Management Discussion

Manish Kayal - Head of Investor Relations, Motilal Oswal Financial Services Limited
Thank you, Yashashree. Good afternoon, everyone. I welcome all the participants on behalf of Motilal Oswal Financial Services Limited to take time out to attend our Q2 FY '27 earnings conference call. We hope that you had an opportunity to go through our investor deck and press release uploaded on stock exchanges and on our website yesterday. We have also uploaded our Excel data book on our website that has all the operational and financial numbers. Please note that today's discussion may include forward-looking statements.

These forward-looking statements are based on our macro assessment and the actual outcome may vary. To represent the group, we have the senior leadership members on this call. We'll start this call with an opening remark by Navin, our Group MD, and then we will have a Q&A session. Over to you, Navin.

Navin Agarwal - Group Managing Director, Motilal Oswal Financial Services Limited
Uh, thank you, Manish, and good afternoon everyone and warm welcome to our earnings call for the quarter ending December 26 to discuss the group's overall performance. Let me first, uh, before I get down to the quarter performance, share some broader sense of the group's strategic direction which will, uh, which could drive, you know, continued strong performance like we have been delivering over the last decade. Motilal is one of the largest integrated capital markets players with rising share of annuity revenue and each business offering a strong growth runway leveraging the opportunity, opportunities available in financial- with financial financialization of Indian savings.

Our operating businesses have delivered a decadal compounded growth of 33%, uh, growth. EPS has grown at 26% compounded. Return on equity for a decade has averaged at 23%. This strong growth is supported by our investment book also, which is- which has been growing compounded for a decade at 41%, uh, led by strong IRRs as well as reinvestment of the operating profit post the dividend distribution that we do to shareholders. Since our listing in 2007, we have never diluted equity while consistently paying out dividends and executing three buybacks.

This has only been possible due to our unique twin-engine business model wherein our large investment book serves as a Strong backbone to all the operating businesses which have seen regulatory changes, rising funding needs, strong underlying business growth, and a market share gain. All this required huge capital which would only have been possible through this twin-engine business model. Sustainable growth is witnessed in our ARR, annual recurring revenues, and profit share. ARR revenues now contribute 66% of the group's revenues.

This number was 55% in FY '24. This has helped us in reducing the cyclicality in our revenues led by the transaction businesses. All this has happened mainly on account of the Asset and Private Wealth profit after tax growing by 44% year-on-year. These businesses now contribute 57% of the group's profit after tax in first half. This number was 39% in FY '24. The non-broking revenue share, even in the wealth management business, uh, has increased to 65% in the first half versus 53% in FY '24. This transition is led by strong performance in all businesses, comprehensive offering in the asset management business which now spans all listed products to the less understood alternate franchise that we foresee strong growth in the number of offerings, product offerings, and profitability given our long history of strong IRRs.

AUM of asset management business continues to grow and currently stands at INR2.23 lakh crores including MO Alternates, which is a new milestone for the group. This AUM has witnessed a

compounded growth of 32% over the last five years since March 2021 with strong market share gains. Also, during the second quarter, the group received license from SEBI to act as a custodian of securities. This approval allows Motilal Oswal to complete the institutional product offering. This was after more than a decade that the regulator gave this license to a non-bank.

We've already hired CEO and the senior management team for this business, and this business will commence operations in the fourth quarter of this fiscal year, subject to the completion of operational readiness. Our market cap ranking has also consistently improved along with our profit after tax ranking among listed players. We are currently ranked, uh, among top 161 companies on trailing 12-month profit after tax. This number 10 years back was 345 and 15 years back was at 373. Also by market cap, we ranked 175 now 10 years back, this number was 285.

15 years back, this number was 365. We see the next decade offering equally exciting opportunities and prospects which should drive improvement in these rankings further. Now, starting with the detailed second quarter performance highlights, our corporate after-tax grew by 29% on year-on-year basis to 718 crores, led by asset and private wealth businesses which grew by 43% year-on-year. These businesses, I repeat now, contribute 58% of the total operating profit versus 49% in FY '26 and 42% in FY '25.

We expect that the share of asset and private wealth businesses to continue to rise as these businesses have strong tailwinds and have been outgrowing the rest of the businesses for the last few years. We have stepped up investments on all fronts, including people, brand, technology in the past couple of years, and we expect these to bear fruits in the coming years. In terms of continued market share gains and improvement in profitability. Turning now to individual segments, uh, I'll start with the Asset and Private Wealth businesses, which comprise of the Asset Management listed, the MO Alternate unlisted, and the Private Wealth Management businesses.

