ICRA

July 03, 2017

Motilal Oswal Financial Services Limited

Summary of rated instruments

Instrument*	Rated Amount (in Rs. crore)	Rating Action
Non-Convertible Debenture Programme	150.00	[ICRA]AA (stable); reaffirmed

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the rating of [ICRA]AA (pronounced ICRA double A) with a stable outlook for the Rs. 150 crore non-convertible debenture programme of Motilal Oswal Financial Services Limited (MOFSL).

Rationale

While reaffirming the rating, ICRA has taken a consolidated view of the Motilal Oswal group given the operational linkages and strong synergies across businesses as well as the shared senior management team. The rating reaffirmation takes into account the group's healthy operational profile with a strong market position in retail broking, robust risk management systems and its competitive cost structure with a high share of the broking business sourced through the low-cost franchisee channel. The rating also takes into account the company's favourable financial profile with healthy profitability, comfortable capitalisation and low leverage levels. While reaffirming the rating, ICRA has taken note of the MOFSL's dependence on capital markets, which are inherently volatile in nature. The gradual diversification in the company's revenues, supported by the growing housing finance and asset management businesses provides comfort. The company is among the leading players in portfolio management services (PMS), and is also in the process of providing exit from its first set of private equity funds. The group forayed into housing finance in FY2014 through Aspire Home Finance Corporation Limited (Aspire, rated at [ICRA]AA- (stable)), and had an outstanding loan book of Rs. 4,141 crore as on March 31, 2017. However, given the limited track record, the portfolio remains unseasoned. The rating also takes into account the highly competitive and fragmented nature of the broking industry, which coupled with the rising share of derivatives volumes vis-à-vis cash turnover, has resulted in a compression in yields. Going forward, the company's ability to diversify its portfolio by scaling up the housing finance portfolio further, and maintain healthy asset quality, profitability and capital structure remains critical.

Key rating drivers

Credit strengths

- Strong and experienced senior management team
- Strong promoter group; demonstrated financial and operational commitment to the venture
- Market leadership in retail and institutional broking
- Adequate capitalisation for the current scale of operations, with consolidated net worth of Rs. 1,786 crore as on March 31, 2017; however, increase in debt levels with the foray into housing finance
- Strong market position in PMS with an AUM of Rs 10,473 crore as on March 31, 2017
- Adequate risk management and operational systems

Credit weaknesses

- High dependence on the capital markets which are inherently volatile in nature; gradual diversification of the business profile provides comfort
- Decline in broking margins given the rising share of derivative volumes and increased competition
- Ability to scale up the home loan business, while maintaining healthy asset quality and profitability

Description of key rating drivers:

The Motilal Oswal group is one of India's leading providers of capital market related services. The group has been engaged in equity broking since 1987 and has a long track record in the capital markets. Through its various entities, it is currently engaged in retail and institutional broking, wealth management, margin funding, commodities broking, investment banking, asset management, private equity and housing finance. MOFSL serves as the main holding company and also houses the fund-based business of the group.

The group forayed into housing finance in FY2014, and had an outstanding loan book of Rs. 4,141 crore as on March 31, 2017. The group has also been scaling up its asset management business; as on March 31, 2017, its AUM stood at Rs. 20,303 crore. With the revenues in asset management being linked to the AUM, these revenues impart stability to the group's earning profile. Notwithstanding the greater diversity in revenues, MOFSL's earnings continue to remain dependent on capital markets, which are inherently volatile in nature. Capital market related businesses contributed 37% of the company's total turnover and 30% of its profit in FY2017, in comparison with 45% and 23% respectively in FY2016.The asset and wealth management business contributed 24% of revenues (24% in FY2016) while housing finance accounted for 31% of the revenues in FY2017 (20% in FY2016). The group also has fund based businesses, which accounted for 6% of the revenues in FY2017 (10% in FY2016).

MOFSL is a leading player in both the retail and institutional segments of the brokerage industry. The group had a retail network of over 8.5 lakh clients across about 2,260 franchisees as on March 31, 2017, up from 7.9 lakh clients across 1995 franchisees as on March 31, 2016. The group remains one of the stronger players in the institutional segment with empanelment from close to 630 entities. MOFSL's retail and institutional broking volumes grew by 52% and 22% respectively in FY2017 resulting in a 45% increase in the company's overall broking volumes. With the industry broking volumes growing by 35% in FY2017, the company's market share improved to 2.1% in FY2017 from 2% in FY2016. With a lower share of higher-yielding cash segment and falling yields in both cash and derivatives segments, MOFSL's blended yields contracted in FY2017 to 3.10 bps from 3.50 bps in FY2016. Going forward, the company's ability to reduce earnings volatility while maintaining yields in an increasingly fragmented industry will be a key monitorable.

