our leadership team become very strong, vibrant, and most importantly the performing ones.

Coming to the second question, the passive funds are not launched recently and it is more than a decade old initiative. Our flagship fund, Nasdaq fund is on the passive side. Our active management is entirely on Indian side and bulk of our passive businesses' on international equity, so they complete each other. The domestic funds that we have launched mostly form a part of a financial product suite. We are basically catering to all the needs, our active management's focus remains on domestic equity, passive businesses being driven by more and more international offerings and the domestic passive funds that we have launched are components of a more holistic finance planning suite.

We have always put across that we are active fund managers. How does passive fund management fit into this?

While engaging with our investors, distributors it is largely around our active funds. Passive fund really has a strong pull just because of the kind of niche that they cater to. The passive marketing is substantially digitally led and also led by wealth platforms because Indian savings are barely diversified across global equities and our products have been torch bearer for that.

This active versus passive discussions has just about started in India but in world, there is a massive transformation of allocation. In aggregate, the size of the funds managed has almost become equal to GDP. Total GDP of the world is about USD 100 trillion. In next 15 years the global GDP will be around USD 200 trillion. There is a huge opportunity size for us both on Indian and global side. We have an active strategy which is right at the forefront and on the passive side we are trying to push more and more global equity allocations. Our motto at Motilal Oswal is to help you make money worldwide in equity markets and the way that we can do it worldwide is by giving best actively managed products in India and best of ETFs outside of India.

First, on the asset management side, the net sales figures for the PMS business were little disconcerting, can you explain what investor behavior is over there. Second given that the upfront commission are now not allowed for PMS, how do we see distribution changes for the asset management company and also wealth management because in wealth management we were distributing other asset management products as well, so how does business changes or how does strategy changes?

The ticket size of PMS investors is Rs 50 lakh, AIF is Rs 1 crore and those investors follow asset allocation more religiously than most retail investors and have been booking profits over the course of the last six months' time as market continues to rise. There are two types of providers- the legacy providers and the relatively newer providers. Legacy providers have had their exit load period, got over very strong absolute returns. So substantial gains and asset allocation suggesting booking of profits. So no exit load, no significant absolute returns following asset allocations led to redemption, but they are also equally quick to come back to market. So you will see them being earlier than mutual fund of mass retail investors to come back to equities so that is point number one. Secondly, PMS as a product has established its relevance among the high-net-worth individual community, the portfolios are diversified, more concentrated and have delivered strong performances over long period of time. They are differentiated and so the relevance of those products remains. However, there are other forms of alternate assets including AIF that the distribution may resort to and there is a strong traction in there as it is visible in our own case with the reported net sales in AIF is Rs 1.2 million and the commitment would be in excess of Rs. 5 million for the quarter and drawdown will be coming through in the next quarters.

How is distribution changing for the PMS and similarly for wealth management because we were also distributing other third-party products under wealth

management and now there is no upfront commission?

Our focus has always been trailing and we have always aligned our sales team to trail form of incentives. A large part of the AUM resides in mutual funds which had already moved to trail long ago. Our smaller part is alternate assets where now PMS is also trail based. So, building in an upfront model will have a cliff impact on the business eventually and is not sustainable. The only sustainable way to run the distribution business or the wealth business, running asset management sales, is the trail they are modeling.

How does it impact our AMC because earlier we would have a lot of external partners, who are distributing our PMS, do you think there is any reluctance on their part, how do you see that industry evolving because in a last few years a lot of assets were gathered because of the high up fronting of commission, so this big shift are we seeing any changes in the industry?

Some of the largest distributor of our PMS products distributed them because of the performance of the products or the differentiation of the products and not because of up fronting. In fact, even when there was an up-fronting regime the credit to the sales team was driven by trail income. The firm may have earned upfront, but the RMs were not incentivized upfront so that behavior does not alter. This also applied to our third party partners, non-MO distributors, banks etc. They have already moved to trail bearing credit even well before the regulatory changes that is the first part. Second, there are other alternate assets like AIF, where up fronting is still permitted and there has been an increasing reliance on those products. That will make up to some extents for those distributors who are focused on up fronting.

