Motilal Oswal Financial Services Limited
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November 05, 2024

To,

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 October 21, 2024 regarding Intimation of Earnings Conference Call ("Con-Call") with Investor(s)/Analyst(s) on October 29, 2024 to discuss financial performance for Q2 FY 2024-25.

In this regard, pursuant to the provisions of 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 Con-Call for your reference.

The aforesaid Transcript of the said Con-Call is made available on the Company's Website i.e
https://www.motilaloswalgroup.com/Downirvirdir/766963002Q2FY25.pdf

Further, we hereby confirm that no Unpublished Price Sensitive Information was shared or discussed during the said Con-Call.

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: 2024.11.05 20:35:12 +05'30'

Kailash Purohit
Company Secretary & Compliance Officer

MOTILAL OSWAL

Q2FY25 Earnings Call Transcript of "Motilal Oswal Financial Services Limited".

This document is a transcription of the conference call conducted on 29th Oct 2024. Click here to listen to the original audio.

Moderator:

Good afternoon, ladies and gentlemen. I am Sejal, the moderator for this conference. Welcome to the Q2FY25 Earnings Conference Call for Motilal Oswal Financial Services Limited. We have with us today,

- Mr. Raamdeo Agrawal, Non-Executive Chairman
- Mr. Motilal Oswal, Managing Director and CEO
- Mr. Navin Agarwal, Group Managing Director
- Mr. Ajay Menon, CEO, Wealth Management
- Mr. Prateek Agrawal, MD and CEO, Asset Management
- Mr. Ashish Shanker, CEO of Private Wealth Management
- Mr. Sukesh Bhowal, CEO, Housing Finance
- Mr. Shalibhadra Shah, Chief Financial Officer
- Mr. Manish Kayal, Head Investor Relations

A short disclaimer before we start this call. This call will contain some forward-looking statements which are completely based upon the beliefs, opinions, and expectations of the Company as of today. These statements are not a guarantee of future performance and will involve unforeseen risks and uncertainties.

I would now like to invite Mr. Navin Agarwal to make his opening remarks. Thank you, and over to you, Mr. Agarwal.

Mr. Navin Agarwal – Group Managing Director:

Good afternoon, everyone, and welcome to the Motilal Oswal Financial Services earnings call for the Q2 & H1FY25. At the outset, I want to wish you all a very, very happy Diwali and a fabulous coming New Year.

Let me start, as usual, by providing you a very quick snapshot of the quarter ending Sep'24, at a group level and then highlighting segmental performances, concluding with a broader outlook as we see for our overall businesses.

Key Financial and Operational Highlights

- Consolidated PAT including Other Comprehensive Income (OCI) for Q2FY25 at Rs. 1,242 cr, up 123% YoY and delivering RoE of 46%.
- Consolidated operating net revenue for Q2FY25 Rs. 1,366 cr, up 46% YoY
- Consolidated operating PAT for Q2FY25 Rs. 541 cr, up 53% YoY
- Assets under Advice (AUA) crossed Rs. 5.7 lakh crore mark, up 82% YoY.
- Robust Net worth of Rs. 11,070 cr as of September 30, 2024, up 48% YoY
- Crisil and IndiaRating has also upgraded our rating outlook from AA Stable to AA Positive during the quarter. ICRA upgraded in Q1.

Segmental Performance

Wealth Management Business

Wealth Management business, erstwhile known as Broking and Distribution business. This business comprises of retail broking, distribution and NII income.

- Net Revenue for Wealth Management for Q2FY25 at Rs.634 cr, up 53% YoY.
- PAT for Q2FY25 at Rs. 225 cr, up 71% YoY
- Strong blend of 2,100+ internal Relationship Managers and 9,400+ External Wealth Managers
- Extensive Geographic reach of 2,500+ business location servicing clients in 98% of the PIN codes
- Acquired ~2.0 Lakh clients in Q2FY25.
- Our retail cash broking volumes (ADTO), has grown by 90% on YoY basis & 7% on QoQ basis to Rs 4,461 cr during Q2FY25.
- Cash volume market share for Q2FY25 at 7.9%, up 85 bps YoY.
- F&O Premium market share for Q2FY25 at 9%, up 150 bps YoY.
- As we've been highlighting, the market shares across the cash and the F&O business in each of the last 3 years have seen very strong uptick.
- Total Assets under advice grew to ~Rs. 2,94,000 cr, up 88% YoY.
- Distribution AUM grew by 43% YoY to ~Rs. 29,400 cr as of September 30, 2024.
- Distribution Net flows grew to ~Rs. 2,400 cr in Q2FY25, once again, substantially higher compared to last year.
- Distribution revenue grew by 136% on YoY basis to Rs 98 cr
- Across the board, whether it's the market share, volumes, revenues, we've seen very strong uptick in all the metrics.

