# Motilal Oswal Financial Services

## Con-call Summary & Earnings Release

### Quarter ended December, 2022

25th January, 2023

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 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. I'm Neerav, the moderator for this conference. Welcome to the Third Quarter FY 2023 Earnings Conference Call for Motilal Oswal Financial Services Limited. We have with us today Mr. Motilal Oswal- Managing Director, Mr. Navin Agarwal- Director and CEO, AMC, Mr. Ajay Menon, CEO- Broking and Distribution, Mr. Shalibhadra Shah- Chief Financial Officer, and Mr. Chetan Parmar- Head of Investor Relations.

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

**Navin Agarwal:** Good afternoon, everybody. It is my pleasure to welcome you all to Motilal Oswal Financial Services Earnings Call for the third quarter ending on December 2022. I'll take you through the key highlights of the operational and the financial performance. The operating profit after tax for the nine-months was at Rs 619 crores, up by 12% year-on-year and was marginally lower for the quarter that we reported at Rs 217 crores.

Core businesses, starting with the Capital Markets business, we reported a profit after tax of Rs 136 crores in the third quarter, up by 2% quarter-on-quarter. And for the nine-month period, reported an operating profit of Rs 359 crores, which is up by 3% YoY. The Asset and Wealth business reported a profit after tax of Rs 67 crores and which is flat quarter-on-quarter. And for the nine-months, reported a profit after tax of Rs 192 crores, which is 7% lower than the same period last year.

As far as the Home Finance business is concerned, we have seen strong traction there. We reported a profit after tax of Rs 36.3 crores, up by 9% quarter-on-quarter. And for the nine-month period, we reported a profit of Rs 102 crores, which is more than 2x of the profit in the same time last year.

Our consolidated net worth stood at Rs 6,230 crores and net debt stood at INR 6,330 crores. Excluding Home Finance, our net debt stands at Rs 3,850 crores. Our debt to equity ratio is 1.5x. And excluding the Home Finance business, the debt to equity ratio stands at 1x. We declared an interim dividend of Rs 7 per share.

I'll now take you through more details of individual businesses, starting with the Capital Markets business, which comprises of retail broking and distribution, institutional equities and investment banking business. Our revenues for this segment were at Rs 749 crores, up by

5% quarter-on-quarter, and at Rs 2,069 crores, up by 12% for the nine-month period. Our profit grew by 2% quarter-on-quarter to Rs 136 crores during the quarter, led by strong volume growth of 32% quarter-on-quarter. The volumes are substantially up on a year-on-year basis.

We also saw an improvement in our retail F&O market share by over 50 basis points compared to the sequentially previous quarter. In the same quarter last year, there was IPO funding net interest income of Rs 46.7 crores. If you were to exclude that, the profit after tax would have grown by 20% year-on-year. For the nine-months period, our profit after tax was Rs 359 crores, which is up by 3% year-on-year.

We acquired a total of 511,000 clients in the retail broking and distribution business in the nine-month period, led by traction in our online channel. Our NSE active clients have registered a 14% year-on-year growth at 900,000 as of December 2022, and we ranked 9 in terms of the active client on NSE. 60% of the brokerage in this business comes from clients, with more than two years of vintage showcasing the stickiness of the clients. The average payback period of the digital channel, which used to be in excess of 12 months earlier, has now come down to less than six months. And this channel has also contributed more in terms of a new client addition in the nine-month period.

The distribution AUM is at Rs 19,370 crores as of December, up by 17% year-on-year. And the net sales for this business is at Rs 780 crores in the nine-month period. We have a very strong 53 lakhs client base, which is also growing, and that provides a very strong funnel for cross-selling of various financial products in the coming quarters and years.

Our interest income for the quarter was at Rs 211 crores, up by 27% quarter-on-quarter, led by a 14% growth in the margin trading book at Rs 3,320 crores. Our currency market share stands at 15% up by 300 bps quarter-on-quarter. Commodities market share stands at a tad below 7%. During the quarter, we launched the option store pro for advanced traders with features to create customized strategies given the large options-led market. We believe that this offering should further help us boost our market share.

