

**Q1FY25 Earnings Call – Motilal Oswal Financial Services Ltd.**

– **Moderator:**

Good afternoon, ladies and gentlemen. I am Sejal, the moderator for this conference. Welcome to the Q1FY25 Earnings Conference Call for Motilal Oswal Financial Services Limited. We have with us today, Mr. Raamdeo Agrawal, 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. Chetan Parmar, 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.
- As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.
- 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 morning, everybody and welcome to the Motilal Oswal Financial Services earnings call for the Q1FY25. I'll take you through the company's performance and start by talking about the need for transitioning our broking and distribution business into the wealth management business and the rationale for the same.
- Today's investors are more informed and seek more than just transactional services. They demand personalized investment advice that considers their long-term financial goals. This shift in investor and consumer behavior, signifies a move towards a deeper engagement in financial planning, which include diverse asset classes and effective risk management is paramount for the clients. The focus is shifting from near investment transactions to comprehensive wealth management that includes retirement planning, tax optimization and many other services.
- Moreover, today's investors and consumers are driven by a sense of purpose and a desire for meaningful engagement with their financial advisers. They expect personalized purpose-driven advice that helps them navigate their financial journey with confidence and clarity. This evolving expectation underscores the necessity for a more comprehensive approach to wealth management.
- As we transition from Broking and Distribution business to Wealth Management business, our strategic objectives are clear. First, we aim to enhance client

relationships, building deeper, more meaningful connections that position us as trusted advisors in their financial journey. Second, we will offer comprehensive financial solutions that extend beyond broking aligning with our clients' aspirations for wealth creation and reservation.

- Our Wealth Management business is well geared to tap growing needs of customers with a robust network of 2,000 internal relationship managers, over 8,800 external wealth managers, and a geographical presence that encompasses over 98% of the country's PIN codes. We offer bespoke research, integrated wealth platform called RISE through a super app, open architecture distribution model, a large base of high net worth clients, clients having more than 1 crores DP balance constitute 75% of the total DP balances of the group.
- The transition to Wealth Management is not just a change in nomenclature, but a strategic evolution for us. It reflects our dedication to providing holistic advice, and this transition will enable us to better serve our customers and help them achieve their financial aspirations with confidence.
- Let me now take you through the key highlights of the operational and financial performance

### **Key Financial and Operational Highlights**

- Our consolidated profit after tax, including other comprehensive income (OCI), was Rs. 1,021 crore for the quarter, up by 52% YoY.
- Our consolidated operating net revenue stood at Rs. 1,133 crores, up by 32% YoY.
- The return on equity (ROE) stood at 44%.
- Our consolidated operating profit after tax stood at Rs. 431 crores for the quarter, up by 41% YoY.
- Our Assets under advice (AUA) crossed Rs. 5 lakh crores mark at the end of June '24
- Our Wealth Management business profit after tax stood at Rs. 177 crores, up by 69% YoY.
- Our Asset & Private Wealth business profit after tax stood at Rs. 157 crores, up by 30% YoY.
- Capital Markets business profit stood at Rs. 57 crores, Housing finance at Rs. 28 crores.
- We had a robust net worth of Rs. 9,784 crores as of 30<sup>th</sup> June, up by 41% YoY.
- We are happy to report that ICRA has upgraded our rating outlook to AA positive.

### **Segmental Performance**

- Turning to our segmental performance.

### **Wealth Management Business**

- Our Wealth Management business, which is hitherto our Broking & Distribution business. Net revenues for this business stood at Rs. 530 crores, up by 42% YoY. Profit after tax stood at Rs. 177 crores, up by 69% YoY. We offer a very strong blend of over 2,000 internal relationship managers and over 8,800 external wealth managers.
- Our assets under advice in this business grew to Rs. 265,000 crores, up by 105% YoY. Our distribution AUM grew by 42% YoY to Rs. 26,171 crores. Distribution net sales stood at Rs. 1,449 crores for the quarter. Our cash market share in the first quarter increase by 186 basis points YoY to 8.0%. Our Futures & Options premium market share grew by 225 basis points YoY to 9.5%. We acquired around 150,000 clients in the first quarter. And we covered 2,500+ business location that encompass 98% of PIN codes of the country.