Asset & Private Wealth Management Business

Asset and Private Wealth business comprises of asset management, private equity and the private wealth business.

- The net revenues for these businesses at Rs. 490 cr, up 52% YoY. Profit after tax stood at Rs. 213 cr, up 63% YoY.
- Starting with the Asset Management business, the AUM for this business crossed Rs. 1 lakh crores in July of 2024. We've ended September 2024 at an AUM of Rs. 1,10,769 crores, up 101% YoY.
- The net revenues for the business stood at Rs. 201 cr, up by 64% YoY. Profit after tax is at Rs. 104 cr, up 68% YoY. We've continued to see strong performances across the mutual fund, PMS and the AIF business. Almost the entire AUM of the asset management company continues to be not only outperforming the benchmark, but stands in the top quartile of performance. As a result, the gross flows for the second quarter stood at Rs. 18,000+ cr, up 346% YoY.
- Net flows increased from Rs. 413 cr in the same quarter of last year to Rs. 13,238 cr in the current quarter. Mutual fund AUM stood at Rs. 80,000+ cr, up 124% YoY. We added nearly 14 lakh SIPs in the second quarter. Our SIP flows for the quarter alone stood at Rs. 1,878 cr and the SIP AUM stood at Rs. 17,641 cr.
- Our market share in the mutual fund business continues to rise;
    - Our gross sales market share increased from 1.4% in Q2FY24 to 4.4% in Q2FY25

  - Our Net sales market share increased from 1.2% in Q2FY24 to 7.5% in Q2FY25
  - Our SIP market share increased from 1.4% in Q2FY24 to 2.6% in Q2FY25
- Our alternates AUM grew to Rs. 30,646 cr, up 60% YoY, and our AIF AUM within this, crossed Rs 15,000 cr.

Private Equity business

We had a fee-earning AUM of Rs. 9,956 cr and a total earning AUM of Rs. 13,675 cr across growth capital and real estate funds. The market value of the funds stands at Rs. 17,000 cr+. A substantial amount of carry is accrued and will be realized at the fund close. In Q2FY25, net revenues stood for the segment stands at Rs.48 cr, up 18% YoY.

Private Wealth business

During the quarter, we strengthened our private wealth team with the addition of Anupam Guha and Akash Hariani.

- Anupam brings in a quarter century of experience of running India's leading wealth platform that encompassed masses to mass affluent to HNI to family offices and will deploy that capability on our platform.
- Akash brings in a quarter century of experience, but very different and complementary to our Private Wealth business. He headed the family office vertical of the private wealth business of India's largest wealth platform.

These recruitments, along with the various initiatives we have implemented over the last 4 to 6 quarters, demonstrate the focus and the commitment of the Motilal Oswal Group to grow the wealth business to a leading position in India. The private wealth AUM stood at Rs. 1,57,000+ cr, up 68% YoY. Net Revenue for Q2FY25 stood at Rs 242 cr, up 51% YoY. PAT of Rs 90 cr is up 66% YoY. Total RM grew to 585, up 28% YoY. 28% of the RMs have a vintage of more than 3 years, implying that over 70% of the RMs have been hired in the last 3 years.

Capital Market Business

This business comprises of institutional equities and investment banking business. Here again, we had very strong traction. Revenues were at Rs. 174 cr, up 52% YoY. PAT at Rs. 73 cr, up 45% YoY. Our Investment Banking business has successfully completed 22 deals with an issue size of Rs. 25,000+ cr during H1FY25. The second half pipeline is a multiple of the first half, and we see very strong outlook of this business for the second half.

