Motilal Oswal Financial Services Limited
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May 06, 2022

BSE Limited
P. J. Towers,
Dalal Street, Fort,
Mumbai - 400001
Security Code: 532892

National Stock Exchange of India Limited
Exchange Plaza, Plot No. C/1, G Block,
Bandra-Kurla Complex, Bandra (E),
Mumbai - 400051
Symbol: MOTILALOFS

Sub: Transcript of Earnings Conference Call with Investor(s)/Analyst(s)

Dear Sir/Madam,

This is with reference to our earlier letter dated April 22, 2022 regarding intimation of Earnings Conference Call with Investor(s)/Analyst(s) held on April 29, 2022 to discuss financial performance for Q4FY 2021-22.

In this regard, pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulations") (as amended from time to time), please find enclosed herewith the transcript of the said Earnings Conference Call for your reference.

Further, the said transcript of the Conference Call is made available on the Company's website i.e. www.motilaloswalgroup.com.

Kindly take the same on record.

Thanking you,

Yours faithfully,

For Motilal Oswal Financial Services Limited

Kailash Chunnilal Purohit
Digitally signed by Kailash Chunnilal Purohit
Date: 2022.05.06 14:43:02 +05'30'

Kailash Purohit
Company Secretary & Compliance Officer
Encl: As above

Motilal Oswal Financial Services

ConCall Summary & Earnings Release

Quarter & Year ended March, 2022

29th April, 2022

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

MD & CEO

Mr Navin Agarwal

CEO- AMC

Mr Ajay Menon

CEO- Broking

Mr Shalibhadra Shah

Chief Financial Officer

Mr Rakesh Shinde

Investor Relations

Welcome to the Q4FY22 and FY22 Earnings Conference call for Motilal Oswal Financial Services Limited. We have with us today Mr. Raamdeo Agrawal - Chairman; Mr. Motilal Oswal- MD & CEO; Mr. Navin Agarwal - Director; Mr. Ajay Menon- CEO, Broking; Mr. 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.

Opening remarks

Good Morning. It is my pleasure to welcome all of you to the Motilal Oswal Financial Services earnings call for the 4th quarter and year ended 31st March 2022. We hope that each one of you and your families are safe and in a good health.

- For 4Q, we have reported Operating PAT growth of 41% YoY at Rs 2.62 bn, this was highest ever quarterly operating profit for us.
- For FY22, we have reported PAT at Rs 13.1 bn. Profit (ex-gains on investment) grew 69% YoY to Rs 9.05 bn, this was highest ever 12M operating profit for us.
- Core business was robust with Capital market business PAT +68% YoY and Asset & Wealth +31% YoY led by +14% AMC, +116% YoY for Wealth and +46% Private Equity business. Housing finance business has turnaround this year and reported highest ever profits of Rs 929 mn, +133% YoY.
- Consolidated net worth touched all time high and stood at Rs 56.7 bn, net debt is Rs 41.4 bn. Excluding Home finance debt, we are a net cash company net of our equity investments.
- RoE for FY22 stands at 30%.
- The board has declared final dividend of Rs 3 per share (FV Re 1/share). Board has also decided to consider Buyback program in its separate board meeting to be held on 17th May.

Key highlights for the Q4FY22 and FY22

- **Capital Market** business Highest ever broking revenue and profit in FY22, business has delivered consistent growth in profits over last several quarters, growth in active clients & client addition led by traction in digital acquisition channel, 99% YoY growth in ADTO with mix favour in high yielding cash delivery, cash market share at multi-year high, Robust net sales in distribution business, We have also started adding talent at digital side to revamp our digital journey.
- **Investment banking** mandate pipeline started fructifying.

- **Asset Management** witnessed life time high markets have lifted AUM to its highest ever, AMC's flows and SIP's gained traction and AIFs are receiving very encouraging response among HNI's. Our largest ever PE growth fund, IBEF-IV has achieved its 2nd close at Rs 40 bn within 7 months of launch. It has a target size of Rs 45 bn. Similarly, our 5th real estate fund (IREF- V) has raised Rs 12 bn.
- **Home Finance** witnessed strong pick-up in disbursements, traction in login/sanction pipeline, and meaningful expansion in sales force to ramp up disbursements in the coming quarters. Finally, sharp reduction in cost of funds drove margin expansion in home finance. Further, series of ratings upgrade that we have received will further benefit our liability franchisee.