What metric do you generally track for RM productivity on wealth side and at what level would you think of adding RMs?

Wealth business is very tiny as our AUM is Rs 230 billion. Two-third of our RM's are yet to turn profitable so our viewpoint is that we will reinvest bulk of the cash flows in this business back into team expansion. We were predominantly a West India wealth management firm. We have strengthened the North Indian franchise meaningfully over the last few years. This year, FY21, the focus has been on strengthening South India. You will see us further strengthening all of these regions in the next two years' time. While we do not have a guidance number to give you in terms of how this will expand, the business has turned much more profitable this year despite predominant part of the revenues coming in from trail. We continue to make sizable investment, you will see the numbers go up quite sizably over the course of the next 12 months further and that may have some adverse impact on the short-term profitability, but from a longer-term perspective we believe that this is something that makes immense sense to us.

What is the strategic reason for getting into home finance business? You call yourself as equity expert, then why we have moved to a fund based activity when our forte is more on the knowledge side of the business? Do you think that you are late into this business, what is the strategic thinking for the management side, do you want to scale it up and then hive it off and how does it fit into the overall gamut of services?

Building businesses take time. It will take five, six years before the businesses can be said to be on the successful track, whether it is broking in 87 to 91 it took four years, then asset management we got the license in 2008, but we break even in 2015. So, it takes time and home finance is the lending business which was clearly new to us. Any businessman start the business thinking that he can do a cake walk, but later realizes that he has to pay his own tuition fees. Most likely in last three years we have learned our lesson and slowly we are stabilizing. We have enough determination, we have clear focus, we have good team, our segments are decided, the economics are very clear. In lending credit cost has to be seen very carefully, it will take some time but it was hugely head winded in last three years. At least if there is no tailwind, there should not be any headwind and that is what we are expecting.

Now relevance of this business in the overall pie of Motilal Oswal is that we have huge free cash flow. Now the way you are saying that we should not build business in lending, there could be some objection as to why we are building just the portfolio of the company or mutual funds. The thought process was that the free cash flow can be deployed meaningfully at 15% to 20% return on equity in housing finance We are here witnessing almost Rs 850 crores of investment in this business and now we are hopefully emerging out of this and only time will tell how we synergize all this businesses and how do we make success of this particular line of business. The stocks are already there in the market through ESOP and will be offloaded as a separate company. This line of business is in a contravention with the core of the company that will over the next three, four years it will look very clear that housing finance company stands on its own. Only thing is in the short term as minority shareholders I appreciate your concern about the stock price and lot of concerns around that, but we as a business manager cannot be taking short term view on the stock prices, but we have to build the businesses and the company.

The company is generating lot of free cash flows, so we should be focusing more on the AMC businesses particularly from the retail side because it is a sticky business because in PMS the ticket size is higher and also given the lower penetration of mutual fund products in India.

Clearly, we will keep your suggestions in mind, but I can still tell you there is no conflict in pursuing growth potential and in a free cash flow business it does not require balance sheet, it requires only P&L which we are pursuing as you have seen in broking. Same way, in asset management we are moving very methodically and aggressively in the passive side. There is a huge aggression in every business and this is just reinvestment into a new business. If you succeed, it becomes a billion dollar, if you fail, in that case it is not for what the money you put, that is how the reinvestment cycle works and it is a growing company so, growth mindset is there.

In Home Finance business, you have added 50% sales force in Q3, can you share the absolute number of employees and how much is targeted new employee addition in next one, two years?

Absolute count of employees stands at 1,200 people in home finance business and what we are targeting over next 6 to 8 months is to further increase the headcount, majorly on the sales side. We have targeted to add around 400 people, so the total employee count would be about 1,600 people over next two to three quarters.

On disbursement side, what is your long term target?

In the last couple of months, we have increased our field staff predominantly by about 50% and as we have mentioned total employee count will go up about 1,600-1,700 people in the housing finance team. We have been logging in around 800 odd files in the last couple of months which is a good sign. Sanction is also improving. Distribution did get impacted during the COVID period, but now it is coming back, and we believe that in the next financial year we should be able to reach the Rs 100 crores of disbursal on the monthly basis in the last quarter.

