

## Motilal Oswal Financial Services Limited

Instrument /Facility	Amount in INR Crores	Rating Action (April 2016)
Non Convertible Debentures Programme	150.00	[ICRA]AA (Stable) Reaffirmed

ICRA has reaffirmed the rating of [ICRA]AA (pronounced ICRA double A) with a stable outlook to the Rs. 150 Crore Non Convertible Debenture Programme of Motilal Oswal Financial Services Limited(MOFSL).

The reaffirmation of rating considers the combined financial and business profiles of all key companies in the Motilal Oswal Group. The rating factors in the group's strong market position in the retail broking space, its comfortable capitalization levels, strong profitability matrices, low leverage levels, efficient cost structures with a high share of business sourced through the low-cost franchisee channel and robust risk management systems/practices. The rating, however, remains constrained by the high though declining dependence of MOFSL's earnings profile on the capital markets – which are inherently cyclical in nature. Nevertheless, the share in the overall revenue mix of the capital markets businesses (retail broking and distribution, institutional equities, investment banking and wealth management) has declined to 51% in 9MFY16 from 65% in FY15, on the back of rapid traction in the Group's asset management and housing finance businesses. ICRA has also noted the sharp scale up of the group's asset management and wealth management businesses. While ICRA has noted the group's diversification attempts by entering the housing finance business (through Aspire Home Finance Corporation Limited; rated at [ICRA]AA- with Stable Outlook), the portfolio seasoning in this business is low and the ability to maintain asset quality is yet to be completely seen. The rating also reflects MOFSL's positioning with other industry players with similar business profiles.

The Motilal Oswal group is one of India's leading providers of capital-market-related services; it offers a number of services, such as retail and institutional broking, wealth management, loan against shares, margin funding, commodities broking, investment banking, asset management, private equity and housing finance.

MOFSL is one of the strongest players in retail broking with over 7.7 lakh clients across about 1,100 franchisees as on Dec-15. In institutional broking, the group remains one of the stronger names with empanelment from close to 600 institutions. The retail and institutional broking volumes for MOFSL grew by ~79% and ~125% respectively in FY2015 in line with the rally seen in the domestic equity markets during this period. In 9MFY2016, retail volumes grew at a slower pace (of ~24%) while the institutional volumes growth remained flat resulting in an overall equity brokerage market share of ~1.9% for 9MFY2016 making it one of the prominent players in the Indian capital markets space. In terms of market presence, the group has a network of about 2,200 outlets Pan-India as of Dec-15. During 9MFY2016, the blended broking yields moderated as the share of the high yield cash segment declined to 15% of broking volumes (from 17% in FY2015). Going forward, the ability of the company to cushion earnings volatility while maintaining yields in an increasingly fragmented industry will be a key monitorable.

When compared to peers, MOFSL's earnings have a higher-than-average dependence on brokerage related income with this business line accounting for ~51% (during 9MFY2016) of the group's earnings. The other business lines include asset management income (Mutual Funds, PMS and Private Equity) (~20% in 9MFY2016), housing finance income (~17% in 9MFY2016), funds based income (~11% in 9MFY2016) and Investment Banking fee (~2% in 9MFY2016).

The AMC business saw considerable traction in the FY2015 and 9MFY2016. AUM in the Mutual Funds business rose from Rs 582 Crores as on Mar-14 to Rs 2,415 Crores on Mar-15 and further to Rs 4,837 Crores on Dec-15. PMS AUM grew from Rs 1,449 Crores as on Mar-14 to Rs 3,683 Crores on Mar-15 and further to Rs 5,275 Crores on Dec-15. PE AUA grew from Rs 1,890 Crores as on Mar-14 to Rs 2,158 Crores on Mar-15 and further to Rs 2,364 Crores on Dec-15. Other lines of businesses such as commodities broking and currency broking continue to compose MOFSL's offerings but their scale remains much lower compared to its primary business of equity broking.

With increase in business volumes in FY2015, MOFSL's Opex (as a % of Average Total Assets) hardened from 13.2% in FY2014 to 14.9% in FY2015. The same however declined sharply to 10.8% in 9MFY2016 as the asset base of the company rose sharply due to scaling up of the housing finance business. Consequently, the MOFSL group reported operating profits (PBT) of Rs. 197.9 Crores in FY2015 vis-à-vis Rs. 124.6 Crores in

FY2014. This was Rs. 161 Crores in 9MFY2016. With credit costs remaining low, the group witnessed improving Return on Assets (RoA) as it rose to 6.1% from 2.3% in FY2014 and an improvement in RoE (Return on Equity) to 11.1% from 3.4% during this period. During 9MFY2016, despite moderate increase in profitability, the RoA decline to 4.1% while the RoE was reported at 7.9% due to the base effect.

About two years ago, the group ventured into the housing finance business through its subsidiary Aspire Home Finance Corporation Limited (Aspire) in a bid to weather earnings volatility shocks inherent in its primary industry of operations – capital markets. Since inception, Aspire has been on a robust growth path by clocking monthly disbursements of about Rs. 200 Crores and growing to a book size of Rs. 1,400 Crores as on Dec-15. This business has seen its share within the revenue mix rise from 3% in FY2015 to 17% in 9MFY2016. Aspire's gearing, as on Dec-15, stood at 4.9 times and is expected to go up even further. On the liabilities side, Aspire has term-loan drawdown from 19 banks in Dec-15, up from 7 in Mar-15.

The Motilal Oswal group's leverage levels are lower than those of its peers and, as on Dec-15, the Debt/Equity ratio stood at 1.56 times. With the housing finance business expected to scale up even further in the next few years, the group's leverage levels can be expected to harden. The group's capitalization levels remain healthy with a net worth of Rs. 1,448 Crores as on Dec-15 (Rs. 1,295 Crore net worth as on Mar-15).

### **Group Profile**

The Motilal Oswal group is one of India's leading providers of capital-market-related services; it offers a number of services, such as retail and institutional broking, wealth management, loan against shares, margin financing, commodities broking, investment banking, asset management, private equity and housing finance. MOFSL, incorporated in 2005, is a non-deposit-taking non-banking financial company providing margin financing services to the group's retail broking clients and is the group holding company. The group's promoters collectively own 72.01% of MOFSL's equity shares as on March 31, 2016. The Motilal Oswal group reported a PAT (after exceptional and extraordinary items) of Rs. 143.6 crore on a total income of Rs. 775.4 crore for FY 15, against a PAT of Rs. 39.5 crore on a total income of Rs. 567.7 crore for FY 14.

### **Recent Results (FY2016)**

On a Consolidated Basis, Motilal Oswal reported a Total Income of Rs. 1092.7 Crores and a PAT (after exceptional and extraordinary items) of Rs. 169.1 Crores in FY2016.

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