The Asset and Private Wealth business continued its momentum during the quarter with robust flows of INR12,477 crores of net inflows, taking the AUM to INR5.2 lakh crores as of September 26, which is up by 42% year-on-year. The operating leverage from rising AUM should, uh, be a strong driver to our profit growth. I'll start with the asset management business, which includes mutual funds, PMS, and AIF. As of 30th September, 99% of our AUM outperformed their respective benchmark in the past three years.

Our product bouquet has not only widened but also grown significantly. We now have 24 schemes that have crossed Rs 1,000 crore AUM. This number was 16 schemes last year. Only six of our funds have a vintage of over three years. This number will be eight by March '27. It will be 16 by March '28, as most of these are, uh, category-leading funds in terms of performance since inception and are in the mainstream categories. That should help in continued strong flows as well as diversification of the AUM across more schemes over the next two years' time.

This will also continue our trend of net mutual fund flow market share improvement, which currently stands in the month of September stands at 6%. Our flow market share continues to be well above our AUM market share of 2.7%. Our passive fund AUM crossed 50,000 crore milestone, demonstrating our focus on growing even the passive business along with the active business. We are ranked fifth, uh, in the passive business excluding the low-yield broad market indices like Nifty, which have very large institutional, uh, capital deployed at low yield.

The unique, uh, pan catered by our AMC is more than 1 crore as of September 26. And so one in six investors in the mutual fund industry, uh, are now investors in Motilal Oswal Asset Management, uh, showing strong confidence by retail investors in our franchise. The revival in 2Q was prepared by-

uh, has propelled our average AUM to grow from INR1.67 lakh crores as of March '26 to INR2.01 lakh crores as of September '27, reflecting the continued momentum in the business. Uh, the Q2 SIP flows, uh, remain strong at INR4,170 crores.

Market share was 4.4%. The SIP AUM stood at INR42,000 crores as of September 26. We have a strong distribution reach with 2,400+ distributors now contributing over a crore of gross flows in the last 12 months, and 30%+ of our ex-digital sales now come outside of the top 10 markets. Uh, we believe that the AMC AUM growth will be supported by several factors. 99% of the AUM, uh, is outperforming its respective benchmark. On three-year basis. This strong performance should drive net flows growth. Analyze SIP run rate of about INR18,000 crores should drive AUM growth.

Uh, growth across products and more products crossing three-year vintage should be a tailwind. Current average AUM of INR2 lakh crores is 28% higher than the INR1.57 lakh crore AUM average in FY '26. Uh, potential mark-to-market gains, uh, after two muted years, uh, should also help the AMC business. Collections from our proposed NFOs besides discretionary flows should be a driver. Finally, we are also tapping new growth avenues for our businesses, including entering the pension business, launching our SIF Launching outbound gift city funds and broadening our hybrid presence.

In summary, as strong growth of AMC led by the above factors continue, AMC will remain a key growth driver and an ARR driver to Motilal Oswal. Turning now to the MO Alternates business, this business has a vintage of over two decades. We already have a strong franchise in growth capital and real estate and are confident of delivering industry-leading IRRs our clients in all the products that we offer. We are in the process of executing our final close of our maiden private credit fund of INR3,000 crores.

Our maiden commercial offices, uh, real estate fund has just been launched. We are witnessing increasing allocation from family offices as well as institutions in this segment. This business should- is, in, my opinion, at the same stage of evolution as the mutual fund business was over a decade back. In summary, uh, opex asset management business too will be an important growth driver and ARR driver for Motilal Oswal on the back of increasing fund sizes in every subsequent series that we have demonstrated over the last 20 years, entry into newer categories like private credit, commercial offices, and more funds entering the carry income recognition threshold, which will boost our carry income run rate.

The asset management business now contributes 43% of the group operating profit after tax in the second quarter. This number in same quarter last year was at 31%, and we believe should continue to rise, uh, in the overall profits. Turning to our private wealth business, the Q2 ARR revenue is strong at INR180 crores. Net flows was up 65% quarter on quarter to INR6,357 crores, leading to an AUM growth of 58%, uh, year-on-year to INR2.96 lakh crores. Our core 43 items will also witness productivity improvement as the vintage increases.

