December 16, 2020

Motilal Oswal Financial Services Limited: [ICRA]AA(Stable) assigned to fresh borrowing of Rs. 100-crore NCD programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture	-	100.00	[ICRA]AA(Stable); Assigned
Non-convertible Debenture	200.00	200.00	[ICRA]AA(Stable); Outstanding
Total	**200.00**	**300.00**	

**Instrument details are provided in Annexure-1*

Rationale

The assigned rating takes into account the Motilal Oswal Group's (which refers to Motilal Oswal Financial Services Limited (MOFSL) and its subsidiaries) healthy operational profile, given its track record and established position in capital market related businesses, and increasing diversification in revenues with the scaling up of the fee-based businesses. The rating also takes into account MOFSL's stable financial profile with the steady performance of the core business and comfortable capitalisation and leverage levels on a consolidated basis.

These strengths are partially offset by the inherent volatility in capital markets and the highly competitive and fragmented nature of the broking industry. This, coupled with the changing product mix (increasing share of derivatives and non-delivery cash volumes), has resulted in pressure on the broking yields. ICRA notes than in FY2019, the Group's profitability was also impacted by the asset quality issues witnessed in the housing finance business (housed under its subsidiary, namely, Motilal Oswal Home Finance Limited; MOHFL). The subsequent improvement in MOHFL's asset quality and financial performance supported the Group's consolidated performance in FY2020. Going forward, the Group's ability to maintain healthy collections and asset quality in the housing finance business, given the current challenging operating environment, would remain critical from a credit perspective. Further, MOFSL's ability to diversify its earnings, while improving its profitability levels and maintaining healthy capitalisation, remains critical from a credit perspective.

The Stable outlook on the [ICRA]AA rating reflects ICRA's opinion that the Group will continue to benefit from its diversified business profile, its demonstrated track record and established position in capital market related businesses and its robust risk management systems.

Key rating drivers and their description

Credit strengths

Established position and demonstrated track record in capital market related businesses – The Motilal Oswal Group, one of India's leading providers of capital market related services, comprises MOFSL and its subsidiaries such as MOPE Investment Advisors Private Limited (MOPE), Motilal Oswal Asset Management Co. Ltd. (MOAMC), Motilal Oswal Wealth Management Ltd. (MOWML), and MOHFL. The Group has a presence in diverse business segments comprising retail and institutional broking, wealth management, margin funding, commodity broking, investment banking, asset management, private equity and housing finance. MOFSL serves as the main holding company and also houses the capital market related fund-based business of the Group. MOFSL is an established player in the equity broking business holding an aggregate market share of 1.87% in H1 FY2021 (1.41% in FY2020 and 1.79% in FY2019). The Group caters to both retail and institutional clients and has significantly scaled up its presence over the years. The Group has an established retail franchise and caters to over 16.5 lakh clients across ~3,500 franchisees as on September 30, 2020, up from ~14.5 lakh clients across ~3,500 franchisees as on March 31, 2020. The company reported a healthy performance in H1 FY2021, with broking volumes registering a growth of 66.5% (annualised) compared to a growth of 14% in FY2020.

Gradual diversification in revenue profile supported by scaling up of fee-based businesses – Over the years, the Group has increased its focus on businesses like asset and wealth management. The scaling up of these businesses has resulted in an increasing diversification in the revenue stream, which was capital market (equity broking and distribution) dominated and vulnerable to the volatilities in the stock market. Furthermore, the fee-based nature of revenues from these businesses provides stability to the revenue stream. The fee-based businesses contributed ~46% to the consolidated net operating income (NOI) in FY2020, up from 26% in FY2015. Moreover, the Group's asset and wealth management (fee-based) businesses accounted for 46% of its profitability in FY2020, followed by the capital market businesses (44%) and the housing finance business (10%).

Healthy capitalisation profile – MOFSL's capitalisation levels remain healthy with a net worth of Rs. 3,490 crore as on September 30, 2020 (vis-à-vis Rs. 3,086 crore as on March 31, 2020 and Rs. 3,053 crore as on March 31, 2019) supported by strong internal capital generation. The scaling up of the housing finance business, housed under MOHFL, resulted in an increase in the debt levels and the leverage on a consolidated basis. However, with a reduction in MOHFL's loan book as on March 31, 2020, the consolidated debt levels also witnessed a reduction, leading to a moderate gearing of 1.48 times as on March 31, 2020 on a consolidated basis (1.67 times as of March 31, 2019). Excluding the housing finance business, the gearing would be 0.52 times as on March 31, 2020. The consolidated gearing stood at 1.33 times and the standalone gearing stood at 0.37 times as on September 30, 2020. Further, the capitalisation profile is expected to remain healthy with the consolidated gearing expected to remain below 2 times over the near-to-medium term.