As far as the institutional equities team is concerned, they once again saw strong rankings in the Asiamoney Brokers Poll, 2022. And specifically, we are ranked Number 1 corporate access team and Number 2 sales team and execution team. The investment banking business completed three transactions with deal size worth Rs 2,330 crores during the nine-month period. And we are hopeful of traction in the fourth quarter as well as the coming year.

Turning to the Asset & Wealth Management business, the total assets under management across the asset management, wealth management and the private equity business is at Rs 97,300 crores, and the net yield across these assets during the nine-month period averaged at 74 basis points. The asset management business AUM was flat quarter-on-quarter at Rs 46,500 crores. The mutual fund AUM grew by a smaller proportion in the quarter at Rs 29,500 crores. We have witnessed improvement in the performance of several schemes. A lot of them are in the top quartile or the second quartile, and we believe that this in turn should reflect in terms of the traction.

We've already seen the negative net sales numbers come down by 1/3 on a year-on-year basis from over Rs 600 crores to around Rs 200 crores. And we think that this should hopefully turn positive in the coming quarters. The revenues for the third quarter for this business stood at Rs 141 crores, and for the nine-months stood at Rs 424 crores. We added 66,000 new SIPs in the third quarter with traction witnessed in the active funds, which saw SIP count addition growth of almost 20%-plus during the current quarter.

Our private equity business has a fee earning AUM of Rs 9,540 crores across our private equity and real estate funds. In the third quarter, the revenues for this business stood at about Rs 51 crores, which is a very strong 57% growth year-on-year, and in the nine-months stood at Rs 122 crores, which is a strong growth of 46%. The wealth management business AUM stood at Rs 41,300 crores as of December, up by over 20% year-on-year. The wealth business revenues at Rs 57.8 crores in the third quarter was up by 13% quarter-on-quarter and 7% year-on-year grew to Rs 156.3 crores. We garnered net sales of Rs 4,560 crores during the nine-month.

Our RM count increased as of December by 20% year-on-year from 139 to 166. And that in turn is responsible also for a meaningful increase in the employee cost and the operating expenditure of this business. In addition, we've also bolstered the leadership team with senior management hiring, to strengthen ultra HNI offering and advisory capabilities. All of this has led to lower operating profit margins for this business.

Although we plan to continue to invest in this business by adding more relationship managers in the coming quarters and year. Overall, the Asset and Wealth Management business revenues stood at Rs 250 crores, up by 7% quarter-on-quarter and for the nine-month period stood at Rs 702 crores, up by 3% compared to the same period last year. Profits were at Rs 67 crores for the quarter and Rs 192 crores for the nine-month period.

Turning to the Home Finance business. The Home Finance business reported a profit after tax of Rs 36.3 crores during the quarter and an Rs 101.8 crores during the nine-month period, both witnessing very strong growth rates on year-on-year basis. Our NII grew by 10% year-on-year. NIM expanded by 66 basis points Y-o-Y to reach 7.8% for the nine-month period. Our yield on advances in the nine-month period stood at 13.8%. Our cost of funds were down by 40 basis points to 7.9% because of the full benefit of the rating upgrade, resulting in an expansion of spread to 5.9%, which is an increase of 34 basis points.

Our RPLR increased by 50 basis points with effect from 1st of January 2023, and we expect impact of this to show up in the fourth quarter of the year. Our disbursement at Rs 640 crores for the nine-month period are up by nearly 50% compared to the same period last year. Although this is still very tiny in the context of the size that we've achieved in the past. And we believe that the business is geared for a very strong disbursement growth in the next year compared to the base of the current year. Our gross NPA stood at 2% as of December 2022. Collection efficiency was 100% during the quarter.

We had guided that nearly 1/4 of our restructured book could slip, and that is the reason why the gross NPAs are at 2%, marginally higher in the current quarter. Our gearing stands at 2.2x. Our Tier 1 capital adequacy remains robust at 45%. And so from a capital perspective, the headroom to grow this AUM meaningfully in the next year and in the coming years exist.

Turning to our fund-based businesses. This includes the sponsor commitments to our various funds in the public market asset management business, in our private equity funds and our real estate funds. The total investments, including unrealized gain as of December '22 stood at Rs 4,720 crores. The equity investments, including alternate funds stand at Rs 4,320 crores as of December '22. And the XIRR on these investments stand at 21%, as far as the PE/RE business is concerned. The overall XIRR of all these investments that we made till date since inception stands at about 17%.