### **Capital Market Business**

- In the Capital Market business which comprises of institutional equities and investment banking business, our net revenue in the first quarter stood at Rs. 134 crores and profit after tax stood at Rs. 57 crores. In our investment banking business, we successfully completed 7 deals with an issue size of nearly Rs. 5,400 crores and we were ranked number one in the QIP league table for Q1FY25.

### **Asset & Private Wealth Management Business**

- In the Asset & Private Wealth business, which comprises of asset management, private equity and private wealth businesses, our net revenue stood at Rs. 385 crores, up by 32% YoY, and profit after tax stood at Rs. 157 crores, up by 30% YoY.
- The Asset Management business AUM across mutual funds, PMS and AIF grew to Rs. 87,580 crores as of June 30, 2024, up by 70% YoY. Net revenues for the first quarter stood at Rs. 164 crores, up by 46% YoY due to a mix change in favor of mutual fund assets.
- Strong performances across mutual funds, PMS and AIF schemes resulted in gross sales of Rs. 8,840 crores for the first quarter, which is up by 4x YoY. Net flows, which were negative Rs. 1,020 crores in the first quarter of last year, turned to a positive Rs. 5,021 crores in the first quarter of this year.
- Mutual fund AUM grew to Rs. 60,508 crores, up by 81% YoY. Alternate AUM grew to Rs. 27,072 crores, up by 50% YoY. AIF AUM crossed Rs. 12,000 crores mark.
- We added 5.7 lakh new SIPs in Q1FY25, and our SIP flows for the first quarter stood at Rs. 1,198 crores and the SIP AUM stood at Rs. 14,606 crores.
- Our Private Equity business fee earning AUM was Rs. 10,640 crores across growth capital and real estate funds. Net revenues stood at Rs. 36 crores.

- Private wealth AUM was at Rs. 138,863 crores, up by 65% YoY. Net revenues stood at Rs. 186 crores, up by 27% YoY. The RM count grew to 576 numbers, up by 37% YoY, which has led to increase in operating expenses. 26% of our RM have a vintage of more than 3 years.

### **Home Finance Business**

- Turning to the Home Finance business. Profits for Q1FY25 stood at Rs. 28 crores. AUM was at Rs. 4,122 crores, up 9% YoY. Disbursements were at Rs. 252 crores for the quarter, up by 171% YoY. Net interest income stood at Rs. 83 crores, up 9%. Yield on advances stood at 14.0%, cost of funds at 8.4% and spreads at 5.6%.
- The sales RM strength was at 951, up by 117% YoY, resulting in higher cost-to-income ratio. Our gross and net NPAs stood at 1.17% and 0.63%, respectively. Net gearing was at 2x, capital adequacy at 46.5%, return on assets at 2.6% in the first quarter.

### **Treasury Investments**

- Our total equity investments, including alternate funds grew 47% YoY to Rs. 7,016 crores, and our cumulative XIRR (since inception) on these investments stood at 19.6%.
- To sum up, the 10-year track record of the group has been an operating profit growth of 34%, which we are quite optimistic about in the years to come. Our dividend payout has been about 20% of the operating profit average over the last decade, and we will continue to maintain this payout subject to working capital and business growth needs.
- We can 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 Mahek from Emkay Global.

#### **Mr. Mahek - Participant:**

- I have a couple of questions. First one is around the wealth management business. So distribution income has seen a sequential dip, can you explain that? Secondly, the net interest income at Rs. 185 crores is largely flat on a QoQ basis. So is it something like the lending yields have dropped in or something like that? And third is just a clarification that the capital markets business now consists of IB and IE business. That's all, these are my 3 questions.