Steady performance of core business; improved performance of housing finance business – MOFSL's core business' performance has been steady over the years. Its core operations reported a strong net profit (profit after tax; PAT) of Rs. 446.90 crore in H1 FY2021 compared to Rs. 266.90 crore in H1 FY2020. The net profit in H1 FY2020 was impacted primarily by mark-to-market losses of Rs. 80.20 crore passed through the P&L account. MOHFL reported a PAT of Rs. 16.8 crore in H1 FY2021 compared to Rs. 5.3 crore in H1 FY2020. MOFSL reported a consolidated PAT of Rs. 400.39 crore in H1 FY2021 compared to Rs. 287.96 crore in H1 FY2020, even though the provisions of ~Rs. 66.6 crore (post tax) in relation to the commodity trading settlement (pertaining to the sudden drop in crude oil prices in April 2020) impacted the consolidated profitability to some extent.

While assigning the rating, ICRA has also taken note of SEBI's order on the Group's commodity broking and trading business in relation to the National Spot Exchange Limited (NSEL) settlement crisis in 2013. The Group has appealed against the order to the Securities Appellate Tribunal (SAT) and the matter is underway. As commodity broking forms a small share of the overall revenue stream and the Group has fully provided for its proprietary position in commodity trading (~Rs. 58.7 crore), the direct impact of the order on the business is expected to remain limited. Further, MOFSL has taken a hit of ~Rs. 66.6 crore (post tax) on its positions (taken on behalf of its clients) as crude oil prices witnessed a sharp drop on April 20, 2020. The company deposited this amount with the Multi Commodity Exchange of India Ltd (MCX) on April 21, 2020 to bring up the margin to the required level. MOFSL has filed the writ petition in the Bombay High Court against the SEBI and MCX. MOFSL has also filed arbitration claims against the clients for the recovery of debit balances from the clients. ICRA will continue to monitor the outcome of any incremental developments from this event and the potential liability on the company.

Credit challenges

Exposed to volatility inherent in capital markets; gradual diversification of business profile provides comfort – The Group's traditional lines of business (broking and investment banking) remain exposed to the volatility inherent in capital markets. The capital market related businesses contributed 48% to the company's total turnover and accounted for 44% of its profit in FY2020 compared to 44% and 33%, respectively, in FY2019. Over the years, the Group has forayed into businesses such as housing finance and asset management to diversify its earnings profile. As the revenues in asset management are linked to the assets under management (AUM), these revenues impart stability to the Group's earnings profile. The asset and wealth management business contributed 30% to revenues (30% in FY2019) while housing finance accounted for 22% in FY2020 (24% in FY2019).

Intense competition in capital markets – With increasing competition in equity broking, the advent of discount brokerage houses and a significant surge in derivative volumes, the average yields for broking players have been under pressure. As MOFSL's derivatives turnover share increased to 92% in FY2020 from 88% in FY2018, its overall blended yield declined to 1.32 bps in FY2020 from 2.00 bps in FY2018. In H1 FY2021, the share of derivatives turnover stood at 91%, with the overall blended yield declining further to 1.14 bps. With the competitive intensity in the industry expected to remain high, the industry margin is expected to remain under pressure. However, the lower level of equity market penetration in the country indicates significant untapped potential for expansion.

Liquidity position: Strong

As on September 30, 2020, MOFSL's investment book stood at ~Rs. 2,592 crore with investments in mutual funds, private equity, alternative investment funds (AIFs), equity instruments, etc. At the consolidated level, MOFSL has a comfortable liquidity position with free cash and liquid investments of ~Rs. 1,000 crore and undrawn bank lines of ~Rs. 990 crore as on November 30, 2020. The total debt obligations, including interest payments for the period of December 2020 to May 2021, stood at ~Rs. 1,577 crore. Further, the Group has adequate liquidity for placing excess margin at the exchange should there be a requirement. The liquid nature of the margin funding book (~Rs. 800 crore as of November 2020) also provides comfort.

Rating sensitivities

Positive triggers – ICRA could upgrade the rating on a substantial and sustained improvement in the Group's profitability along with a diversification in the earnings profile while maintaining healthy asset quality indicators and robust capitalisation.

