

Rating Rationale

September 04, 2024 | Mumbai

Motilal Oswal Financial Services Limited

Rating outlook revised to 'Positive'; Ratings Reaffirmed

Rating Action

Rs.1750 Crore Commercial Paper	CRISIL A1+ (Reaffirmed)
Non Convertible Debentures Aggregating Rs.1700 Crore	CRISIL AA/Positive (Outlook revised from 'Stable'; Rating Reaffirmed)

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has revised its outlook on the non-convertible debentures of Motilal Oswal Financial Services Limited (MOFSL; a part of the Motilal Oswal group) to **'Positive'** from 'Stable' while reaffirming the rating at 'CRISIL AA'. Further, CRISIL Ratings has reaffirmed its 'CRISIL A1+' rating on the commercial paper programme of the company.

The revision in outlook is driven by the expectation of sustained improvement in the business risk profile of the group – evidenced by sustained growth and diversity in business segments, underpinned by the group's established position in the broking segment and expanding presence in adjacent businesses such as wealth and asset management. The outlook also factors in the anticipated continuity of increase in operating profits^[1], corresponding to the business growth, while risk management and capitalisation metrics remain sound.

The ratings continue to reflect the group's healthy capitalisation, its prominent market position in the equity broking segment, and expanding presence in other financial services businesses, which is expected to lend greater stability to the earnings profile. These strengths are partially offset by susceptibility to inherent uncertainties of the capital-market-related businesses, and limited track record in successfully scaling up the lending business.

The group operates across broking (retail and institutional) and allied services such as retail financial product distribution (distribution of financial products to high-networth individuals [HNIs] and retail), investment banking (IB), loan against shares (LAS) and margin funding (MTF)^[2]. It is also engaged in asset management (mutual fund [MF], portfolio management services [PMS], alternate investment funds [AIF]), private equity (PE), wealth management (WM; caters to HNIs and ultra HNIs) and housing finance. As of June 30, 2024, the consolidated assets under management (AUM)^[3] were Rs 2,73,572 crore, ~15% higher than that on March 31, 2024. Through fiscal 2024, AUM clocked a three-year compound annual growth rate (CAGR) of 31% which has been a factor of steady growth in segments such as WM and MF coupled with buoyancy in capital markets.

Alongside this growth, capitalisation remained healthy with sizeable network of Rs 9,764 crore as on June 30, 2024, and Rs 8,768 crore as on March 31, 2024 (Rs 6,283 crore as on March 31, 2023). On the same dates, gearing remained comfortable and similar at ~1.6 times. Excluding the unrealised gains from investment book, the on-book gearing was still comfortable at 2.4 times as on March 31, 2024 (against 2.8 times a year ago). Network has been largely funded through internal accruals, which – supported by both operating profits and treasury gains – have increased at a steady pace over the past few years.

Total revenue (net of interest expense and inter-company adjustments) grew by 67% over fiscal 2024 to Rs 6,388 crore – comprising 51% as revenue from the broking business, 12% from the WM business, 12% from asset management, 3% from PE and 5% from housing finance business. In addition to this, 17% of the revenue stems from the treasury book. In comparison to broking and allied business, while businesses like asset management and WM are also linked to capital markets, structural scale up in these and PE businesses provide higher stability to the core earnings of the group via management fees charged on the AUM. Over the past few years, these businesses have scaled and imparted diversity to the revenue profile, leading to an increase of ~23% (three-year CAGR) in the fee income earned through these avenues. Consolidated profit after tax (PAT) was Rs 2,446 crore in fiscal 2024, vis-à-vis Rs 933 crore in fiscal 2023 and Rs 1,311 crore in fiscal 2022. For the same periods, operating profits were Rs 1,542 crore, Rs 1,115 crore and Rs 1,093 crore, respectively.

