

July 28, 2023

Motilal Oswal Home Finance Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture programme	25.00	25.00	[ICRA]AA(Stable); reaffirmed
Commercial Paper Programme	500.00	500.00	[ICRA]A1+; reaffirmed
Total	525.00	525.00	

*Instrument details are provided in Annexure-I

Rationale

While arriving at the ratings, ICRA has considered the consolidated financials of Motilal Oswal Financial Services Limited (MOFSL or Group), 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 Group's long-standing track record and strong position in capital market-related businesses, its history of healthy profitability, and comfortable capitalisation and liquidity. Following the record performance in FY2022, the Group's operating performance remained intact in FY2023 with PBT (ex- mark to market or MTM gains) of Rs. 1,103.5 crore (past five-year average of Rs. 672.5 crore) and PBT (ex-MTM gains)/NOI of 40% (past five-year average of 34%). The net profit, however, moderated YoY on account of lower mark to market (MTM) gains in its equity-oriented investment book amid tepid capital market performance. The Group's borrowings witnessed a material increase led by scale-up of margin funding book (MTF) and increase in working capital requirements on account of slew of regulatory changes. On account of this, the Group reported a material increase in gearing in capital market-related businesses to 1.43 times as of March 31, 2023 (average of 0.72 times between FY2018-22). Additionally, after steady decline in borrowings in the home finance company (HFC) in recent years, the segment witnessed an increase in borrowings with scale-up in loan book in FY2023. Notwithstanding this, supported by strong internal capital generation, the consolidated as well as HFC's capitalisation profiles remain comfortable. The Group intends to maintain a gearing of less than 2 times in the capital market business (consolidated less HFC) and less than 4 times in the housing finance business.

The aforesaid strengths are, however, partially offset by the inherently volatile nature of income from the capital market-related business, intense competition in the equity broking space and the risks emanating from the evolving regulatory landscape. Although, the presence of income stream from relatively stabler businesses such as asset and wealth management, depository, and home finance offer some stability to the Group's revenue profile. The ratings also factor in the Group's relatively limited experience in the lending business with asset-quality issues faced in the housing finance business (housed under MOHFL) in the recent past. ICRA, however, takes a note of the gradual stabilisation in asset quality with reduction in the adjusted¹ GNPA on an absolute basis in recent years and the satisfactory performance of the new book originated after strengthening of processes and systems post-April 2018; albeit the book remains unseasoned. With material scale-up of the capital market lending book in recent years, the Group also remains exposed to the market and credit risks associated with the capital market loan book, given the volatile nature of the underlying asset class and its sensitivities with capital market movements. Though, sizeable accruals of established capital market-related business and the comfortable capitalisation profile provide adequate buffer to absorb losses and incremental credit costs over the near term, if any.

¹ Including reported GNPA, asset sold to ARC and write-off, Rs. 125 crore in FY2023, Rs. 180 crore in FY2022 and Rs. 191 crore in FY2021

The Stable outlook reflects ICRA's expectations that MOFSL would continue to draw on its long-standing track record and strong position in capital market-related businesses to report healthy profitability, while maintaining comfortable capitalisation and liquidity.

Given the regulatory changes, the Group is likely to reorganise its internal Group structure, wherein the broking and distribution business of MOFSL would be transferred into one of the wholly-owned subsidiaries of the Group and the wealth business would be demerged from MOWL into MOFSL. This is unlikely to have impact on the credit profile of the Group.

Key rating drivers and their description

Credit strengths

Long-standing track record and strong position in capital market-related businesses – The Group has a presence in diverse business segments comprising retail and institutional broking, wealth management, capital market-related lending, commodity broking, investment banking, asset management, private equity and housing finance. MOFSL serves as the main holding company and primarily houses the capital market business of the Group. MOFSL is an established player in the equity broking business with a track record of over three decades and has a pan-India presence through ~100 branches and 8,033 franchises with a client base of 35 lakh as of March 31, 2023. While the Group caters to both the retail and institutional clientele segments, retail contributes ~85% of the net broking income.

It was the 8th largest broker in terms of the National Stock Exchange (NSE) active clients as of March 31, 2023, and a leading player in the institutional segment with over 800 domestic and foreign clients with research cover over 250+ companies across 20+ sectors. It has an established presence in the retail as well as the institutional broking segments with an overall market share (excluding proprietary volumes; ex-prop) of 1.68% (2.63% market share in cash volumes) in FY2023.