Housing Finance Business

Our AUM stood at Rs. 4,233 cr, up 13% YoY. Disbursements for the H1FY25 stood at Rs. 620 cr, up 114% YoY and for Q2FY25 stood at Rs.368 cr, up 86% YoY. Yield on advances stood at 13.6%, cost of funds at 8.4% and spreads at 5.2%. The NII for the quarter was at Rs. 81 cr and profit after tax at Rs. 27 crores. The sales relationship manager base stood at 1,050, up 68% YoY, leading to an increase in the cost-to-income ratio, as we are looking to strongly grow the book. Gross NPA stood at 1.3% and net NPA is at 70 basis points. Net gearing stood at 1.9x and capital adequacy stood at 45.6%. ROA was at 2.3% and ROE at 8%.

Treasury Investment

Our total equity investments, including alternate funds grew to Rs. 8,113 cr as of 30th September, up by 57% YoY. The XIRR on all the investments that the treasury has made since inception stood at 20.8%.

Concluding Remarks

Our businesses have demonstrated strong performance. We reported an all-time high quarterly profit and strengthened our market share nearly in every business that we are present in.

A study by our Co-Founder, Mr. Raamdeo Agrawal, shows that the cumulative household savings will rise from about $14 trillion in the last 25 years to $126 trillion in the next 25 years with higher share of financial savings, equities, alternates and greater concentration of wealth. This is a mega trend, which is driving nearly all of our businesses from wealth management to asset management, to private wealth, to alternates, to capital markets. We aim to be a leader or a leading player in all our businesses. We have delivered a profit after tax CAGR over the last 10 years of 42%, a net-worth CAGR of 24% for the last 10 years despite maintaining strong payouts, executed 3 buybacks and not raising any capital ever since our IPO back in 2007.

We expect the mega trend discussed, supported by our strong brand and balance sheet to help us deliver continued best-in-class earnings growth and return ratios without any dilution.

We will now open the floor for Q&A. Thank you.

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Tanay Gandhi from Investec.

Mr. Tanay Gandhi – Participant:

Navin, congrats on a great set of numbers. I just have a couple of questions, which are split across all the segments. I'll just put them across together. Firstly, on a group level, you've given ARR, TBR split, and I can see that the ARR is constantly increasing. I just wanted to understand what all segments contribute to the ARR and TBR at a group level.

Then I wanted to understand in the Wealth Management segment, what is your direct broking and the sub-broking split for revenue, PAT and probably other line items, whatever you can help me with? And for even the NIMs, I wanted to understand why are they particularly high in the Wealth Management and Private Wealth Management segment?

And then in Home Finance, could you just give some clarity on the mix of the loan book based on loan against property, unsecured loan, etcetera? And a bit on the yields, why are they slightly reducing over the quarter?

Mr. Shalibhadra Shah – CFO:

Tanay, this is Shalibhadra here. At the group level, as far as the ARR mix is concerned, the mix is coming largely from our Asset Management business. Our flows run rate has substantially improved, resulting in overall ARR mix improvement. In our asset and private wealth management business, the ARR revenue mix is almost 75%. Apart from that, the ARR improvement is also happening in our distribution business under Wealth Management. The ratio of brokerage, which is transaction-driven revenue in our wealth business is reducing and the distribution pie is improving our ARR mix along with the lending book. These are the business segments where the ARR improvement is happening and is expected to happen given the strong trajectory of our ARR flows in these segments.

Coming to the next question on the NIMs. The NIMs in the Wealth Management is a function of the funding book and the opportunity that we get in the margin trade financing segment. The NIMs have marginally gone up because our cost of funds has come down incrementally in last 6 months by almost around 40 basis points. Also, yields have improved marginally on our MTF book because it is a diversified book across retail and HNI segment.

Mr. Tanay Gandhi - Participant:

Direct broking and sub-broking split in the wealth management segment.

Mr. Shalibhadra Shah – CFO:
In the Wealth Management segment, revenue-wise, both are equal. The direct broking and the external wealth management segment, we are almost 50-50. In terms of the profit mix, the indirect segment would be almost about 60%.

Mr. Tanay Gandhi - Participant:

Okay. Yes. And then later on, the other questions were on home finance and treasury. In home finance, I wanted to understand the mix of the loan book by secured, unsecured LAP and why there was yield reduction. And what is the other operating income in HFC?

