

Rating Rationale

February 09, 2024 | Mumbai

Motilal Oswal Financial Services Limited 'CRISIL AA/Stable' assigned to Non Convertible Debentures

Rating Action

Non Convertible Debentures Aggregating Rs.1200 Crore ^{&}	CRISIL AA/Stable (Assigned)
Rs.500 Crore Non Convertible Debentures	CRISIL AA/Stable (Reaffirmed)
Rs.1750 Crore Commercial Paper	CRISIL A1+ (Reaffirmed)

[&] Public Issue

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1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its '**CRISIL AA/Stable**' rating to the Rs.1,200 crore non-convertible debentures of Motilal Oswal Financial Services Limited (MOFSL; part of Motilal Oswal group) and reaffirmed its 'CRISIL AA/Stable/CRISIL A1+' ratings on the other debt instruments of the company.

Motilal Oswal group's rating continues to reflect healthy capitalisation of the group and strong market position in the equity broking business. These strengths are partially offset by susceptibility to uncertainties inherent in the capital-market-related businesses, and limited track record in successfully scaling up the lending business.

On July 27, 2023, MOFSL 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 board 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.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of Motilal Oswal Financial Services Ltd (MOFSL) and its subsidiaries, including Motilal Oswal Finvest Ltd (MOFL) and Motilal Oswal Home Finance Ltd (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:

- Increasing diversification and scale up across financial services businesses, supporting stability in earnings profile**

With gradual scale up of fee-based businesses-such as asset management company (AMC), wealth management (WM), private equity (PE), investment banking (IB) and fund-based business (housing finance) - revenue streams have become more diverse. The group is also focussing on scaling up its distribution business (financial products) through the broking and WM channels. Contribution from these businesses to overall revenue has increased in the last few fiscals. The group's asset management businesses - AMC, PE -- utilise the distribution network of WM for product distribution, resulting in business synergies and improved return on equity (RoE).

AUM of the AMC business recorded a CAGR of ~27% for the last six years and stood at Rs 64,900 crore as on December 31, 2023 supported by the company's efforts to develop a dedicated PAN India distribution team. The group has a niche positioning for its higher-yielding, equity-focused funds – with only 2% of the MF AUM in debt funds. The group has also high focus on passive and international funds. AUM for the asset management business as on December 31, 2023 included assets under MF (Rs 42,900 crore), PMS (Rs 11,800 crore) and AIF (Rs 9,900 crore). The PE and WM businesses had AUM of Rs 9,400 crore and Rs 89,600 crore, respectively, as on December 31, 2023 (Rs 10,300 crore and Rs 52,000 crore as on March 31, 2023). As part of PE business, the group has managed four business excellence funds and five real estate funds till now. While business excellence funds focus majorly on unlisted companies for long-term investments, the real estate funds focus on debt funding to reputed developers for mid-market residential housing projects in top eight Indian cities. The group has achieved final close for the fourth business excellence fund of Rs 4,500 crore.

Fund-based business includes sponsor commitments-cum-investments in equity MF, PMS, PE funds, real estate funds, AIFs, and strategic equity investments. Total quoted equity investments, including mark-to-market (MTM) gains, were ~Rs 5,870 crore as on December 31, 2023 (Rs 4,280 crore as on March 31, 2023).

- Healthy capitalisation**

Capitalisation remains healthy, driven by healthy internal accruals. Absolute networth and consolidated gearing were Rs 8,270 crore and 1.52 times, respectively, as on December 31, 2023 (Rs 6,283 crore and 1.64 times, respectively, as on March 31, 2023). Further, as per the group's risk policy, the maximum gearing will be restricted at 3 times over the medium term. The housing finance business had net gearing of around 2.0 times on a standalone basis as on same date (2.2 times as on March 31, 2023).

As on December 31, 2023, the group had unrealised gains of around Rs 1,593 crore distributed among Motilal Oswal Equity Mutual Fund Products (Rs 998 crore), listed equity shares (Rs 447 crore), Motilal Oswal Private Equity Funds (Rs 562 crore; PE and real estate), Motilal Oswal PMS Products (Rs 148 crore) and Motilal Oswal AIF Products (Rs 61 crore). These investments are strategic in nature and follow a buy-and-hold philosophy. 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 unrealised gains from networth, gearing of the group remained comfortable at ~1.9 times as on December 31, 2023 (2.1 times as on March 31, 2023).

