Motilal Oswal Financial Services Limited
CIN: L67190MH2005PLC153397
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October 28, 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 October 11, 2022 regarding intimation of Earnings Conference Call ("Con-call") with Investor(s)/Analyst(s) held on October 21, 2022 to discuss financial performance for Q2FY 2022-23.

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 Con-call for your reference.

The said transcript of the Con-call is made available on the Company's website i.e.

https://www.motilaloswalgroup.com/Downloads/IR/40743321Con-Call-Transcript_Q2FY23.pdf

Further, we hereby confirm that no unpublished price sensitive information was shared or discussed during the Con-call.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: 2022.10.28 18:41:56 +05'30'

Kailash Purohit
Company Secretary & Compliance Officer
Encl: As above

Motilal Oswal Financial Services

Con-call Summary & Earnings Release

Quarter ended September, 2022

21st October, 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

Director & CEO- AMC

Mr Ajay Menon

CEO- Broking

Mr Shalibhadra Shah

Chief Financial Officer

Mr Chetan Parmar

Head- Investor Relations

Moderator: Good afternoon ladies and gentlemen. Welcome to the 2nd quarter FY23 earnings conference call for Motilal Oswal Financial Services Limited. We have with us today Mr. Raamdeo Agarwal – Chairman; Mr. Motilal Oswal- MD & CEO; Mr. Navin Agarwal – Director and CEO, AMC; Mr. Ajay Menon – CEO, Broking; Mr. Shalibhadra Shah – Chief Financial Officer; and Mr. Chetan Parmar – Head of Investor Relations.

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

Navin Agarwal: Good evening friends and wish you all a very Happy Diwali. It is my pleasure to welcome all of you once again to the Motilal Oswal Financial Services earnings call for the second quarter of the financial year ending March 2023. Let me first start by taking you through the key performance highlights for the quarter. During the quarter, we reported one of the highest quarterly profit after tax of Rs. 509 Crores which is up by 11% year-on-year, this is our profit excluding the private equity profit share. Our operating profit without considering the private equity profit share grew by 16% year-on-year and 22% quarter-on-quarter to Rs. 221 Crores. The core businesses were robust with capital market business profits being up by 9% year-on-year and 46% quarter-on-quarter to Rs. 132 Crores, asset and wealth business reported profit after tax of Rs. 66.7 Crores up by 2% year-on-year and up by 15% quarter-on-quarter. We saw traction in the home finance business and the business reported a profit of Rs. 33.4 Crores up by 67% year-on-year and up by 4% quarter-on-quarter. Our consolidated net worth stands at Rs. 5,970 Crores, net debt is at Rs. 5,520 Crores, excluding home finance our net debt is Rs. 3,000 Crores, our total debt equity stood at 1.3x and ex home finance stands at 0.9x.

I will now deep dive into the individual businesses starting with the capital market businesses. The capital market businesses compris of retail broking and distribution, institutional equities and investment banking business. Our revenues for this segment were at Rs. 719 Crores up by 18% year-on-year and 18% quarter-on-quarter. Profit grew 9% year-on-year and 46% quarter-on-quarter to Rs. 132 Crores led by healthy volume growth of 198% year-on-year and 45% quarter-on-quarter. We also saw improvement in our retail F&O market share by 63 basis points quarter-on-quarter. As you know this part of the market now contributes to a vast majority of the overall market volumes and overall we have seen steady traction within F&O market as well as specifically within the options market.

In retail broking and distribution, a total of 351,000 clients are acquired in the first half, the traction specifically in the online channel, the NSE active clients have registered 26% year-on-year growth at 9.1 lakh as of September 2022. Our average daily turnover market share improved by 50-basis points quarter-on-quarter through robust growth of 45% quarter-on-quarter in the average daily turnover. The distribution AUM grew by 17% year-on-year to Rs. 18,600 Crores as of September 2022, robust distribution net sales of Rs. 710 Crores during the first half and our outlook on this remains quite positive and we see the opportunity for cross sale to the entire 52 lakh client base of the group.