Mr. Shalibhadra Shah – CFO:

On the home finance side, the entire book is secured financing. There is no unsecured lending. It's a housing finance company where we are doing retail affordable housing loans. We also have a portion of LAP and construction finance. Overall, from the mix perspective, 78% of the book is housing loans, 9% of the book is LAP and almost 13% of the book is construction finance in entire secured book.

As far as the yields are concerned, the overall yield is lower because we are increasing the retail housing book mix. If you look at our numbers on a YoY basis and QoQ basis, our retail housing loan book has gone up YoY by almost about 82% and that is resulting in the overall mix tilted towards the retail home loans where the yields are marginally lower than the segments of LAP and construction finance. So that is resulting in a bit of moderation on the overall yields.

On Other operating income in HFC, that is a function of our normal recoveries that we do, which is basically the branding income or the ancillary recoveries that we levy to the customer. That number would be slightly lumpier number on a QoQ or YoY basis.

Mr. Tanay Gandhi - Participant:

And just lastly, on the treasury, I just wanted to understand what comes under OCI because you disclosed it in the data book.

Mr. Shalibhadra Shah – CFO:

OCI is a recognition of mark-to-market on our equity shares investments on the investments we have in various buckets of equities.

Equity Mutual Funds and Alternate Assets are done mark-to-market through the P&L, but the equity shares investments are then mark-to-market through the OCI. So as per the Ind AS norms, on the equity shares, we have opted for mark-to-market through the other comprehensive income. That's why we aggregate and report both of these profits as a treasury profit, which is a combination of both of these line items of mark-to-market movement on our entire treasury book of Rs. 8,113 cr.

Moderator:

The next question is from the line of Bhavin from Athena Investment Fund. Please go ahead.

Mr. Bhavin - Participant:

Congratulations on great set of numbers. So, we can see a significant uptick in the SIP as well as gross sales market share in the AMC business. So, what do you think have contributed to this? And what would be our distribution mix in the AMC business?

Mr. Navin Agarwal – Group Managing Director:

Over 95% of the AUM is delivering top tier performance across mutual fund as well as the alternate assets. We have the widest range of passive funds. Our quant fund is also one of the best performing funds and has seen strong traction. As far as distribution is concerned, almost all banks in India are now distributing our product. There's a lot of headroom here in terms of the market share growth for us. Banks would be the smallest market share among all the distribution segments. IFAs have seen very strong traction in the market share that is higher than the banking market share. Wealth firms have seen reasonable traction. But the digital channel is one of the best-performing segments for us. And the strong performance also has meant the strongest uptick in that segment. We've seen the highest YoY growth within that segment.

We were not present in a lot of categories within the mutual funds. As we have been explaining in the last few calls, over the last 15 months, we've seen the launch of our large-cap fund, the launch of our small-cap fund and multi-cap fund. With that, we have covered a lot of the broad-based categories. In terms of the sectoral funds, we had no presence 15 months back. We already have 3 funds that are now live, and we have filed for a few more important categories of sectoral funds. So better coverage of the various segments within the mutual fund business is an additional driver for the overall revenues.

We are also substantially increasing our distribution footprint and our sales team. As we have strong uptick in many cities where we are still not present, digital has already reached there, ahead of our own physical reach. So that will be an important driver. We've seen very strong growth in the September quarter compared to the June quarter. Importantly, October has been a record month again in all the channels and in terms of the overall sales.

In alternates, we should be at nearly Rs. 1,000 cr monthly gross sales for the month of October alone. There's still a lot of fuel in terms of the channels, in terms of the segments, the products and our own team manpower that we see playing out over the course of the next 12 months' time.

Mr. Bhavin - Participant:

And sir, how has captive arm behaved in terms of distribution? Has the share improved over time?

Mr. Navin Agarwal – Group Managing Director:

We are very widely distributed across all the channels, as I explained to you, including own distribution. Our own captive distribution accounts for less than 20% of the overall mix. That too is growing very, very strongly. The non-captive channel is even stronger than the captive channel.

Mr. Bhavin - Participant:

Okay. And sir, what would be our B30 mix?

Mr. Navin Agarwal – Group Managing Director:

It is 20%.

Mr. Bhavin - Participant:

Great. And sir, just one last thing. What would be the RM count that we would be looking to close specifically in the PWM business?

Mr. Ashish Shaker – CEO – Private Wealth Management:

So, the RM count currently is at 585. We will close the year at about 700.