- Strong market position in the equity broking business**

The group, through MOFSL, ranks among the top 10 equity brokers based on the number of active clients, as on December 31, 2023, in the highly fragmented broking industry. It's ranking in active client group improved to 8th position. As on December 31, 2023, the company had 8.2 lakh active customers on National Stock Exchange, as against 8.0 lakh as on March 31, 2023. Business growth has been driven by acquisition of small brokers and partnerships with sub-brokers. The group has ~36 lakh retail broking clients and enjoys pan-India presence through 9,000+ franchised/sub broker outlets. In additions, they have made various digital initiatives like "Option store" (app with a feature to create customised

strategies), 500+ API integration with algo and proprietary traders and a "Research 360" app which has more than 1,50,000 downloads till March 31, 2023.

Overall turnover of the business witnessed a YoY growth of 95% for quarter ended December fiscal 2024, with major growth in the derivatives segment. Blended yields have, however, declined over the previous fiscals due to increased share of volumes in the futures and options segment. Average brokerage (defined as gross broking income from retail broking for trailing 12 months by active client) stood at ~Rs 19,000 for the nine months ended fiscal 2024 (~Rs 17,800 for fiscal 2023)

Weakness:

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

A large part of the group's businesses, especially broking and IB, remains exposed to economic, political, and social factors that drive investor sentiments. Brokerage revenue depends on the level of trading activity in capital markets. Specifically, since March 2020, the stock markets have seen high retail participation and 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 the broking industry, including the Motilal Oswal group, sustainability of the market momentum will need to be seen. Market position in the institutional broking segment has degrown by ~15% in fiscal 2023. However, the impact on earnings is partially offset by the high share of business originated through franchisees, resulting in a more variable cost structure compared to that of peers. The group's long-term focus is on diversifying its revenue streams and reducing dependence on broking operations. Further, AM, WM and PE businesses have revenue in the form of management fees as a proportion of AUM, providing some stability to the revenue profile of the group.

Additionally, the group commenced the housing finance business in the first quarter of fiscal 2015 to improve the stability of the group's earnings via fixed interest income of home loans. While the business faced challenges in the past, corrective measures should support the business performance. Potential improvement in profitability from this segment over the medium term should help diversify the revenue mix of the group.

• Limited track record in successfully scaling up the lending business

In fiscals 2018 and 2019, MOHFL faced asset quality challenges due to seasoning of the book, impact of external shocks on the economy, and lack of adequate collection and recovery processes and bandwidth within the company. Gross NPAs increased to 9.3% as 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 took several corrective measures, including increase in management depth and experience, strengthening of collections and recovery apparatus by creating a ~450-member team, and enhancing credit appraisal and risk monitoring systems. It made significant investment in technologies, processes and people to fill the critical gaps at operational levels to support and enhance business scale up. These measures have reduced slippages to Rs 41 crore in fiscal 2023 from Rs 89 crore in fiscal 2022 and Rs 71 crore in fiscal 2021. Also, recoveries have picked up in last fiscal following these concerted efforts. As a part of its strategy to clean up the book, it sold gross NPAs worth ~Rs 832 crore and Rs 84 crore in the last couple of fiscals and in fiscal 2023 respectively to an asset reconstruction company (ARC), which brought down gross NPAs to 1.1% as on March 31, 2023 from 9.3% as on March 31, 2019. However, NPAs inched up to 2.1% as on December 31, 2023 due to the slippages in the restructured book.

After facing challenges in asset quality during fiscals 2018 and 2019, the company had curtailed its disbursements in fiscals 2019 and 2020 because of shift in focus towards collections and sale of assets to an ARC. However, disbursements in fiscal 2023 improved to Rs 1,007 crore from Rs 643 crore in fiscal 2022. Loan book improved marginally by 9% to Rs 3,810 crore as on March 31, 2023, as against Rs 3,492 crore as on March 31, 2022. The company intends to grow its loan book prudently over the medium term, while increasing its geographical presence. It is expanding its sales team to increase the disbursements and loan book. To manage growth in the loan book, the company will utilise its relationships with lenders and investors. Resources of over Rs 1,052 crore has been raised in the fiscal 2023 (Rs 1,433 crore in fiscal 2022) at competitive interest rates.