To conclude, we have delivered a reasonable performance in the third quarter despite the market headwinds. Our retail broking business continues to improve its market share through digital initiatives and is also benefiting from meaningful market expansion and industry consolidation. Our asset management business, as I mentioned earlier, have seen improvement in performances of the various mutual fund products, which are in quartile 1 and 2 and is looking to improve market share and net sales in the coming quarters. Our home finance business has seen strong turnaround in profitability, and this should follow a meaningful growth in our disbursement and AUM in the coming year. All-in-all, we remain optimistic on the opportunities offered by all our businesses.

Thank you very much, and we are now open to question and answers.

**Moderator:** First question is from the line of Ansuman Deb from ICICI Securities.

**Ansuman Deb:** So my question is on the broking business first. So we have gained a little bit of market share, which is quite good. I just wanted to understand the impact of the new ruling on the potential income, interest income that we have and also the strategy going ahead in terms of whether we'll focus more on market share or yields. And how will the overall revenue pan out considering that in this quarter, we have gained market share, but the yields have gone down. So that is my first question on the broking business.

**Ajay Menon:** Yes. So in terms of the market share, it's really a point about the F&O market becoming bigger and we wanted to participate in that. We have come out with specific products to align the growth strategy towards the futures and options. And we expect more digital strategies in the times to come.

Now as far as the yield is concerned, it has come down a bit. But our yields are still much-much better than what the industry average is. So in that way, we feel that the expansion can continue in the model where we have the digital model of advisory along with the digital products.

Coming to the point about the funds blocking, there are a lot of regulations which has come in the last few years. We have gone through it, and have already seen overall impact being positive. So going forward, there will surely be some impact when the funds will move to the bank account of the customers. But in the overall scheme of things, it will only help in improving the overall market.

**Ansuman Deb:** The question was on the wealth management. So obviously, there will be an increase in revenue with AUM growth and RM growth and this is also cost intensive. The balance of which in terms of profits, when you can see profitability improving gradually?

**Navin Agarwal:** We've added to the leadership team meaningfully this year. That is not likely to recur next year. And we should get the benefit in the coming years. However, the RM additions count of 20% increase that you've seen to 166 numbers is something that we plan to continue to keep growing in the coming year as well. So to that extent, you will see those investments continuing.

Given the strong growth in the RM counts that we have seen in the last two, three years, as the vintage of the RMs improve, they start contributing towards profits from the year 3 onwards. So at least the old RMs that we've added in the last three years should contribute to improve profitability. But as of now, the limited point that we would like to make is that we'd like to continue to increase this relationship manager base strongly, at least in the next two years. And in turn grow the AUM of the business very strongly. So that will be the primary focus of this business.

**Ansuman Deb:** So I just wanted to understand that at some point, the plus/minus would lead to a net addition in earnings, right? So what I'm trying to say that can that happen in next year?

**Navin Agarwal:** I'm not very sure about that at this point. We would be focusing on continuing to grow the RM base even in the next two, three quarters. So I don't see the benefit of that coming even in the next year. Possibly in the year after that, we start seeing the operating leverage or the benefit of all of this.

**Moderator:** The next question is from the line of Sahej Mittal from HDFC Securities.

**Sahej Mittal:** So firstly, can you quantify the ideal customer funds in the broking business for Q3 to understand the impact if ASBA block trade for secondary markets were to come.

**Shalibhadra Shah:** This number would be the tune of around Rs 3,000 crores to Rs 3,500 crores.

**Sahej Mittal:** And we would be earning close to about 5.5% annualized yield on this, right?

**Shalibhadra Shah:** Yes.

**Sahej Mittal:** On this ASBA block trade regulation paper, which is floating around, what is your sense? What could be the potential implementation challenges firstly, for the industry and for the small brokers? Would it mean that they'll have to incur much additional cost, to bring their take up to the market, to have these trades possible for their customers? Some color around that?