#### **Mr. Shalibhadra Shah - CFO:**

- So answering the first question on the distribution revenues. Sequentially, in Q4 of previous year, distribution business included insurance income of almost about Rs. 30 crores, which is higher than the normal other quarter run rate. So to that extent, you will see the fall on a sequential basis on a QoQ basis. However, YoY basis, insurance distribution revenues have also grown.

- Second is as far as the NII is concerned, sequentially, we had kept the lending exposures lower because of the large event of the election results. Further lending book growth started from the month of June 2024 only. These resulted in largely flattish NII on sequential basis.
- As far as the third question is concerned on the Capital Market segment, that includes our now institution equities and investment banking business.
- **Mr. Mahek - Participant:**
- Yes. So I just wanted to confirm that like any kind of commentary on the yields in the distribution business? Like are they flat or are they consistent?
- **Mr. Shalibhadra Shah - CFO:**
- Distribution yields are flat on a YoY and QoQ basis.
- **Moderator:**
- Thank you. The next question is from the line of Pravin Desai, who is an individual investor. Please go ahead.
- **Mr. Pravin Desai - Participant:**

Congratulation for the good results. As we have asked in the last meeting for the bonus, you gave a very good bonus to all the shareholders and make them happy. So we are very happy with the company and the Board and our hearty congratulation to Raamdeoji, Motilalji and the committee member. We wish the company will progress in such way as it is progressing since inception.
- **Mr. Shalibhadra Shah - CFO:**
- Thank You.
- **Moderator:**
- Thank you. The next question is from the line of Uday Pai from Investec. Please go ahead.
- **Mr. Uday Pai - Participant:**
- So I had a couple of questions. Firstly, can you help us with the 1+ DPD number in the housing finance business? Secondly, on the brokerage side, what is the regulation that you impact on the derivatives segment? And how do you foresee the impact of it on our business? And lastly, what is the net new money in the private wealth management business for this quarter?

– **Mr. Shalibhadra Shah - CFO:**

- So the first answer is for 1+ DPD Housing Finance business is 5.7%. I'll answer the third one as well. Net Flows in the Private Wealth Management business is Rs. 5,175 crores.

– **Mr. Ajay Menon- CEO- Wealth Management:**

- So on the F&O side, we are reviewing and analyzing the SEBI discussion paper, they have still not confirmed how the contract size and all will work. As of now, the transaction charges impact is not much on overall revenue. The impact is around Rs. 40 crores on an annualized basis. So on the overall scheme of things, it will not be a big shift.

- That will also be automatically at the end of the day passed on to the customer. So, we don't see much impact compared to what we are seeing on the overall derivatives industry perspective. Also our cash market share is comparatively much higher compared to what the industry average is. So to that extent, the impact will be very miniscule. That is what our estimate is.

– **Moderator:**

- Thank you. The next question is from the line of Sanjaya Satapathy from Ampersand Capital. Please go ahead.

– **Mr. Sanjaya Satapathy - Participant:**

- The first question that you have used the word transformation in your communication quite a lot. Can you just clarify that, what really major changes that you're planning to do?

– **Mr. Navin Agarwal - Group Managing Director:**

- Yes. So basically, we have been talking about the cross-sell ratio in the past. But given our experience in our own Private Wealth business, we have cross-sold a variety of products depending on the financial goals of the customers. The idea is to now have a dedicated team work on that client base to provide more holistic solutions that the group has already been offering across the Private Wealth business now to the Broking and Distribution clients also.

– **Mr. Sanjaya Satapathy - Participant:**

- Understood. But is there any digital plan there, Where the company is still to catch up a lot?

– **Mr. Navin Agarwal - Group Managing Director:**

- RISE super app that we spoke about is that digital proposition encompassing all our offerings to these clients because of the sheer number of the clients in this business are much higher. And apart from that, if you're referring to benchmarking to the pure

discount brokers on the digital side, I can let Ajay take that benchmarking or comparison of our app versus some of those.