The asset and wealth management business includes asset management, wealth management and private equity. The company reported a healthy growth in the asset management segment (which includes mutual fund, PMS and alternative investment fund), with the AUM increasing to Rs. 20,303 crore as on March 31, 2017 from Rs. 10,478 crore as on March 31, 2016, driven by the mutual fund and PMS segments. The group has raised two growth private equity funds and three real estate funds, and expects to commence another growth private equity fund in FY2018. The early funds have already witnessed some partial and full exits.

In a bid to reduce its dependence on the capital markets, in May 2014, the group ventured into housing finance through Aspire, a subsidiary of MOFSL. Aspire has been on a robust growth path with its branch count increasing to 120 as on March 31, 2017 (from 14 as on March 31, 2015) resulting in the loan book increasing to Rs. 4,141 crore as on March 31, 2017 (from Rs. 359 crore as on March 31, 2015). The share of housing finance in the group's consolidated revenues increased from 3% in FY2015 to 31% in

FY2017. Aspire's gearing as on March 31, 2017, stood at 6.0 times and is expected to increase further given its growth plans.

With higher revenues from both housing finance and asset management, the company's total revenues registered a growth of 66% to Rs. 1,818 crore in FY2017 from Rs. 1,094 crore in FY2016. With the higher scale of operations, the operating expenses as % of average total assets declined to 8.51% in FY2017 from 11.24% in FY2016. Consequently, the company reported a profit after tax of Rs. 360 crore in FY2017 as compared with Rs. 169 crore in FY2016. The increase in profit after tax was also supported by an exceptional income of Rs. 61.25 crore on the net carry earned on private equity investments. Consequently, the company's return on assets improved to 5.39% in FY2017 from 4.07% in FY2016 and its return on equity improved to 20.09% in FY2017 from 11.24% in FY2016.

The company's capitalisation levels remain healthy with a net worth of Rs. 1,786 crore as on March 31, 2017 (vis-à-vis Rs. 1,437 crore as on March 31, 2016). With a gearing of ~2.8 times as on March 31, 2017, the Motilal Oswal group's leverage levels are lower than those of its peers. With the housing finance business expected to scale up further in the next few years, ICRA expects the group's leverage to increase, though remaining at comfortable levels in comparison with industry benchmarks.

Analytical approach:
For arriving at the ratings, ICRA has taken a consolidated view for Motilal Oswal Financial Services Limited along with its subsidiaries as they have operational linkages and common senior management.

Links to applicable criteria:
ICRA's Credit Rating Methodology for Non-Banking Finance Companies

About the company
Incorporated in 2005, Motilal Oswal Financial Services Limited (MOFSL) is a non-deposit-taking non-banking financial company, providing margin financing services to the group's retail broking clients. MOFSL also serves as the holding company of the group. The Motilal Oswal group is India's leading providers of capital-market related services, including retail and institutional broking, wealth management, loan against shares, margin financing, commodities broking, investment banking, and venture capital management. The group consists of MOFSL and its subsidiaries, namely Motilal Oswal Securities Limited, Aspire Home Finance Limited, Motilal Oswal Commodities Brokers Pvt Ltd, Motilal Oswal Private Equity Advisors Pvt Ltd, Motilal Oswal Investment Advisors Pvt Ltd, Motilal Oswal Capital Markets Pvt Ltd, Motilal Asset Management Company Ltd, and Antop Trader Pvt Ltd.

The company reported a consolidated net profit of Rs. 360 crore on a total income of Rs 1,813 crore in FY2017 compared with a net profit of Rs 169 crore over a total income of Rs 1,094 crore in FY2016. At a consolidated level, the group's net worth stood at Rs. 1,786 crore as on March 31, 2017.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years:

Table:

Sr. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Rated Amount (Rs. crore)	FY2018	FY2017	FY2016	FY2015
				July 2017	May 2016	January 2016	November 2014
1	Non Convertible Debentures	Long Term	150.00	[ICRA]AA (stable)	[ICRA]AA (stable)	[ICRA]AA (stable)	[ICRA]AA (stable)

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Rated Amount Outstanding (Rs. crore)	Current Rating and Outlook
Non-Convertible Debentures	27/11/2014	10.05%	27/11/2017	50.00	[ICRA]AA (stable)
Non-Convertible Debentures – Yet to be issued	NA	NA	NA	100.00	[ICRA]AA (stable)

Source: Company

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About ICRA Limited:
ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.
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