I will now deep dive into individual businesses.

Starting with the Capital Market businesses:

- **Capital market** comprises of Retail Broking, Institutional Equities and Investment Banking business. Revenues for this segment were Rs 6.93 bn, +35% YoY in Q4FY22 and Rs 25.37 bn, +48% YoY in FY22. Capital market businesses have contributed ~55% of consolidated revenues. Profit grew by 79% YoY at Rs 1.44 bn in Q4FY22 and 68% YoY to Rs 4.9 bn in FY22 led by healthy volume growth of 106% YoY / 29% QoQ and improvement in cash market share.
- In **Retail Broking & Distribution**, we have witnessed strong traction in new client addition driven by Online and other channels, total ~880,000 clients acquired in FY22, +43% YoY. NSE active clients have also registered 59% YoY growth at 9 lacs as of Mar 2022.
- Our strategy to bring in linearity through the trail-based distribution business is showing results. Distribution AUM grew by 31% YoY at Rs 168 bn as of Q4FY22. With only 16% of the ~2.8 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. We have registered strong insurance premium collections in FY22 at Rs 57 cr, up 43% YoY.
- In **Institutional Broking**, team wins big in Asiamoney poll 2021. Ranked #1 Best local brokerage House, Best sales and Best Execution and Corporate access. Strong improvement in domestic client rankings with top 3 rank retained in most clients. This has been the result of focus driven differentiated research products with 250+ companies covering 21 sectors.
- **Investment Banking** business has participated in 13 deals. The business has made a strong turnaround in performance in FY22. Further, there is a strong pipeline of

signed IPO mandates which has started entering the markets from Q4FY22 onwards, as a result further revenue traction can be witnessed in coming quarters.

Turning to Asset and Wealth Management businesses:

- **Asset Management business** AUM across MF, PMS & AIF stood at Rs 490 bn, +13% YoY. Strong growth of 21% YoY in PAT at Rs 1.83 bn in FY22 (excluding one-time tax reversal impact in FY21).
- Our Equity MF AUM stood at Rs 306 bn. We have seen improvement in performance of several products. Our Gross sales and Net sales started improving.
- We have witnessed favorable response towards alternate offerings under AIF strategy and expect continued flows in AIF strategies which are in pipeline.
- Our share of Alternate assets, comprising of PMS & AIF, at ~37% is the highest among AMC's. We have added around 480k SIPs in FY22, +54% YoY. New SIP count market share stood at 1.8% in FY22.
- **Private Equity** has fee earning AUM of Rs 100 bn across 3 growth capital PE funds and 4 real estate funds. In Q4FY22, revenues grew by 92% YoY at Rs 469 mn and PAT grew by 184% YoY at Rs 203 mn. The 1st growth fund (IBEF 1) has delivered an XIRR of 26%+. Average IRR on exited investments in Real estate funds is 21%+. IREF V has raised Rs 12 bn. PE biggest fund launched with IBEF IV with a target size of Rs 45 bn, achieved its 2nd close at Rs 40 bn.
- **Wealth Management** business AUM grew by 36% YoY at Rs 344 bn in Q4FY22. Wealth business revenue grew by 28% YoY / 53% YoY to Rs 477 mn / Rs 1.94 bn in Q4FY22 & FY22 respectively. This growth was led by strong net sales at Rs 54 bn in FY22. Yield stood at ~63 bps. RM count of this business stood at 144. Our trail revenues predominantly cover our fixed costs. Strong operating leverage is visible led by improvement in RM productivity. We continue to invest in this business by adding RMs.
- Overall Asset and Wealth Management revenues were Rs 2.64 bn, +8% YoY in Q4FY22 and Rs 9.47 bn, +25% YoY in FY22. Asset & Wealth contributes 23% of consolidated revenues. Profits were Rs 831 mn, in Q4FY22 and Rs 2.85 bn, +31% YoY in FY22 and contributed 28% of consolidated profits.