Negative triggers – The rating could be revised if there is a significant deterioration in the asset quality of the credit book, thereby impacting the Group's profitability and capitalisation. Further, changes in the regulatory environment, which may adversely impact the company's business operations and financial performance, would be a key rating sensitivity.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Entities in the Brokerage Industry Consolidation and rating approach
Parent/Group Support	Not applicable
Consolidation/Standalone	ICRA has taken a consolidated view of MOFSL along with its subsidiaries, which are engaged in various activities such as equity broking and distribution, commodity broking, margin funding, asset, wealth and portfolio management services, investment banking and housing finance

About the company

Incorporated in 2005, MOFSL serves as the holding company of the Motilal Oswal Group, which is among India's leading providers of capital market related services. The company, through its subsidiaries, namely Motilal Oswal Private Equity Advisors (MOPEL), Motilal Oswal Asset Management Co. Ltd. (MOAMC), Motilal Oswal Wealth Management Ltd. (MOWML), Motilal Oswal Home Finance Limited (MOHFL), etc, provides broking and distribution services, asset, wealth and portfolio management services, private equity and housing finance.

The company reported a consolidated net profit of Rs. 215 crore on net operating income (NOI) of Rs. 1,554 crore in FY2020 compared to a net profit of Rs. 285 crore on NOI of Rs. 1,566 crore in FY2019. At the consolidated level, the Group's net worth stood at Rs. 3,086 crore as on March 31, 2020.

Key financial indicators (audited & consolidated – MOFSL)

	FY2019	FY2020
Brokerage Income	381.98	469.52
Fee Income (other than broking)	774.03	711.24
Net Interest Income	301.65	273.40
Other Non-interest Income	108.69	100.25
Net Operating Income (NOI)	1,566.35	1,554.41
Total Operating Expenses	901.82	959.84
Profit before Tax	377.90	285.19
Profit after Tax (PAT)	285.25	215.40
Net Worth	3,053.44	3,086.30
Cost-to-Income Ratio (%)	57.57%	61.75%
Return on Net Worth (%)	9.48%	6.93%
PAT/NOI (%)	18.21%	13.86%

Amounts in Rs. crore; Source: Company & ICRA research: All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2021)					Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Current Rating		FY2020	FY2019		FY2018
					Dec-16-2020	Aug-7-2020	Jul-15-2019	Sep-10-2018	Jul-27-2018	Jul-3-2017
1	NCD	Long Term	200	195	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	NCD	Long Term	100	-	[ICRA]AA (Stable)	-	-	-	-	-

Amount in Rs. crore

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

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE338I07057	NCD	6-Nov-2020	7.60%	6-Nov-2023	195.00	[ICRA]AA(Stable)
NA	NCD - Yet to be placed	NA	NA	NA	105.00	[ICRA]AA(Stable)

Source: MOFSL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership / Relationship with Rated Entity	Consolidation Approach
Motilal Oswal Financial Services Limited	Parent	ICRA has taken a consolidated view of the parent and its subsidiaries
MOPE Investment Advisors Private Limited	Subsidiary	
Motilal Oswal Commodities Broker Private Limited	Subsidiary	
Motilal Oswal Fincap Private Limited	Subsidiary	
Motilal Oswal Finvest Limited	Subsidiary	
Motilal Oswal Asset Management Co. Ltd.	Subsidiary	
Motilal Oswal Trustee Company Limited	Subsidiary	
Motilal Oswal Wealth Management Ltd.	Subsidiary	
Motilal Oswal Securities International Private Limited	Subsidiary	
Motilal Oswal Home Finance Limited	Subsidiary	
Motilal Oswal Real Estate Investment Advisors Private Limited	Subsidiary	
Motilal Oswal Real Estate Investment Advisors II Private Limited	Subsidiary	
Motilal Oswal Capital Limited	Subsidiary	
Motilal Oswal Capital Markets (Hong Kong) Private Limited	Subsidiary	
Motilal Oswal Capital Markets (Singapore) Pte Limited	Subsidiary	
Motilal Oswal Asset Management (Mauritius) Private Limited	Subsidiary	
Indian Business Excellence Management Company	Subsidiary	
Passionate Investment Management Private Limited	Subsidiary	
Motilal Oswal Investment Advisors Limited	Subsidiary	
Motilal Oswal Finsec IFSC Limited	Subsidiary	
Gilde Tech Investment Advisory Private Limited	Subsidiary	

Source: MOFSL's audit report for FY2020

Analyst Contacts

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Samriddhi Chowdhary
+91 22 6114 3462
samriddhi.chowdhary@icraindia.com

Sainath Chandrasekaran
+91 22 6114 3439
sainath.chandrasekaran@icraindia.com

Piyush Kherdikar
+91 22 6114 3414

piyush.kherdikar@icraindia.com

Komal Mody
+91 22 6114 3424
komal.mody@icraindia.com

Relationship Contact

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents