February 10, 2025

Motilal Oswal Wealth Limited: Rating reaffirmed and rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial papers (IPO Financing)	200.00	200.00	[ICRA]A1+; reaffirmed
Commercial papers	-	1,000.00	[ICRA]A1+; assigned
Total	**200.00**	**1,200.00**	

**Instrument details are provided in Annexure I*

Rationale

While arriving at the ratings, ICRA considers the consolidated financials of Motilal Oswal Financial Services Limited (MOFSL or the Motilal Oswal Group) and takes a consolidated view of the credit profiles of MOFSL and its subsidiaries, including Motilal Oswal Wealth Limited (MOWL), Motilal Oswal Finvest Limited (MOFL) and Motilal Oswal Home Finance Limited (MOHFL), as the companies have operational and business synergies in addition to a shared name and management oversight.

The ratings factor in the Motilal Oswal Group's established track record of healthy profitability and strong market position in various capital market-related businesses and comfortable capitalisation profile. The Group reported a strong performance in 9M FY2025, driven by its best-ever half-yearly performance in capital market businesses in the current fiscal. While performance moderated following the implementation of the index derivative framework on November 20, 2024 and recent market trends, it continued to be strong and significantly higher than historical levels[1].

The Positive outlook for the Group's long term rating considers the Group's improving scale and diversification in the capital market and allied businesses, along with its strong operational and financial performance boosted by industry tailwinds. The Group demonstrated its ability to retain its strong market position through capital market cycles despite the evolving operating landscape in terms of regulations and competition.

These strengths are, however, partially offset by the inherently volatile nature of capital market-related businesses and hence, the associated income, intense competition in the equity broking space and risks stemming from technological failures and evolving regulatory landscape. Nevertheless, the scale-up in the income stream from the relatively more stable businesses, such as asset and wealth management, depository, and home finance, is expected to offer some support to the Group's revenue profile.

After material growth in the capital market lending book in preceding quarters, exposures moderated in recent quarters due to tempering market trends and shift in the Group's strategic focus on scaling loan-against-shares in lieu of index margin exposures in MOFL. Further, strong earnings from operations and fair value gains from the treasury investments resulted in moderation of gearing[2] in the capital market business in the current fiscal. However, it remains elevated compared to historical levels. The financial leverage in the home finance business was characterised by a gearing of 2.1 times as on December 31, 2024. Given the sizeable deployment of net worth towards equity assets, the gearing will be exposed to market movements. As per the management, the Group intends to maintain a gearing of less than 2 times (up to 3 times approved by board) in the capital market business (consolidated, excluding the HFC) and less than 4 times in the housing finance business.

[1] PBT 9excluding treasury gains) declined 13% QoQ in Q3 FY2025, nonetheless, it continues to be 28% higher-than-average of past 10 quarters.
[2]Excluding the housing finance company (HFC)}, the gearing moderated to 1.1 times as of December 31, 2024, from 1.4 times as of March 31, 2024, though it remains elevated compared to the past 10-year average of 0.8 times

ICRA notes the gradual improvement in the asset quality of the housing finance business in recent years. The performance of the new book (originated after the strengthening of the processes and systems, after April 2018) has been satisfactory, although it remains relatively unseasoned. With the material scale-up of the capital market lending book, the Group is also exposed to market and credit risks associated with this segment, given the volatile nature of the underlying asset class and sensitivity to capital market movements. Nevertheless, sizeable cash accruals from established capital market-related businesses and the comfortable capitalisation profile provide an adequate buffer to absorb any losses and incremental credit costs. Given the significant dependence on technology, the reliable performance of the systems, particularly in times of high volatility or market turmoil, and the ability to keep up with emerging advancements to maintain a leading market position remain imperative.

Earlier, the Group had planned to reorganise its structure to comply with the rules of the Securities Contract Regulation (Rules), 1957 (SCRR), ensuring that its lending businesses would not be direct subsidiaries of the broking business. However, in light of the recent consultation paper issued by the Department of Economic Affairs (DEA) in September 2024, which proposes to amend the existing provisions of SCRR to allow brokers to invest in any Group company using retained earnings, the MOFSL board approved the withdrawal of the existing restructuring scheme. The board will review and reconsider filing a revised scheme (if required), once the DEA publishes the final amendments.

Key rating drivers and their description

Credit strengths

Established track record and strong market position in various capital market-related businesses – Motilal Oswal Group has an established presence in diverse business segments comprising retail and institutional broking, wealth management, capital market-related lending, investment banking, asset management, and housing finance. It is a prominent player in the equity broking business with a track record of over three decades and a pan-India presence across 2,500+ locations with 9,300+ franchises. As on December 31, 2024, it was the 8th largest securities broking company with an active National Stock Exchange (NSE) client base of ~10 lakh. The Group also has a notable presence in the institutional broking segment, catering to over 880+ clients, supported by research coverage on 300+ companies. Besides broking, the Group has an established presence in asset management and wealth management, overseeing assets under advice of over Rs. 6 lakh crore as on December 31, 2024.