Turning to Housing Finance business:

- **Motilal Oswal Home Finance (MOHFL)** reported highest ever profit of Rs 456 mn in Q4FY22, +148% YoY and Rs 929 mn in FY22, +133% YoY.
- NII grew by 11% YoY and NIM expanded to 7.3% in FY22.

- Yield on Advances stood at 13.9% in FY22 while Cost of Funds was down by 105 bps YoY to 8.2%, resulting in expansion in Spread by 66 bps YoY to 5.7%.
- We have raised Rs 14 bn in FY22 at an average cost of 7%. vs overall CoF of 8.2% and this number to trend lower in coming quarters also aided by the latest rating upgrades on the company.
- Disbursements grew by 2.4x in FY22 to Rs 6.43 bn. Business is geared up for stronger growth in disbursements.
- GNPA was down by 60 bps YoY to 1.6% in FY22 led by improved collection efficiency, which stood at 104% in March 2022.
- Rating upgrade by CRISIL & India Ratings to AA/Stable. These ratings upgrade will further benefit us in lowering incremental CoF.
- Net Gearing stands at 2.3x and Tier 1 CAR remains robust at 50%.

Fund based Business focuses on enhancing Return on Equity

- Fund Based activities include commitments to our asset management products. Fund based investments have registered gains in a quarter of Rs 402 mn in Q4FY22 and Rs 4.1 bn in FY22.Total quoted equity investment including unrealised gains was Rs 26.8 bn as of FY22. Cumulative XIRR of these investments is ~17% (since inception). Total equity investment including alternate funds was at Rs 40.5 bn as of Dec-21. XIRR of 26% on PE/RE investments.

Outlook

To sum up, this was 2nd consecutive year of highest ever performance in terms of Revenue, Profit and AUM. Our retail broking business which is our cash cow business has achieved new highs on various parameters benefitting from industry consolidation. Our Institutional Broking business has been ranked #1 local brokerage house consecutively for 2nd year in Asiamoney poll 2021. Our strategy to invest business profits in our own equity investment products led to highest ever profits and as a result our Net worth has touched new high. Moreover, our strategy to diversify our business model towards linear sources of earnings continue to deliver results. Our Asset Management business is likely to gain from process driven investing and its niche offerings. Our Wealth Management business has delivered stellar performance this year and on its way to achieve scale in this business. Our PE business has delivered on both successful exit of its investment and fund raise of its largest ever fund. Our Housing finance business has witnessed turnaround by registering highest ever profitability and now geared up for sustainable growth. Each of our 7 businesses offers headroom for growth. We are now open for Q&A!

Q&A

I have a few questions, first on the Asset Management. What have been the net sales in the last quarter?

Net sales in the last quarter are Rs. 1,000 crores.

Predominantly, it seems to be negative mark to market the impact over that.

Yes, that's right, because there is a lower mark to market overall in quarter four versus quarter three. That is the reason the average AUM is lower.

And predominantly we have seen that in the PMS fund, so, do we have the net sales spike by category MF, PMS, AIF?

On the MF side, the net sales are Rs. 5 billion and similar 5 billion is on the alternate side.

But then what happened in the PMS?

Alternate includes the PMS part, when I say alternate it is AIF plus PMS.

On the private equity side, we've seen some good fundraise. I wanted to understand the broad construct of this business in terms of how long did the assets stay with us. What is the management fee? How much then we are supposed to pay sort of trading commissions from here onwards? And how do exits and profit shares work over here in the new fund so we have about 5200 crores in the new AUM and about 4,800 crores in the old AUM, if I right?

That is right. So, the broad equity construct is 2% management fee from the date of the first close on the entire fundraises, which will be Rs. 4,500 crores which will start accruing from this coming quarter and a 20% profit share at the end of the life of the fund. The life of the fund is 10 years and extendable by two years. You can say the duration will be anywhere between 10- and 12-years’ time period, as far as the growth capital fund, we've already done our second close at Rs. 4,000 crores, we're hoping to close this fund at Rs. 4,500 crores. As far as the Series-V Real Estate Fund is concerned that there the fees would be over 1% and over 10% yield and profit share respectively. Duration of these funds are typically lower at more like four years to five years’ time period. Although the payouts in the real estate funds are more frequent, compared to slightly back-ended payouts in the private equity business.

And why is it that?