The group also extends housing finance, LAS and MTF (through Motilal Oswal Home Finance Ltd [MOHFL], Motilal Oswal Finvest Ltd [MOFL] and MOFSL, respectively). In the past, the housing finance portfolio had faced asset quality challenges which resulted in the gross non-performing assets (GNPAs) rising to 9.3% as on March 31, 2019, from 4.5% a year earlier. However, these issues have been addressed over time and with that, GNPAs reduced from 1.6% on March 31, 2022, to 1.1% a year later, and further to 0.9% as of March 31, 2024. This metric stood at 1.2% as on June 30, 2024.

^[1] Operating profits = Total consolidated PAT excluding treasury profits

^[2] Hereafter broking and allied services are together referred to as broking business

^[3] Consolidated assets under advice (AUA) were Rs 5,02,232 crore as on June 30, 2024.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of MOFSL and its subsidiaries, including Motilal Oswal Finvest Ltd (MOFL) and MOHFL. That is because the entities, collectively referred to as the Motilal Oswal group, have significant operational, financial and managerial integration and operate under a common brand name (Motilal Oswal).

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

• Expanding presence across financial services segments, supporting diversity in business risk profile

The gradual scale up in non-broking businesses – such as asset management company (AMC), WM, PE and housing finance – has supported the growth and diversity in the business risk profile. The group is also focussing on scaling its distribution business (financial products) through the WM channels. As a byproduct, revenue contribution from these businesses has increased in the past few fiscals.

To strengthen its market position in the agency businesses, the group has been augmenting its human resource and operational infrastructure. The AMC portfolio has increased to Rs 87,580 crore in June 2024, from Rs 43,200 crore in March 2021 whereas the portfolio under WM – has grown to Rs 1,38,900 crore from Rs 39,424 crore. As on March 31, 2024, AUM for the asset management business included assets under MF (Rs 48,842 crore), PMS (Rs 12,132 crore) and AIF (Rs 10,836 crore). The group has a niche positioning for its higher-yielding, equity-focused funds – with only

2% of the MF AUM in debt funds. It also focuses on passive and international funds. As part of its PE portfolio of Rs 10,049 crore as on March 31, 2024, the group has launched four business excellence funds and six real estate funds till date. While business excellence funds focus majorly on unlisted companies for long-term investments, the real estate funds focus on debt funding to developers for mid-market residential housing projects in top eight Indian cities. Within the lending space, the group extends housing finance, LAS and MTF through MOHFL, MOFL and MOFSL, respectively, respectively. These respective portfolios, though growing, stood at a modest Rs 4,048 crore and Rs 4,988 crore as on March 31, 2024.

The group's asset management businesses leverage the clientele of the WM segment, resulting in business synergies and improved return on equity (RoE). The group also maintains a sizeable treasury portfolio (total equity investments, including mark-to-market (MTM) gains) of ~Rs 7,021 crore as on June 30, 2024 (Rs 6,113 crore as on March 31, 2024, and Rs 4,326 crore as on March 31, 2023). It includes its own sponsor commitments-cum-investments in equity MF, PMS, PE funds, real estate funds, AIFs and strategic equity investments.

- **Healthy capitalisation backed by higher internal accrual**

Capital position remains healthy, supported by adequate and stable internal accrual. Absolute consolidated networth and gearing were Rs 8,768 crore and 1.6 times, respectively, as on March 31, 2024 (against Rs 6,283 crore and 1.6 times a year ago). As most of the businesses within the group are non-capital intensive, the steady-state consolidated gearing is not expected to cross 3 times. The housing finance business had a net gearing of around 2.0 times as on March 31, 2024 (against 2.2 times a year ago).

As on March 31, 2024, the group had cumulative unrealised gains of Rs 3,076 crore distributed across Motilal Oswal Equity Mutual Fund Products and AIF products (Rs 1969 crore), listed equity shares (Rs 490 crore), Motilal Oswal Private Equity Funds (Rs 618 crore; PE and real estate), the MTM gains are almost 100% of the original cost of investment. Of this, unrealised gains of ~Rs 1,411 crore have accrued in fiscal 2024 due to the positive market momentum. This portfolio has MTM impact on earnings under Indian Accounting Standards; however, the timing and magnitude of realised gains remain uncertain. Nevertheless, even after removing the cumulative unrealised gains from the networth, on-book gearing of the group remained comfortable at ~2.4 times as on March 31, 2024 (against 2.8 times ago).