Uh, only 33% of the RMs have a vintage of over three years. For second quarter, profit after tax is up 2% year-on-year due to a high base of the second quarter of last year. However, the three and five-year profit after tax growth for the private wealth business has been at 25% and 29% respectively, and we expect the second half profit after tax growth to also be much higher than the first half. We have made large investments in senior leadership, R&Ms, and we will continue to do the same in a calibrated manner going forward as well.

Focus is to grow the ARR, AUM through various initiatives including advisory solutions on both equity and debt, including bespoke advisory segment, uh, product called Delphi, which is seeing strong traction. Strengthening leverage solutions as a value-add for the UHNI clients. Exclusive

co-investment leveraging group synergies. Uh, in summary, we expect a strong growth in the private wealth business on the back of rising monetization and improving product and people proposition. Turning to our wealth management business, which includes retail broking, distribution, and our retail lending book, we continue to have sharp focus on growing our ARR revenue, which includes distribution income as well as NII, led to the share of these businesses in the wealth management franchise Increasing from 33% in FY '21 to 58% in 2Q FY '27.

ARR revenue grew by 10% on a Y-o-Y basis to INR328 crores this quarter. Distribution book grew by 26% to INR48,000 crores year-on-year. We are confident that our distribution book will grow meaningfully as we continue to harness the cross-sell potential of our franchise, which stands at 18%. Our loan book in this segment rose by 42% to INR10,200 crores. Our MTF market share is close to 7% and will improve going forward. Our broking business continues to retain its leadership as a full-service broker amongst the non-bank players.

We are the largest broker in the cash segment on revenue market share in the non-bank segment. Our overall retail broking market share including commodities stood at 7.9% this quarter. Led by market share gains in F&O Premium segment from 7.6% to 8.8% quarter-on-quarter, and our cash market share in the same time period has improved from 6.8% to 8%. Headwinds for broking revenues due to regulatory changes and flat markets over the last quarter, we believe, are in the base and expect growth to improve going forward.

Turning to the capital market businesses comprising of Institutional Equirus Securities and Investment Banking, Despite challenging market conditions, our investment banking business has successfully closed 41 deals in the first half, cumulative raise of INR99,000 crores, fee income of 39% growth quarter on quarter to INR94 crores. We rank number one in QIPs and number three in IPOs in the first half of this financial year as per the Capital Markets League table. In the institutional Equirus Securities business, we are continuously increasing our coverage.

We've crossed 400 companies coverage and are on track to cover 500 companies, which will not only increase our research depth but also improve, uh, opportunities to engage with these corporates for other businesses. In summary, we have built a strong franchise and diversified our product portfolio over the years. Our size per deal is higher than in the past, and with a strong deal pipeline, we are well positioned to benefit from any market revival. Turning to the housing finance business, uh, the disbursements grew 29% year-on-year to INR701 crores.

AUM grew by 24% to INR6,476 crores. We expect housing finance business to witness similar growth as we have delivered, uh, in the last quarter in the coming three years' time. Business has a high capital adequacy ratio, low leverage, giving us enough growth levers without any external equity capital dependency. Our Treasury investment book grew by 27% year-on-year to INR11,346 crores. I repeat, this business has- this book has witnessed a compounded growth of 41% since March 2014, led by strong IRRs and reinvestment of the operating profit.

To conclude, we believe that the regulatory headwinds of the broking business are in the base. Uh, Indian investors continue to display resilience as far as the SIP flows are concerned. I spoke about the rising share of ARR in our overall businesses, and those businesses having strong tailwinds in terms of market share gains. And this should be an important growth driver for us in the second half of the year, like we've delivered in the second quarter, uh, uh, just in the recently concluded second quarter.

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

Questions & Answers

Operator
Thank you very much. [Operator Instructions] [Operator Instructions] who wishes to ask a question may [Operator Instructions] If you wish to remove yourself from the question queue, you may [Operator Instructions] Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We'll take our first question from the line of Sagar Jethwani from PhillipCapital PMS. Please go ahead.

Sagar Jethwani - Analyst, PhillipCapital PMS
Yeah, uh, congratulations on a good Q2, uh, but also on getting the custodian license. My first question is on the custodian business. How do you see the scale-up in next two years? Is it, uh, is it ARR accretive given the combination of transaction fees and Custodian fees linked to the AUC? So that is my first question.