Moderator

The next question is from the line of Mahek from Emkay Global.

Mr. Mahek Shah - Participant:

Congratulations on the great set of numbers. A few questions. So, in the Wealth Management segment, there's been a significant great performance. So, I just wanted to know how do you see the volumes for the H2? And any outlook on how do you see the business for H2? Secondly, you mentioned for the Wealth Management business, the focus is kind of on strengthening the distribution. So just wanted to know any kind of color on what efforts the company is making towards this initiative? And are you looking to add any new RMs, particularly for the wealth management segment?

Mr. Shalibhadra Shah – CFO:

There has been a very strong uptick in the volume growth on the cash side. And in our case, our mix towards the cash volumes is pretty high, almost about 60% of the overall broking revenue. And we expect the cash volumes to continue the growth journey.

There could be a bit of moderation, which could happen as far as the F&O volumes are concerned, given that the new regulatory changes, which are going to come into effect from 20th of November because of the reduction of the expiries, especially Bank Nifty.

The impact will be also driven by how the retail behavior comes into play, whether other expiries would compensate for it or whether cash pie would grow. Market shares have grown for us in cash market by ~85 bps and F&O market share has grown by ~150 bps.

As far as the distribution business is concerned, we have been investing in that business and the idea is to double the manpower count from here over the next 2 years. And we have currently a 400-member dedicated distribution team, which is going to scale up to garner more assets. Distribution assets have now grown ~Rs 30,000 cr, and we are seeing a healthy improvement of both our ARR and TBR revenues on this business. The revenues have almost doubled on a YoY basis and even sequentially, they have gone up significantly. The pie of revenues has already grown to 15% of our total wealth revenues and the pie of brokerage and NIIs are moderating versus the distribution on a mix basis.

Mr. Mahek Shah - Participant:

I had just one last question, which was on the private wealth management segment. So, you've almost added around 100 RMs in last 1 year, and you just said that you will be taking the total number to 700. So, I just wanted to know how is the productivity of the recently added RMs? I mean, how is the performance being? And kind of -- you also mentioned previously that you would be adding junior RMs and grooming them to senior RMs. So, is the strategy continuing?

Mr. Ashish Shanker – CEO – Private Wealth Management:

We are looking to go from 585 RM to 700 RM by the end of the year and this addition will happen across HNI as well as ultra HNI. And the strategy of grooming RMs gradually to make them productive and make them bigger continues at the moment. In terms of productivity, we had mentioned that typically a relationship manager in the first year reaches 1 to 1.5x productivity and by the third year, they achieve 3x+ productivity. So that journey continues.

Mr. Navin Agarwal – Group Managing Director:

Also, as we just explained 72% of the RMs have a vintage of less than 3 years. We have an investment of nearly 15% of the wealth management top line in these RMs in terms of a drag, which we expect to recoup over the course of the next couple of years.

Moderator

The next question is from the line of Chandrasekaran from PPFAS Mutual Fund. Please go ahead.

Mr. Chandrasekaran - Participant:

So, I had a few questions on the private wealth side. So, I just wanted to clarify these Rs. 1,57,000 cr of assets as of September, does this include custody assets? Or is this ex of custody assets?

Mr. Shalibhadra Shah – CFO:

It includes custody assets.

Mr. Chandrasekaran - Participant:

So, I mean, if you could give an indication of how much is custody assets?

Mr. Shalibhadra Shah – CFO:

On the base of Rs. 1,57,000 cr, the custody assets are Rs. 52,497 cr.

Mr. Chandrasekaran - Participant:

Okay. And typically -- I mean, do these assets yield anything? And how are the yields different from these non-custody assets, if you could give an idea about that?

Mr. Shalibhadra Shah – CFO:

Custody assets don't yield. As and when these assets are converted into other financial assets, we earn the trade income as well on those assets.

Mr. Chandrasekaran - Participant:

Okay. And within private wealth, if you could split up the assets in terms of ARR and transaction banking assets, how would the split be?

Mr. Shalibhadra Shah – CFO:

From a revenue perspective, ARR asset is 50%.

Mr. Chandrasekaran - Participant:

And PCG is also included since the last 2 quarters on the private wealth. So, can I get the number separately for the PCG as well?

Mr. Shalibhadra Shah – CFO:

We can share those numbers separately.

