Motilal Oswal Financial Services Limited
CIN: L67190MH2005PLC153397
Regd. Off.: Motilal Oswal Tower,
Rahimtullah Sayani Road,
Opp. Parel ST Depot,
Prabhadevi, Mumbai – 400025
Board: +91 22 7193 4200 / 4263
Fax: +91 22 5036 2365

October 07, 2021

To,

BSE Limited
P. J. Towers,
Dalal Street, Fort,
Mumbai - 400001
Security Code: 532892

National Stock Exchange of India Limited
Exchange Plaza, Plot No. C/1, G Block,
Bandra-Kurla Complex, Bandra (E),
Mumbai - 400051
Symbol: MOTILALOFS

Subject: India Rating assigns "AA/Stable" on long term debt instruments of Motilal Oswal group including its Material Subsidiaries- Motilal Oswal Home Finance Limited and Motilal Oswal Finvest Limited

Dear Sir/Madam,

We are happy to inform the Exchange that India Ratings Limited ("Ind-Ra") has assigned AA ratings with stable outlook on long term debt instruments of Motilal Oswal Financial Services Limited ('The Company'), Motilal Oswal Home Finance Limited (MOHFL) and Motilal Oswal Finvest Limited (MOFL).

The key rationale to ratings include the group's established franchisee in capital market business which has time tested multiple market cycles. Moreover, its expertise in research and advisory offerings to broking clients has led to client stickiness across market cycles. The group has demonstrated high profitability and operating leverage benefit would play out in its capital market businesses.

The rationale also includes diversification of income at group level to linear revenue stream, as 60% of revenues are contributed by linear businesses such as Asset & Wealth Management and Housing finance. The rating also takes into consideration MOHFL's approach of geographical diversification, strengthening of the underwriting process and better asset quality, strengthening team and improvement in disbursements, stronger systems / processes and risk management capabilities , reduction in cost of funds and improvement in overall profitability.

The rating also takes into consideration the group's healthy capitalisation and adequate liquidity on the balance sheet aided by fund based investments.

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The rating rationale letters received from India Ratings are enclosed herewith.

Thanking you,

Yours truly,

For Motilal Oswal Financial Services Limited

Kailash Chunnilal Purohit
Digitally signed by Kailash Chunnilal Purohit
Date: 2021.10.07 16:23:37 +05'30'

Kailash Purohit
Company Secretary & Compliance Officer
Encl: As above

India Ratings & Research
A Fitch Group Company

India Ratings Assigns Motilal Oswal Financial Services' NCDs 'IND AA'/Stable, Affirms CP at 'IND A1+'

07

OCT 2021

By Amit Rane

India Ratings and Research (Ind-Ra) has taken following rating actions on Motilal Oswal Financial Services Limited's (MOFSL) debt instruments:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Commercial papers (CPs)	-	-	7 to 365 days	INR15,000	IND A1+	Affirmed
Non-convertible debentures (NCDs)*,$	-	-	-	INR3,000	IND AA/Stable	Assigned
Principal protected market-linked debentures (PP-MLDs)*,$	-	-	-	INR3,000	IND PP-MLD AAemr/Stable	Assigned

*Yet to be issued

$The total NCD limit of INR3,000 million stands fungible between NCDs and PP-MLDs.

The suffix 'emr' denotes the exclusion of the embedded market risk from the rating. The rating of MLDs is an ordinal assessment of the underlying credit risk of the instrument and does not factor in the market risk that investors in such instruments will assume. This market risk stems from the fact that coupon payment on these instruments will be based on the performance of a reference index (to be detailed in the information memorandum of the issue).

PP-MLD refers to full principal protection wherein the issuer is obligated to pay the full principal upon maturity.

Analytical Approach: Ind-Ra continues to take a consolidated view of MOFSL and its group companies while arriving at the ratings, on account of the strong financial, managerial and operational linkages among them.

KEY RATING DRIVERS

Established Franchisee in Capital Market Business: The Motilal Oswal Group is a well-established brand in the capital markets, having an equity broking business since 1987. The group has witnessed multiple market cycles and idiosyncratic risk events. With a client base of more than 2.19 million as of 1QFY22, the group caters to both retail and institutional clients through its 5,725 outlets (franchisees and other partners), taking the pan-India pin code coverage to 98.3%.