Do we still expect provisioning in next one, two quarters?

We have been increasing the provision cover continuously in the course of this financial year due to the COVID impact. Our closing provisions stand about 50 bps higher than last financial year. In the course of next two quarters too, we will see the provision increasing further on account of the impact of the COVID.

What kind of restructuring has taken place in the housing finance and expectation?

In terms of the restructuring that has taken place, it is about 75 basis points of the book till the end of Quarter 3 and still we have time till 31st March and we are in the process of looking at the overall collections and rollback and in Quarter 4 we would be implementing the restructuring. The restructuring is in line with the policy as approved by the regulator.

GNPA and NPA reported numbers does that include or exclude the Supreme Court judgment?

We have not taken cognizance of the Supreme Court judgment at all in this because when you calculate your stage 3 assets while reporting under IndAS you cannot take that cognizance. Have we taken the benefit, the GNPA would have been less than 1%.

What is your split among 0+ and 30+ for the HFC portfolio?

1+ stands at 17% and 30+ at 11%.

Across the business verticals, what sort of investments do you require for the next lag of growth?

The only place where we can actually use the balance sheet is the mortgage company where again because of the current stagnancy is actually declining. We are not able to deploy any more capital, but in other places like broking, asset management, wealth management, we use the current year P&L to expand and that is what is really happening and it is not visible to the people how much we are reinvesting in our own business. Unless we acquire something new, I do not think the free cash flow will be used anywhere else.

And would it be a fair understanding that in terms of network and largely people investments, we are there across the business segments or do you think that you will need a certain capabilities to be built in the next two or three years?

We hope to expand the network and people by manifold. Broking business was seemingly large and sizable and if you look at the manpower addition in this business over the last five, six quarters it has been massive. Asset management business has 25 branches 5 quarters ago, they are 36 right now and it can be 250 over a period of time easily. So, the magnitude is in multiple rather than in percentages and that will unfold over a period of time, but as RA eluded all of these investments will be made through the income statement and we will not shy away from any of these investments not withstanding what part of the cycle.

One of the ways we are growing is that by investing and by bringing client commitment along with our own commitments, so when we invest say Rs 500 crores we expect Rs 5,000 crores to come from the client side, so though it looks like an investment of Rs 500 crores, but it is a commitment to that particular product and that becomes a reinvestment for the firm and expands the total kitty of what money you are managing in private equity because the nature of equity business is such that the reinvestment happens either through P&L or through commitment as an investor and that is what we are doing across the board.

On the home finance business, how the property prices in the geography that you operate shaping us, have you seen some sharp erosion somewhere?

In the last couple of years, we have seen some correction in the property prices to the extent of 10% to 20% depending on the locations. In Surat we have seen some correction in prices otherwise it is not really been a very sharp correction beyond that.

Lenders today cannot take any action against the delinquent borrowers, but hypothetically once the forbearance or the dispensation that the Supreme Court has given goes away, and all lenders go into the market selling the property do you not think that there will be very sharp supply surge and consequent price correction?

We have been using legal tools since the last couple of years and we already have properties under possession and definitely in certain pockets like Surat or may be one or two other locations there may be excess supply in the markets, but I guess that is the part of the business cycle. So one will have to bear that loss and move on.

Under the judgment are you not allowed to even repossess?

There are certain pockets like in Maharashtra there was some challenge, but otherwise we are quite able to repossess properties. Things have moved back into normalcy since last couple of months.

In housing finance business do we give loan to borrowers who do not have an income tax return file?

Our target market customers are low-income borrowers, LIG segment. People with income annual levels of about Rs 3 to Rs 6 lakh is where we are largely concentrated and 60% of our portfolio is salaried and about 40% is self-employed. So salaried portfolio is largely the ones where there is some or the other form of income document and some of them also cash salaried customers where we take certain other surrogate means of assessing the salary credit which they receive in cash. On the self-employed side which is about 40% of our portfolio half of that is documented income customer where they provide us with the income statement, bank statement and ITR, but there are half of that is also assessment based where we have our credit team who go and meet the customers at their place of employment and place of business and they basically assess the business in terms of the financial strength and in terms of the repayment capability and accordingly we assess the amount of loan that the customer is eligible. We also do bureau check and have certain other checks in terms of the assessing the technical value of the property and the legal ownership of the property in terms of legal documents and encumbrance and other things. So comprehensive check is done even for the cases where the income documents are not available.