**Ajay Menon:** There is surely going to be a lot of process requirements. I think the associations like us are even talking to SEBI regarding the implementation challenges and at the same time, as a consideration paper talks about it being optional to start off with. There is the UPI limitation of up to Rs 5 lakhs per customer, so there is no problem in case of retail customer, but what about the HNI and the bigger customers. So there will be challenges as we go by it. I think it's going to be a slow process of how it gets implemented and how the industry take it from there.

**Sahej Mittal:** Sir, do you expect, with this regulation, there would be further consolidation in the industry from top 10 brokers gaining market share from the small brokers or given that it would be optional, we don't anticipate much of consolidation on this?

**Ajay Menon:** Overall from the digital strategy, the way the business is going, there will be a time that the consolidation will happen. All these changes which have happened in the last two, three years, there is consolidation seen in the industry, and this is only going to continue. So I surely see that the consolidation can happen between the smaller brokers getting marginalized. And at our end also in our franchisee business, which is one of the biggest business, we have been able to convert a few of the smaller brokers as our franchisees as a strategy.

**Moderator:** The next question is from the line of Deepak Sonawane from Haitong Securities.

**Deepak Sonawane:** So I have a couple of questions. The first few are on Broking. So currently, we have around 7,690 franchisees, right, as of December '22. So just wanted to understand, out of our 33.6 lakh gross digital client base, how much percentage is contributed by the franchisees?

**Ajay Menon:** It's around 50% of the base.

**Deepak Sonawane:** And again, with an active client base of 9 lakh, would it be same?

**Ajay Menon:** Yes. It will be around the same.

**Deepak Sonawane:** Sir, on your introduction call, you mentioned that the payback period of the clients being acquired through digital channels has lowered significantly to six months as compared to 12 months a year back. So just wanted to understand, out of our broking revenue that is core brokerage is of around Rs 437 crores in Q3. What will be the contribution from the customers that got acquired through digital channels?

**Shalibhadra Shah:** Yes, that number will be around 10%.

**Deepak Sonawane:** And my last question is on AMC side. So if you can provide us, I mean, gross and net sales for AMC in Q3 and against in nine-month as well on that will be really helpful?

**Navin Agarwal:** For the third quarter, the gross sales was about Rs 1,700 crores, and there was a net outflow of about Rs 800 crores.

**Moderator:** The next question is from the line of Vishal from ICICI Securities.

**Vishal:** I wanted to understand two, three things in HFC. First, I wanted to understand the growth. So disbursements in this quarter have gone down and resulting in around 1% growth in AUM. Just wanted to understand the disbursement growth path and that resulting in AUM growth for the next year?

**Shalibhadra Shah:** As the disbursement quarter-on-quarter is concerned, it's lower because of the lower disbursement on the construction finance pool overall.

But overall, we have achieved last full year's disbursement in the first nine-month of the current financial year, and we expect a stronger disbursement run rate in fourth quarter and in the coming periods. Overall AUM was also reduced because of the PMAY subsidy received.

**Vishal:** So should we expect like a good AUM growth number for the next year?

**Shalibhadra Shah:** We are looking to hire more team on the sales side and enhance even the productivity of the existing team. We believe the disbursement run rate would result in a larger support of numbers on the retail disbursement front as well.

**Navin Agarwal:** Also, in addition, you will see us adding to the leadership team, including the CEO at the home finance company. So as we make those announcements over the next three months' time, we think that we should be in a good position to grow the disbursement as well as the AUM in the next year ending March 2024 compared to the year that is underway right now.

So we're looking at a strong buildup. I highlighted in my opening remarks that our gearing is at 2.2x. We have cost of funds which are very competitive. We had a rating upgrade last year benefit of which is coming through now. Spreads are very strong. The distribution network is over 100 branches already. We have about 500 feet on street, which we expect to take up meaningfully. So all of these initiatives, combined with the leadership being in place should provide us a very strong runway for growth over the next two to three years.

**Vishal:** The next part in HFC, just I wanted to understand that the GNPA has gone up quarter-on-quarter, but credit cost has declined. So I just wanted to understand the credit cost trajectory as well. And you said that you are looking to hire people sales. So how should we think about the opex in HFC business?