Because what we are seeking in real estate is really income and so you have the repayments happening at the predetermined intervals, while as far as the private equity business is concerned, we are investing in some of these companies that are slightly at the earlier stage and you want to give them a minimum four or five years before there's any encashing event. Typically, our holding periods would be bare minimum five to six years potentially longer.

And the old AUM that we have, are we still generating management fees on that? Or is that sort of past 10-12 years horizon or and we are just only looking at exits.

Management fees is earned right in the last date of return of capital, but the only difference between this and the Asset Management businesses is that here the management fees accrue at costs while in the Asset Management business management fees on the alternate assets accrue at market prices.

But, on the returned capital, you will not be able to take any fees on that, right?

Yes. Returned capital, not mark-to-market, but returned capital mark-to-cost.

So, when we give the AUM number, that's the cost number and hence the 48 odd billion will be the cost basis on which we will accrue fees. Is my understanding right?

Absolutely.

And what is the sort of time horizon just for those funds, the old one.

IBEF-I is already returned. IBEF-II will have another three years of time horizon, IBEF-III will have a reasonably long-time horizon at least over five years time and as I said, IBEF-IV will have a 12 year time horizon.

Final questions on the Wealth Management side. Now this quarter, net sales have come off. I'm guessing it's regardless of the difficult market environment, but maybe you can shed some light on that. I wanted to get an understanding of how much of this business is sale of external AUM versus sale of just the group products and what has happened here because, quarter-on-quarter we are seeing some dip in revenues and consequently lower profitability.

Basically, on a quarter-on-quarter basis, you will see net sales slightly volatile also depending on the product launches. When we had a big private equity and a real estate raise in the earlier quarters, you saw the net sales numbers being higher in those quarters. You may not have equally big product launches in every single quarter. As far as the captive products are concerned, it accounts for about a third of the overall incremental net sales and this number is coming down over a period of time as the business becomes more and more open architecture.

AUM would be a 60% external and 40% captive because historically when the business was born; it used to be a 100% captive and over a period of time that number has kept on coming down all the way down to 40% and we expect this is going to trend lower in the coming years. And turning to the quarter-on-quarter number again linked to the gross sales for that quarter sometimes you have upfronting in some of the alternate products and that could create volatility in your quarter-on-quarter revenues. That is why maybe a better way to look at this could be how these businesses panning out over a year because as I said, sometimes you could have burst of large capital gain in a particular quarter, which would not repeat in the following quarter and then the upfronting income that you want on that raised during that quarter may not necessarily repeat in the next quarter, but on a full year basis, if you see the yields are quite stable and the net sales have been much higher and that revenue and profits obviously have seen a massive increase both because of AUM increase as well as the operating leverage on the profitability.

What sort of upfront fees have you paid on the new fundraise right now? And what sort of sale fees will we be expected to pay going forward?

Actually, a lot of the fees that has been paid on the private equity raises us actually mostly trail there in, I mean, you have some part of it which is upfront also, which would be about 3%, but a good part of the AUM would have three years of trail.

Actually, when you raise the new fund typically you pay the fees over three-year tenure, but they are amortized over the life of the fund. That is the way the P&Ls would be reflected.

So, the private equity P&L would have a sort of a regular trail commission payout because we have amortized you paid upfront for three years but gets amortizing towards the free life of the assets. Plus, there would be an additional trail commission, right?

No, there is no further trail commission. What is paid is upfront over next over the three years which is amortized over the life of fund. There is no other trail commission on that.

And what would that be just to 3%? Did you say that?

But not on the entire capital raise. It will be a part of the institutional money raised and our own property investment so you can say that this would be applicable for about 60-70% of the fundraise.

My question is regarding the AMC business. If we see the AUM over the past 3-4 years, the business has not really grown so PMS and mutual fund would be about 450 crores now which was about 360 crores in FY 2019. If the mark-to-market is more or less greater than that. Just wanted to know where do we see the AMC business going in the next 2-3 years?