Looking at the current scenario there is a huge competition from public sector banks, in terms of housing loans our rates are almost upwards of 14%, so how do you see loan book growth in next couple of years because the prepayment would be much larger because even if somebody is not having let us say income tax return filed and you are giving them loan and after couple of years they can switch to the banks, so how do you see in this scenario the loan book growth in housing finance?

There is a huge market available, where the regular banking has no reach and we have customers, who are into self-construction, even the salaried customers in semi urban and rural areas where you need to give quick turnaround time. Turnaround time is one of the key drivers here and over a period of time as the credit rating of the organization improves, the cost of funds which we have seen also improved. So some part of that is going to be passed on to the customers, but eventually the main delta comes from the fact that we are able to quickly asses the customers requirement and we are able to turnaround the applications fast and are able to provide them with the desirable loan within a desirable time period. When you provide that kind of a service, there is certain amount of premium that you can charge, and we are also fairly focused on self-employed customers and when you look at the banking and public sector banks and you look at the housing finance companies that are more focused on the salaried customers. To that extent there is fair degree of potential available on that side.

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 Q3 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 Q3FY21 PAT of Rs 3.34 bn, +102% YoY and Rs 7.97 bn, +82% YoY in 9MFY21.
Company declares interim dividend of Rs 5 per share.

Mumbai, January 28, 2021: Motilal Oswal Financial Services Ltd. announced its results for the quarter and nine month ended December 31, 2020 post approval by the Board of Directors at a meeting held in Mumbai on January 28, 2021.

Performance for the quarter and nine month ended December 31, 2020:

- In Q3FY21, consolidated revenues grew by 45% YoY at Rs 10.09 bn, Consolidated PAT grew by 102% YoY at Rs 3.34 bn including gains on investments (Rs 2.1 bn, +280% YoY).
- Consolidated revenues in 9MFY21 grew by 34% YoY at Rs 27.2 bn, consolidated profit grew by 82% YoY at Rs 7.97 bn.

Key highlights for the Q3FY21

- Highest-ever Consolidated Quarterly Revenues & Profits. Strong Sequential growth revenues and profitability across businesses.
- **Broking** - Highest ever Revenues, market share gains 20 bps YoY to 2.8%, strong traction in cash market share, 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, strong traction in SIP addition, Introduced digital platform for on boarding PMS clients. 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, continued superior quality of new book underwritten, traction in login/sanction pipeline, and gearing up for Q4 and FY22 with expansion in sales FOS.
- Consolidated net worth is at all-time high at Rs 39.3 bn, net debt is Rs 37 bn. Excluding Home finance, net debt is Rs 11.3 bn. Total D/E declined to 1.2x. Ex-MOHF D/E stood at 0.5x. Net of investments, we have a net cash balance sheet. RoE for 9MFY21 stands at 34% (ex-OCI).
- During 9MFY21, 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 Interim 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 got inducted in **"Hall of Fame"** at 10th Financial Advisory Awards 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 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 under new leadership. Each of our 7 businesses offers headroom for growth.*

Performance of Business Segments for the quarter and nine month ended December 31, 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 4.3 bn, +39% YoY in Q3FY21 and Rs 11.98 bn in 9MFY21, +33% YoY. Capital market businesses have contributed ~44% of consolidated revenues. Profits were Rs 2.11 bn (ex-exception item), +54% YoY and contributed ~18% of consolidated PAT during 9MFY21.
  - Broking and distribution business profit grew by 59% YoY at Rs 769 mn in Q3FY21 led by healthy volume growth of 98% YoY and gain in market share.
  - In **Retail Broking & Distribution**, our Market share has improved by 20 bps on YoY basis to 2.8%. We have witnessed strong traction in new client addition driven by Franchisee and retail channel , total ~190,000 clients acquired in Q3FY21, +246% YoY. Active clients have also registered 46% YoY growth at 4.95 lacs as of December 2020.
  - Our strategy to bring in linearity through the trail-based distribution business is showing results. Distribution AUM grew by 15% QoQ at Rs 119 bn as of Q3FY21. With only 13% of the 1.8 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 in 9M 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. In Q3, we participated in one large OFS in BFSI space.

