

March 19, 2025

Motilal Oswal Home Finance Limited: [ICRA]AA (Positive) assigned to NCD programme; Rating reaffirmed for existing limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	500.00	500.00	[ICRA]A1+; reaffirmed
Non-convertible Debenture programme	500.00	500.00	[ICRA]AA (Positive); reaffirmed
Non-convertible Debenture programme	-	300.00	[ICRA]AA (Positive); assigned
Total	1,000.00	1,300.00	

*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 long-standing track record and strong market position in various capital market-related businesses, its healthy profitability, and comfortable capitalisation profile. Led by best-ever performance in the capital market businesses in the first two quarters of the current fiscal, the group reported strong performance in 9MFY2025. Despite some moderation following the implementation of the index derivative framework on November 20, 2024, and recent tempering market trends, the performance remained strong and significantly higher than historical levels¹. The Positive outlook considers the Group's improving scale and diversification in capital market & allied businesses, along with its strong operational and financial performance. The Group has demonstrated its ability to retain its strong market position through capital market cycles despite evolving regulations and competition. The 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 the risks emanating from technological failures and the evolving regulatory landscape.

After material growth in the capital market lending book in preceding quarters, the exposures moderated in the recent quarters amid tempering market trends and shift in focus towards 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 gearing² in the capital market business in the current fiscal albeit 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 of 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.

ICRA takes note of 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, though it remains relatively unseasoned. With the material scale-up of the capital market lending book, the Group is also exposed to the market and credit risks associated with this segment, given the volatile nature of the underlying asset class and its sensitivity to capital market movements. Nevertheless, sizeable cash accruals from established capital market-

¹ PBT (excluding 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

related businesses and the comfortable capitalisation profile provide 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.

Key rating drivers and their description

Credit strengths

Long-standing 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 8,010+ franchises. As of 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 800+ clients, supported by research coverage on 250+ companies. Besides broking, the Group has an established presence in asset management and wealth management, overseeing assets under advise of over Rs. 6 lakh crore as of December 31, 2024.

Track record of healthy profitability – Motilal Oswal Group's capital market business has grown significantly in recent years. Led by best-ever performance in the capital market businesses in first two quarters of current fiscal, 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 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 F&O broking income is likely due to the measures implemented by the regulator and temperedness in market trends, though the same is expected to remain healthy. Moreover, ICRA notes that with the Group's net worth significantly deployed in equity investments, its net earnings would likely continue to be volatile.

Comfortable capitalisation – MOFSL's consolidated capitalisation profile remains comfortable, supported by the healthy internal capital generation trajectory, notwithstanding dividend payouts and buybacks. As of December 31, 2024, the consolidated capitalisation profile was characterised by a net worth of Rs. 11,615 crore and a gearing of 1.2 times. After material growth in the capital market lending book in preceding quarters, the exposures moderated in the recent quarters amid tempering market trends and shift in 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 of December 31, 2024, from 1.4 times as of March 31, 2024, and past 5-year average of 1.4 times. The gearing in the home finance business eased to 2.1 times as of December 31, 2024, from 2.6 times as of 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 comprising (broking, capital market-related lending, and investment banking). These businesses are relatively more exposed to the volatility inherent in capital markets, as corroborated by two instances of a decline in the revenue from these segments in the past 10 years. The capital market loan book is also exposed to volatility given the nature of the underlying collaterals. Nonetheless, with the focus 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 the share of income from broking and allied services has increased to 57% of the NOI in FY2024 from 36% in FY2020. Retail broking income from the futures & options (F&O) segment contributes about 14% to the Group's net revenues, remaining relatively vulnerable to regulatory risks in light of 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 the 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 asset quality in the mortgage business has stabilised in the recent years after witnessing asset quality issues in earlier 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, though the book remains modest and is yet to season. The headline gross non-performing advances (GNPAs) stood at 1.4% as of December 31, 2024, compared to 0.9%³ as of 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 of 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 71% of the book as of March 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 exposures⁴ in recent years to ~Rs. 8,136 crore as of December 31, 2024, up by 15% YoY. With this, the Group remains exposed to credit and market risks as any adverse event in the capital markets could erode the value of the underlying collateral stocks. Nonetheless, the performance of the capital market and allied businesses, coupled with the comfortable capitalisation profile, provides 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 – Given the highly regulated nature of the industry, brokerage houses face significant regulatory risk. Ensuring compliance with evolving regulations is crucial. Recent changes, such as uniform exchange charges, have impacted profitability, especially for discount brokers. Measures to curb exuberance in the F&O segment, including rationalization of weekly index derivatives and increased margins on expiry days, are being phased in between November 2024 and April 2025. These, along with the hike in securities transaction tax, pose risks to capital market volumes and profitability, particularly for discount brokers. The sector is also characterised by intense competition and the entry of new players, leading to pricing pressure. However, the increasing financialisation of savings offers potential for expansion. Despite this, profitability pressure during downturns remains a concern. Additionally, reliance on technology poses operational and reputational risks, as seen with Motilal Oswal Group's one technical glitches in 11M FY2025. Maintaining uninterrupted services will be crucial for customer experience.