Also, despite the broking business being fairly fragmented, MOFSL is among the top players in the full service capital market space and had a market share of 2.4% in terms of average daily turnover as of 1QFY22. MOFSL has expanded into different verticals of capital markets to provide a wide range of products such as mutual funds, alternative investment funds, equity and derivatives broking, private equity, wealth management, margin funding and investment banking. Moreover, its research and advisory support to broking clients can lead to client stickiness across market cycles, despite stiff competition from discount brokers. The group has high profitability in its broking business segment as they operate on the advisory mode while a large part of their managed assets remains equities, offering higher spread margin in terms of revenue across the different lines of business operations.

With an increasing retail participation on the back of listing of new companies in the past one year across discount brokerages, there could be migration of clients towards full service providers, benefitting the broking franchise. MOFSL has seen strong growth in business volumes along with managed assets across wealth and asset management company (AMC) along a rise in distribution assets in the last one-half year, leading to substantial benefit through operating leverage as it operates through direct and franchise models, thereby limiting cost rise in tandem with business volumes. Factoring volatility in capital market business i.e. Wealth, AMC and broking, there could be certain moderation in volumes. However, the benefit of widening of participation in equity markets would stand to accrue on recurring basis and operating leverage benefits would play out for established franchise of MOFSL.

Broking and Asset Management Business - Consistent Revenue Contributors: Over FY16-FY21, the consolidated revenue grew at 29% CAGR to INR39.2 billion. Notably, the contribution from the capital market segment has remained fairly stable above 40% in the last four years and the balance mix has been well-supported by asset and wealth management, housing finance and fund-based income. During FY18-FY21, the company recorded a 15% CAGR in revenue in broking and distribution, led by a 22% CAGR in active clients and 47% CAGR in average daily turnover. About half of the new client additions was through online channels during 4QFY21 and 1QFY22. Ind-Ra expects the trend to continue in 2HFY22 as well, thus leading to the capital market segment likely being the major contributor to the revenue and profits in FY22. About 45% of the broking revenue being contributed by franchise channels leads to a lower proportionate fixed cost in the company's books. The group plans to expand its AMC business more on alternative investment funding which offers higher yields while increasing its offering in the passive fund management business. Wealth management business group strategy remains focused on relationship manager-led AUM expansion, supported by newer customised technology platforms. Notably, trail income gradually covered 89% as of 1QFY22 (FY17: 46%) of the wealth management expenses largely protecting it from cyclicality.

The group's consolidated return on equity excluding marked to market rose to 15.2% in FY21 (FY20: 13%), mainly due to a rise in the broking and asset & wealth management businesses in tandem with capital market performance. However, there could be some amount of cyclicality in the return profile with the volatility seen in capital market.

Healthy Capitalisation: The consolidated leverage (debt to equity), excluding the housing finance subsidiary, was conservative at 0.6x at end-1QFY22 (FY21: 0.7x, FY20: 0.6x). At end-1QFY22, MOHFL's capital adequacy ratio stood at 47% (FY21: 50%, FY20: 48%). The management has not planned any further capital infusion in the near term. Ind-Ra expects the consolidated leverage, excluding MOHFL, intraday borrowings and IPO financing, to remain below 1.0x (FY21: 0.7x; FY20: 0.6x) over the medium term. Ind-Ra expects the group's cash generating businesses - brokerage, distribution, asset & wealth management - to supplement any further capital requirement of MOHFL, thus limiting any incremental borrowing requirement. Furthermore, MOFSL is adequately capitalised with the group's fund-based book, which housed the group's investments of INR37 billion at end-1QFY22. The company may raise short-term debt for working capital needs, if required.

Liquidity Indicator - Adequate: The group had unutilised bank lines of INR24.9 billion for contingencies at end-June 2021. The unencumbered cash and bank balance and liquid investment stood at INR10.2 billion at end-June 2021. The group has a common treasury, and the liquidity pool is fungible for liquidity requirements of the group companies. The consolidated net debt stood at INR38.4 billion in 1QFY22. Of this, INR24 billion was attributable to MOHFL, while the balance was mainly used to extend loans, which are sufficiently secured (maximum loan to value of 50%) and short-term in nature, against shares for margin trading and debtors book in broking business.

MOHFL - Strengthening its Team, New Strategy in Progress: MOHFL focuses on lending up to INR4 million ticket size properties (increased from INR2.5 million). Incrementally, the focus is to cater to low income group borrowers and go moderate towards the EWS (economic weaker section) borrower profile. The customer segment is mixed, with self-employed constituting around 46.8% and the rest being salaried. The share of self-employed book stood to 46.8% in 1QFY22 (FY20: 45.4%). The book has historically been largely dominated in Maharashtra, Gujarat and Madhya Pradesh. However, MOHFL's focus has now shifted to diversify pan-India, particularly southern states. The sourcing channel comprises broking franchise owners, connectors and internal sales team with minimal reliance on the direct sourcing agents' network. The IT system and the underwriting standard operating procedures have been established; nevertheless, its efficiency needs to be tested with the scalability and seasoning of the new book. MOHFL has a four-layer credit approval structure with loan sanctioning authority defined at different levels with no authority of sanctioning at the branch level.

Since FY19, there was an overhaul in the management team and a gradual conversion to a vertical-based model from a branch-based model. The new team established has a fairly diversified organisational mix; however, aligning the new team to the group strategy and retaining the senior management will be a rating monitorable in the medium term. The emphasis has been made on establishing the verticalisation of business channels such as sales, collection and underwriting credit with minimal overlap. The company has formed a collection team of around 500 employees. The management believes the disbursements made post FY18 and the revamp of credit policies, improved control on branch sales and collection team, revamped monthly information systems, along with the restructuring of systems and processes, should provide better on control credit costs. This is partly evident from the controlled slippages with GNPA in the new book standing at 1.07% vs old book at 5.49%, where the new book forms 19% of the loan book. However, this book is yet to see a complete seasoning cycle; therefore, establishing credit cost remains a challenge. Ind-Ra will closely monitor the developments on this front and its impact on the company's financial profile.

RATING SENSITIVITIES

Positive: Significant scaling up of the group franchise with substantial market share in its business lines, along with diversifying revenue streams and leadership in core business, along with a sizeable scaling up of the lending franchise could be positive for the ratings.

Negative: Following factors could individually or collectively lead to a negative rating action:

- sharp deterioration in the market share and competitive positioning of any of the group's large businesses, which could lead to a significant weakening of the group's profitability and/or capital buffers,
- signs of a sharp deterioration in MOFSL's liquidity and/or access to funding due to unexpected market-wide shocks,,
- consolidated leverage (excluding the housing finance subsidiary, intraday borrowings and IPO financing) exceeding 1.0x on a sustained basis.

COMPANY PROFILE

MOFSL is the ultimate holding company of the broker-turned-diversified financial services Motilal Oswal group. The group is present in several businesses such as retail and institutional broking, asset management, private equity, wealth management, loan against shares, margin financing, commodities broking, investment banking, venture capital management and housing finance. Since 1986, the company has seen various capital market cycles and has a strong hold in the capital market space.

FINANCIAL SUMMARY (MOFSL, CONSOLIDATED)

Particulars	**FY21**	**FY20**
Total tangible assets (INR million)	1,40,807	99,609
Total tangible equity (INR million)	43223.4	29365.4
Profit after tax (INR million)	11,976.9	2,154.2
Return on average tangible assets (%)	9.96	2.12
Equity/assets (%)	30.7	29.5
Source: Ind-Ra, Company annual report		

RATING HISTORY

Instrument Type	**Current Rating**			**Historical Rating**			
	Rating Type	**Rated Limits (million)**	**Rating**	**4 November 2020**	**28 January 2020**	**21 December 2018**	**6 September 2018**
CPs	Short-term	INR15,000	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+
NCDs	Long-term	INR3,000	IND AA/Stable	-	-	-	-
PP-MLDs	Long-term	INR3,000	IND PP-MLD AAemr/Stable	-	-	-	-

BANK WISE FACILITIES DETAILS

Click here to see the details

COMPLEXITY LEVEL OF INSTRUMENTS

Instrument Type	Complexity Indicator
CPs	Low
NCDs	Low
PP-MLDs	High

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity indicators.

SOLICITATION DISCLOSURES

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

ABOUT INDIA RATINGS AND RESEARCH

About India Ratings and Research: India Ratings and Research (Ind-Ra) is India's most respected credit rating agency committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

India Ratings is a 100% owned subsidiary of the Fitch Group.

For more information, visit www.indiaratings.co.in.

DISCLAIMER

Applicable Criteria

Financial Institutions Rating Criteria
Non-Bank Finance Companies Criteria
Rating FI Subsidiaries and Holding Companies

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India Ratings & Research
A Fitch Group Company

India Ratings Affirms Motilal Oswal Home Finance at 'IND A1+'; Assigns NCDs & Bank Loans 'IND AA'/Stable

06

OCT 2021

By Jinay Gala

India Ratings and Research (Ind-Ra) has affirmed Motilal Oswal Home Finance Limited's (MOHFL) Short-Term Issuer Rating at 'IND A1+'. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Non-convertible debentures (NCDs)	-	-	-	INR5.0	IND AA/Stable	Assigned
Bank loans#	-	-	-	INR6.5	IND AA/Stable	Assigned

*Yet to be issued; interchangeable with principal protected market-linked debentures (PPMLDs); PP-MLDs refer to full principal protection wherein the issuer is obligated to pay the full principal upon maturity.
yet to be issued.

Analytical Approach: Ind-Ra continues to take a consolidated rating view of MOHFL, its 97.87% parent Motilal Oswal Financial Services (MOFSL; 'IND A1+'), and its group companies, to arrive at the ratings, due to the strong financial, managerial and operational linkages within the group. The agency also continues to apply its Parent-Subsidiary Rating: Linkage Criteria to arrive at the ratings.

KEY RATING DRIVERS

High Support Expectations from Parent as Housing Finance is Core to Group's Strategy: MOHFL's rating is driven by the high likelihood of support from its parent, as and when required. MOHFL shares the parent's brand name and has strong managerial, financial and operational linkages with the parent. About 22% of the group's total equity capital (INR46.1billion as of 1QFY22) has been invested in MOHFL. Moreover, MOFSL and MOHFL have significant board overlap and common treasury. Also, MOHFL has seen regular equity infusions from MOFSL, amounting to INR8.5 billion till date.

MOFSL is a well-established brand in the capital market business; its lending business act as diversification to mitigate cyclicality in the capital market business. MOFSL franchise has strengthened because of the rise of capital markets business with increased market participation driving strong income across asset management, wealth and broking business. The capital market business continues to generate significant amount of cash, part of which is acyclical and can be deployed to support the growth of housing business. MOFSL is among the top players in full service brokerage and has an established pan-India presence.

Asset Quality Issues Gradually Stabilising: In its erstwhile model, under the Aspire brand, MOHFL's housing finance business faced asset quality pressures in the book originated till March 2018 due to the aggressive loan growth, lack of a dedicated collection vertical, branch-level delegation of authority, products catering to under-construction segment. However, MOHFL has now completely stopped providing plot and composite loans. The under-construction project exposure in its book is less than 5% and incrementally retail lending to under-construction projects would be towards those that are 80% completed.

The challenges were also faced due the implementation of the Goods and Services Tax, demonetisation and The Real Estate (Regulation and Development) Act, 2016, impacting both informal developers and borrowers catered by MOHFL.

MOHFL has undertaken substantial write-offs along with sale to an asset reconstruction company (ARC) to clean up the delinquent book originated before April 2018. With increased oversight from MOFSL, and with a change in the management, a collection team has been set up and each borrower has been mapped with internal IT systems. The write-off and asset sale to ARC stood at INR8.9 billion at end-1QFY22, which forms 20.5% of the current gross assets under management (AUM). The gross non-performing assets (GNPAs) at the peak stress stood at 10.4% in 1QFY20. In 2QFY20, MOHFL sold a large portion of its book to the ARC to clean up the stress emanating from the older book. The current GNPA increased to 4.7% at end-1QFY22 (1QFY21: 1.7%) due to the COVID-19 pandemic, post all asset sale and write-off, and the restructured book stood at 4.9% in 1QFY22. The collection efficiency has improved since the second wave impact seen in April-May 2021, to 94% of billing, excluding the overdue EMI as of August 2021.

The moderate seasoned loan book amid the ongoing COVID-19-led challenges could keep the asset quality challenges elevated due to disruptions at the borrowers' end in the near term. Nevertheless, the new book (19% of overall AUM) originated post March 2018 has been behaving better with reasonable early delinquencies, largely due to improved oversight on underwriting through systems with a process-driven approach, the build-up of a monitoring team at the head office level and third-party audits. MOHFL has built 3.1% of expected credit loss provision on the entire AUM, providing cover of 32% on the overall monitored book (GNPA+ restructured book) which stood at 9.6% of AUM as of 1QFY22. However, its lower loan-to-value ratio and the substantial equity of borrower in residential property purchased would act as deterrents against willful delays.

Strengthening Team, New Strategy in Progress: MOHFL focuses on lending up to INR4 million ticket size properties (increased from INR2.5 million). Incrementally, the focus is to cater low income group borrowers and go moderate towards the EWS (economic weaker section) borrower profile. The customer segment is mixed, with self-employed constituting around 46.8% and the rest being salaried. The book has historically been largely dominated in Maharashtra, Gujarat and Madhya Pradesh. However, MOHFL's focus has now shifted to diversify pan-India, particularly southern states. The sourcing channel comprises broking franchise owners, connectors and internal sales team with minimal reliance on the direct sourcing agents' network. The IT system and the underwriting standard operating procedures have been established; nevertheless, its efficiency needs to be tested with the scalability and seasoning of the new book. MOHFL has a four-layer credit approval structure with loan sanctioning authority defined at different levels with no authority of sanctioning at the branch level.

Since FY19, there was an overhaul in the management team and a gradual conversion to a vertical-based model from a branch-based model. The new team established has a fairly diversified organisational mix; however, aligning the new team to the group strategy and retaining the senior management will be a rating monitorable in the medium term. The emphasis has been made on establishing the verticalisation of business channels such as sales, collection and underwriting credit with minimal overlap. The company has formed a collection team of around 500 employees. The management believes the disbursements made post FY18 and the revamp of credit policies, improved control on branch sales and collection team, revamped monthly information systems, along with the restructuring of systems and processes, should provide better on control credit costs. This is partly evident from the controlled slippages with GNPA in the new book standing at 1.07% vs old book at 5.49%, where the new book forms 19% of the loan book. However, this book is yet to see a complete seasoning cycle; therefore, establishing credit cost remains a challenge. Ind-Ra will closely monitor the developments on this front and its impact on the company's financial profile.

Growth to be Driven by Geographic Expansion: The earlier version of MOHFL's housing business had high concentration levels of AUM at specific branches, leading to a build-up of credit risk. With a course correction in underwriting filters, incrementally some of these older branches based on new set rules seem to be saturated for further growth in the informal segment. Thus, MOHFL's growth needs to be driven by the new geographies where new teams have been established. The company's attrition rate has been high at the sales level; with the newer set of employees coming in, the scaling up of franchise while maintaining the asset quality remains a key monitorable. For building a self-construction and resale-led housing book, MOHFL plans expansion in tier 3 and tier 4 cities, with property ticket sizes of under INR4 million, which could require revamping the branch expansion strategy. The operating leverage remains low as the branch disbursement compared with the team size stands low; this provides scope for expansion in the long term.

Liquidity Indicator - Adequate: At end-June 2021, MOHFL's contractual structural liquidity statement had moderate mismatches in the one-year bucket, with a peak negative cumulative gap (outflows exceeding inflows) of INR1.8 billion, excluding committed undrawn lines. However, the same stands covered by its unutilised bank lines of INR4.2 billion and the line of credit of INR5 billion from the parent. The company had cash and cash equivalents and unutilised bank/financial institution limits aggregating to INR7.71 billion (excluding INR5.0 billion group line), sufficient to cover six months of payments and obligations. MOFSL is adequately liquid with the group's fund-based book, which houses the group's investments of INR37 billion at end-1QFY22.

Capitalisation Adequate to Support Medium-term Growth: At the consolidate level, MOFSL has sizeable net worth and operated at a modest leverage of 1.1x at end-1QFY22. The company has adequate capital to support its growth aspirations in the medium term while providing adequate cushion to absorb any possible asset quality shocks. The consolidated leverage (debt to equity), excluding the housing finance subsidiary, was conservative at 0.6x at end-1QFY22 (end-1QFY21: 0.63x). In 1QFY22, MOHFL's leverage stood at 3.0x and it plans to operate business with leverage capped at 6x in the medium-to-long term. The leverage build-up at MOHFL is planned to be gradual and would be supported by a demonstrated track record in managing asset quality.

Diversified Funding Profile: MOHFL raises funds in the form of bank borrowings, refinancing (National Housing Bank (NHB; 'IND AAA'/Stable); non-convertible debentures from capital market instruments and market-linked debentures from high net worth clients. It has bank lines from 19 public and private banks and NHB, which contributed 52.5% to the total borrowings and rest 39.6% in form of capital market instruments (non-convertible debentures) as of 1QFY22. NHB disbursed a line of INR2.48 billion to MOHFL. Also, MOHFL has a committed parent line from MOFSL of INR5 billion. MOFSL has substantial board approved limits to further infuse capital in MOHFL, if required. MOHFL had unutilised bank lines of INR4.2 billion at end-June 2021. MOFSL's wealth management business acts as an additional source for MOHFL to avail funds through its sourcing channel through market-linked debentures, as and when required. MOHFL also plans to diversify funding with availing low-cost funds through external commercial borrowings and NHB under the affordable category, driving funding cost lower in the medium term.

RATING SENSITIVITIES

Positive: Significant scale-up of the parent franchise with substantial market share in its business lines, along with diversifying revenue streams and leadership in core together with sizeable scaling up of the lending franchise could be positive for the credit profile.

Negative: Following factors could individually or collectively lead to a negative rating action:

- a material decline in the credit profile of the parent or a dilution of the majority ownership, reduced operational oversight or reduced importance of MOHFL to the parent which could reflect in a faster or higher leverage build-up

- sharp deterioration in the liquidity either at MOHFL or groups level

- any material deterioration in MOHFL's standalone credit profile, with a rise in delinquencies

- a significant fall in MOHFL's capital buffers (leverage increasing and sustaining above 6x in medium term)

- a sustained weakening in the operating performance which could be on account of asset quality deterioration or otherwise

COMPANY PROFILE

MOHFL operates in the affordable housing space retail with a focus on a mix of self-employed and salaried borrowers. MOHFL had a loan book of INR36.8 billion at end-1QFY22 across 47,820 live customer accounts with focus on the non-documented income segment under EWS/low income group category. The MOFSL group holds 98% stake in MOHFL. MOHFL had 104 branches spread across 11 states as of FY21.

FINANCIAL SUMMARY (MOHFL)

Particulars	FY21	FY20
Total assets (INR million)	38,976	38,874
Total equity (INR million)	9,095	8,674
Profit after tax (INR million)	402	391
Return on average assets (%)	1.0	0.9
Equity/assets (%)	25.8	23.9
GNPA (%)	2.2	1.8
Source: Ind-Ra, Company annual report		

RATING HISTORY

Instrument Type	Current Rating/Outlook	Historical Rating/Outlook

	Rating Type	Rated Limits (billion)	Rating	24 September 2020
Short-term Issuer Rating	Short-Term	-	IND A1+	IND A1+
NCDs	Long-Term	INR5	IND AA/Stable	-
Bank loans	Long-Term	INR6.5	IND AA/Stable	-

COMPLEXITY LEVEL OF INSTRUMENTS

Instrument Type	Complexity Indicator
NCDs	Low
Bank loans	Low
PP-MLDs	High

For details on the complexity level of the instrument, please visit https://www.indiaratings.co.in/complexity-indicators.

SOLICITATION DISCLOSURES

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

ABOUT INDIA RATINGS AND RESEARCH

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Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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For more information, visit www.indiaratings.co.in.

DISCLAIMER

Applicable Criteria

Financial Institutions Rating Criteria
Non-Bank Finance Companies Criteria
Rating FI Subsidiaries and Holding Companies

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India Ratings & Research
A Fitch Group Company

India Ratings Assigns Motilal Oswal Finvest's NCDs 'IND AA'/Stable, Affirms CP at 'IND A1+

06

OCT 2021

By Amit Rane

India Ratings and Research (Ind-Ra) has taken following rating actions on Motilal Oswal Finvest Limited's (MOFL) debt instruments:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating	Rating Action
Commercial papers (CP)#	-	-	7 to 365 days	INR38,000	IND A1+	Affirmed
Non-convertible debentures (NCDs)*,$	-	-	-	INR1,000	IND AA/Stable	Assigned
Principal protected market-linked debentures (PPMLDs)*,$	-	-	-	INR1,000	IND PP-MLD AAemr/Stable	Assigned

Note: #Of the above total CP limit of INR38,000 million, INR30,000 million pertains to initial public offer (IPO) financing. The balance INR8,000 million pertains to other lending and investment activities.
* Yet to be issued
$The total NCD limit of INR1,000 million stands fungible between NCDs and PP-MLDs.

The suffix 'emr' denotes the exclusion of the embedded market risk from the rating. The rating of MLDs is an ordinal assessment of the underlying credit risk of the instrument and does not factor in the market risk that investors in such instruments will assume. This market risk stems from the fact that coupon payment on these instruments will be based on the performance of a reference index (to be detailed in the information memorandum of the issue).

PP-MLD refers to full principal protection wherein the issuer is obligated to pay the full principal upon maturity.

Analytical Approach: Ind-Ra continues to take a consolidated view of Motilal Oswal Financial Services Limited (MOFSL) and its group companies including MOFL while arriving at the ratings, on account of the strong financial, managerial and operational linkages among them.

KEY RATING DRIVERS

Established Franchisee in Capital Market Business: The Motilal Oswal Group is a well-established brand in the capital markets, having an equity broking business since 1987. The group has witnessed multiple market cycles and idiosyncratic risk events. With a client base of more than 2.19 million as of 1QFY22, the group caters to both retail and institutional clients through its 5,725 outlets (franchisees and other partners), taking the pan-India pin code coverage to 98.3%.

Also, despite the broking business being fairly fragmented, MOFSL is among the top players in the full service capital market space and had a market share of 2.4% in terms of average daily turnover as of 1QFY22. MOFSL has expanded into different verticals of capital markets to provide a wide range of products such as mutual funds, alternative investment funds, equity and derivatives broking, private equity, wealth management, margin funding and investment banking. Moreover, its research and advisory support to broking clients can lead to client stickiness across market cycles, despite stiff competition from discount brokers. The group has high profitability in its broking business segment as they operate on the advisory mode while a large part of their managed assets remains equities, offering higher spread margin in terms of revenue across the different lines of business operations.

With an increasing retail participation on the back of listing of new companies in the past one year across discount brokerages, there could be migration of clients towards full service providers, benefitting the broking franchise. MOFSL has seen strong growth in business volumes along with managed assets across wealth and asset management company (AMC) along a rise in distribution assets in the last one-half year, leading to substantial benefit through operating leverage as it operates through direct and franchise models, thereby limiting cost rise in tandem with business volumes. Factoring volatility in capital market business i.e. Wealth, AMC and broking, there could be certain moderation in volumes. However, the benefit of widening of participation in equity markets would stand to accrue on recurring basis and operating leverage benefits would play out for established franchise of MOFSL.

Broking and Asset Management Business - Consistent Revenue Contributors: Over FY16-FY21, the consolidated revenue grew at 29% CAGR to INR39.2 billion. Notably, the contribution from the capital market segment has remained fairly stable above 40% in the last four years and the balance mix has been well-supported by asset and wealth management, housing finance and fund-based income. During FY18-FY21, the company recorded a 15% CAGR in revenue in broking and distribution, led by a 22% CAGR in active clients and 47% CAGR in average daily turnover. About half of the new client additions was through online channels during 4QFY21 and 1QFY22. Ind-Ra expects the trend to continue in 2HFY22 as well, thus leading to the capital market segment likely being the major contributor to the revenue and profits in FY22. About 45% of the broking revenue being contributed by franchise channels leads to a lower proportionate fixed cost in the company's books. The group plans to expand its AMC business more on alternative investment funding which offers higher yields while increasing its offering in the passive fund management business. Wealth management business group strategy remains focused on relationship manager-led AUM expansion, supported by newer customised technology platforms. Notably, trail income gradually covered 89% as of 1QFY22 (FY17: 46%) of the wealth management expenses largely protecting it from cyclicality.

The group's consolidated return on equity excluding marked to market rose to 15.2% in FY21 (FY20: 13%), mainly due to a rise in the broking and asset & wealth management businesses in tandem with capital market performance. However, there could be some amount of cyclicality in the return profile with the volatility seen in capital market.

Healthy Capitalisation: The consolidated leverage (debt to equity), excluding the housing finance subsidiary, was conservative at 0.6x at end-1QFY22 (FY21: 0.7x, FY20: 0.6x). At end-1QFY22, MOHFL's capital adequacy ratio stood at 47% (FY21: 50%, FY20: 48%). The management has not planned any further capital infusion in the near term. Ind-Ra expects the consolidated leverage, excluding MOHFL, intraday borrowings and IPO financing, to remain below 1.0x (FY21: 0.7x; FY20: 0.6x) over the medium term. Ind-Ra expects the group's cash generating businesses - brokerage, distribution, asset & wealth management - to supplement any further capital requirement of MOHFL, thus limiting any incremental borrowing requirement. Furthermore, MOFSL is adequately capitalised with the group's fund-based book, which housed the group's investments of INR37 billion at end-1QFY22. The company may raise short-term debt for working capital needs, if required.