- **Asset Management businesses (AMC, PE and PWM)**
  - **Asset Management** business AUM across MF, PMS & AIF stood at Rs 439 bn, +14% QoQ. Our AMC ranks 15 by total equity assets; in PMS we maintain a leading position. Strong growth of 32% QoQ in PAT for the quarter at Rs 382 mn. In 9MFY21, 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, MF yields have improved during the quarter resulting in overall yield improvement.
  - Our Equity MF AUM of Rs 262 bn is just 1.8% of the Industry MF Equity AUM of Rs 14 tn. We have seen improvement in performance of several products. Our gross sales market share was stable and redemption market share declined on sequential basis. However, we too witnessed net outflow in-line with Industry.
  - We have witnessed strong traction in SIP addition and realisation.
  - Our share of Alternate assets, comprising of PMS & AIF, is the highest among AMC's at ~40%.
  - **Private Equity** has committed investment AUM of Rs 65 bn across 3 growth capital PE funds and 4 real estate funds. In Q3FY21, revenues stood at Rs 266 mn and PAT stood at Rs 69 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 13% QoQ at Rs 227 bn in Q3FY21. Wealth business revenue grew by 31% & 20% YoY in Q3FY21 & 9MFY21 respectively led by strong net sales of +583% YoY at Rs 18.1 bn in 9MFY21. Gross & Net sales were multi-quarter high. Yield stood at ~62 bps. RM count of this business stood at 124. Our trail revenues predominantly cover our fixed costs.
  - Overall **Asset and Wealth Management** revenues were Rs 1.89 bn & Rs 5.14 bn in Q3FY21 & 9MFY21 respectively. Asset & Wealth contributes 19% of consolidated revenues. Profits were Rs 528 mn & Rs 1.26 bn in Q3FY21 & 9MFY21 respectively and contributed 16% of consolidated profits.

- **Housing finance business**
  - Motilal Oswal Home Finance (MOHFL) reported profit of Rs 47 mn in Q3FY21. 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 115 mn.
  - NII grew by 20% YoY and NIM expanded 120 bps YoY/QoQ at 6.4% in Q3FY21.
  - Yield on Advances remained flat at 14.25% in Q3FY21 while of Cost of Funds is down by 37 bps QoQ / 163 bps YoY to 8.95%, resulting in expansion in Spread by 38bps QoQ to 5.3%.
  - We have raised Rs 11 bn in 9MFY21 at average cost of 7.4%. We expect average CoF to trend lower in coming quarters.
  - Loan book stood at Rs 35.4 bn as of 9MFY21. Disbursements in 9MFY21 were Rs 1.33 bn. Under new leadership, business is geared up for growth in disbursements. Sales force expansion is currently underway.
  - GNPA at 2.9%, NNPA at 2.3%. In 9MFY21 total credit cost at Rs 606 mn due to acceleration in Covid provisioning.
  - Opex was brought down to Rs 215 mn in Q3FY21 and is down ~25% from the high. As a result, Cost to Income ratio is down to 33% from 44% in Q3FY20.
  - Strong support from parent continues with total capital infusion to Rs 8.5 bn. Net Gearing stands at 2.9x 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 2.1 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 have registered Highest ever gains in a quarter of Rs 2 bn and Rs 5.2 bn in 9MFY21
  - Total quoted equity investment including unrealised gains was Rs 18.9 bn as of Q3FY21. Cumulative XIRR of these investments is ~16.3% (since inception).
  - Total equity investment including alternate funds was at Rs 26 bn as of December-20. XIRR of 26% 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.