Moderator

The next question is from the line of Lalit Deo from Equirus Securities. Please go ahead.

Mr. Lalit Deo - Participant:

Sir, just 2 questions. Firstly, on the opex side. So, when we mentioned that we want to increase the RM count to 700 in the private wealth management. So how should one look at the overall cost/income ratio over there in that segment as well as if you could give us some color on the segment-wise cost/income ratio for the next 2 years?

Mr. Navin Agarwal – Group Managing Director:

Given the previous back book turning productive, we don't see any further fall in the margins. We think that the worst margin is already reflected in the first half. The second half margins should be better, despite these additions, and then we should build on from there in terms of the improvement because remember that this process of the strong RM addition started just over 2 years back. That part of the book will start contributing to the profits. And going forward, the pace of the addition is not really accelerating, but we are kind of maintaining the run rate of RM additions at a similar level. You should assume that the H1 margins are at the bottom and the second half should be better than the first half and the next year should be better than the current year.

Mr. Lalit Deo - Participant:

Sure, sir. And sir, on the net flow side, like how should one look at the overall net flows as a percentage of my overall AUM in both in the AMC as well as the private wealth management for this year as well as the next year? Like any guidance or any color on that front?

Mr. Navin Agarwal – Group Managing Director:

Given the strong performances of the asset management business, while we are not guiding for the numbers, but we've given you the market share numbers for mutual fund, for SIP, both gross sales and net sales and all of them in the second quarter are meaningfully higher than the first quarter. I mentioned to you that October is higher than the September quarter numbers also meaningfully.

And with wider distribution network, wider product suite and very strong growth across captive and non-captive, and in terms of the market share, you should expect continuous improvement in the coming quarters, as far as the asset management business is concerned.

As far as the wealth management business is concerned, again, as the RM vintage improves, you should see a very strong uptick in the net sales, like we've reported in the first half. That trend of strong growth in both the TBR and the ARR should continue in the coming years for the productivity and the margins to go back to the previous highs. That is our plan.

Moderator

The next question is from the line of Uday from Investec. Please go ahead.

Mr. Uday – Participant

Just two questions. Firstly, on the home finance side, as I can see, on a year-on-year basis, you have increased the RM count meaningfully. So, is that exercise done? Or you further plan to increase the RM count in the home finance business from here on? Secondly, on the broad level, as you mentioned that you are completing the AMC bouquet of products by adding some sectoral funds that are left. Are there any further products or segments that you want to further add to complete the whole Motilal suite of products, your thoughts on that?

Mr. Sukesh Bhowal – CEO – Housing Finance:

Yes. With respect to the RM count for the HFC business, we have grown substantially over last year. And for the rest of the year, we expect a good growth in the RM count.

Mr. Uday – Participant

Yes, sure. And on the broad level of products?

Mr. Navin Agarwal – Group Managing Director:

On the asset management side, the bouquet of products, I'll let Prateek take that question.

Mr. Prateek Agrawal – CEO – Asset Management

As we go forward, one should expect to see a product launch on the passive side or on the active side every month i.e., one in a month. There are gaps in our product suite on the mutual fund side, that is what we are looking at filling. And on the passive side, we are looking to create some of the first-of-kind products in the country.

Moderator:

The next question is from the line of Umang Shah from Kotak Mutual Fund. Please go ahead.

Mr. Umang Shah - Participant:

I just have a couple of them. One is, just wanted to understand a little bit on the wealth management business front, right? I mean I was just looking at the closing AUM breakup where the ARR revenue earning assets appear to be fairly small. But in terms of revenue contribution, clearly, the ARR revenue contribution appears slightly higher. So how should we read this? I mean, split between ARR, TBR AUM versus ARR, TBR revenues?

Mr. Shalibhadra Shah – CFO:

As far as the ARR revenues on wealth management is concerned, I spoke about the improvement in the NII yields which has happened. Also, on certain assets on the distribution side, there is a net flow improvement both YoY & sequentially as well, and that is also resulting in a higher ARR revenues for us. Hence, the ARR revenue uptick is higher because of these 2 reasons. Otherwise, largely, they will move in tandem with the growth in the assets.