Track record of healthy profitability– The Group's capital market business has achieved a significant growth in recent years. Notwithstanding the industry headwinds in FY2023, the performance of the capital market business remained largely intact, additionally, supported by improvement in performance in the HFC business, the Group maintained its operating profit (PBT ex-MTM gains) at Rs. 1,103.5 crore in FY2023, 1% decline from its highest-ever performance in FY2022. The net profit was, however, impacted on account of moderation in MTM gains from its equity-oriented investment book amid tepid capital market performance. Nonetheless, the Group reported a net profit of Rs. 932.3 crore (Rs. 934.8 crore including share of joint ventures and associates) and return on equity of 15.6% in FY2023 after reporting all-time high PAT of Rs. 1,310.7 crore (Rs. 1312.5 crore including share of joint ventures and associates) and return on equity of 25.8% in FY2022.

Comfortable capitalisation – MOFSL's capitalisation profile remains comfortable, supported by a healthy internal capital generation trajectory, notwithstanding dividend payout and buyback of ~19% of profits in the past three years. As of March 31, 2023, MOFSL's consolidated capitalisation profile was characterised by net worth of Rs. 6,252 crore and a gearing of 1.64 times. While the Group historically maintained low financial leverage in the capital market-related businesses (average consolidated gearing excluding HFC of 0.7 times between FY2018-22), the gearing in the capital market businesses materially increased to 1.43 times as of March 31, 2023, with material scale-up of debt-funded margin book and increased working capital requirements amid slew of regulatory changes. Additionally, after steady decline in borrowings in the home finance business between FY2018-22, the borrowings increased in FY2023 with scale-up in home finance loan book. Notwithstanding this, MOHFL's capitalisation remained comfortable with a reported capital-to-risk-weighted assets ratio (CRAR) of 50.9% and a gearing of 2.58 times as on March 31, 2023, thereby providing adequate headroom for growth. ICRA notes that MOFSL's investments in listed equities, equity mutual funds, portfolio management services schemes, private equity funds, real estate funds, and alternative investment funds form a sizeable proportion of the consolidate net worth.

Credit challenges

Exposed to volatility inherent in capital markets; albeit presence in businesses with relatively stabler income streams imparts some stability to Group's earnings profile – Over the years, with the Group's focus on scaling up businesses with relatively stabler income streams such as asset and wealth management and housing finance, the income from aforesaid businesses (typically booked as a % of AUM) increased by a compounded annual growth rate (CAGR) of 10% during FY2020-23 to Rs. 1,300 crore in FY2023. Notwithstanding this, the income from the Group's traditional lines of businesses (broking, capital market-related lending, and investment banking) remains exposed to the volatility inherent in capital markets, corroborated by two instances of decline in the revenue of these segments in the past 10 years. ICRA notes that with significant scale-up of the broking and allied income in recent years on the back of favourable market conditions, the share of income from such business in NOI has increased to 53% in FY2022 compared to 37% in FY2020. Also, it is noted that the Group has sizeable capital deployed as investments in mutual funds, PMS, PE/RE funds, AIFs, and strategic equity investments, which exposes its profitability and net worth to volatility in capital markets. Going forward, material scale-up of the annuity-based business would be critical for lending overall stability to the Group's earnings profile.

Relatively limited experience in lending business; though, gradual improvement in performance of new originations so far, provides some comfort – The Group's housing finance business, which commenced under Motilal Housing Finance Limited (MOHF) in May 2014, witnessed asset quality pressures in FY2018 and FY2019. However, with several remedial measures, in subsequent years including the strengthening of the processes and systems, managerial support, and increased supervision coupled with easing of pandemic-induced stress, the segment reported a gradual stabilisation in asset quality with reduction in adjusted GNPA, on an absolute basis, in recent years. The segment reported a GNPA of 1.06% as of March 31, 2023, compared to 1.60% as of March 31, 2022, and peak GNPA of 9% as of March 31, 2019. The share of standard restructured book moderated to 6.3 % of the overall book as of March 31, 2023, compared to 8.8% as of March 31, 2022. ICRA notes that the new loans originated post strengthening of systems and processes since April 2018 have fared relatively well in terms of asset quality with adjusted three-year lagged GNPA of ~1.4%; though the book remains modest and is yet to be seasoned. ICRA also notes that in recent years, the segment has also forayed into high-yielding non-housing loan segments namely developer finance and LAP. The share of non-housing loans in the overall loan book increased to 18% as of March 2023 from 12% as of March 2022. The performance of the aforesaid in terms of asset quality is yet to be demonstrated, as these exposures season.