As you are seeing in the past over a 6-7 years you get you've seen the 1,000 crores AUM go up to 45,000 crores. In India, the AUM linkages are strongly to performance and one or two years of strong performance can take the AUMs significantly higher like we've seen for some of the other performing AMCs in the last three years if you look at their AUM numbers, then you have a combination of mark-to-market, as well as net sales and the SIP book start building up. We're hoping that given the turnaround of our fund performance is at second largest mutual fund Midcap 30 Fund is India's number one performing fund. It is about a 3000 crores AUM and we are seeing some traction there. Our large and midcap products which is about 2.5 years old was among the best performing fund until three months ago. Our flagship multi-cap PMS, NTDOP was among the best performing fund as of 31st of December. We are seeing some slowdown in their performance in the last 2-3 months. Our midcap of PMS-FMS is one of the best performing PMSs. So, we have got quite a bunch of products, which are now top performing products and we believe it is matter of time that we should recommence our journey of meaningful growth in the AUM of this business once again. I think as we said in the past, our operating models and our operating priorities are very clear – 'Performance First, Yield Next, and AUM follow Suit.' I think what you are seeing is a preservation of the yields through this time period and as and when performance comes back we believe you should see that translating into AUM also.

So, just to rephrase my question. The net flows been in the last maybe couple of years, maybe three years in both PMS and the mutual fund.

If you look at our overall net sales number, December was about 4,000 crores for the last year, this number was negative 13 billion or 1,300 crores for the previous year. So there is effectively a turnaround of 5,300 crores. Basically, as I said as more and more performances have turn around, you will see this number gradually building up and you can obviously see spurt of extraordinary performance like you've seen, as I said, in the performing AMCs in the last two to three years.

Next question, on this Home Finance business. So, our ROAs are doing fine, but the ROA obviously with the leverage of about 10%. So, what would be the trends, whether it's 10% to go up to let's say a 14% or 15%, would it be like a wait and watch mode in increase in leverage or how do you see this panning?

Actually, ROA is at 10%, however, given the betterment of our disbursement and growth journey that would put us in a higher leverage because the leverage is actually at this juncture is 2.5x. As on year-on-year if you see, we have grown from 270 crores of disbursements to 600 crores of disbursements which is expected to further augur in FY 2023 as well and as the growth journey shapes up the leverage would better the overall ROA. Plus, this is largely an ex-assignment ROA. So, if the assignment is on, the ROA numbers would start shooting up. Overall, NIMs have expanded and cost of funds have also lowered we got a recent rating upgrade from CRISIL, which would also help us to further lower our cost of funds and better the ROA. So, we see this year or next couple of years moving to this sort of ROA/ROE numbers from where we stand today.

Basically, we would be because of how we seeing the markets pan out in the next year where you have guided for better growth in the Home Loan business. So we will see this 2.3 number going? Would you say this is like the bottom where we are operating at 2.3 in the leverage?

Yes.

The initial question is about the capital market operation. I just want to understand what the kind of MTF book do we have, MTF and loan book?

The total book is of 2,000 crores as of the March end number.

Second question is now we have new guidelines around IPO financing. What kind of overall numbers we can see our impact on our income on these.

Yes. These guidelines are coming into effect from April 1 and the maximum funding that we can do for borrower for IPO is 1 crore. What will happen is this will lead to more retailization of our customers and a more number of applications of 1 crore ticket size. As a quarter four was actually muted in terms of these numbers. But I think there is some bit of momentum now given the LIC IPO and other IPOs in the pipeline. So, with the larger number of retail client base that we have we should see overall this number gradually catching up. But yes, on a year-on-year basis it will start slower but overall, it will catch up to grow better run rate given the traction with a retail clients.

So just for reference, what was the number for the FY 2022 if you can share?

The profit number of that or which number?

The income number for IPO.

That number was 70 crores for FY 2022.

Second coming to AMC business as such, if I look at the AUM growth that has been a relatively muted and even off late the SIP flows our market shares come down below 2%, 1.8% if I look at it. So how we are looking at it and the focus we can look at it.

As I answered earlier, we've seen a substantial improvement in our net sales to around Rs. 4,000 crores this year compared to an outflow of 1,000 crores last year. And we are hoping to build on our trend in the coming year ending March 2023. As far as the SIP book is concerned as you may be aware, our international funds related SIPs have got paused now after the embargo on international funds, we've seen that money which was coming on a monthly basis lost for us, while the overall industry SIP number went up because of which you saw this market share number changing. We are hopeful that the regulator will take cognizance of in our strong FOREX reserves and the follow-up by the NPV in terms of potentially reviewing this limit and we're hoping that part should come back, but even otherwise we have a high focus on building up the SIP book, even for the SIP funds or even for the active funds and we are hopeful that this year we should see meaningful traction in this number, obviously subject partly to also the embargo on international investment being lifted.