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

Liquidity position: Strong

MOFSL, at a 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 till September 30, 2025. In the broking business, the Group had placed an average effective margin (including client margins) of Rs. 21,245 crore at the exchanges during September 2024 to December 2024, with the average margin utilisation (basis month-end figures) ranging between 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 – A sustained improvement in the Group's operating profitability along with the continued scale-up of the relatively more stable businesses with recurring revenue streams, while maintaining healthy asset quality and a comfortable capitalisation profile.

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	Stockbroking & Allied Services 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

MOHFL, a housing finance company (HFC) promoted by the Motilal Oswal Group, is a subsidiary of MOFSL, which directly and indirectly held an equity stake of ~98% in the company as on March 31, 2024. It commenced lending operations in May 2014 and had a portfolio of ~Rs. 4,209 crore as on September 30, 2024. The company has a presence across 112 locations in 12 States/ Union Territories. The company has a presence largely in Tier-II and III locations or the extended suburbs of metro cities. Its portfolio comprises about 47% to salaried customers. MOHFL reported a net profit of Rs. 56 crore on a total income of Rs. 310 crore in H1 FY2025 compared to a net profit of Rs. 63 crore on a total income of Rs. 287 crore in H1 FY2024. As of September 30, 2024, the capitalisation profile is characterised with net worth of Rs. 1,353 crore and gearing of 2.25 times.

Key financial indicators(audited)

MOHFL	FY2023	FY2024	H1 FY2025
Total income	531.9	589.1	309.8
Profit after tax	136.4	132.5	56.1
Total assets	4,148.0	4,552.1	4,672.4
Return on assets (Annualised)	3.4%	3.0%	2.4%
Reported gearing (times)	2.6	2.4	2.3
GNPA	1.1%	0.9%	1.3%
CRAR	50.9%	51.0%	45.6%

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, through its subsidiaries, provides broking and distribution services, asset, wealth and portfolio management services, 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 (annualised)	15.6%	32.6%	33.6%

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: Previously, the Group planned to reorganize its structure to comply with the Securities Contract Regulation Rules (SCRR), 1957, which would have required the lending businesses to not be direct subsidiaries of the broking business. However, following the recent consultation paper issued by the Department of Economic Affairs (DEA) in September 2024, which proposes amendments to the SCRR allowing brokers to invest in any Group company using retained earnings, the MOFSL board has approved the withdrawal of the existing restructuring scheme. The board will review and reconsider filing a revised scheme, if necessary, based on the final amendments published by the DEA.