**Shalibhadra Shah:** On the GNPA front, the marginal slippage during the quarter is mainly on account of the restructure book. So initially, we had guided almost 25% of our restructured book could slip into the NPA. So out of that, partially, there has been slippage in the current quarter. However, we have adequately provided for the restructured book at an average rate of almost 13%. So the PCR on the NPA book still remains at 41%, and standard provision continues to be higher at almost 1.31% on the book. So marginally, slippage has not reflected any further increase in the PCR. It has only been maintained.

**Vishal:** And on the opex front?

**Shalibhadra Shah:** On the opex front, it would continue to be remain elevated because as we are hiring at the senior level and even at the overall sales level. So opex will remain elevated overall, but because we have robust NIMs of almost 7.8% and our credit costs are now meaningfully lower in the business, we expect a good ROA moving forward in the business despite the elevated opex in the next couple of years.

**Vishal:** My next question, I wanted to understand about the fund-based business. So your revenue in fund-based business has fallen very sharply in this quarter, which is also resulting in consolidated PAT falling sharply. Just wanted to understand how should we think about it for the Q4?

**Shalibhadra Shah:** Yes. This is actually on our investment that we have made largely into the equity assets, the book size of which is Rs 4,900 crores, out of which Rs 4,300 crores is the equity asset base. This book is subject to mark-to-market accounting, so every quarter, basis the overall NAV of these funds, there will be a movement in the profitability, which we report separately under the mark-to-market line item. So it's a function of actually equity market performance.

**Navin Agarwal:** And to add to that, we have highlighted that the XIRR since inception cumulatively for this book stands at 17%. So without trying to look at it from a quarter-to-quarter basis, the management expectation is that we should be able to generate on this Rs 4,900 crores book, some returns in that facility of what we've delivered over the last years. And it is a good indicator of what one should expect even in the future. That is our expectation from the capital that is allocated to this business.

**Vishal:** Just last question I had regarding PE/RE business. Just wanted to understand our fee earning AUM has increased quite a lot quarter-on-quarter despite no new fund launches and also our yields have increased. So just wanted to understand why has that happened? And how should we think about it going forward? And lastly, employee expenses have also increased in PE/RE business. So just wanted to understand this also?

**Shalibhadra Shah:** In the PE/RE business, on the private equity side, we actually had the closing of our fourth equity growth fund. We closed the fund at Rs 4,500 crores of commitments, that closing had happened in quarter 3 of this year. And that is why you see a slightly bump up of the revenues because the final closing that happened would have an impact of higher revenues of one year of fees, which would be taken from all the investors who came at the last close to make them at parity with the other investors.

So that is the reason you see higher revenues, which showed on account of the final closing. And also, we added the GIFT City entity, which was created a few months back, and that was approved by RBI and was made our wholly owned subsidiary in quarter 3 of this financial year. So by virtue of that, the revenues from the GIFT City entity also came in, which were out of the earlier close, in this current quarter. Overall, people cost provisioning has happened because of the added revenues as well. So from this quarter perspective, it would look higher because it has impact of the earlier quarter revenues also coming in the current quarter and associated people cost thereof. So that is the reason. Overall, however, in this business, the people cost to revenue ratio will be almost same as that of the last financial year.

**Moderator:** Next question is from the line of Kajal Gandhi from ICICI Direct.

**Kajal Gandhi:** Sir, two, three questions. First, everyone in the streets is seeing decline in active clients. We haven't seen too much decline; it is marginally stable quarter-on-quarter. So what are we looking there? Secondly, I wanted to ask certain brokers have mentioned that newly acquired clients from Tier 2, 3 and 4 are giving good revenue. So what is your take there?

**Ajay Menon:** So regarding the first question, regarding the active client, mainly it is because we have been adding clients based on quality parameters with margin. So the entry point has been very clearly aligned with the quality which we want to get in. So to that extent, the attrition of the client is comparatively lesser, and that is how we have been able to ensure the active client base even in the last quarter.

Coming to the Tier 2, Tier 3 cities, surely, we are also getting clients from Tier 2, Tier 3 cities as in the overall scheme of things. But at the same time, I think for us we have got a good distribution network across our franchises and branches. So the mix might be much more towards the Tier 1 and the metros to that extent. But acquisition is happening on Tier 2, Tier 3 as well.