Our incremental focus would be on a passive fund or an active fund because last year, I think because of the new launches of the passive fund and the money flow on this side.

Actually, these products are very complementary as you see; they don't overlap with each other. We don't have international active funds and our passive funds are predominantly international. So really they are complementing each other. And, currently as I said the international investment limits at $7 billion being exhausted is coming in the way of our growing businesses. And as far as active business is concerned, I highlighted that our second largest mutual fund by AUM was already the best performing fund in the country. We are hoping that similar traction in other funds will see a substantial improvement in our net sales as well as the AUM of this business in the next cycle.

My next question is on the Home Finance segment, I think we would have gone for the learning curves over there and probably we have seen that if so, what we

can expect in terms of growth numbers of that and the targeted ROA, ROE and NPA levels we will be looking at or targeting.

As far as the disbursements are concerned, you've already seen a disbursement pick up for more than 600 crores. We have over a 100 branches a good rule of thumb to start with that each branch should disburse Rs. 1 crore a month, that'll take you to about 1200 crores of disbursement potential which is 2x of that actual disbursement number for the last year. As far as the gearing is concerned, we are at about 2.4x. I think we'd be very comfortable with at least 3.5x kind of gearing also. That'll give you an essence of what kind of AUM the current net worth itself can support and that will bring with it some cost-to-income leverage and operating leverage for the business. Our cost of funds we highlighted to you is already running at more than 100 bps lower in terms of incremental capital raise for the year compared to our overall cost of funds. So, we have leverage on cost of funds, we have a leverage on disbursement growth and overall operating leverage. We believe that staying in any business for us will require a minimum 15-16% ROE target all other businesses on a lot more and the overall return on equity is 30% as of now. So, we're looking forward to much higher disbursement levels over the next two years' time, I highlighted to you that the potential based on the current distribution networth itself is 1200 crores and that combined with lower cost to income and cost of funds should help us to achieve those ROE numbers as we're talking about.

I just wanted to know that our capital market businesses on the higher side of the revenues. I mean, how are we moving ahead with this on the tech front or digitalization of? Can you highlight some things on that?

Surely building on the digital side of the business in a big way, as that we have built up a digital model to run our business. On the digital side, there's a lot of innovation is happening on the app. We'll be coming out with an upgrade in the quarters from year on from the next quarter onwards. In terms of our super app plus we are looking at something specific for research related stuff, because we want to build on the research on advisory base and at the same time on the overall technology we are looking at lot of investment in terms of the security and the overall infrastructure to take care of the load which we'll be building on to within a number of client acquisition. Overall, we are well aligned to build on the digital journey in terms of client UI UX as well as for the security angle and even from the backend growth perspective.

This was helpful and any guidance you can provide us for FY 2023, I mean for multiple divisions or a ballpark figure for overall revenues.

Overall guidance side, so we don't give out such guidance's but definitely as you would have seen that last two years, we have stood taller on this side of the business and in terms of the number of clients, the assets under advise, the overall distribution AUM growth, the funding book and the overall active clients and the overall operating leverage playing out. Definitely, we augur well for official periods for us to deliver growth.

My first question, if you will, give out some growth outlook for your strategy for the capital markets for business for the next two years maybe now during that if we would see some stable markets, market stabilization and not so much volatility in the next one or two years. So, what's your strategy over there? The second thing was around lots of; majority of the customer acquisitions are happening in the Tier-3 cities so. What does the cost of acquisition look like for us and if you will share some output from those customers?