Ashish Shanker - Motilal Oswal Financial Services Limited, CEO, Private Wealth
Uh, very tough to comment anything. We are only hoping to launch this business in the fourth quarter of the year. The team has just come in place, the product offering is still formulated, getting formulated. Uh, so I think we'll, we'll hopefully be able to, uh, you know, guide you on, uh, the broad, uh, product positioning strategy Uh, for this business maybe at least, uh, you know, 3 quarters down the line. Uh, it's, it's anyways not going to contribute, uh, you can say anything in the, in the, in the, even in the next financial year ending March '28.

Sagar Jethwani - Analyst, PhillipCapital PMS
Okay. Uh, then second is on, uh, you know, second is on the private wealth management. Uh, what are your hiring plans and RM hiring plans in S2? Uh, and you know, the RM hiring done in the last 3 years under this segment Uh, what percentage of RMs have not broken even or, you know, generating less than 1x?

Ashish Shanker - Motilal Oswal Financial Services Limited, CEO, Private Wealth
So yeah, in the private wealth, uh, if you recollect when we had spoken, uh, a lot of the hiring that we have done, the plan is to harness the operating leverage from these bankers. About 1/3 of the bankers are vintage and 2/3 of them are less than 3 years vintage. Now, uh, typically what happens is that within a year the RMs break even on their cost, and then, you know, they start contributing, uh, to the organization. So within two to 3 years, generally they are profitable for the organization. So largely, if I look at it from the, from the two-thirds, about, um, 15% are less than one-year vintage.

So that, those are the RMs, that is the cohort which is, which would have not yet broken even. But otherwise, rest of them would have broken even. And in terms of hiring, we continue to, uh, hire, uh, but more judiciously. And a lot of the addition is happening in the ultra HNI, uh, segment this year. Okay.

Sagar Jethwani - Analyst, PhillipCapital PMS
And, uh, you know, our lending book has, you know, grown by a strong 90% under PWL segment. And, you know, since last four quarters, uh, there is a sudden fast pickup in the lending book. So do we see this as a normalized growth?

Shalibhadra Shah - Group Chief Financial Officer, Motilal Oswal Financial Services Limited
Yeah, so as far as the book growth is concerned, you know, bulk of the growth has also come from,

you know, MTF book within this for, you know, the HNI and UHNI segment. So which is largely in line with, you know, how the cash volume growth has also happened in the market. So as the cash volume keeps growing, to that extent, and a portion of the book is loan against shares also, which is growing at, you know, normal rate of about 20-25% a year.

Sagar Jethwani - Analyst, PhillipCapital PMS
Understood. Thank you. I'll fall back in the queue for any further questions. Thank you. All the best.

Shalibhadra Shah - Group Chief Financial Officer, Motilal Oswal Financial Services Limited
Thank you.

Operator
Thank you. Before we take the next question, we'd like to inform participants [Operator Instructions] Next question is from the line of Nidhesh Jain from Investec. Please go ahead.

Nidhesh Jain - Analyst, Investec
Thanks for the opportunity, sir. So first question is on the broking business, wealth management business. Our market share in cash and F&O has picked up on a sequential basis. So what is driving that and what are the steps we have? Because if you look at the data, for some time our market share was sliding downwards, but this quarter we have seen healthy pickup in market share. So what is driving that? If you can just share some, some light on that.

Ajay Menon - CEO, Wealth Management, Motilal Oswal Financial Services Ltd
So mainly on the cash market side, if you look at it, the market share growth is mainly because of the MTF book which has grown corresponding to the market growth. So to that extent, we have been able to grow the cash market market share also, uh, focusing on the MTF book and the overall cash market volumes. So that is connected to mainly the MTF. In the, uh, F&O side, if you look at it, we have always been on the side where we try to, uh, advise customers to be playing the options market very safely.

So when the market volumes are much lower, we tend to do better. So to that extent, our market share has grown in this market in the option side. So, and surely on the futures, we are being better off on the overall market. So to that extent, the option market share is a little up on the overall perspective.

Nidhesh Jain - Analyst, Investec
Sure. And so coming to AMC business, uh, our net flows have been a bit moderate for last few quarters. Uh, last year's, uh, the trend was very strong. On that base, the net flows have moderated. So what is driving that and how do you see your net flow market share on AMC panning out in coming quarters and FY '28?