Excluding the wholesale exposures, the loan book remains concentrated with top-three states accounting 76% (PY: 82%) of the book. Over the years, the Group has also developed a diversified resource profile in the home finance segment. Going forward, the Group's ability to raise funding at competitive rates and profitably scale-up the home loan book, while maintaining healthy asset quality and improving geographic diversification, will be imperative.

In addition to housing finance, the Group has also materially scaled up the capital markets-based lending² in recent years to Rs. 3,444 crore, 2.3 times on a YoY basis. Given the volatile nature of the underlying asset class, the book remains vulnerable to capital market movements, though, the asset quality has remained healthy in this business so far. MOFL has also invested in ~Rs. 196 crore of security receipts (SRs), wherein the underlying asset comprises home loans which were sold to an ARC by MOHFL. Going forward, pace of collections from these investments will remain a monitorable. 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.

Intense competition and risks from evolving regulatory landscape – Capital market businesses are characterised by intense competition and pricing pressures across segments, exacerbated by the growing dominance of discount brokers. The Group too, ceded market share to competition with market share³ of turnovers declining to 1.68% in FY2023 from 2.98% in FY2018. Further, a series of regulatory changes in the last couple of years have increased the compliance cost for all brokers, thereby exerting pressure on margins besides increasing the working capital requirements. Nonetheless, the under-penetration of capital markets in India provides headroom for growth for established players like Motilal Oswal Group.

² Comprises of margin funding in cash and derivative segments

³ Excluding proprietary turnover

Liquidity position: Strong

At a consolidated level, MOFSL has a comfortable liquidity position with free un-encumbered cash and bank balances of ~Rs. 500 crore, investments of ~Rs. 320 crore and drawable but un-utilised lines of ~Rs. 2,560 crore as on June 30, 2023. These along with collections from home loans and short-term nature of margin funding book of ~Rs. 3,333 crore (which can be liquidated at short notice to generate liquidity) are adequate for covering the repayment obligations of ~Rs. 3,818 crore till March 31, 2024. The Group also has adequate liquidity for placing excess margin at the exchange, if required. As of March 31, 2023, the ALM statement was characterised by positive cumulative mismatches over the medium term.

Rating sensitivities

Positive factors – ICRA could upgrade the long-term rating on a substantial and sustained improvement in the Group’s operating profitability along with scaleup in relatively stable businesses with recurring revenue streams, while maintaining healthy asset quality and robust capitalisation profile.

Negative factors – The ratings could witness pressure if there is a significant deterioration in the asset quality in the lending business or sizable increase in MTM losses leading to erosion of net worth, 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 Rating Methodology for Non-Banking Finance Companies
Parent/Group support	Not Applicable
Consolidation/ Standalone	ICRA has considered the consolidated financials of Motilal Oswal Financial Services Limited (MOFSL or Group), 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, 2022. It commenced lending operations in May 2014 and had a portfolio of ~Rs. 3,485 crore as on March 31, 2022.

The company primarily caters to the lower-and-middle-income borrower segment for the purchase of affordable residential units with a maximum ticket size of Rs. 40 lakh. It has a network of 109 branches in Andhra Pradesh, Chhattisgarh, Gujarat, Haryana, Delhi, Karnataka, Madhya Pradesh, Maharashtra, Rajasthan, Tamil Nadu, Telangana and Uttar Pradesh. The company has a presence largely in Tier-II and III locations or the extended suburbs of metro cities. Its portfolio comprises an even mix of financing to both salaried and self-employed customers. MOHFL reported a net profit of Rs. 136.4 crore on a total income of Rs. 531.9 crore in FY2023 compared to a net profit of Rs. 94.9 crore on a total income of Rs. 526.2 crore in FY2022. As of March 31, 2023, the capitalisation profile is characterised with net worth of Rs. 1,147.7 crore and gearing of 2.58 times.