**Kajal Gandhi:** What is the cost of acquisition? Are we seeing any trend off floor because that is what right now is happening because most of them have stopped extra expenses on advertising and all?

**Shalibhadra Shah:** Cost of acquisition for digital customers is Rs 2,500. Our breakeven has also improved to now less than six months on the newly acquired clients.

**Kajal Gandhi:** And sir, one more question. You have not yet shifted to the flat broker in any of the products. So what is the sense you're getting in your client? Because still you are able to see such a huge jump in your last two quarters' F&O volume. So what is the trend there? Like, because even after flat brokerage, this surge is not seen across everywhere. So what is the fall there or sense there that you're getting?

**Ajay Menon:** We have always been based our strategy on research and advice, where we have got an advisory support for each of our clientele. So the overall value proposition is based on the advisory and the research that we give. We very clearly see that we will not be following the flat model.

And as such, we have not seen much pressures on the yields, surely the yields are come down, but it still far better than the flat brokerage or the discount brokers. But the biggest value-add is the research and advice. And along with that, the distribution network, which we see, which we have aligned for a customer, so that you get a holistic solution from us whether it is broking or third-party products through our advisors.

**Kajal Gandhi:** But sir, still when we see your cash brokerage versus F&O brokerage, the F&O ADTO has gone up from Rs 2.18 lakh crores to Rs 2.89 lakh crores in sequential quarter. But accordingly, then on being on ad valorem, the revenue from F&O brokerage has not surged that much.

**Shalibhadra Shah:** On a higher volume, our market share is also growing higher. There is definitely some marginal impact on the yields. However, the actual revenue have surely gone up on the F&O side.

**Kajal Gandhi:** In all, there's decline in cash ADTO. So has that impacted your total brokerage income?

**Shalibhadra Shah:** Yes, that is one of the reason. Also in quarter 3, the overall number of trading days were also less.

**Moderator:** Next question is from the line of Abhijeet from Kotak Securities.

**Abhijeet Sakhare:** A few questions on the wealth management. If you can give some breakup of the recurring revenues between, what would be advisory driven and what could be commission-driven as part of the recurring revenues?

**Navin Agarwal:** We don't follow the advisory model Abhijeet, so it's all distribution revenues.

**Abhijeet Sakhare:** And within the transaction business, just some major line items in terms of what drives revenues here on a recurring basis or on a quarter-to-quarter basis?

**Navin Agarwal:** So, the trail revenues almost cover our entire cost which is what we've been consistently indicating. Almost 80% of the operating expenditure that we reported this quarter is covered by the trail income.

**Abhijeet Sakhare:** No, I meant the transaction fees within the wealth revenues comprising 45%, which are the major items that drive those revenues?

**Shalibhadra Shah:** Alternate products are driving the transaction revenues. So during the quarter, we had good sales of our alternate products, which has resulted in the upfront revenues mix.

**Abhijeet Sakhare:** And just generally, on the wealth business, just broad thought process on what's the aspiration here from a two, three-year point of view, what scale are you looking to build here? Any size that you are aspiring for?

**Navin Agarwal:** So this business is quite under-indexed for us in terms of total AUM compared to some of the leading players in the business. And so we are looking at improving our presence, including our relationship manager base. I mentioned in the opening remarks that it's up by 20% year-on-year, December-over-December last year. We would like to continue to grow this. I think over the next two, three years, we would look at least doubling the RM base from 166 that we have right now. This is more indicative directional. So that's the part that we are on. And that's why we've guided for elevated opex and cost-to-income ratios for this business.

**Abhijeet Sakhare:** And the target market would be somewhat close to where you are today, around 10, 15-odd crores over segment?

**Navin Agarwal:** We have been present in that category already. As mentioned in my opening remarks that we've also got the leadership for the Ultra HNI segment. So we would look at the same segment growth as well as adding to the segments and regions that we are present in.

**Moderator:** The next question is from the line of Shaleen Sen from Seers Fund Management.

**Shaleen Sen:** Congratulations on these great numbers and a very detailed presentation. My question is regarding to the advisory that we hold. We have close to 2,000 advisors and the average revenue given is about Rs 7.7 lakhs. Just wanted to have a number as to what's the cost per advisor here?