Mr. Umang Shah - Participant:

Understood. So basically, you're saying that the way to look at it is the ARR revenue should be sort of correlated with ARR AUMs, distribution assets and the lending book, all 3 put together, would give a better picture. Is that the right way to look at it?

Mr. Shalibhadra Shah – CFO:

Yes, that's the right way to look at it.

Mr. Umang Shah - Participant:

Okay. The second one was on the treasury line item, right? Now clearly, I mean, our strategy of skin in the game has worked extremely well for us. And FY24 full year and 1HFY25, I mean, we have seen significant contribution coming through in terms of treasury profits as well. But just from a medium-term perspective, how should we again look at this? I mean, should we see some sort of a linearity in this line item going forward? Or probably this will continue to remain a bit lumpy in line with how the markets perform?

Mr. Navin Agarwal – Group Managing Director:

Umang, you should expect it to be lumpy in line with the markets because the share of fixed income within this is zero. We have a mix of mutual funds, our alternate funds, including AIFs, PMS, private equity funds, real estate funds and a very small direct investment book. But all of these are equity instruments. There's no fixed income in this, barring the real estate fund, which is a very small part of the overall book.

The reason why we give the XIRR number is to help you think about it longer term. That number was as poor as 18% when the markets were at a much lower level. That has gone up to 20.8% since inception XIRR as of today. I'll be surprised if it dips below 18%, but you should take that 18% to 20% number and some alpha over whatever the benchmark performance over longer term. There are 2 sources of this book growing, the Rs. 8,113 cr treasury book. The first is obviously this XIRR number, which could be, let's say, 20%. And the second is the plowback of the profits after paying out dividends. And we have highlighted earlier that the Rs. 8,113 cr book, the 10-year CAGR of that book is over 40%. Roughly half of that came from returns and the other half came from plowback of profits from the previous year post paying out dividends. The second part, which is the plowback of profits will continue, nevertheless. As far as the fund performance is concerned, there may be volatility in that on a year-on-year basis.

Mr. Umang Shah - Participant:

Understood, sir. This is quite helpful. And last one is on our private equity funds, right? So, any planned exits? So, in the presentation, we have provided a slide, which is Slide #30. Just wanted to understand that FY26 and FY28, so these are the planned exits that we are looking at. I'm sure the IRRs will change probably as and when the exits happen, but we should look at these numbers as the planned exits, right?

Mr. Navin Agarwal – Group Managing Director:

Yes. You should look at the private equity fund 2 series exit in FY26. You should expect the real estate fund series 2 exit in FY28. And from there on, almost on an annual basis, you will have one exit. Because you'll have the 2 series of growth and 3 series of real estate. So effectively 5 more series apart from these 2 that will mature in the following 5 years. Let's say, FY26, one exit: FY28, next exit and so on.

Mr. Umang Shah - Participant:

That will also sort of become a bit more linear for us the way the exits have been planned?

Mr. Navin Agarwal – Group Managing Director:

Yes. As we have more series outstanding. Also going forward, the idea is to have faster DPI compared to what we have done in the past. You will see some of these funds being carry sooner than the long duration that we've seen both in our growth capital and real estate funds in the past.

Mr. Umang Shah - Participant:

Understood. Understood. And Navin, one last question was on the housing finance piece. Now I understand in the past, too, you guys have spoken about it that the growth is likely to be a bit more calibrated. The book seems to have stabilized quite a bit. But again, how should we look at this business given that this is probably the slowest of the businesses in the overall scheme of things. But again, from a medium-term perspective, how should we look at this business?

Mr. Navin Agarwal – Group Managing Director:

In this business, we are investing a lot. Our relationship manager base has gone up a lot. And as Sukesh just articulated, the strong RM growth pace will continue into the second half of the year. Our disbursements have grown very strongly YoY. I'll let Sukesh talk about how the trajectory of this business could be in the coming years.

Mr. Sukesh Bhowal – CEO – Housing Finance:

Yes, we invested a lot into our RM strength last year, and that's showing a very good results in terms of our disbursement volume growth in this year. And we will continue to invest in our RM capacity for the coming 4 quarters at least and for FY25 & FY26 this should result in a very good momentum in terms of disbursement volume growth and which will then result into a good growth in our AUM. While our disbursement has grown quite well as compared to the last year, the repayments on the book do not lead to a very strong growth in the AUM. Once we have the RM capacity coming in and the disbursement volume moves up along with that, we will also see a good growth in our AUM.