Prateek Agrawal - Managing Director and Chief Executive Officer of Asset Management, Motilal Oswal Financial Services Limited
Sure. So Q2 net flows are a tad higher than quarter one. So active Q2 was 3,400, All were negative. Taxes were Rs 1,600 and SIP over INR1,400 crores. SIP is INR1,400 crores a month, uh, that he has. Now yes, you are right, we underwent 2-3 months of lean period, but happily September saw us get in, uh, INR2,400 crores of net active inflows. And as we speak, October, again, we should do over 2,000 net on active. So the trend has definitely come back to how it used to be earlier. Uh, performance is a large part of what drives inflows, uh, and with a very strong performance, you

know, our funds did 6% kind of alpha last quarter, we believe traction in flows should continue.

Nidhesh Jain - Analyst, Investec
Sure, sure. And can you quantify the carry income in the quarter, carry income booked in this quarter?

Shalibhadra Shah - Group Chief Financial Officer, Motilal Oswal Financial Services Limited
Yeah, that is, yeah, so that is 108 crores.

Nidhesh Jain - Analyst, Investec
Sure. So, and the last question is on Alternates. Uh, what are the plans for new fund launches, uh, over next two quarters in the Alternates business?

Navin Agarwal - Group Managing Director, Motilal Oswal Financial Services Limited
Yeah, so as I explained my con call, uh, opening con call remarks, Nidhesh, uh, we are at the verge of closing, uh, we've already crossed the 90% threshold for the private credit fund. Uh, the pipeline is actually more than that 10% right now. Uh, so we are just looking at some domestic institutional flows for which we are holding back the pipeline, else we would have reported a closure along with this, uh, quarterly con call. Uh, in the meantime, uh, given that that fundraise is complete, we have launched our maiden commercial offices real estate fund.

This is the of its kind. We already have a very strong resi, uh, real estate credit franchise. So this will be the- this will be the fourth offering by the Alternates business. Uh, clearly, you know, as I explained, this business is probably at the same stage of evolution as the mutual fund business was 10-15 years back. And so just the number of product offerings themselves will, you know, continue to go up every year. You hopefully see the closure of this Commercial Offices Fund over the next six months' time and the launch of potentially the next series of product in the, in the calendar year 2027.

So you'll see us broadening these product offerings. Uh, there's a lot of white spaces that we have to cover, India has to cover importantly, as, uh, as the allocation of alternates, uh, both by institutions as well as by family offices you know, in their overall equity allocation continues to rise.

Nidhesh Jain - Analyst, Investec
Sure, sir. Thank you. That's it from my side.

Navin Agarwal - Group Managing Director, Motilal Oswal Financial Services Limited
Thank

Operator
You. Next question is from the line of Dipanjan Ghosh from Goldman Sachs. Please go ahead.

Dipanjan Ghosh - Analyst, Goldman Sachs
Hi, good morning everyone. So a few questions from my side. First, on the insurance revenues that you book in your Wealth and Private Wealth arm, or as a percentage of your total operational revenue, if you can quantify that and give some breakup between the segments, that would be useful. And if you expect some impact because of the proposed consultation paper. My second question is on the- is going back to one of the previous participants' questions, which is, if you look at the difference between your Lending AUM and your MTF, that portion has also grown considerably to almost like INR8,000 crore plus, around that number.

Just wanted to get some sense of what's the mix and customer quality in that segment. So that was my second question. My third question is on your ex-custody transactional AUM. Within the PWM arm that has meaningfully increased quarter on quarter. I would presume that mark-to-market probably would have been a tad negative on a closing basis. So what explains that, and was there any particular activity on the transactional side that you expect going ahead or something like that, or during the quarter?

And last question is on the housing piece. Uh, do you foresee any pressure on asset quality?

Shalibhadra Shah - Group Chief Financial Officer, Motilal Oswal Financial Services Limited
Yeah, so, um, the answer to the insurance portion, uh, in the operating revenues in the wealth management business, that number is about 3% of our, you know, operating revenues. Predominantly, this number includes from the life insurance segment at this juncture. Coming to the question on the lending book, the insurance component on the housing finance revenues is actually about 7% of the revenues in the housing business and 3% of the operating revenues in the wealth management business. Coming to the lending book composition.