**Ajay Menon:** It's around Rs 4.5-5 lakhs per advisor.

**Shaleen Sen:** So this becomes a big amount in terms of our revenues, about 33%-odd is coming from the advisors. So what exactly does this hold in terms of advice? Is it mutual fund distribution or through brokerage?

**Ajay Menon:** It is mainly broking and then comes distribution. But broking is a big piece of the overall advisory.

**Shaleen Sen:** Do clients sourced through channels other than digital medium trade themselves or through the advisors?

**Ajay Menon:** The client has got the option to trade online as well as talk to advisors. The customer has got the benefit of dealing the way he prefers, whereas the advisory is aligned to each client. So he can always give the advice to the client and the client can decide the execution perspective.

**Moderator:** Next question is from the line of Vivek Ramakrishnan from DSP Mutual Fund.

**Vivek Ramakrishnan:** I have a few questions. I just sequentially put them so it's easier for you to answer. Number one, on the yield on advances in your housing loan book, it remains at 13.8%, and you said there is a 50 bps rate increase that you've taken. So the question I wanted to know is whether the customers are in a comfortable position to absorb that and whether you will see the yield higher in the next quarter. So that's question number one.

Question number two, how much of the book is still in the restructured category and whether you're getting at least part payments, I can imagine this is slipping to NPA's, but whether you're getting part payments from the clients given the fact that the macro environment seems to be good.

The third question is on the broking business. If I see the interest income growth versus interest expense growth quarter-on-quarter because year-on-year, again, there will be distortion due to the IPO. That you are seeing that the margins have compressed a lot. So are you essentially not passing on costs in a desire to gain market share? Or how does the dynamics work there?

**Shalibhadra Shah:** Coming to question of restructured book, overall, the restructured book stands at Rs 251 crores on the total AUM of Rs 3,650 crores. On the interest rate front, our overall yield is at 13.8%. This does not included any impact of the RPLR increase of 50 basis. This effect has happened from 1st of January. Overall the collections in last 12 months have been very stable. So if you look at this whole trend of collections, and even in quarter 4 and the period to come, we expect that this RPLR impact would be passed on to the customers without any material impact on the overdue book.

Broking interest yield is at 14% on the average book of Rs 3,200 crores during the quarter.

**Vivek Ramakrishnan:** Sir, my question was more in terms of ability to pass on the interest rate hikes because interest rates have gone up pretty sharply. So whether that is going to compress the NIM temporarily until the cycle reverses again. Is there any ability to hike your interest rate charges to the clients?

**Shalibhadra Shah:** Actually, NIMs for broking have already compressed over the last two quarters because there has been an increase of almost 175 basis points in the overall cost of funds in the current financial year, out of which almost half of that increase has been passed on to the customers and half of that has been absorbed at this juncture in our NIMs. So still will continue with a healthy NIM of 5.8% on this overall book.

**Moderator:** Next question is from the line of Deepak Sonawane from Haitong Securities.

**Deepak Sonawane:** So my first question is on HFC side. If you see that within our AUM mix, the construction finance continues around 13% as of December which was almost around 11% as of September. But if you see that as your ticket size wise, about 2.5 million ticket size, it only contributes around 3%, right? And what you mentioned in note as well that you're lending to CAT-A builders, right? So there should be disbursement of very high ticket, right? So am I missing any catch over here?

**Navin Agarwal:** So the current retail disbursements are running at a very low rate Deepak. And as I mentioned to you, we are looking at stepping this up. We've seen a two-year high monthly disbursement in the month of December, and you're looking to ramp this up in the March quarter. But from a quarter-to-quarter basis, the CF book, it is very small proportion may have lumpy disbursements between quarters, and it will not be as smooth as the buildup of the retail disbursement.

**Deepak Sonawane:** What is the average ticket size for us in the CF business?

**Navin Agarwal:** Average ticket size in the CS business is Rs 30 crores. In the presentation, what we have put out is the only retail average ticket size.