From overall business angle as you know, we have been investing on to this business in the last four or five years in terms of employees, in terms of branches and in terms of overall franchisee network. We are well aligned to build this growth going forward in each of the segments, when you look at the franchisee base; we are already expanding its year-on-year in a big way across the country. Similarly, we want to look at the branch models, at the same time for a digital channel, we are requiring in a big way like you see all the discount books are requiring but we are very clearly focused on the quality of accounts than that the number of accounts. That is on the overall account base at the same time on the distribution base also, we are building the business in a big way so that we have a good mix of the distribution business along with the broking, when it comes to the overall our own manufactured products and also, we sell other products including insurance and other third-party distribution. So, overall, we reserve good focus on expanding the overall reach as well as the overall mix and the overall business, Coming to the overall cost of acquisition, we are as of now the overall cost of acquisition is around Rs. 2,000 per accounts that is what we are looking at. The overall revenue ARPU is around Rs. 7,000 for us, when we look at our overall model.

Typically, my question was around the digital acquisitions which we are doing in the Tier-3 cities. If you could give us some color on the cost of acquisition for those customers and ARPU if these customers are really contributing any ARPU related to the cost of acquisition, which we are anchoring.

So, the cost of acquisition, looking at the digital side of the business itself. When I talked about 2000, it might be a bit lower but overall, it comes to the mixes very well aligned. It will be the same range when you look at cost of acquisition. On the revenue side, because we have got advisor for all our digital acquired clients also, we are having a much better ARPU when you look at the revenue side of the whole thing. We build on the advisory base and it is almost Rs. 17,000 ARPU. When I talked about 7,000, it is on the digital side of the business.

Second, it was a data keeping question. Was there a one off in the interest income from last book in 3Q, because there's a sharp drop from 3Q to 4Q from 100 crores to 47 odd crores?

That's right. This year, I had discussed at quarter 3 actually had that larger level of IPO financing income and quarter 4 was a bit lower dilation in terms of the IPO financing activity. That is the reason; if you see NII was actually lower by almost Rs. 34 crores on a sequential quarter 3 to quarters4 bases.

My first question is regarding our home finance business, please indicate what credit cost have been looking for FY 2023?

So, credit cards wise, if you see last two years, we had a bit of higher credits cost on account of the COVID environment and when we've seen a very good improvement in the overall asset quality because if you give headline numbers of 1 Plus, 30 plus, 90 plus they have significantly come down even on a year-on-year basis. This augurs well for our next year's overall outlook of credit cost. We intend to keep it within 1% range for next financial year as a targeted number for us.

My second question regarding the AMC business, what AUM you are targeting? Where do you see the PAT margins going ahead?

Business obviously enjoy very high operating leverage where the cost to not go up. Supposedly in fact, if you see our overall size of for distribution network and sales team is up by nearly 50% in the last two years while the AUM has been flattish. We've invested even during this time period, and you must have seen in the last cycle when the AUMs grew meaningfully the operating leverage played out. Really, we don't see costs really rising proportionately as and when you start seeing the AUM grow. Without talking about a specific number, if you just refer back to the numbers, when we had strong AUM growth, you had seen a dramatic improvement in margins on this business. The other aspect that also happens along with performances fee, as you know we have a lot of alternate assets and part of those assets are performance based. That is the additional upside that one sees as and when AUM in performance comes back.

All my questions are in the mortgage finance business. So I'll just ask them sequentially. Firstly, there is an increase in GNPA marginally from 1.6% in Q4 as

it was 1.3%. It just a one-off or accounting related issues? Could you also let us know the number of clients who have paid at least one to two installments, and they're still regarded as GNPA because your collection efficiency is well over a 100%.

GNPA number, if you see you sequentially it has actually come down it has not gone up because overall GNPA stands at 1.6% as of 31st March 2022 and it is even down on a year-on-year basis as highlighted. If we consider the impact of the new the RBI norms then the GNP number is the 2.6% which is going to be made applicable from 30th September of FY 2023. Overall headline numbers have been continuously coming down.

Sir, as I was just looking at the Q3 number of 1.3%. That's the number that I was looking at.

Just to clarify the point from 1.3 to 1.6. Actually, last quarter posts the new RBI norms came, the GNPA number was 3.4% which has come down to 2.6% on the new circular basis and as per the financial reporting under IndAS or this number has been marginally higher from 1.3 to 1.6 because now internally we have actually changed the complete process to collect now 3 EMIs and the focus to call three EMIs as I am collecting in one EMI.