- **Strong market position in the equity broking business**

With a legacy of three decades, the group - through MOFSL - ranks among the top 10 equity brokers based on the number of active clients (9.2 lakh active customers on National Stock Exchange) as of July 2024, in the highly fragmented broking industry. Within this segment, business growth has been driven by acquisition of small brokers and partnerships with sub-brokers. The group has ~44 lakh retail broking clients and enjoys pan-India presence through 9,000+ franchised/sub broker outlets. In additions, they have made various digital initiatives such as the Option store (app with a feature to create customised strategies), 500+ application programming interface integration with algo and proprietary traders and the Research 360 (app which has more than 1,50,000 downloads till March 31, 2024).

Overall turnover of the business witnessed a healthy growth of 120% for fiscal 2024, primarily in the derivatives segment. This has supplemented the growth in core broking revenue by 34% during the year. In terms of market share for fiscal 2024, MOFSL held 8%^[1] (volumes traded in retail, institutional and proprietary segments) in the cash segment whereas in the F&O segment – market share was 3.1%⁴. Overall market share was 3.1%⁴ for the fiscal 2024. Over the medium term, the group is expected to maintain its strong footing in the equity broking segment – which would continue to bolster its growth in adjacent segments like asset and WM.

- **Sustained profitability, supported by diversity in revenue streams**

The earnings profile of the group continues to benefit from expansion of business. More so, growth across non-broking businesses has imparted diversity and is expected to lend greater stability to overall profitability.

Operating profit increased to Rs 1,542 crore for fiscal 2024, from Rs 1,115 crore for the previous fiscal. For the first quarter of fiscal 2025, the operating profit was Rs 431 crore as against Rs 306 crore for the corresponding quarter of last fiscal. Correspondingly, the adjusted RoE (based on operating profit) improved to 20.6% in fiscal 2024 (from 18.7% in fiscal 2023) underpinned by growth in broking income and rise in interest income due to growth in the fund-based book. Further, the reduction in the cost to income ratio from 65% to 50% over the same period was another driver for improved profitability. Of the total revenue (net of interest expense and inter-company adjustments), broking business has remained the largest component at 51% for fiscal 2024 (62% for fiscal 2023), followed by AMC at 12% (16%), WM at 12% (14%), housing finance at 5% (8%) PE at 3% (5%). In addition to these operating revenue streams the treasury book has contributed 17% in fiscal 2024 compared to -5% in fiscal 2023. This mix in income profile has remained similar over the past few years. Beyond the profits from core operations, the group also generates a sizeable income from the treasury portfolio which, as a philosophy, it redeploys into expansion of operating businesses.

The group is expected to continue expanding its fee-based businesses, which yield the benefit of trail income. It has been making capital expenditure towards these businesses and the benefit of it is expected to materialise in the near to medium term.

Weaknesses:

- **Exposure to uncertainties inherent in capital-market-related businesses**

Most of the group's businesses are linked to the capital markets and hence remain exposed to economic, political and social factors that drive investor sentiments. Brokerage revenue depends on the level of trading activity in capital markets; incremental inflow into various asset management platform depends on the returns generated - making overall revenue dependent on the performance of the capital markets.

Specifically, since March 2020, the stock markets have seen high retail participation and increased daily trading volume coinciding with the lockdown to contain the Covid-19 pandemic and people remaining at home. A significant proportion of client additions at the industry level are in the age bracket of 25-30 years without relevant trading experience. Upward movement of the key benchmark indices during this period has attracted retail investors to market trading. While this has benefited, capital market players, including the Motilal Oswal group, sustainability of the market momentum remains unpredictable.