Key financial indicators(audited)

MOHFL	FY2022	FY2023
Total income	526.2*	531.9
Profit before tax	118.3	175.5
Profit after tax	94.9	136.4
Net worth	1,007.0	1,147.7
Loan book	3,434.6	3,771.7
Total assets	3,763.0	4,148.0
Return on assets	2.5%	3.4%
Return on net worth	9.9%	12.7%
Gross gearing (times)	2.69	2.58
Gross NPA	1.6%	1.1%
Net NPA	0.9%	0.6%
Solvency (Net stage 3/Net worth)	3.1%	1.8%
CRAR	51.6%	50.9%

Source: Company, ICRA Research; All ratios as per ICRA's calculations, Amount in Rs. Crore, * including gains from direct assignment transactions

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. 932.8 crore on NOI of Rs. 2,739.7 crore in FY2023 compared to Rs. 1,310.7 crore and Rs. 2,633.8 crore, respectively in FY2022. At the consolidated level, the Group's net worth stood at Rs. 6,283.3 crore as on March 31, 2023.

Key financial indicators

MOFSL (consolidated)	FY2022	FY2023
Brokerage income	869.7	959.6
Fee income (other than broking)	1,025.9	1,051.2
Net interest income	560.7	633.1
Other non-interest income	177.5	95.8
Net operating income (NOI)	2,633.8	2,739.7
Total operating expenses	1,419.3	1,593.4
Profit before tax	1,615.8	1,242.3
Profit after tax (PAT)	1,310.7	932.8
Profit after tax including associate & joint venture	1,312.5	934.8
Net worth	5,700.7	6,283.2
Borrowings	6,154.0	10,275.9
Gearing (times)	1.08	1.64
Cost-to-income ratio (%)	53.9%	58.2%
Return on net worth (%)	25.8%	15.6%
PAT/NOI (%)	49.8%	34.0%

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: None

Rating history for past three years

Instrument	Type	Current Rating (FY2023)			Chronology of Rating History for the Past 3 Years				
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021		
				Jul 28, 2023	Aug 05, 2022	Aug 06, 2021	Sep 04, 2020	Aug 07, 2020	
1 Non-convertible Debenture Programme	Long Term	-	-	-	[ICRA]AA (CE) (Stable)	[ICRA]AA (CE) (Stable)	[ICRA]AA (CE) (Stable)	[ICRA]AA (CE) (Stable)	[ICRA]AA (CE) (Stable)
2 Non-convertible Debenture Programme	Long Term	25.00	25.00	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3 Non-convertible Debenture Programme	Long Term	-	-	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
4 Market Linked Debenture Programme	Long Term	-	-	-	PP-MLD [ICRA]AA (Stable)	PPMLD [ICRA]AA (Stable)	PPMLD [ICRA]AA (Stable)	PPMLD [ICRA]AA (Stable)	PPMLD [ICRA]AA (Stable)
6 Commercial Paper Programme	Short Term	500.00	150 [^]	[ICRA]A 1+	[ICRA]A 1+	[ICRA]A 1+	[ICRA]A 1+	[ICRA]A 1+	[ICRA]A 1+
7 Bank Lines	Long Term	-	-	-	-	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)

*as on June 30, 2023; [^]rest yet to be issued

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial Papers	Very Simple
Non-convertible Debentures	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 / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE658R08123	Non-convertible Debentures	Aug 09, 2016	11.00%	Aug 07, 2026	25.00	[ICRA]AA(Stable)
INE658R14451	Commercial Paper Programme	Jun 22, 2023	8.0%	Sep 21, 2023	125.00	[ICRA]A1+
INE658R14469	Commercial Paper Programme	Jun 23, 2023	8.0%	Sep 22, 2023	25.00	[ICRA]A1+
NA	Commercial Paper Programme-(yet to be issued)	NA	NA	NA	350.00	[ICRA]A1+

Source: Company; * as of June 30, 2023

Annexure II: List of entities considered for consolidated analysis

Company Name	MOFSL Ownership (%)	Consolidation Approach
Motilal Oswal Commodities Broker Private Limited	100.00	Full Consolidation
Motilal Oswal Investment Advisors Limited	100.00	
MO Alternate Investment Advisors Private Limited	100.00	
Motilal Oswal Finvest Limited	100.00	
Motilal Oswal Wealth Management 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	
Motilal Oswal Capital Markets (Hong Kong) Private Limited	100.00	
Motilal Oswal Home Finance Limited	97.601	
Motilal Oswal Finsec IFSC Limited	100.00	
Glide Tech Investment Advisory 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: MOFSL annual report FY2023; Note: ICRA has taken a consolidated view of the parent (MOFSL), its subsidiaries and associates while assigning the ratings

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