Interest income increased by 28% year-on-year to Rs. 166 Crores primarily due to a 39% increase in the margin trading funding book which has gone up to Rs. 2,920 Crores. Our currency market share improved by 150-basis points quarter-on-quarter to 12% while our commodity market share stood at 7%. We launched research 360 app which is a One Stop Shop to get 360-degree knowledge and research. Institutional equities successfully hosted 18th Annual Global Investor conference which saw participation of over 160 companies. The investment banking business completed three deals with the total fund raise of Rs. 2,330 Crores during the quarter.

Turning to the asset and wealth businesses. In the asset management business, our AUM across mutual funds, PMS and AIF grew by 8% quarter-on-quarter to Rs. 46,700 Crores. In the second quarter, our revenue stood at Rs. 143 Crores. Mutual fund AUM grew by 6% quarter-on-quarter to Rs. 29,140 Crores. We have seen improvement in performance of nearly all of our mutual fund scheme with top quartile rankings in 1,3,6 and 9 months and mid cap fund now seeing top rankings across 1,3 and 5 years as well. We expect this to result in improved gross sales and reduction in redemption in the coming quarters. We added around 55,000 new SIPs during the second quarter with traction in active funds which grew by 16% quarter-on-quarter. Our net revenue yield was intact at 78-basis points during the first half of the year.

AMC on-boarded Prateek Agrawal during the quarter to lead investments at the AMC business. He brings over 28 years of experience in the business. The private equity business earning AUM was at Rs. 8,520 Crores across both private equity funds and real estate funds. In second quarter, revenues excluding the share of profit on investments grew by 41% year-on-year, 23% quarter-on-quarter at Rs. 39.1 Crores. We also announced the final close of our largest private equity fund, the India business excellence fund which has fund size of Rs. 4,500 Crores in the month of October and the full impact of this in terms of the top line and the bottom line of the business will be visible in the third quarter.

Our wealth management business, AUM grew by 22% year-on-year to Rs. 38,400 Crores, revenue grew by 7% year-on-year to Rs. 51.1 Crores, net sales during the first half was at Rs. 3,360 Crores, the relationship manager count increased from 123 same point in time last year to 155 now, our operating margins are lower as we continue to invest in this business by adding more relationship manager. Overall, the asset and wealth management revenues grew by 5% year-on-year and 7% quarter-on-quarter to Rs. 234 Crores, profits were at Rs. 66.7 Crores up by 2% year-on-year and 15% quarter-on-quarter.

Turning to the home finance business, we reported a profit of Rs. 33.4 Crores up by 67% year-on-year and NII grew by 11% year-on-year, NIM expanded by 88 basis points to 7.8% for the first half of the year, yields on advances stood at 13.8% in the first half, cost of funds were down by 53 basis points to 7.9% resulting in a spread expansion of 46 basis points to 6%. Disbursement grew by 74% year-on-year and 65% quarter-on-quarter to Rs. 280 Crores. We are gearing up for stronger disbursements in the coming quarters. Our gross NPAs improved to 1.5% with collection efficiency of 100% during the quarter. Net gearing for the home finance business stands at 2.3x and Tier 1 capital adequacy remains robust at 49%. We also saw an upgrade by ICRA of our long term rating to AA stable from AA- stable as per the last rating.

Finally turning to the fund base activities, this business includes sponsor commitments to our AMC, PE & RE funds and strategic equity investments. The total investments including unrealised gain were at Rs. 4,720 Crores, the cumulative XIRR on these investments ever since inception has been about 19%.

To sum up we have achieved one of the highest quarterly profits of Rs. 509 Crores following robust and sustainable performance across all our businesses, our retail broking business which is our cash cover continue to improve with market share and benefit from market expansion as well as industry consolidation. Asset management business has seen improvement in performance across most of the product and is hoping to start reporting positive flows from the coming quarters. The private equity business has successfully delivered on fund raise of its largest ever fund. Investments in building wealth management business continue during the quarter. Our home finance business has witnessed turn around by improving disbursement and asset quality trend which is now geared up for sustainable growth. There is immense potential and opportunity in the market for each of our businesses to grow strongly in the coming years. Thank you and we can now open the floor for Q&A.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Sahej Mittal from HDFC Securities. Please go ahead.