However, its bearing on the earnings is partially offset by the high share of broking business originated through franchisees, which has a higher share of variable cost, and thus, curtails the impact of drop in market volumes on the profitability margins. Further, the group's revenue profile is relatively diversified, reducing its dependence on broking operations. The agency businesses like AM, WM and PE yield income in the form of management fees (as a proportion of AUM), which has a higher stability quotient. The lending business, commenced in fiscal 2015, adds further stability to the overall earnings via fixed interest income from home loans.

- **Limited track record in successfully scaling up the lending business**

In fiscals 2018 and 2019, MOHFL faced asset quality challenges due to inadequate collection and recovery processes within the company, amidst macro-economic disruptions. GNPA's increased to 9.3% on March 31, 2019, from 4.5% as on March 31, 2018, and 0.6% as on March 31, 2017.

However, since fiscal 2019, MOHFL has taken several corrective measures such as strengthening of management teams, improving collection processes and recovery apparatus by creating a ~550-member team, and enhancing credit appraisal and risk monitoring systems. As a result of these, slippages reduced to Rs 35 crore in fiscal 2024 from Rs 41 crore in fiscal 2023 and Rs 89 crore in fiscal 2022. Correspondingly, recoveries have also picked up in the last fiscal. Furthermore, the company sold GNPA's worth ~Rs 941 crore between fiscal 2019 and fiscal 2024 to an asset reconstruction company, which brought down the GNPA's to 0.9% as on March 31, 2024, from 1.1% a year ago, and 9.3% as on March 31, 2019. As on June 30, 2024, GNPA's stood at 1.2%.

As on June 30, 2024, the housing finance portfolio stood at Rs 4,098 crore. The company intends to grow its housing loan book prudently over the medium term, while increasing its geographical presence. The recent expansion in the sales team is expected to catalyse this plan. Nevertheless,

given the evolving macro-economic environment and intensifying competition within this asset segment, ability of the management to scale this business while maintaining sound asset quality, will remain monitorable

^[1] As per calculation methodology used by CRISIL Ratings

Liquidity: Strong

Liquidity of the group is comfortable, supported by an adequate balance of cash and cash equivalent assets. Further, a sizeable portfolio of fee-based businesses also aids liquidity. The group (including the MOHFL) had cash balance, unutilised bank lines and liquid investments aggregating to ~Rs 5,213 crore as on August 31, 2024, as against overall debt obligation of around ~Rs 3,247 crore (including that of MOHFL) till October 31, 2024.

Environment, social and governance profile

The environment, social and governance (ESG) profile of MOFSL supports its already strong credit risk profile.

The ESG profile of financial institutions typically factors in governance as a key differentiator between them. The sector has reasonable social impact because of its substantial employee and customer base, and it can play a key role in promoting financial inclusion. While the sector does not have a direct adverse environmental impact, the lending decisions may have a bearing on the environment and other sustainability-related factors.

MOFSL has demonstrated an ongoing focus on strengthening various aspects of its ESG profile.

Key ESG highlights:

- MOFSL took various initiatives to lower its power consumption, such as migrating to light emitting diode lights, adoption of aluminum fin for refraction of sun rays, motion sensor-based lighting system, etc. The company emphasizes reducing dependence on paper communications and encourages use of electronic means of communication which serves towards environmental protection and sustainable growth. Around 1000+ trees were planted by the employees through various volunteer programs.
- During fiscals 2022 to 2024, 7.23 metric tonne of dry waste and 7.58 metric tonne of wet waste was generated and recycled.
- As on March 31, 2024, there were two women directors on board against the mandate of one and women comprised 26% of the total workforce.
- ESG disclosures of the company are evolving and the company is in the process of further strengthening the disclosures going forward

There is growing importance of ESG among investors and lenders. MOFSL's commitment to ESG will play a key role in enhancing stakeholder confidence, given substantial share of foreign investors as well as access to domestic capital markets.

Outlook: Positive

Motilal Oswal group will continue to expand its business risk profile through steady growth in managed assets across segments, while maintaining stability and diversity in earnings and healthy capitalisation metrics.