Moderator:

The next question is from the line of Sanjaya from Ampersand Capital. Please go ahead.

Mr. Sanjaya - Participant:

Sir, one question is regarding your treasury income. Is it possible for you to explain how really you book those profits? And related question to that is that you have articulated that your dividend policy is 20% of your operating profit. Does it mean that the profit of treasury is not really considered for dividend?

Mr. Navin Agarwal – Group Managing Director:

The treasury profit because of the new Ind AS norms require us to show mark-to-market in the income statement, and that is what is causing these big numbers to be reported because the denominator is big, and the performance is also big. So big AUM multiplied with big performance is equal to the number that you see. That will only get bigger. As I explained to you, this book has been growing at a rate of over 40% per annum. But a lot of it is unrealized and that is why when we look at dividends, we are looking at cash earnings and not notional mark-to-market earnings to distribute dividends to shareholders.

We are paying out at least 20% of the profits as dividend from operating profit which is largely free cash flow. We used to pay out higher earlier. But as you are aware, there have been meaningful regulatory changes in our core business in the last 3 years, which require us to invest a lot more capital. The free cash flows of the business have come down meaningfully.

The businesses, while fundamentally generates a lot of free cash flows also require a lot of capital and every rupee of our skin in the game that we talk about, this Rs. 8,113 cr treasury book is actually supporting the agency businesses in terms of the margins to be able to do bigger and bigger transaction volumes. They are really linked very closely to each other, point number one. Point number two, the treasury profits are mostly mark-to-market and hence, not distributable.

And finally, the treasury book, while it looks like excess cash on the balance sheet is actually no excess cash according to the Board's understanding and estimate. It is all the backbone for the agency business, as we continue to grow our market share and the market size itself becomes larger.

Mr. Sanjaya - Participant:

So, sir, does it mean that once you realize those profit, those will become part of your distributable.

Mr. Navin Agarwal – Group Managing Director:

I want to repeat that this pool serves as skin in the game for all our products, but importantly, the backbone for the agency business. Hence, we need this capital. As you may have seen, a lot of our peers in the last 2 years have had one or multiple rounds of fund-raise / dilution to raise fresh capital to support this growth. We haven't raised a penny of capital in this time period or ever since our listing despite the strong growth in market share and the market volumes.

There are 2 options for us. We can deploy all of this Rs. 8,113 crores in our bank deposit and serve that as a collateral to the exchanges for our lines or we can deploy this in our funds and serve that as a collateral. Because we believe in the longer-term performance of the funds and the superior performance that this can give to the shareholders, we have chosen otherwise.

Mr. Sanjaya - Participant:

And my last question is that yesterday on TV, the management explained that there will be some 5% to 10% impact of the new regulation on the brokerage business. But my general impression was that since yours is much bigger in terms of cash market and your futures -- F&O market, your market share is much lesser. This makes you a lot more competitive with respect to your competitor, who are pure play derivatives. So, are you going to see some kind of significant improvement in market share because of the changes? So how are you really approaching this new regulatory landscape?

Mr. Navin Agarwal – Group Managing Director:

This obviously competitively is favorable to us, as more than 50% of our revenues come from cash markets. Point number one. Point number two, we do see some of the volumes from Bank Nifty moving to, let's say, the other exchanges. And you have already seen that in last 3 months or the last 4 weeks of volumes on the other exchanges and the other indices, you have seen a meaningful pickup in that. We also have significant investments in our distribution business and that income is growing. Our cash contribution is more than 50%. If you analyse this - lower F&O contribution, higher distribution income growth and improved competitive position. All these 3 are levers that put us in a better place. But having said that, there is going to be a short-term impact in terms of the volumes of this business. We think that the strong growth in the rest of the businesses should more than offset any temporary drawdown in this business.

Moderator:

As there are no further questions from the participants, I now hand the conference over to Mr. Shalibhadra Shah for closing comments.

Mr. Shalibhadra Shah – CFO:

I would like to thank every participant for attending the Q2FY25 con call. In case of any further queries, please do get in touch with Manish Kayal or with me. I wish you all a very happy Diwali and a prosperous New Year. Thank you, and have a great day.

Moderator:

On behalf of Motilal Oswal Financial Services, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.