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)	Mar 19, 2025	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Commercial paper	Short Term	500	[ICRA]A1+	Jul-22-2024	[ICRA]A1+	Jul-28-2023	[ICRA]A1+	Aug-05-2022	[ICRA]A1+	Aug-06-2021	[ICRA]A1+
				Dec-09-2024	[ICRA]A1+	-	-	-	-	-	-
Non-convertible Debenture programme	Long Term	800	[ICRA]AA (Positive)	Dec-09-2024	[ICRA]AA (Positive)	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial Papers	Very Simple
Non-convertible Debentures^	Very Simple

^subject to change when terms are finalised

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 / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE658R07430	Non-convertible Debentures	Jan 07, 2025	8.55%	Jan 07, 2027	375.00	[ICRA]AA(Positive)
NA	Non-convertible Debentures (yet to be issued)	NA	NA	NA	425.00	[ICRA]AA(Positive)
NA	Commercial Paper Programme-(yet to be issued)	NA	NA	NA	500.00	[ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership (%)	Consolidation Approach
Motilal Oswal Financial Services Limited	Parent	
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	100.00	
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	Full Consolidation
Motilal Oswal Capital Markets (Hong Kong) Private Limited	100.00	
Motilal Oswal Home Finance Limited	Rated Entity	
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) and its subsidiaries while assigning the ratings, as of Mar-24

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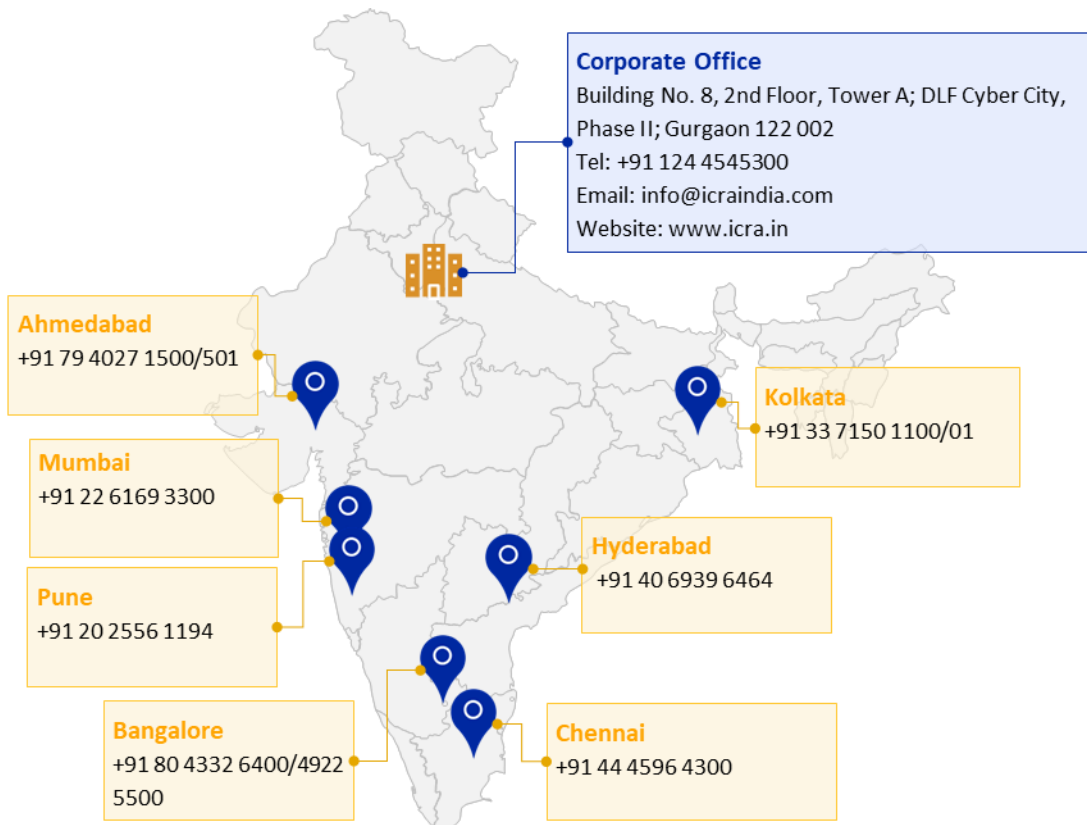
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