Rating sensitivity factors

Upward factors

- Sustained strengthening of market position in non-broking businesses (AMC, WM, PE and housing finance), while maintaining market share in the broking business
- Sustained increase and diversification in operating profitability, with non-broking segments contributing >60% to operating profits

Downward factors

- Significant decline in group's operating profitability, and/or weakening of capitalisation metrics
- Significant and sustained deterioration in asset quality thereby impacting the group's profitability (with credit costs rising to, and remaining above, 2% of the group's assets for a prolonged period)
- Adverse regulatory actions on the business segments, resulting in significant deterioration of the business risk profile of the group

About Motilal Oswal Group

Motilal Oswal group is one of India's leading providers of capital market-related services, such as retail and institutional broking, WM, AMC, PE, LAS, margin financing, commodities broking and IB. It commenced the housing finance business in May 2014.

The promoters- Mr Motilal Oswal and Mr Raamdeo Agrawal along with their family members, and Motilal Oswal Family Trust-collectively owned 69.7% of MOFSL's equity shares as on March 31, 2024.

The group reported PAT of Rs 2,446 crore with a RoE of 32.5% during fiscal 2024 against Rs 933 crore and 15.6%, respectively, during fiscal 2023

PAT during the first quarter of fiscal 2025 was Rs 884 crore with RoE (annualised) of 38.1%, as against, Rs 526 crore and 31.8% , respectively, for the corresponding period of previous fiscal.

Key Financial Indicators (Consolidated)

As on / For the Year ended March 31		2024	2023
Total Assets	Rs crore	31,829	23,010
Total Income	Rs crore	7,131	4,197
PAT	Rs crore	2,446	933
GNPA (HFC)	%	0.9	1.1
Return on network	%	32.5	15.6
Gearing	times	1.6	1.6

As on / For the Year ended June 30,		2024	2023
Total Assets	Rs crore	37,127	27,745
Total Income	Rs crore	2,318	1,534
PAT	Rs crore	884	527
GNPA (HFC)	%	1.2	1.9
Return on network	%	38.1	31.8
Gearing	times	1.6	1.5

Any other information:

On July 27, 2023, MOFSL had announced its scheme of arrangement with its wholly owned subsidiaries namely, Motilal Oswal Wealth Ltd (MOWL) and Glide Tech Investment Advisory Pvt Ltd (Glide) whereby the broking and distribution business of MOFSL is to be transferred to Glide by way of slump sale, and the wealth business is to demerge from MOWL into MOFSL. The scheme has been approved by the respective boards of directors and is now subject to various statutory and regulatory approvals. This scheme of arrangement is not expected to have any material impact on the credit profile of the group.

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

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Annexure - Details of Instrument(s)

ISIN	Name Of Instrument	Date Of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs. Crore)	Complexity Levels	Rating Outstanding with Outlook
NA	Commercial Paper	NA	NA	7-365 days	1750.00	Simple	CRISIL A1+
INE338I07131	Non Convertible Debentures	09-May-24	8.85%	09-May-26	47.98	Simple	CRISIL AA/Positive
INE338I07149	Non Convertible Debentures	09-May-24	9.10%	09-May-27	448.53	Simple	CRISIL AA/Positive
INE338I07156	Non Convertible Debentures	09-May-24	Zero Interest	09-May-26	25.01	Simple	CRISIL AA/Positive
INE338I07164	Non Convertible Debentures	09-May-24	8.97%	09-May-29	95.14	Simple	CRISIL AA/Positive
INE338I07099	Non Convertible Debentures	09-May-24	Zero Interest	09-May-27	27.34	Simple	CRISIL AA/Positive
INE338I07107	Non Convertible Debentures	09-May-24	9.35%	09-May-29	81.98	Simple	CRISIL AA/Positive
INE338I07115	Non Convertible Debentures	09-May-24	9.30%	09-May-34	47.05	Simple	CRISIL AA/Positive
INE338I07123	Non Convertible Debentures	09-May-24	9.70%	09-May-34	226.97	Simple	CRISIL AA/Positive
NA	Non Convertible Debentures [#]	NA	NA	NA	500.00	Simple	CRISIL AA/Positive
INE338I07172	Non Convertible Debentures	03-Sep-24	9.25%	03-Sep-32	170.00	Simple	CRISIL AA/Positive
NA	Non Convertible Debentures ^{&}	NA	NA	NA	30.00	Simple	CRISIL AA/Positive

[#] Yet to be issued

[&]Public issue

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Motilal Oswal Commodities Broker Private Limited	Full	Subsidiary
Motilal Oswal Investment Advisors Limited	Full	Subsidiary
(Formerly known as Motilal Oswal Investment Advisors Private Limited)		
MO Alternate Investment Private Limited (formerly known as Motilal Oswal Fincap Private Limited)	Full	Subsidiary
Motilal Oswal Finvest Limited (Formerly known as Motilal Oswal Capital Markets Ltd)	Full	Subsidiary
Motilal Oswal Wealth Limited	Full	Subsidiary
Motilal Oswal Asset Management Company Limited	Full	Subsidiary
Motilal Oswal Trustee Company Limited	Full	Subsidiary
Motilal Oswal Securities International Private Limited	Full	Subsidiary
Motilal Oswal Capital Markets (Singapore) Pte. Limited	Full	Subsidiary
Motilal Oswal Capital Markets (Hong Kong) Private Limited	Full	Subsidiary
Motilal Oswal Home Finance Limited (formerly known as Aspire Home Finance Corporation Ltd)	Full	Subsidiary
Motilal Oswal Finsec IFSC Limited	Full	Subsidiary
Glide Tech Investment Advisory Private Limited	Full	Subsidiary
TM Investment Technologies Pvt. Ltd	Full	Subsidiary
India Business Excellence Management Company	Full	Subsidiary
Motilal Oswal Asset Management (Mauritius) Private Limited	Full	Subsidiary
Motilal Oswal Capital Limited	Full	Subsidiary
India Reality Excellence Fund II LLP	Proportionate	Associate
Motilal Oswal Financial Services Ltd	Full	Subsidiary

Annexure - Rating History for last 3 Years

		Current		2024 (History)		2023		2022		2021		Start of 2021
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	1750.0	CRISIL A1+	09-02-24	CRISIL A1+	24-08-23	CRISIL A1+	23-08-22	CRISIL A1+	04-10-21	CRISIL A1+	CRISIL A1+
			--		--	27-04-23	CRISIL A1+	24-02-22	CRISIL A1+	30-07-21	CRISIL A1+	--

			--		--	07-02-23	CRISIL A1+		--		--	--
Non Convertible Debentures	LT	1700.0	CRISIL AA/Positive	09-02-24	CRISIL AA/Stable	24-08-23	CRISIL AA/Stable		--		--	--
			--		--	27-04-23	CRISIL AA/Stable		--		--	--
			--		--	07-02-23	CRISIL AA/Stable		--		--	--

All amounts are in Rs.Cr.

Criteria Details

Links to related criteria
Rating Criteria for Finance Companies
CRISILs Criteria for rating short term debt
CRISILs Criteria for Consolidation

Media Relations	Analytical Contacts	Customer Service Helpdesk
Prakruti Jani Media Relations CRISIL Limited M: +91 98678 68976 B: +91 22 3342 3000 Prakruti.Jani@crisil.com Rutuja Gaikwad Media Relations CRISIL Limited B: +91 22 3342 3000 Rutuja.Gaikwad@ext-crisil.com	Ajit Velonie Senior Director CRISIL Ratings Limited B: +91 22 3342 3000 ajit.velonie@crisil.com Subha Sri Narayanan Director CRISIL Ratings Limited B: +91 22 3342 3000 subhasri.narayanan@crisil.com AANCHAL VIJAY BIYANI Manager CRISIL Ratings Limited B: +91 22 3342 3000 AANCHAL.BIYANI@crisil.com	Timings: 10.00 am to 7.00 pm Toll free Number: 1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com For Analytical queries: ratingsinvestordesk@crisil.com

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