Track record of healthy profitability – Motilal Oswal Group's capital market business has grown significantly in recent years, driven by the best-ever half-yearly performance in the capital market businesses. It reported a strong operating performance (PBT excluding mark-to-market (MTM) gains & extra-ordinary items) of Rs. 1,533 crore in 9M FY2025 compared to the previous annual high of Rs. 1,568 crore in FY2024 (well above the past 5-year average of Rs. 978 crore). The net profit was further boosted by MTM gains from the equity-oriented investment book. Overall, the Group has reported a healthy profitability in the current fiscal with a net profit of Rs. 2,571 crore in 9M FY2025 (Rs. 1,701 crore in 9M FY2024) and return on equity of 34% (31% in 9M FY2024). The performance of the housing finance business was also adequate with a return on assets of 2.7% and a return on equity of 9.3 % in 9M FY2025. However, given the emerging headwinds, a moderation in the Group's revenues and profitability in the near term cannot be ruled out. A decline in futures and options (F&O) broking income is likely due to measures implemented by the regulator and temperedness in market trends, although the same is expected to remain healthy. Moreover, ICRA notes that the Group's net worth is significantly deployed in equity investments. This could result in volatility in net earnings, depending on the capital market performance, as most of these investments are fairly valued.

Comfortable capitalisation – MOFSL's consolidated capitalisation profile remains comfortable, supported by the healthy internal capital generation trajectory, notwithstanding dividend payouts and buybacks. As on December 31, 2024, the consolidated capitalisation profile was characterised by a net worth {including minority interest (MI)} of Rs. 11,615 crore and a gearing of 1.2 times. After material growth in the capital market lending book in preceding quarters, exposures moderated in recent quarters amid tempering market trends and shift in the Group's strategic focus on scaling loan-against-shares in lieu of index margin exposures in MOFL. Further, strong earnings from operations and fair value gains from the treasury investments resulted in moderation of gearing (total debt/net worth) to 1.1 times as on December 31, 2024 from 1.4 times as on March 31, 2024, and the past 5-year average of 1.4 times. The gearing in the home finance business eased to 2.1 times as on December 31, 2024 from 2.6 times as on March 31, 2023.

ICRA is cognisant of MOFSL's investments in listed equities, equity mutual funds (MFs), private equity (PE) funds, real estate funds, and alternative investment funds (AIFs), which form a sizeable proportion of the consolidated net worth, exposing its capitalisation to adverse market movements. Nonetheless, the consolidated gearing remains satisfactory after adjusting for the unrealised gains from the investment book and illiquid investments.

Credit challenges

Exposure to inherent volatility in capital markets – The Group's revenue profile remains skewed towards capital market businesses, notwithstanding the diversification achieved over the years with the scale-up of wealth and asset management businesses. The traditional lines of business (broking, capital market-related lending, and investment banking) are relatively more exposed to the volatility inherent in capital markets, as corroborated by two instances of revenue decline from these segments in the past 10 years. The capital market loan book is also exposed to volatility, given the nature of underlying collaterals. Nonetheless, with the focusses on scaling up businesses with a relatively more stable income stream such as asset and wealth management and housing finance, the income from these businesses (typically booked as a percentage of the assets under management) has increased at a compound annual growth rate (CAGR) of 12% during FY2020-24.

ICRA also notes that with the significant scale-up of broking and allied income in recent years on the back of favourable market conditions, the share of income from this segment increased to 57% of the NOI in FY2024 from 36% in FY2020. Retail broking income from the F&O segment contributes ~14% to the Group's net revenues, remaining relatively vulnerable to regulatory risks considering the evolving regulations and the operating environment. Also, it is noted that the Group earns carry income in the asset management company (AMC) business and has deployed sizeable capital as investments in MFs, portfolio management services (PMS), PE/RE funds, AIFs, and strategic equity investments, exposing its profitability and net worth to volatility in the capital markets. Going forward, a scale-up of the businesses with relatively steadier income streams would be imperative for the overall stability of the Group's growth trajectory.