– **Mr. Ajay Menon- CEO- Wealth Management:**

- So at our end, on the overall digital side, we are having a lot of initiatives being started off now and the RISE launch is perfectly aligned to see that how we can look at the clients overall AUM to be built through the digital mode. So whether on the distribution side, the RISE app will help us in achieving a lot of our numbers in terms of how we want to penetrate the SIP flows, the mutual fund flows and the other third-party products. So to that extent, I think digitally, we are very well aligned with our customers, that is how we are trying to take it up further also with all these new initiatives.

– **Mr. Sanjaya Satapathy - Participant:**

- Basically, my question also was in the sense that there was something about some client they're retargeting disclosed some RBI actions from time to time. So is there any way to quantify your digital spend to say that, okay, we are spending so much more, and that is why we will be able to do a better job or something which can help us quantify it?

– **Mr. Ajay Menon- CEO- Wealth Management:**

- So overall, on the digital side, we are spending in a big way, around Rs. 150 crores annually. We have spent on the overall business model from a tech to the digital side to build the overall back-end and the front end systems and these are continuously being built upon. We are also building a lot of things on the security side of the business as well as on the infrastructure. That has been taken care as for the size of the business, which is going to grow going forward also.
- At the same time, we are also investing in a big way on the artificial intelligence (AI) which we want to build upon. So holistically, we are well aligned to what the overall requirements will be there from a digital perspective, and we will be more than ready to take care of the overall requirements as far as the regulators are concerned and also from a customer perspective.

– **Mr. Sanjaya Satapathy - Participant:**

- Why is there a decline in your wealth part of the profit, and there were some one-off items with which you had mentioned regarding some maturity of AIF. Can you please make us understand a little better than that what has happened to that side of the business profit this quarter?

– **Mr. Shalibhadra Shah - CFO:**

- So, as far as our Asset & Private Wealth business is concerned, where basically, what we are talking of is the booking of the share of profit which is basically the carry income that we charge in Q4, which is an annual event on our alternate side of the

assets, which we have highlighted in our IR deck also, revenues included that share of profit fee income because of which sequentially QoQ, the revenues are lower.

– **Mr. Sanjaya Satapathy - Participant:**

– Understood. My question is that I'm talking about the operational side, will the retail, that side of the business where the market having gone to a new high, the profit there had consequentially declined.

– **Mr. Shalibhadra Shah - CFO:**

– Yes. So sequential decline is due to two reasons. One is on account of the distribution business, which I explained earlier in the call, insurance revenues were higher in Q4, which is generally a Q4 is a bump up of the insurance income. And secondly, also, overall, volumes were lower on a QoQ basis across the industry, the brokerage revenues have been lowered and sequentially, that is the reason where sequential revenue profits are almost flattish, marginally lower.

– **Mr. Sanjaya Satapathy - Participant:**

– We are seeing that your AUM has gone up terribly and the profit relating to that, is there some kind of fluctuation because of the product launches and the different cost and then subsequently it normalize as the margin improves.

– **Mr. Shalibhadra Shah - CFO:**

– Actually if you see, revenues and profits have actually gone in line with that. So if you look at our profit on a YoY basis, profit is up 40%. And if you look at the wealth business, AUM grew by 100% and the profits also surged by 70% on a YoY basis.

– **Moderator:**

– Thank you. The next question is from the line of Ishan Batra from Complete Circle Wealth Management. Please go ahead.

– **Mr. Ishan Batra - Participant:**

– Congratulations sir on a beautiful quarter. I have some questions regarding AI, in the past answer you mentioned how you're going to be using AI. So my first question is whether it's going to be developed in-house or you're outsourcing the development of the program? And then my next question is with is reference to algorithmic and high-frequency trading? whether do you have a plan to allow it to investors for the same or whether you have a further plan of action with this size of trading?