So actually, uh, you know, from the lending book composition of about INR18,000 crores in the group, uh, uh, INR9,500 crores is MTF book, INR6,500 crores is housing finance book, and, uh, rest, uh, INR3,000 crores is, uh, loan against shares book. So this is a broader composition of the book against which bulk of the growth has come actually from the MTF side, and even housing has grown at about 25%. Coming to the question on the asset quality on home finance business, asset quality across, you know, on the overall book has been pretty good.

If you look at, you know, all one+, 30+, 90+ pools, all of them on a year-on-year basis have come down. So all the delinquencies are, are lower than what was there in H1 FY '26. Further, even in H2 of the year, uh, we expect, you know, asset quality to further improve because H2 there is a bulk of recoveries which happens. H1 generally seasonal, so there is some amount of delinquency which increases. H2 we would be expecting to normalize the GNPA number around 1.1-1.2%. As far as the flows of the private wealth business,

Ashish Shanker - Motilal Oswal Financial Services Limited, CEO, Private Wealth
Yeah, so on the transaction AUM, essentially if you see, there has been some growth in custody assets. And essentially what happens is when you onboard large promoter accounts, there are a few promoters who also transfer their own shareholding into, into our demat account. Plus, uh, like mentioned earlier, I think the MTF book has helped us to drive broking assets as well. So it's a combination of custody and broking assets which has led, led to the transaction assets going up.

Dipanjan Ghosh - Analyst, Goldman Sachs
Got it. Just one clarification on the MTF and the lending AUM. If I look at your lending AUM in PWM and wealth management, that's around together around probably INR17,000 crore, and your MTF I think is around INR9,000 So the difference looks more like 8-9,000 crore, whereas your last is around INR3,000 crore as you mentioned. So I'm just trying to understand, um, is there some overlap between segments? Can you just explain the divergence?

Shalibhadra Shah - Group Chief Financial Officer, Motilal Oswal Financial Services Limited
Yeah, so actually to clarify that, you know, because there is also, uh, you know, bank guarantee, uh, financing typically. So we also add that as a part of our, you know, lending book because where we, you know, substitute the collateral of the client bank guarantee financing. So that book, if you

consider, that book is about INR4,500 crores.

Dipanjan Ghosh - Analyst, Goldman Sachs
Got it, fair enough. I'm sorry, if I can squeeze in one small question regarding your AUM per family in your PWM. It seems that even on an organic basis, there has been increase in wallet per customer. So in terms of the flows that you are expecting or you have seen over the past few quarters in your PWMR, between monetization-led flows and let's say organic increase from existing customers, uh, what would be the broad split?

Ashish Shanker - Motilal Oswal Financial Services Limited, CEO, Private Wealth
Typically, I think we had mentioned this in our earlier calls as well, uh, the flow from new customers is around 20% of overall net flows, but it's steadily increasing. Bulk of the flows will come from mining existing customers Which have been acquired in The previous year or the years before that.

Dipanjan Ghosh - Analyst, Goldman Sachs
Sure, uh, thanks and all the best.

Shalibhadra Shah - Group Chief Financial Officer, Motilal Oswal Financial Services Limited
Thank you.

Operator
Thank you. Ladies and gentlemen, [Operator Instructions] now. Next question is from the line of Lalit Mohan Deo from Equirus Securities. Please go ahead.

Lalit Mohan Deo - Analyst, Equirus Securities Private Limited
Yeah, hi sir, uh, congratulations Good set of numbers. sir, just two three questions. So firstly, on this carry income up, so like we have seen an increase from around sixty five crores to almost like one ten one fifteen crores in this quarter. So how should we look at this number in the incremental quarters? Secondly, like we are seeing some strong revival in the net active MF inflows to more than two thousand crores. So could you just also give us a rough breakup? Like which channels are mostly contributing to this increased flows?

And lastly, like within the AMC business, we are all- as you have highlighted that we are looking to launch SIFs and hybrid. So typically, what would be the time? Any expected timelines over there in terms of the product piping?