Business at MOFL Continues to Scale-up, but Profitability Remains Volatile: MOFL primarily provides loan against shares and IPO financing to the clients of the MOFSL group. MOFL borrows through seven-day CPs to meet its short-term funding requirements of the IPO financing business, which is a self-liquidating product with adequate margin taken from customers to safeguard against losses from fluctuations of stock price on the listing day. MOFL did not have any overdue loans at end-June 2021. The margins are prescribed by the exchanges in the margin trade financing business; furthermore, as policy, the company follows three stocks per client to manage the market risk arising from any adverse stock price movement.

The scale of operations of MOFL has been growing, with the FY21 total asset base of INR15,062 million (up 3x over FY19: INR4,998 million) and interest income has grown at a CAGR of 108% over FY19-FY21. However, the net profit (FY21: INR330 million; FY20: loss of INR105 million, FY19: INR21 million) continues to be volatile, given the capital markets exposure. The return on assets improved during FY21 to 2.9% (FY20: negative 1.6%), mainly due to the net gain on fair value changes in FY21 compared to the net loss on fair value changes in FY20. Ind-Ra expects the volatility in the business model to continue, given the nature of its business.

Liquidity Indicator - Adequate: The group had unutilised bank lines of INR17.5 billion for contingencies while the unencumbered cash and bank balance and liquid investment stood at INR1 billion and INR3 billion at end-June 2021. The group has a common treasury (except MOHFL), and the liquidity pool is fungible for the liquidity requirements of the group companies. At end-June 2021, MOFL's structural liquidity statement had a surplus across all maturity buckets. Also, at end-August 2021, it had on book cash and liquid investments of INR3.0 billion and unutilised bank lines of INR3 billion as against three months debt repayments of INR2 billion (September to November 2021). The consolidated net debt stood at INR38.4 billion in 1QFY22. Of this, INR24 billion was attributable to MOHFL, while the balance was mainly used to extend loans, which are sufficiently secured (maximum loan to value of 50%) and short-term in nature, against shares for margin trading. At end-June 20021, MOFL's leverage stood at 1.0x (FY21: 1.1x, FY20: 0.5x).

RATING SENSITIVITIES

Positive: Significant scale-up of the group franchise with substantial market share in its business lines, along with diversifying revenue streams and leadership in core together with sizeable scaling up of the lending franchise could be positive for the credit profile.

Negative: Following factors could individually or collectively lead to a negative rating action:

- sharp deterioration in the market share and competitive positioning of any of the group's large businesses, which could lead to a significant weakening of the group's profitability and/or capital buffers

- signs of a sharp deterioration in MOFSL's liquidity and/or access to funding due to unexpected market-wide shocks

- consolidated leverage (excluding the housing finance subsidiary, intraday borrowings and IPO financing) exceeding 1.0x on a sustained basis

COMPANY PROFILE

MOFSL is the ultimate holding company of the broker-turned-diversified financial services Motilal Oswal group. The group is present in several businesses such as retail and institutional broking, asset management, private equity, wealth management, loan against shares, margin financing, commodities broking, investment banking, venture capital management and housing finance. Since 1986, the company has seen various capital market cycles and has a strong hold in the capital market space.

FINANCIAL SUMMARY (MOFSL, CONSOLIDATED)

Particulars	FY21	FY20
Total tangible assets (INR million)	1,40,807	99,609
Total tangible equity (INR million)	43,223	29,365
Profit after tax (INR million)	11,977	2,154
Return on average tangible assets (%)	9.8	2.1
Equity/assets (%)	30.7	29.5
Source: Ind-Ra, Company annual report		

RATING HISTORY

Instrument Type	Current Rating				Historical Rating			
	Rating Type	Rated Limits (million)	Rating	2 August 2021	9 November 2020	28 February 2020	28 January 2020	18 December 2018
CPs	Short-term	INR38,000	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+
NCDs	Short-term	INR1,000	IND AA/Stable	-	-	-	-	-
PP-MLDs	Short-term	INR1,000	IND PP-MLD AAemr/Stable	-	-	-	-	-

COMPLEXITY LEVEL OF INSTRUMENTS

Instrument Type	Complexity Indicator
CPs	Low
NCDs	Low
PP-MLDs	High

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity indicators.

SOLICITATION DISCLOSURES

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Applicable Criteria

Financial Institutions Rating Criteria
Non-Bank Finance Companies Criteria
Rating FI Subsidiaries and Holding Companies

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