Sahej Mittal: Good evening everyone. Sir, I have couple of questions from my side, on the wealth management business, while the investments in hiring the team has resulted in drop in our margins, but how should we look at the growth outlook for may be next 12 to 18 months in terms of the top line growth, how should we look at the margins reverting back to the last year levels, so can you tell a bit for that?

Navin Agarwal: There are two things. Firstly, the investments in augmenting the RM basis likely to continue as we have highlighted in our earlier calls, even in the coming quarters and the next couple of years; however, this half year also saw a fall in the upfront income on a year-on-year basis. We had very strong alternate asset sales in the first half of last year and they were lower in the first half of this year, all of the other revenue line items within this business continue to grow on a year-on-year basis, so that was the second driver for the lower margins that we saw. We see that coming back in the second half as well as in the coming years; however, the investment in the RM base is something that we expect to continue going forward.

Sahej Mittal: But then on productivity of these RM right, because we are upfronting these cost, what was the productivity?

Navin Agarwal: Typically, year three onwards you start seeing profitability from the RM, so in the ramp up you will see some pressure on margin in this business, but eventually profitability should come back as the productivity builds up, also it should build up as the incremental additions fall as a proportion of the denominator base or the opening base.

Sahej Mittal: If you can index the productivity of the new agents may be which we hired a year back versus our vintage sales manager, to get some sense?

Navin Agarwal: We can discuss offline, we will not be readily having all those details.

Sahej Mittal: In the broking industry, NSE active clients has been dropped in for most of the players, so we expected that, our sense was that for most of the Fintech brokers who are actually acquiring clients then the strength to happen right, but even for traditional or a bank based broker, this was not expected so if you can give us some sense how should we look into this?

Ajay Menon: You are right. As far as we are concerned, we were looking at accounts increasing per month, but if you know during the IPO, number of accounts increased more, so if you look at the quarter, there were no much IPOs per se and at the same time, the quality focus was there and typically retails clients also look at the market condition. Our parameters have always been on quality and getting the margin accounts. So to that extent, there is a marginal dip, but we feel that the consistent growth of our account will continue to happen as we grow from here.

Sahej Mittal: If you could talk a bit about customer behavior who is coming from the Tier 2, Tier 3 city, are they trading into future, options or cash, can you give us some sense?

Ajay Menon: We are also seeing the trend towards the options and future trading, but as we have got advisors aligned to each client surely there is a good mix of the cash market trading as well. , But surely the trend towards F&O is increasing and that can be seen in the growth of our market share also on the F&O side.

Sahej Mittal: Generally, what is the order size in the option segment?

Ajay Menon: Order size you mean to say number of lots?

Sahej Mittal: Number of lots that is correct.

Ajay Menon: Typically, lot size is around three to four lots for the retail client.

Sahej Mittal: Right and does this change materially on a bull market and bear market?

Ajay Menon: Not really, I do not think so, because from a retail perspective, it is surely lesser, but from a high end PCG client it changes, but from the retail, it remains the same.

Sahej Mittal: Generally, the customers who are new to market right, what is the initial ticket size, initial check as they ride into Motilal?

Ajay Menon: We look at margin in the range of Rs. 25,000 to around Rs. 50,000 per retail client coming to the system.

Sahej Mittal: Any plans for buyback given the kind of cash we have?

Navin Agarwal: We just completed our buyback in Q2 only in the month of July, so now we do not have any plans for further buyback.

Sahej Mittal: Got it. Thanks for answering all the questions and Happy Diwali.

Moderator: Thank you. The next question is from the line of Vinod an Individual Investor. Please go ahead.