Relatively limited experience in lending business; however, satisfactory asset quality in recent years – The Group's housing finance business, which commenced under MOHFL in May 2014, witnessed asset quality pressure in FY2018 and FY2019. However, with several remedial measures in subsequent years, including the strengthening processes and systems, managerial support and increased supervision, along with the easing of the Covid-19 pandemic-induced stress, the asset quality has stabilised gradually in recent years. ICRA notes that the new loans originated after the strengthening of the systems and processes since April 2018, have fared relatively well in terms of asset quality, although the book remains modest and is yet to season. The headline gross non-performing advances (GNPAs) stood at 1.4% as on December 31, 2024 compared to 0.9%[3] as on March 31, 2024. ICRA notes that the company has forayed into high-yielding non-housing loan segments in recent years, namely developer finance and loan against property (LAP). The share of these products in the overall loan book increased to 25% as on March 31, 2024 from 12% as of March 2022. The performance of the same, in terms of asset quality, is yet to be demonstrated. Excluding the wholesale exposures, the loan book remains concentrated with the top 3 states accounting for 68% of the book as on December 31, 2024. Going forward, its ability to raise funds at competitive rates and scale up the home loan book profitably while maintaining healthy asset quality and improving the geographical diversification will be imperative.

In addition to housing finance, the Group has significantly scaled up its capital market-based exposures[4] in recent years to ~Rs. 8,136 crore as on December 31, 2024 up by 15% YoY. With this, the Group remains exposed to credit and market risks, given the nature of the underlying assets. Any adverse event in the capital markets could erode the value of the underlying collateral stocks. MOFL has also invested in security receipts (SRs), wherein the underlying asset comprises home loans. Nonetheless,

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[3] *1.1% as of Mar-23 and 1.6% as of Mar-22; as of Mar-24, the GNPA of the new book stood at 0.3% compared to 1.6% for the legacy book*
[4] *Comprises margin funding in cash, derivatives and loan against shares*

the performance of the capital market and allied businesses, coupled with the comfortable capitalisation profile, provides an adequate buffer to absorb losses and incremental credit costs over the near term if any.

Elevated competition, high dependence on technology and evolving regulatory environment – Securities broking companies rely heavily on technology for trade execution, fund management, etc. Thus, technical failures or disruptions pose operational and reputation risk. Moreover, given the highly regulated nature of the industry, brokerage houses remain exposed to regulatory risks. Their ability to ensure compliance with the evolving regulatory landscape remains crucial. Regulatory changes such as higher margin requirements necessitated increased borrowings and recent changes, such as uniform charges to be levied by market infrastructure institutions, have impacted the profitability of the broking industry, especially discount brokers (though the impact on MOFSL is estimated to be less than 1% of its PBT). Additionally, in a bid to strengthen the equity index derivative framework, the regulator implemented three key measures (of six measures announced) starting November 20, 2024. With the implementation of measures, the Group witnessed a decline in gross broking income from the F&O segment. A prolonged continuation of the trend would impact revenues and profitability of the industry participants, albeit the impact on the Group would be relatively lower given its diversified revenue profile.

The sector also remains characterised by intense competition with susceptibility to the entry of new players. In this regard, it is noted that the Group has ceded market share to competition with the market share of active NSE clients shrinking (2.1% as on December 31, 2024 from 3% as on March 31, 2020), though, it has maintained/strengthened its market position in terms of market share of broking volumes. Additionally, while it has managed to synthesise healthy average revenue per client, supported by the cross-selling of wealth products and research-assisted advisory services, pricing pressure cannot be ruled out given the growing popularity of discount brokerage houses. Nonetheless, the increasing financialisation of savings and the low share of wallet of the equity segment in household savings offer untapped potential for expansion in the broking sector over the longer term. However, the possibility of pressure on profitability cannot be ruled out.

Liquidity position: Strong

MOFSL, at the consolidated level, has a strong liquidity position with a free unencumbered cash and bank balance of ~Rs. 1,289 crore, liquid investments of ~Rs. 281 crore and drawable but unutilised lines of ~Rs. 3,166 crore as on December 31, 2024. These, along with collections from the margin exposures of ~Rs. 8,136 crore (which can be liquidated at short notice to generate liquidity) and the home loan book, are adequate for covering the debt repayment obligations of ~Rs. 8,761 crore until September 30, 2025. In the broking business, the Group placed an average effective margin (including client margins) of Rs. 21,245 crore at the exchanges from September 2024 to December 2024, with the average margin utilisation (basis month-end figures) at 60-70%. ICRA notes that the Group's unencumbered investment book, comprising investments in MFs, PF, RE funds and AIFs, non-convertible debentures and equity instruments, also boosts its financial flexibility.

Rating sensitivities

Positive factors – Not Applicable

Negative factors – A sustained deterioration in the asset quality in the lending businesses or the sharp weakening of the operating profitability of the capital market focused segments. Sizeable MTM losses, leading to material erosion of the net worth and impacting the Group's profitability and capitalisation, will also be a credit negative.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology Stock Broking & Allied Services Rating Methodology for Non-banking Finance Companies (NBFCs)
Parent/Group support	Not applicable
Consolidation/ Standalone	ICRA has considered the consolidated financials of Motilal Oswal Financial Services Limited (MOFSL) and has taken a consolidated view of the credit profiles of MOFSL and its subsidiaries, including Motilal Oswal Wealth

	Limited (MOWL), Motilal Oswal Finvest Limited (MOFL) and Motilal Oswal Home Finance Limited (MOHFL), as the companies have operational and business synergies in addition to a shared name and management oversight.