Nevertheless, given the current challenging macro-economic environment, ability of the management to scale up operations in a profitable manner will remain a monitorable.

Liquidity: Strong

Liquidity of the group is comfortable, supported by a large proportion of fee-based businesses. The group (including the MOHFL) had unencumbered cash and cash balance (Rs 1,165 crore), unutilised bank lines (Rs. 5,251 crore), and liquid investments (Rs 385 crore) and lines from group (Rs 500 crore) aggregated to ~Rs 6,801 crore as on December 31, 2023, as against overall debt obligation of around ~Rs 6,284 crore (including that of MOHFL) till March 31, 2024.

Outlook: Stable

CRISIL Ratings believes Motilal Oswal group will continue to scale up its various product offerings across broking, AM & WM and IB and will continue to maintain healthy capitalisation.

Rating Sensitivity Factors

Upward Factors

- Scale-up in operations and further diversification of the revenue streams of the group
- Significant scale-up in market position of the financial services businesses while maintaining asset quality of the HFC business with gross NPA <1%

Downward factors

- Adverse regulatory actions on the business segments of the group resulting in significant deterioration in business risk profile of the group
- Significant deterioration in asset quality on a sustained basis impacting group's profitability (with credit costs crossing 2% of the group's assets for a sustained period).

Environment, Social, and Governance (ESG) Profile

CRISIL Ratings believes that MOFSL' Environment, Social, and Governance (ESG) profile 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.

MOFSL's key ESG highlights:

- MOFSL took various initiatives to lower its power consumption, such as migrating to LED lights, adoption of aluminum fin for refraction of sun rays, motion sensor-based lighting system, etc. the Company emphasizes on 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.
- In FY22-23, 7.23 metric tonnes of dry waste and 7.58 metric tonnes of wet waste were generated and recycled.
- As on March 31, 2023, there were 2 women directors on board against the mandate of 1 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.

About the Company : Motilal Oswal Group

The Motilal Oswal group is one of India's leading providers of capital market-related services, such as retail and institutional broking, asset and WM, LAS, margin financing, commodities broking, IB, and venture capital management. 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, 2023.

The group reported a PAT of Rs 933 crore with a RoE of 15.6% during fiscal 2023 as against a PAT of Rs 1,311 crore with RoE of 25.8% during fiscal 2022.

PAT during the nine months of fiscal 2024 was Rs 1,721 crore with a RoE (annualised) of 31.5%, as against, Rs 769 crore and 17.2% for the corresponding period of previous fiscal.

Key Financial Indicators: (Consolidated)

As on / For the Year ended March 31		2023	2022
Total Assets	Rs crore	23,010	16,923
Total Income	Rs crore	4,197	4,316
PAT*	Rs crore	933	1,311
GNPA (HFC)	%	1.1	2.6
Return on networth	%	15.6	25.8
Gearing	times	1.6	1.1

As on/for the period ended December 31		2023	2022
Total assets	Rs crore	31,522	22,175
Total income	Rs crore	4,972	3,164
PAT*	Rs crore	1,721	769
Gross NPA (HFC)	%	2.1	2.0
Return on networth	%	31.5	17.2
Gearing	times	1.5	0.5

*Includes fair valuation of unrealised gains in fund-based business

Any other information: Not Applicable

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.

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Cr)	Complexity level	Rating assigned with outlook
NA	Non-convertible debenture&	NA	NA	NA	1200	Simple	CRISIL AA/Stable
NA	Non-convertible debenture^	NA	NA	NA	500	Simple	CRISIL AA/Stable
NA	Commercial paper programme	NA	NA	7-365 days	1750	Simple	CRISIL A1+

^Yet to be issued

&Public issue

Annexure – List of entities consolidated (as on December 31, 2023)

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Motilal Oswal Commodities Broker Private Limited	Full	Subsidiary
Motilal Oswal Investment Advisors Limited (Formerly known as Motilal Oswal Investment Advisors Private Limited)	Full	Subsidiary
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+		--	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/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](#)

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