How were the financial reported numbers goes by one EMI because in this case three assets in the IndAS? Or you continue to differentiate. That is the reason you see some bit of a movement on the GNPA number from Q3 to Q4 on a stage 3 number as well the overall number basing the RBI norms has come down to 100 bps on a quarter-on-quarter basis. The 2.6 minus 1.6 would be the people who are actually paying a few EMIs but regarded as NPAs.

Yes. That's right. So that is the difference where actually one EMI Vs paying in multiple EMIs.

I'll just ask the next three questions quickly because I know we're running out of time. Given the portfolio is relatively risker plans compared to let's say a salaried account in our urban cities, what are the initial bounce rates and how much do you have to do cash collections thereafter? That's question number one. Question number two is you had guided that you'll increase leverage to 3.5X. Would this be around the peak kind of leverage that we'll have a 3.5X, 4X because of the relatively risker of clients or do you think there's space to go higher? Last question is, what is the target PPOP that you will have so that we can try and

guess what your estimation of credit costs would be of course, if the credit costs come lower, ROA and ROE will be higher.

Bounce rate is at 13% on the new book that we have and on the overall book is at 19%. As far as gearing is concerned, overall gearing 3.5-4.0 is quite a comfortable number as far as we stand already, and we have already infused 850 crores of equity from the parent company and they are with strong free cash flows at the parentage level. The commitment is always there to infuse equity. Leverage overall has not been a constraint, we have been flattish on the growth over last three years, but I think as we see a growth in FY 2022 or FY 2021, we are very confident of getting further growth run rate in the coming years and leverage. Till, we are at 50% capital adequacy today. That is huge headroom to further to go on leverage side.

The last question is from the PPOP as percentage of assets that we have certain targets that you can guide us because that will give the cushions that you'd have just in case credit costs increase due to some reason or the other.

Already it is informed them that idea is to keep the credit costs around 1% NIMs are already at 7.3% in FY 2022. That would give us a very strong PPOP of run rate journey. So, quarter 4, if you see we have ended on almost had a profit of 49 crores which itself where were we started at out of this financial year.

It is indeed strong. Can you just give me the cost income target then that will help us because we've been investing in assets in operating branches also? So, cost to income ratio would be useful.

That's also the function of the AUM growth. Basically, there'll be two phases of how you should look at the cost to income ratio. In the first phase, we will be dialing up on the sales team as we keep dialing up on disbursement like you saw and in the second phase whereas the productivity of the newly hired RM growth could start rising that you will see some benefits. Really again, we would like the numbers to trend lower from where you are currently, but any specific number of guidance for what the PPOP margin would be for the cost to income ratio will trend to something that we want to refrain from giving at this date.

My question is regarding your broking business, as you can see that we are on a strong acquisition of the acquisitions spree of a new client. But, on activation rate of the client, we have seen, I guess we are still lagging behind in the industry trend of around 38-39% even in FY 2022 as well. So, going ahead how can you like, what will be the strategy by management to improve this activation rate and

is anything sort of nudging or something some sort of any activity that is being going on for improving the activation rate on broking sir?

The activation rate on the incremental client's stands at 38% which is very much comparable to some of the broking house, to correct that because that's it is not that incremental activation rate has been lagging behind.

Particularly to add to that we surely are working on it from multiple angles. One is the digital way of getting the clients activated whether through nudge or whether through other kind offers, that process is on. At the same time as we know that we are very well aligned toward the distribution business. We are trying to cross sell multiple products to the same clients. To that extent, we have got a very good traction there. We see that this can only keep improving from your own as we are very clearly looking at quality of clients when we are requiring at the same time and ensuring that the activation is on the higher side. There are digital interventions, which are being looked at and at the same time we have got our advisors and the distribution products which will help us in improving with activation.

My second question is regarding a cost of acquisition, as you mentioned that your sales around 2,000 per account. Can you just give us a breakup a ballpark figure between the costs of acquisition through marketing and cost of acquisition through employees Co-OPEX, I mean?

We typically don't give you break up. We look at it from the overall cost angle and from the overall revenue perspective on that.

Thank you. Ladies and gentlemen, that would be our last question for today. 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 FY 2022 concall. In case of any further queries, please do get in touch with our Investor Relations. Thank you and have a good day.