Vinod: Thank you first of all for giving me the opportunity. I am a retail investor, I just want to ask for extra time and for extra questions, so please allow me for that. Now, my first question is that the March 2022 year end, we had net worth of Rs 56.7 billion and now we have Rs 59.7 billion, so an increase of Rs. 300 Crores, but if we see the profit of the half year, it is Rs. 500 Crores, so I am not sure is there a mismatch between like Rs. 200 Crores some odd amount or how it is, if you can clarify that?

Navin Agarwal: We actually completed Rs.200 Crores buyback, so the differences on account of that, if you see in July month, we did Rs. 200 Crores buyback that will reduce the net.

Vinod: Got it. Now, on our brokerage segment, some questions I have, one in that our cash market turnover is up by almost like 50%, but the revenue is not up by 50% that is so much difference between the revenue up side or the turnover up side, so if you can clarify something like whether we have reduced our brokerage plans to some of the customers or kind of that?

Navin Agarwal: Cash market turnover is actually up 7% on a quarter-on-quarter, so there is no such 50% number, cash market turnover is up 7% sequentially.

Ajay Menon: The difference can also be because of the mix between delivery turnover and the trading turnover, so the delivery brokerage will be different to our trading turnover.

Vinod: Okay, may be that was one of the reason. Now, the second question is like about the employee addition, if I remember last quarter, there was around 1400 employees were added and predominantly on the sales side and this quarter it says like 1300 employees from the advisory and technology side, but if I look at the number of client acquisitions, if the 1400 employees were added and number of clients last quarter added was 2.1 lakh and the one year before also we had an average of 2 lakh per quarter client additions, so I just want to know like how those new employees are working or how we are getting the benefit of new clients with those are in the sales side?

Shalibhadra Shah: First of all, last one year we have added net 1300 people and in Q1, what we said is 1400 gross number of addition, as far as the overall client addition is concerned, so that is in line with the overall market as well, so that is the update.

Vinod: Another question on the brokerage whatever we are running that funding book, so it seems like growing good, so how do we see the future in this particular funding, because that seems like an elephant in a room going forward the market looks I wanted your perspective on that particular area in the brokerage side?

Shalibhadra Shah: Typically the funding book runs in line with the market volumes, if the market volumes grow, we will see the margin funding book increasing, so always that has been the case, so that is an opportunity which because of our strong balance sheet, we have that ability to raise the funds and find the customers.

Vinod: Okay, now on the private equity and the real estate business side, I see that this quarter we have reduction in the fee earning AUM like last quarter we have around Rs. 11,000 Crores and now we have around Rs. 8,500 Crores so what is the reason behind that reduction?

Shalibhadra Shah: There is no reduction actually that is the total AUM in our private equity business is Rs. 11,000 Crores; however, fee earning AUM was Rs. 8,000 Crores and this AUM has been increasing because of our last closing of the fourth fund of Rs. 4,500 Crores, so there are couple of initial funds, these are not charged which are on the verge of getting fully executed.

Vinod: Current AUM is 8.5 or 11?

Shalibhadra Shah: Rs. 8,500 Crores.

Vinod: In the AMC business side, I just want to recommend that if you can show one slide what was your opening AUM and what was the net sales and what was the M2M and that how it closing if you get that I think that would answer questions which always we have in one of the call, so if you can answer like what was our gross sales in the AMC side and PMS side?

Navin Agarwal: Are you asking that question or you suggesting that we should show that?

Vinod: One is suggesting that going forward if you can include one slide which says that what was the opening AUM then what was the net sales and what is the plus and minus in the Mark to Market and that makes your closing balance right or the closing AUM, so going forward if you can add that slide then probably we do not need to ask you can just go through the slide and we can understand, so for this quarter can you just let us know what is the net sales amount for the PMS and the mutual fund side?

Navin Agarwal: Basically, the gross sales is Rs 1,800 Crores, redemption is Rs 2,300 Crores overall, so the net sales is minus Rs 500 Crores most of these net sales minus Rs 500 Crores is in the mutual fund side about 80%, 85%, the balance is on the alternate side.