– **Mr. Ajay Menon- CEO- Wealth Management:**

– So on the artificial intelligence side, we are having our team already in place, and we have hired a senior resource, who will be joining us next month to enhance the overall scope on the artificial intelligence. We'll be building it up in-house, and also may have



some tie-ups with some vendors but majorly it will be in-house developed, the overall artificial intelligence.

- Coming to the second question, we already have some tie-ups for the algo's trade and high-frequency trades for our customers and we are also building it up more aggressively going forward. So we are coming up with some strategies for our retail clients, which can be used for trading on the digital side and the option side.
- **Mr. Ishan Batra - Participant:**
- Okay understood. So with reference to you have an in-house team for AI, may I ask why did we not choose hiring outside because certain platforms, both by OpenAI, Amazon and Microsoft. They have performed far better and have been very popularly used by other brokerage houses for their own algo and for their own AI-based trading models?
- **Mr. Ajay Menon- CEO- Wealth Management:**
- So from an algos perspective, we are having third-party vendors, but AI which we are talking about is more to just look at from an overall business analytics perspective, how we can improve the productivity of our internal team, how we can look at customer touch points much better and much more proactive is where we are trying to build it out in-house. From a trading perspective and the algo perspective, we have ties with the third-party vendors.
- **Moderator:**
- Thank you. The next question is from the line of Aditya from SOWIL Limited. Please go ahead.
- **Mr. Aditya - Participant:**
- So my question is on the F&O lot sizes. And you did mention that the increases taxes for the F&O segment will not have a material effect. But what about the total transaction charges, do you think you can depart on those charges which is on the brokerage front?
- **Mr. Ajay Menon- CEO- Wealth Management:**
- So if I look at the overall transaction charges, which is going to impact because of the new regulation coming up October 1. As previously discussed, it's an impact of Rs. 10 crores a quarter for us, which is comparatively very small on the overall revenue. We will review it and analyze how to recover it from a customer. At the end of the day, if the volumes increase, that will be much more beneficial at the end of the day.
- So it's a calibrated effort which we'll take up. Regarding the lot size, we are awaiting SEBI's clarification, how it will come and what will be the whole impact. But we have seen earlier cases that such things have a short-term impact, but in the longer term, the customers get aligned to the overall strategy and then the things are able to work out.

- But then this is something which only time can tell. As previously stated, our proposition of the cash market revenue and the overall net new revenue is well aligned to take care of these changes, if any.
- **Moderator:**
- Thank you. The next question is from the line of Akshata from Financial Express. Please go ahead.
- **Mrs. Akshata – Participant:**
- Actually, you clarified this. Sir, I wanted to ask about the STT. So how much impact would you see on an annualized basis, what is the number that you mentioned?
- **Mr. Ajay Menon- CEO- Wealth Management:**
- So it is about the transaction charges that we mentioned in the number. So on an annualized basis, that impact is Rs. 40 crores.
- **Mrs. Akshata – Participant:**
- Sir, apart from that, I wanted to ask about STT charges that have increased. Do you think that will impact F&O volumes in any way now that investors are attached to it?
- **Mr. Ajay Menon- CEO- Wealth Management:**

So in fact, that has been the case even in the past. If you look at continuously the STT rates have gone up, but I think volumes have only grown in the market. So we don't see this to be any material impact on the volumes.
- **Moderator:**
- Thank you very much. That was the last question. I would now like to hand the conference over to Mr. Shalibhadra Shah for closing comments.
- **Mr. Shalibhadra Shah – CFO:**
- On behalf of Motilal Oswal Financial Services, I would like to thank every participant for attending the Q1 FY 25 con call. In case of any further queries, please do get in touch with our Investor Relations desk. Thank you, and have a good day
- **Moderator:**
- Thank you very much. On behalf of Motilal Oswal Financial Services, that concludes this conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.