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

September 17, 2024

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

Sub.: India Ratings and Research – Revision in Credit Rating Outlook from "Stable" to "Positive"

Dear Sir/Madam,

Pursuant to the provisions of Regulation 30 read with Para A of Part A of Schedule III of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulations") (as amended), we wish to inform the Exchange that India Ratings and Research Private Limited ("India Ratings") has revised the Credit Rating Outlook **from "Stable" to "Positive"** for Debt instrument(s) of Motilal Oswal Financial Services Limited ("the Company") and its Material Subsidiaries based on the below rationale:

India Ratings has revised the Rating Outlook from "Stable" to "Positive". Positive outlook factors in the likelihood of scale up of the overall group revenue and profit pools across different segments, seasoned management, sizeable investment book, market share gains across businesses, strong revenue per customer in the broking business compared to peers along with sizeable lending businesses across capital markets and the housing subsidiary.

The rating action reflects MOFSL's established franchise with the ability to offer a wider range of product and services across wealth management, private wealth, asset management, private equity & real estate funds across customer profiles, along with consistent and predictable cash flow generation from its broking, lending business on both housing and capital market linked and asset & private wealth management businesses. The ratings also factor in MOFSL's adequate capitalisation and liquidity, as well as the fungibility of liquidity across the group entities if required during extreme events.

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The details of instrument-wise Rating of the Company and its Material Subsidiaries are mentioned hereinbelow in the table:

Name of the Company	Instrument Type	Previous Rated Amount (Rs. in Cr.)	Current Rated Amount (Rs. in Cr.)	Rating/ Outlook (Updated)	Rating Action
Motilal Oswal Financial Services Limited	Non-Convertible Debentures	800	800	IND AA/Positive	Affirmed; Outlook revised to Positive from Stable
	Non-Convertible Debentures$	300	300	IND AA/Positive	Affirmed; Outlook revised to Positive from Stable
	Principal protected market-linked debentures$	300	300	IND PP-MLD AA/Positive	Affirmed; Outlook revised to Positive from Stable
	Commercial Paper	6,250	6,250	IND A1+	Affirmed
	Bank loans	400	400	IND AA/Positive	Affirmed; Outlook revised to Positive from Stable
Motilal Oswal Home Finance Limited(1)	Non-Convertible Debentures#	500	425	IND AA/Positive	Affirmed; Outlook revised to Positive from Stable
	Principal protected market-linked debentures#	500	425	IND PP-MLD AA/Positive	Affirmed; Outlook revised to Positive from Stable
	Bank loans	2,150	2,150	IND AA/Positive	Affirmed; Outlook revised to Positive from Stable
Motilal Oswal Finvest Limited(1)	Non-Convertible Debentures	50	50	IND AA/Positive	Affirmed; Outlook revised to Positive from Stable
	Non-Convertible Debentures^	100	100	IND AA/Positive	Affirmed; Outlook revised to Positive from Stable
	Principal protected market-linked debentures^	100	100	IND PP-MLD AA/Positive	Affirmed; Outlook revised to Positive from Stable

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Name of the Company	Instrument Type	Previous Rated Amount (Rs. in Cr.)	Current Rated Amount (Rs. in Cr.)	Rating/ Outlook (Updated)	Rating Action
	Commercial Paper	4,000	4,000	IND A1+	Affirmed

(1)Material Subsidiary
$NCD limit of Rs. 300 Crore stands fungible between NCDs and PP-MLDs
#NCD limit of Rs. 425 Crore stands fungible between NCDs and PP-MLDs
^NCD limit of Rs. 100 Crore stands fungible between NCDs and PP-MLDs

The Rating Rationale Letters received from India Ratings for the Company and its Material Subsidiaries are enclosed herewith.

Kindly take the same on record.

Thanking you,

Yours faithfully,

For Motilal Oswal Financial Services Limited

Kailash Chunnilal Purohit
Digitally signed by Kailash Chunnilal Purohit
Date: 2024.09.17 18:39:20 +05'30'

Kailash Purohit
Company Secretary & Compliance Officer

Encl.: As above

India Ratings & Research
A Fitch Group Company

India Ratings Revises Outlook on Motilal Oswal Financial Services' Bank Loans and NCDs to Positive; Affirms 'IND AA'

Sep 17, 2024 | Stockbroking & Allied

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

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating Assigned along with Outlook/ Watch	Rating Action
Non-convertible debentures#	-	-	-	INR8,000	IND AA/Positive	Affirmed; Outlook revised to Positive from Stable
Non-convertible debentures $,#	-	-	-	INR3,000	IND AA/Positive	Affirmed; Outlook revised to Positive from Stable
Principal protected market-linked debentures $,#	-	-	-	INR3,000	IND PP-MLD AA/Positive	Affirmed; Outlook revised to Positive from Stable
Commercial papers	-	-	7 to 365 days	INR62,500	IND A1+	Affirmed
Bank loans	-	-	-	INR4,000	IND AA/Positive	Affirmed; Outlook revised to Positive from Stable

#details in annexure

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

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 fully consolidate MOFSL's group companies while arriving at the ratings, on account of the strong financial, managerial and operational linkages among them.

Ind-Ra opines the group restructuring proposal by MOFSL is a credit neutral event for all the rated group companies.

Detailed Rationale of the Rating Action

The Positive Outlook factors in the likelihood of a scale-up of the overall group revenue and profit pools across different segments, and the presence of seasoned management, sizeable investment book, market share gains across businesses, strong revenue per customer in the broking business compared to peers along with sizeable lending businesses across capital markets and the housing subsidiary.

The rating action reflects MOFSL's established franchise with the ability to offer a wider range of product and services across wealth management, private wealth, asset management, private equity & real estate funds across customer profiles, along with consistent and predictable cash flow generation from its broking, lending business on both housing and capital market linked and asset & private wealth management businesses. The ratings also factor in MOFSL's adequate capitalisation and liquidity, as well as the fungibility of liquidity across the group entities if required during extreme events. However, the ability to maintain and manage the franchise scale and reach during market volatility along with the modest scale of operations of the housing subsidiary and its asset quality seasoning are the rating constraints.

List of Key Rating Drivers

Strengths:

- Well-established franchise in capital markets
- Consistent revenue contribution through fee and trailing income from asset & wealth management businesses
- Scale-up of capital market linked loans
- Adequate capitalisation and sizeable investment book

Weaknesses:

- Presence in extremely competitive segment with regulatory risks
- MOHFL business yet achieve scale-up with adequate seasoning of new book

Detailed Description of Key Rating Drivers

Well-established Franchise in Capital Markets: The Motilal Oswal Group is a well-established brand in the financial services industry, having an equity broking business since 1987. The group has witnessed multiple market cycles and idiosyncratic risk events. Over FY20-FY24, MOFSL Group delivered 33% CAGR growth in operating profit (excluding treasury investments PAT), driven by the wealth management (39% CAGR), capital markets (39% CAGR), asset & private wealth (25% CAGR) and housing finance (35% CAGR) businesses. While a certain portion of the business is also supported by growth in the capital markets growth, it has maintained and scaled-up its market share by widening its franchise strength with multiple product offerings. With a total client base of around 7.3 million at end-1QFY25, the group caters to both retail and institutional clients through over 2,500 business locations, taking the pan-India pin code coverage to 98.0%. As on June 2024, about 89% of MOFSL Group customers had only single product relationship, indicating potential cross-sale opportunity over the long term with expected financialisation of savings. The Securities and Exchange Board of India also defines MOFSL as a QSB (qualified stock brokers) in India, by virtue of their size and scale of operations, and its impact on investors and securities market.

Also, despite the broking business being fairly fragmented, MOFSL is among the top players and had a market share (retail cash average daily turnover) of 8.0% in terms of retail cash turnover and 9.5% in terms of F&O premium turnover at end-1QFY25. Also, MOFSL's market share (in terms of average daily turnover) has moved up in the cash market to 8.0% in 1QFY25 from 5% in 4QFY23, and in the futures and option premium market to 9.5% in 1QFY25 from 7.0% in 4QFY23. Moreover, MOFSL has expanded into different business verticals to provide a wide range of products, such as retail broking, institutional broking, investment banking, asset management, private wealth management, private equity and affordable housing finance. In retail broking, research and advisory support to clients has led to client stickiness across market cycles, despite stiff competition from discount brokers. The group has one of the highest average revenue per customer in the broking industry. The group has a high profitability in its wealth management business segment as it operates on the advisory mode with strong cross-sell capabilities across products within the group where a large part of its assets remains equity, offering higher spread margin in terms of revenue across the different lines of business operations.

With an increasing retail participation in the past three years across discount brokerages, there could be a gradual migration of clients towards full-service providers, benefitting the MOFSL Group due to evolving regulations for discount brokers. Given volatility in the financial market business, such as private wealth, asset management and wealth management, its volume could see a certain moderation. However, the benefit of a widening of participation in the equity markets would stand to accrue on a recurring basis and operating leverage benefits of an established franchise would continue to play out for MOFSL.

Consistent Revenue Contribution through Fee and Trailing Income from Asset & Wealth Management Business: Over FY20-FY24, MOFSL's consolidated revenue had expanded at a CAGR of 32% to INR71.5 billion. The revenue growth remained healthy at 51% yoy during 1QFY25. Notably, the contribution from the wealth management remained fairly stable at 46% in FY24 and the balance mix was well-supported by the assets and private wealth management, housing finance and treasury investment income. During FY24, the company's revenue from wealth management rose at a 39%, led by 9% yoy growth in active clients and 33% growth in average gross broking ARPU. About 49% of the broking revenue was contributed by external wealth managers in FY24.

Over the medium term, the group plans to expand its asset management business more on alternative investment funding as it offers higher yields, while the company has created a product basket in the passive category. The private wealth management business's group strategy focuses on relationship manager-led expansion in its assets under management (AUM), supported by newer customised technology platforms. The share of the revenue on a consolidated basis remains well distributed, where management / advisory fee, distribution and other operating income contributed 35%, lending book 31% and broking 34% in FY24. The group has witnessed an increasing demand for margin financing, along with debtor financing from its retail clients since the regulatory change require a 50% upfront cash margin. Consequently, margin trade financing + demand loans + loan against shares + debtor funding book almost grew sharply to INR73.05 billion in FY24 (FY23: INR34.7 billion; FY22: INR20.4 billion), thereby earning healthy spreads on the deployed book. The margins are prescribed by the exchanges in the margin trade financing business; furthermore, as a policy, the company follows three stocks per client to manage the market risk arising from any adverse movements in stock prices.

The group's consolidated return on equity stood at 30% in FY24 (FY23: 17%; FY22: 30%; FY21: 39%) in tandem with the capital market performance. Given the volatile nature of equity markets (as reflected by treasury investment revenue (FY24: INR14.5 billion; FY23: INR1.4 billion; FY22: INR4.8 billion; FY21: INR9.1 billion), the cyclicality in the return profile is likely to continue.

Scale-up of Capital Market linked Loans: MOFSL Group's total lending book scaled up to INR134.2 billion in 1QFY25 (FY21: INR5.0 billion, CAGR of 35%), mainly driven by an increase in the capital market linked loans (i.e. demand loan, margin trade financing, loan against share, T+5 Book) to INR93.2 billion (INR15.4 billion, CAGR of 74%). As a result, the interest income of the group has expanded and now provides stable annuity streams to the group's revenues, as the contribution of the interest income to revenue adjusted for MTM gains stood healthy at 31% in 1QFY25 (FY21: 27%). While the housing finance subsidiary loan book remained flattish during FY21-1QFY25, the agency expects it to exceed the industry growth rate, given that the asset quality has largely stabilised and there has been doubling of number of relationship managers to 925 during FY24. Management plans to grow the housing finance subsidiary's loan book in the range of 25% to 30% CAGR over FY25-FY27. MOFSL's ability to scale the lending franchise over the medium term across both capital market and housing finance sides remains key rating monitorable.

Adequate Capitalisation and Sizable Investment Book: The consolidated leverage (debt to equity) was conservative at 1.6x in 1QFY25 (FY24: 1.6x; FY23: 1.7x; FY22: 1.1x; FY21: 1.3x). MOHFL's capital adequacy ratio stood at 46% in 1QFY25 (FY23: 52%; FY22: 52%; FY21: 50%). The company is not planning any further capital infusion in the near term. The company intends to keep its gross leverage rato below 2x in the medium term (Board approved limit of 3x). The gross leverage (ex-housing) stood at 1.5x at end-1QFY25. Ind-Ra expects the group's cash generating businesses – wealth management, asset and private 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 quoted treasury investment book (equity investment including alternate funds), which housed the group's investments of INR70.2 billion at end-1QFY25. The company may raise short-term debt for working capital needs, if required.

Presence in Extremely Competitive Segment with Regulatory Risks: The capital market industry continues to witness regulatory as well as technology risks. MOFSL Group has invested heavily in the past three years in terms of manpower and IT systems to ensure meeting the required level of compliance in the light of regulatory changes. The brokerage industry is characterised by stiff competition, as reflected by the loss of market share by MOFSL Group in terms of active NSE clients (FY24: 2%; FY20: 3%) mainly due to aggressive pricing strategy implemented by discount brokerages. Also, the regulatory requirement of higher upfront margin has led to an increasing need for funding broking customers that has led to expanded balance sheet leverage. While the growing preference of financial instruments over traditional saving methods coupled with low equity investment penetration in the share of household savings offers significant potential for expansion, the inherently cyclical nature of equities could impact the profitability.

MOHFL Business Yet Achieve Scale-up with Adequate Seasoning of New Book: MOHFL has undertaken substantial write-offs, along with the sale to an asset reconstruction company to clean up the delinquent book originated before April 2018. With increased oversight from MOFSL and the change in the management, a collection team has been set up and each borrower has been mapped with internal information technology systems. The company strategy remains focused on affordable housing/ loan against property and developer financing for driving the loan book growth. During FY20-FY24, MOHFL's loan book grew at a modest CAGR of 2.7% to reach INR40.3 billion in FY24. The operating leverage is low as the branch disbursement compared with the team size is low, thus providing scope for expansion in the long term. Also, for builder finance, MOHFL is using the group expertise in the real estate segment for sourcing and underwriting, whereas operations are managed by its inhouse team. However, the exposure here is capped at 20% of the overall loan book (stands at 15% in overall book).

The management believes the disbursements made after FY18 and the revamp of credit policies, improved control on branch sales and collection team, revamped monthly information systems, and the restructuring of systems and processes should provide the company better control on credit costs. This is partly evident from the controlled slippages with gross non-performing assets in the new book at 0.5% as against 1.2% on its overall book, where the new book forms 60% of the loan book at 1QFY25. However, this book has yet to witness 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.

Liquidity

Adequate: The group had sanctioned unutilised bank lines of INR32 billion for contingencies, and unencumbered cash and bank balance, and liquid investment of INR15.3 billion at end-August 2024. The liquidity position is adequate to meet debt repayment obligations over September-October 2024. The group's liquidity pool is fungible for the liquidity requirements of the group companies. The consolidated debt stood at INR159.4 billion at end-1QFY25. Of this, INR30 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, such as margin financing and debtors book funding in the broking business and loan against shares in non-baking finance companies.

Rating Sensitivities

Positive: A significant scaling up of the group franchise with a maintaining and improving market share in its business lines across capital market cycles, along with diversifying revenue streams further and maintaining 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 sharp deterioration in MOFSL's liquidity and/or access to funding due to unexpected market-wide shocks
- the consolidated gross leverage (ex-housing) exceeding 2.0x on a sustained basis.

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on MOFSL, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

About the Company

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.

Key Financial Indicators

Particulars (MOFSL, CONSOLIDATED)	FY24	FY23
Total tangible assets (INR million)	3,17,371	2,29,100
Total tangible equity (INR million)	86,396	61,523
Profit after tax (INR million)	24,456	9,328
Return on average tangible assets (%)	9.3	4.7
Tangible equity/ tangible assets (%)	27.2	26.9
Gross debt / tangible equity (x)	1.6	1.7
Source: Company, Ind-Ra		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook									
	Rating Type	Rated Limits (million)	Rating	12 August 2024	28 March 2024	29 January 2024	18 September 2023	21 July 2023	11 May 2023	20 October 2022	14 February 2022	25 October 2021	7 October 2021
Commercial papers	Short-term	INR62,500	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+
Non-convertible debentures	Long-term	INR11,000	IND AA/Positive	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable
Principal protected market-linked debentures$	Long-term	INR3,000	IND PP-MLD AA/Positive	IND PP-MLD AA/Stable	IND PP-MLD AA/Stable	IND PP-MLD AA/Stable	IND PP-MLD AA/Stable	IND PP-MLD AA/Stable	IND PP-MLD AA/Stable	IND PP-MLD AAemr/Stable	IND PP-MLD AAemr/Stable	IND PP-MLD AAemr/Stable	IND PP-MLD AAemr/Stable
Bank loans	Long-term	INR4,000	IND AA/Positive	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	-	-	-

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

Bank wise Facilities Details

Click here to see the details

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Bank loan	Low
Commercial paper	Low
Principal protected market linked debentures	High*
Non-convertible debenture	Low

* Instrument characterised by underlying market risk

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

Annexure

Principal protected market-linked debentures / Non-convertible debentures

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook
PPMLDs	INE338I07081	13 May 2022	NIFTY50 LINKED	7 February 2025	INR284	IND PP-MLD AA/Positive
NCDs	INE338I07131	9 May 2024	8.85	9 May 2026	INR480	IND AA/Positive
NCDs	INE338I07156	9 May 2024	Zero Coupon	9 May 2026	INR250	IND AA/Positive
NCDs	INE338I07149	9 May 2024	9.10	9 May 2027	INR4,485	IND AA/Positive
NCDs	INE338I07099	9 May 2024	Zero Coupon	9 May 2027	INR273	IND AA/Positive
NCDs	INE338I07164	9 May 2024	8.97	9 May 2029	INR951	IND AA/Positive
NCDs	INE338I07107	9 May 2024	9.35	9 May 2029	INR820	IND AA/Positive
NCDs	INE338I07115	9 May 2024	9.30	9 May 2034	INR471	IND AA/Positive
NCDs	INE338I07123	9 May 2024	9.70	9 May 2034	INR2,270	IND AA/Positive
Unutilised					INR716	
Total limit (includes NCDs and NCDs interchangeable with PPMLDs)					INR11,000	
Source: NSDL, MOFSL						

Contact

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About India Ratings and Research: India Ratings and Research (Ind-Ra) is 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.

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.

APPLICABLE CRITERIA

Rating FI Subsidiaries and Holding Companies

Non-Bank Finance Companies Criteria

Securities Firms Criteria

Evaluating Corporate Governance

Financial Institutions Rating Criteria

The Rating Process

India Ratings Revises Outlook on Motilal Oswal Home Finance's Bank Loans and NCDs to Positive; Affirms 'IND AA'

Sep 17, 2024 | Housing Finance Company

India Rating and Research (Ind-Ra) has taken the following rating action on Motilal Oswal Home Finance Limited's (MOHFL) debt instruments. The detailed rating action is as follows:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Non-convertible debentures*,$	-	-	-	INR4,250 (reduced from INR5,000)	IND AA/Positive	Affirmed; Outlook revised to Positive from Stable
Principal protected market-linked debentures *,$	-	-	-	INR4,250 (reduced from INR5,000)	IND PP-MLD AA/Positive	Affirmed; Outlook revised to Positive from Stable
Bank loans	-	-	-	INR21,500	IND AA/Positive	Affirmed; Outlook revised to Positive from Stable

*Details in annexure;
$NCD limit of INR4,250 million stands fungible between NCDs and PP-MLDs.
These refer to full principal protection wherein the issuer is obligated to pay the full principal upon maturity.

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 fully consolidate MOFSL's group companies while arriving at the ratings, on account of the strong financial, managerial and operational linkages among them.

Ind-Ra opines the group restructuring proposal by MOFSL is a credit neutral event for all the rated group companies.

Detailed Rationale of the Rating Action

The Positive Outlook factors in the likelihood of a scale-up of the overall franchise revenue and profit pools across different segments, and the presence of seasoned management, sizeable investment book, market share gains in the capital market business, strong revenue per customer in the broking business compared to peers along with sizeable lending businesses across capital markets and the housing subsidiary.

The rating action reflects MOFSL's established franchise with the ability to offer a wider range of product and services across broking, wealth, asset management, private & real estate equity funds across customer profiles, along with consistent and predictable cash flow generation from its broking, lending business on both housing and capital market linked and asset & private wealth management businesses. The ratings also factor in MOFSL's adequate capitalisation and liquidity, as well as the fungibility of liquidity across the group entities if required during extreme events. Ind-Ra also has high support expectations from the parent, as MOHFL remains core to MOFSL Group's strategy. MOHFL has adequate capitalisation which is likely to grow over the next three years. The ratings are also supported by MOHFL's diversified funding profile.

However, the ability to maintain and manage the franchise scale and reach during market volatility along with the modest scale of operations of the housing subsidiary and its asset quality seasoning are the rating constraints.

List of Key Rating Drivers

Strengths

- Well-established franchise in capital markets
- High support expectations from parent as housing finance remains core to group's strategy
- Capitalisation adequate to support medium-term growth
- Diversified funding profile

Weaknesses

- MOHFL business yet achieve scale-up
- Asset quality stabilised; adequate seasoning of new book remains monitorable

Detailed Description of Key Rating Drivers

Well-established Franchise in Capital markets: The Motilal Oswal Group is a well-established brand in the financial services industry, having an equity broking business since 1987. The group has witnessed multiple market cycles and idiosyncratic risk events. Over FY20-FY24, MOFSL Group delivered 33% CAGR growth in operating profit (excluding treasury investments PAT), driven by the wealth management (39% CAGR), capital markets (39% CAGR), asset & private wealth (25% CAGR) and housing finance (35% CAGR) businesses. While a certain portion of the business is also supported by growth in the capital markets growth, it has maintained and scaled-up its market share by widening its franchise strength with multiple product offerings. With a total client base of around 7.3 million at end-1QFY25, the group caters to both retail and institutional clients through over 2,500 business locations, taking the pan-India pin code coverage to 98.0%. As on June 2024, about 89% of MOFSL Group customers had only single product relationship, indicating potential cross-sale opportunity over the long term with expected financialisation of savings. The Securities and Exchange Board of India also defines MOFSL as a QSB (qualified stock brokers) in India, by virtue of their size and scale of operations, and its impact on investors and securities market.

Also, despite the broking business being fairly fragmented, MOFSL is among the top players and had a market share (retail cash average daily turnover) of 8.0% in terms of retail cash turnover and 9.5% in terms of F&O premium turnover at end-1QFY25. Also, MOFSL's share (in terms of average daily turnover) moved up in the cash market to 8.0% in 1QFY25 from 5% in 4QFY23, and in the futures and option premium market to 9.5% from 7.0%. Moreover, MOFSL has expanded into different business verticals to provide a wide range of products, such as retail broking, institutional broking, investment banking, asset management, private wealth management, private equity and affordable housing finance. In retail broking, research and advisory support to clients has led to client stickiness across market cycles, despite stiff competition from discount brokers. The group has one of the highest average revenue per customer in the broking industry. The group has a high profitability in its wealth management business segment, as it operates on the advisory mode with strong cross-sell capabilities across products within the group where a large part of its assets remains equity, offering higher spread margin in terms of revenue across the different lines of business operations.

With an increasing retail participation in the past three years across discount brokerages, there could be a gradual migration of clients towards full-service providers, benefitting the MOFSL Group due to evolving regulations for discount brokers. Given volatility in the financial market business, such as private wealth, asset management and wealth management, its volume could see a certain moderation. However, the benefit of a widening of participation in the equity markets would stand to accrue on a recurring basis and operating leverage benefits of an established franchise would continue to play out for MOFSL.

High Support Expectations from Parent as Housing Finance Remains Core to Group's Strategy: The rating is driven by the high likelihood of parent support, if required. MOHFL shares the parent's brand name and has strong managerial, financial and operational linkages with the parent. As of 1QFY25, MOHFL's net worth represents 13.2% of the MOFSL group's net worth (1QFY25: INR97.8 billion). Also, MOHFL has seen regular equity infusions from MOFSL, totalling INR8.5 billion till date.

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

Capitalisation Adequate to Support Medium-term Growth: The consolidated leverage (debt to equity) was conservative at 1.6x in 1QFY25 (FY24: 1.6x; FY23: 1.7x; FY22: 1.1x; FY21: 1.3x). MOHFL's capital adequacy ratio stood at 46.5% in 1QFY25 (FY24: 51%; FY23: 51%; FY22: 52%; FY21: 50%). The company is not planning any further capital infusion in the near term. The company intends to keep the gross leverage less than 2x in the medium term. The gross leverage (ex-housing) stood at 1.5x at end-1QFY25. Ind-Ra expects the group's cash generating businesses – wealth management, asset and private 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 quoted treasury investment book (equity investment including alternate funds), which housed the group's investments of INR70.2 billion at end-1QFY25. The company may raise short-term debt for working capital needs, if required. At end-1QFY25, MOHFL's leverage stood at 2.3x and it plans to cap the leverage at 6.0x in the medium- to long term. MOHFL plans to gradually build up the leverage.

Diversified Funding Profile: MOHFL has well-diversified funding in the form of bank borrowings, refinancing from National Housing Bank (NHB; 'IND AAA'/Stable), external commercial borrowings as well as non-convertible debentures. It has bank lines from 22 public & private banks and financial institutions, forming 62% of the total funding as of 1QFY25, followed by NHB (14%), non-convertible debentures (7%), securitisation (3%) and external commercial borrowing (14%). 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 has also availed an external commercial borrowing line and plans to increase NHB funding under the affordable category, helping manage funding cost in rising interest rate scenario.

MOHFL Business Yet Achieve Scale-up: MOHFL has undertaken substantial write-offs, along with the sale to an asset reconstruction company to clean up the delinquent book originated before April 2018. With increased oversight from MOFSL and the change in the management, a collection team has been set up and each borrower has been mapped with internal information technology systems. The company strategy remains focused on affordable housing/ loan against property and developer financing for driving loan book growth. During FY20-FY24, MOHFL's loan book grew at a modest CAGR of 2.7% to reach INR40.3 billion in FY24. The operating leverage remains low as the branch disbursement compared with the team size remains low, thus providing scope for expansion in the long term. MOHFL has taken several corrective measures such as increasing senior management leadership, strengthening of collections and recovery infrastructure by creating over 550 member team, and enhancing credit appraisal and risk monitoring systems. Moreover, significant investments have been made in technology, processes and people to fill the critical gaps at the operational level to support and enhance the business scale up. Also, for builder finance, MOHFL is using the group expertise in the real estate segment for sourcing and underwriting, whereas operations are managed by its inhouse team. However, the exposure here is capped at 20% of overall loan book (stands at 15% in overall book).

Asset Quality Stabilised; Adequate Seasoning of New Book Remains Monitorable: The management believes the disbursements made after FY18 and the revamp of credit policies, improved control on branch sales and collection team, revamped monthly information systems, and the restructuring of systems and processes should provide the company better control on credit costs. This is partly evident from the controlled slippages with gross non-performing assets in the new book at 0.5% as against 1.2% on its overall book, where the new book forms 60% of the loan book at end-1QFY25. However, this book has yet to witness 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.

MOHFL's gross NPA ratio declined to 1.2% (with healthy provision coverage of 47%) in 1QFY25 (1QFY24: 1.9%), however, restructured loans reduced to 4.85% (5.89%). The collection efficiency of restructured loans also improved to 88.4% in 1QFY25 (1QFY24: 81.2%). The restructured book remains a key monitorable; however it is not expected to lead to an increase in the credit cost, as the company has created adequate provision coverage of 11% in Stage 2 restructured assets. Moreover, its lower loan-to-value ratio and the substantial equity of borrower in residential property purchased would act as deterrents against wilful delays.

Liquidity

Adequate: At end-March 2024, MOHFL's contractual structural liquidity statement had moderate gaps in less than one-year bucket, excluding committed undrawn lines; however, this remains covered with unutilised lines of INR1.8 billion and a line of credit of INR5 billion from the parent at end-August 2024. The company had cash and cash equivalents and liquid investments worth INR3.7 billion which along with the unutilised lines are equivalent to cover three months' payment obligations over September to November 2024. MOFSL Group's liquidity is adequate with the group's quoted treasury investment book (equity investment including alternate funds), which housed the group's investments of INR70.2 billion at end-1QFY25.

Rating Sensitivities

Positive: A significant scaling up of the group franchise with a maintaining and improving market share in its business lines across capital market cycles, along with diversifying revenue streams further and the maintain 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:
- 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,
- a sharp deterioration in the liquidity either at MOHFL or group 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 6.0x in medium term)
- consolidated gross leverage (ex-housing) exceeding 2.0x on sustained basis
- a sustained weakening in the operating performance which could be on account of asset quality deterioration or otherwise

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on MOHFL, either due to their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

About the Company

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 INR40.98 billion at end-1QFY25 across over 47,000 live customer accounts with focus on the non-documented income segment under the economically weaker section/low income group category. The MOFSL group holds 97.7% stake in MOHFL. MOHFL had 111 branches spread across 12 states as of 1QFY25.