Vinod: Got it and now one more question on the private equity side, for profit sharing when the exit happens and at time how that is calculated, those are already part of our income right, we relate that there will be quarter and mostly MTM into our income, so when actually it happens at that time what is the implication comes, only the tax amount gets deducted or the actual profit gets included?

Navin Agarwal: There are two components, one is the management fees which is charged on the originally raised corporates and mark to market unlike mutual funds or equity funds in the public market then as far as the profit share is concerned, there is no sharing book on the initial exit till the capital is fully returned and only after the capital is fully returned, all incremental return beyond the capital that is committed are eligible for sharing which is at about 20% share of profits.

Vinod: Okay, so 20% profit will come at the end and between like whatever our own investment on that we will calculate MTM and it will become part of our regular financials right?

Navin Agarwal: On our own investments, there is a half yearly mark to market that is done and that is accounted in the net worth.

Shalibhadra Shah: As far as the profit share income is concerned that is accounted as and when that gets realized.

Vinod: On our own investment that is half yearly for this particular private equity and real estate.

Shalibhadra Shah: We do the fair valuation of each of these investments on a half yearly basis.

Vinod: Thanks. That is all from my side and Happy Diwali to all of you.

Moderator: Thank you. The next question is from the line of Deepak Sonawane from Haitong Securities. Please go ahead.

Deepak Sonawane: Thank you Sir for the opportunity. My first question is regarding funding book in capital market, we have reported quite a strong growth in Q2 on YoY basis, but this compared to other peers who were reported their results for Q2, we have seen kind of flat or negative growth in margin funding, so can you just explain what is the strategy that is inflate for us to grow this book?

Shalibhadra Shah: You are talking about the funding book right?

Deepak Sonawane: Yes.

Shalibhadra Shah: Basically, we have good mix of clients on the cash market and the F&O, there is a decent push from our side on the PCG customers to build on to the funding book and because of our advisory base, we are able to get the clients to buy good ideas and based on that, the funding book has got increased during the last quarter on a quarter-on-quarter basis, so it is mainly to look at it because the MTF book which has now become very popular on the broking side that is also seeing traction, because of SEBI regulations of the margins, client also prefer on the MTF book to build up the overall base when they have to make the margin payments. Also as per the revised guidelines of the exchange has also resulted in increasing the MTF book size.

Navin Agarwal: In addition, we are always under indexed compared to full service broker as far as the margin, trading, funding book size is concerned.

Deepak Sonawane: Okay Sir understood. My second question on cost side for capital market, we reported a breakup of your new clients sourcing between online franchise branch and other, so I could see that online contribution has dropped quite significantly since last quarter and if you look at your other expense for capital market that has grown on a quarter-on-quarter basis, is there any correlation that marketing cost just because sourcing has been lower so that marketing cost has come down.

Shalibhadra Shah: There is no increase in the marketing cost, in fact it has marginally reduced quarter-on-quarter basis, the increase is mainly due to the marketing and the advertisement expenses and some of the CSR expenses and also the standard provisioning, because the funding book has increased, so we also need to provide the standard provisioning on that as per the ECL model, so that is the reason of the increase in the cost on a quarterly basis.

Deepak Sonawane: What is the reason for the fall in contribution from online sourcing for Q2?

Ajay Menon: Online sources two factors, one is that we were building in the quality focus much further down to get more margin accounts and as you know over the industry also, there has been a fall in the overall digital account acquisition, so we were very clearly focusing on the quality aspects and to that extent we also reduced the spend, so that we get more quality.

Deepak Sonawane: Thank you so much and all the best.

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

Shalibhadra Shah: On behalf of Motilal Oswal Financial Services I would like to thank every participant for attending the Q2 FY2023 con-call. In case of further queries please do get in touch with us. Thank you and have a Happy Diwali and Prosperous New Year.