About the company

Motilal Oswal Wealth Limited (MOWL), incorporated on March 6, 2002, is a wholly-owned subsidiary of Motilal Oswal Financial Services Limited. The company received a licence from the Securities and Exchange Board of India (SEBI) for its PMS business in November 2012. MOWL distributes all kinds of financial instruments and provides financial and investment advisory services and wealth management services. It reported a PAT of Rs. 119 crore on an NOI of Rs.265 crore in FY2024 compared to a PAT of Rs. 45 crore on an NOI of Rs. 199 crore in FY2023.

Key financial indicators

MOWL	FY2023	FY2024
Net operating income	199.1	264.5
Profit after tax	45.1	119.4
Net worth (including MI)	228.3	347.3
Total assets	273.4	463.7
Gearing (times)	0.1	0.1
Return on average net worth	21.9%	41.5%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Motilal Oswal Financial Services Limited

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, along with its subsidiaries, provides broking and distribution services, asset, wealth and portfolio management services, investment banking, private equity and housing finance.

MOFSL reported a consolidated net profit of Rs. 2,571 crore on NOI of Rs. 3,561 crore in 9M FY2025 compared to Rs. 2,446 crore and Rs. 3,673 crore, respectively, in FY2024. At the consolidated level, the Group's capitalisation profile was characterised by a net worth of ~Rs. 11,615 crore and gearing of 1.2 times as on December 31, 2024.

Key financial indicators

MOFSL (consolidated)	FY2023	FY2024	9M FY2025*
Net operating income	2,739.7	3,672.5	3,561.0
Profit after tax	932.8	2,445.6	2,571.4
Net worth (including MI)	6,283.2	8,768.7	11,615.4
Total assets	23,009.9	31,829.2	33,549.4
Gearing (times)	1.6	1.6	1.2
Return on average net worth	15.6%	32.6%	33.6%

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; Note: As a part of its segmental reporting, the Group allocates Rs. 467 crore of expenses (including capital charge from operating businesses) in FY2024 (Rs. 382 crore in FY2023) towards the treasury desk, on adjusting the same the PBT (ex- MTM gains less allocated expenses) stands at Rs. 2035 crore in FY2024 (Rs. 1486 crore in FY2023); * un-audited*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

		Current (FY2025)				Chronology of rating history for the past 3 years					
			FY2025			FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Feb 10, 2025	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Commercial paper (CP)	Short Term	1000.00	[ICRA]A1+	-	-	-	-	-	-	-	-
CP IPO	Short Term	200.00	[ICRA]A1+	22-JUL-2024	[ICRA]A1+	28-JUL-2023	[ICRA]A1+	05-AUG-2022	[ICRA]A1+	28-DEC-2021	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial papers	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating
NA	Commercial paper (IPO financing) – Yet to be Issued	NA	NA	NA	200.00	[ICRA]A1+
NA	Commercial paper – Yet to be Issued	NA	NA	NA	1,000.00	[ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership (%)	Consolidation Approach
Motilal Oswal Financial Services Limited	Parent	Full Consolidation
Motilal Oswal Commodities Broker Private Limited	100.00	
Motilal Oswal Investment Advisors Limited	100.00	
MO Alternate Investment Advisors Private Limited	100.00	
Motilal Oswal Finvest Limited	100.00	
Motilal Oswal Wealth Limited	Rated Entity	
Motilal Oswal Asset Management Company Limited	100.00	
Motilal Oswal Trustee Company Limited	100.00	
Motilal Oswal Securities International Private Limited	100.00	
Motilal Oswal Capital Markets (Singapore) Pte. Limited	100.00	
Motilal Oswal Capital Markets (Hong Kong) Private Limited	100.00	
Motilal Oswal Home Finance Limited	97.60%	
Motilal Oswal Finsec IFSC Limited	100.00	
Motilal Oswal Broking and Distribution Private Limited	100.00	
TM Investment Technologies Pvt. Ltd	61.64	
India Business Excellence Management Company	100.00	
Motilal Oswal Asset Management (Mauritius) Limited	100.00	
Motilal Oswal Capital Limited	100.00	
MO Alternate IFSC Limited	100.00	

Source: Company; Note: ICRA has taken a consolidated view of the parent (MOFSL), its subsidiaries and associates while assigning the ratings, as of March 31, 2024

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