Shalibhadra Shah - Group Chief Financial Officer, Motilal Oswal Financial Services Limited
Okay. Yeah, as far as the variable returns are concerned, you know, as We had explained over, you know, even our past calls, uh, these are recognized because, you know, select funds have actually progressed to a stage where the recognition criteria is met now and our systematic approvals have commenced. And currently, you know, this is accruing from, you know, largely two mature schemes, uh, because there is also a very significant headroom to actually scale up because as our, you know, fund vintages expand on our alternate side, uh, this number will, you Know, Gradually increasing as even the IRR accruals get, gets added every year. So naturally also this number will, you know, look up as we come closer to the exit. Uh, you know, this is going to be a recurring and, you know, growing contributor to our alternate business, uh, you know, going forward as, you know, visibility and certainty of realization have actually materially improved through our investment performance and, you know, achievement of hurdles. And as we progress more towards the realization,

Navin Agarwal - Group Managing Director, Motilal Oswal Financial Services Limited
I mean, just to give another color, basically we see many quarters of visibility for this in the, in the, in the bag. And so the, booking of this will obviously, uh, happen as the mature- as the maturity of these funds come closer. And, uh, so the unique thing that I want to leave you with is that, uh, you know, being 20-year vintage with 10-year fund sizes, uh, imply- and with every series having 2x AUM compared to the previous- implies that the variable annual return pool also, uh, will keep, uh, you know, rising.

With every quarter, every year. I mean, this is, I would say, more predictable than even any ARR income that we given the long duration of the funds and the nature in which the rate in which it is booked. Yeah, Pratik, you can take the answer.

Prateek Agrawal - Managing Director and Chief Executive Officer of Asset Management, Motilal Oswal Financial Services Limited
So in terms of what we look forward for. Enhancing sales momentum and market share. I'm just broadening the question a bit, is that several of our large positions cross three-year vintage over the next six to seven months. It starts with small cap. Now small cap is the single largest inflow category, you know, small and mid are two large inflow categories. It crosses three-year vintage in December, followed by large cap over the next 3 months, followed by multi-cap over the next three-month period. So these, as these categories, you know, for our cross 3 years, we should see us, you know, benefit from that because a lot of distributors look at minimum 3 years of performance for allocating monies.

Otherwise, our product basket on the active side is pretty rich. We are like 24 funds. While we will keep launching, but they will not be such a large driver of net sales. Something that we are looking forward to is SIF launch. Which should happen in the Jan to

Lalit Mohan Deo - Analyst, Equirus Securities Private Limited
Q2. Sure, yeah. And so just last one, uh, wanted to check one thing on, the commodity brokerage yields. Uh, we see that it has fallen sharply in the last two quarters. Um, are there anything to read over there?

Ajay Menon - CEO, Wealth Management, Motilal Oswal Financial Services Ltd
Actually, on the commodity side, mainly what we have seen is that, um, most of the discount brokers have just started their commodities, uh, uh, deals in a big way. And, uh, there has been some volumes which has gone up in the last few, uh, last one quarter because of the volume, the crude and the gold, if you know that way. So accordingly, there has been a slight impact on the market share in this quarter, which I think is more of a trend which will be recovering very fast.

Lalit Mohan Deo - Analyst, Equirus Securities Private Limited
Yep, thanks.

Operator
Thank you. Ladies and gentlemen, [Operator Instructions] Next question is from the line of Venkatesh, an individual investor. Please go ahead.

Unidentified Participant - Analyst, NA
Uh, thank you. Uh, my only one question, uh, what is the split of our treasury investment? Uh, like, onto equity and debt.

Shalibhadra Shah - Group Chief Financial Officer, Motilal Oswal Financial Services Limited
Uh, yeah, treasury book is, uh, almost about, you know, 98% equity. Yeah, so predominant book is all equity. There is no debt. And within the equity book, you know, about 55% is our AMC funds, 20% is are alternate funds, and rest 25% is direct equity. 23% is direct equity.

Unidentified Participant - Analyst, NA
Thank you.

Shalibhadra Shah - Group Chief Financial Officer, Motilal Oswal Financial Services Limited
Okay,

Operator
Thank you. Participants who wish to ask a question are requested to [Operator Instructions]

Manish Kayal - Head of Investor Relations, Motilal Oswal Financial Services Limited
On behalf of Motilal Oswal Financial Services, I would like to thank every participant for attending the Q2 FY '27 con call. Uh, in case if you have any further questions, please do get in touch with our investor relations desk. Thank you and have a good day.

Operator
Thank you, members of the management team. On behalf of Motilal Oswal Financial Services, that concludes this conference. Thank you all for joining us, and [Operator Closing Remarks]