**Moderator:** Next question is from the line of Prakash Kapadia from Anived Portfolio.

**Prakash Kapadia:** A couple of questions. On the mutual fund side, how much is passive as percentage of our AUM. And recently, there have been opening of international funds. So what is the unit holders' interest? Are we seeing step up? Are we seeing lump-sum investments? Are we seeing new SIPs coming in? Because I think from January, we opened the investing for global funds.

**Navin Agarwal:** Yes. So the passive AUM is about 20% of our overall AUM. And because of the reopening from January, we are seeing even some of the stock SIPs have also started renewing. But it's in the early days. It's been only a few weeks. We wait for how this quarter shapes up. Anyway, this is not an unlimited opening up. It is only to the tune of the redemptions that our fund has seen. So I think the real growth in this will only happen Prakash, once the overall limit is increased. Right now, even if we expect to grow, it will not be very sizable.

**Prakash Kapadia:** To the extent of redemption, the amount can come back, once that comes back, again, the SIP as well as the lump sum would stop.

**Navin Agarwal:** Yes.

**Prakash Kapadia:** Assuming there is no limit change?

**Navin Agarwal:** Yes.

**Prakash Kapadia:** Secondly, on the FI side, what is the sense we are getting from our client interaction. There have been net sellers in India in CY '22. And given where we are seeing the debt returns as of now, do we think retail flows or new investors who just entered could stop SIPs or flows could get affected because markets have been challenging the last 12 to 15 months. Any sense on that?

**Navin Agarwal:** On a year-to-year basis, if you see in the last 20 years, for most of the years, foreign FIs have been net investors in India. Their holding over a longer period has gone up meaningfully. On a year-to-year basis, there are various factors, it could be overall redemption in emerging markets and now in the near term, it could be China opening up and a lot more money going there. So near term is very noisy and very volatile.

But if you look at the growth of India versus the rest of the world, the earnings growth of India versus the rest of the world, the share of market cap of India and the rest of the world and the holdings of foreigners in their overall portfolio of India, we are quite under represented. So the possibility that the flows will continue to be positive in longer term is high, as far as the foreign investors are concerned.

As far as the domestic investors are concerned, again, we've seen lesser volatility than we've seen ever before in terms of volatile markets versus volatility in the domestic flows. I think the SIP book has been reasonably strong and steady, notwithstanding what is happening to the FI flows.

So I think structurally, we see both of them actually, at some point, turning positive, although in the last year, we've seen the large FI selling offset by the large domestic money. So near term could be noisy. But longer term, we would expect both these stores to be positive for India.

**Prakash Kapadia:** And lastly, if I look at capital market-related revenues, they are approximately 2/3 for us on a run rate basis as of now. Any direction or aspiration over the next two, three years, what would we want to have this as a percentage of our revenues?

**Navin Agarwal:** I mean while growing the capital market side of the revenue, for sure, given that market is consolidating, we spoke about that because of compliances, distribution, brand, a variety of reasons. We think that the capital markets business itself has a lot of headroom. But having said that, we are investing, building in the wealth management business, in the home finance business, I talked about the asset management business performance is picking up.

We spoke about the Rs 4,500 crores private equity, fourth series that we have closed. We are waiting SEBI's approval for our next real estate fund launch, which will be of Rs 1,500 crores of AUM. So we are really putting in all the building blocks in the rest of the businesses so that we can see faster growth in those businesses compared to the capital market business. As a first top, you can look at a 50-50 breakdown in the forseeable future. But obviously, given the annuity nature of these businesses, they have a lot of headroom and a lot of potential in our view.

**Prakash Kapadia:** And in this era of consolidation, will pricing improve on the broking side or with some of these new edge brokers who have garnered more than 50-55% of active client share, pricing could remain muted or upward pricing could be difficult?

**Ajay Menon:** I think with the ASBA coming into picture, there might be some pressures in the discount brokers to look at the overall yields. But as far as we are concerned, we are still very much ahead of the discount brokers in terms of the overall yield. So we don't see any pricing going up from our end, but not sure about the industry on an overall basis.

**Moderator:** Thank you very much. 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, who attended the Q3FY23 conference call. In case, if you have any further questions, please do get in touch with us. Thank you. Have a good day.

**Moderator:** Thank you very much. On behalf of Motilal Oswal Financial Services Limited, that concludes this conference. Thank you for joining us.