Key Financial Indicators

Particulars (MOFSL, CONSOLIDATED)	FY24	FY23
Total tangible assets (INR million)	3,17,371	2,29,100
Total tangible equity (INR million)	86,396	61,523
Profit after tax (INR million)	24,456	9,328

Return on average tangible assets (%)	9.3	4.7
Tangible equity/ tangible assets (%)	27.2	26.9
Gross debt / tangible equity (x)	1.6	1.7
Source: Company, Ind-Ra		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook				
	Rating Type	Rated Limits (million)	Rating	18 September 2023	9 January 2023	20 October 2022	29 November 2021	6 October 2021
Issuer rating	Short-term	-	-	-	WD	IND A1+	IND A1+	IND A1+
Non-convertible debentures$	Long-term	INR4250	IND AA/Positive	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable
Principal protected market-linked debentures$	Long-term	INR4,250	IND PP-MLD AA/Positive	IND PP-MLD AA/Stable	IND PP-MLD AAemr/ Stable	IND PP-MLD AAemr/ Stable	IND PP-MLD AAemr/ Stable	IND PP-MLD AAemr/ Stable
Bank loans	Long-term	INR21500	IND AA/Positive	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable

$ NCD limit of INR4,250 million stands fungible between NCDs and PP-MLDs.

Bank wise Facilities Details

Click here to see the details

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Bank loan	Low
Non-convertible debenture	Low
Principal protected market-linked debentures	High*

* Instrument characterised by underlying market risk

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

Annexure

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook
NCD	INE658R08180	10 February 2022	7.27	10 February 2025	2,150	IND AA/Positive
Unutilised					INR2,100	
Total Limit					INR4,250	
Source: NSDL, MOHFL						

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About India Ratings and Research: India Ratings and Research (Ind-Ra) is 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.
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APPLICABLE CRITERIA

Rating FI Subsidiaries and Holding Companies

Non-Bank Finance Companies Criteria

Evaluating Corporate Governance

Financial Institutions Rating Criteria

The Rating Process

DISCLAIMER

India Ratings & Research
A Fitch Group Company

India Ratings Revises Outlook on Motilal Oswal Finvest's NCDs to Positive; Affirms 'IND AA'

Sep 17, 2024 | Non Banking Financial Company (NBFC)

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

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating Assigned along with Watch	Rating Action
Non-convertible debentures	-	-	-	INR500	IND AA/Positive	Affirmed; Outlook revised to Positive from Stable
Non-convertible debentures$	-	-	-	INR1,000	IND AA/Positive	Affirmed; Outlook revised to Positive from Stable
Principal protected market-linked debentures$^	-	-	-	INR1,000	IND PP-MLD AA/Positive	Affirmed; Outlook revised to Positive from Stable
Commercial paper#	-	-	7 to 365 days	INR40,000	IND A1+	Affirmed

^Details in annexure
#Entire CP limit of INR40,000 million pertains to working capital, other lending and investment activities.
$ NCD limit of INR1,000 million stands fungible between NCDs and PP-MLDs.

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 fully consolidate MOFSL's group companies while arriving at the ratings, on account of the strong financial, managerial and operational linkages among them.

Ind-Ra opines the group restructuring proposal by MOFSL is a credit neutral event for all the rated group companies.

Detailed Rationale of the Rating Action

The Positive Outlook factors in the likelihood of a scale-up of the overall group revenue and profit pools across different segments, and the presence of seasoned management, sizeable investment book, market share gains across businesses, strong revenue per customer in the broking business compared to peers along with sizeable lending businesses across capital markets and the housing subsidiary.

The rating action reflects MOFSL's established franchise with the ability to offer a wider range of product and services across wealth management, private wealth, asset management, private equity & real estate funds across customer profiles, along with consistent and predictable cash flow generation from its broking, lending business on both housing and capital market linked and asset & private wealth management businesses. The ratings also factor in MOFSL's adequate capitalisation and liquidity, as well as the fungibility of liquidity across the group entities if required during extreme events.

Also, Ind-Ra has high support expectations from the parent, as MOFL remains core to MOFSL Group's strategy. MOFL has adequate capitalisation profile which Ind-Ra expects to grow over the next two years. The ratings also factor in the profitable scale-up of the MOFL's loan book during the past three years.

However, the ability to maintain and manage the franchise scale and reach during market volatility along with the modest scale of operations of the housing subsidiary and its asset quality seasoning are the rating constraints.

List of Key Rating Drivers

Strengths

- Well-established franchise in capital markets
- High support expectations from parent as MOFL remains core to group's strategy
- Adequate capitalisation
- Business at MOFL continues to scale up, profitability linked to capital market buoyancy

Weaknesses

- Presence in extremely competitive segment with regulatory risks

Detailed Description of Key Rating Drivers

Well-established Franchise in Capital Markets: The Motilal Oswal Group is a well-established brand in the financial services industry, having an equity broking business since 1987. The group has witnessed multiple market cycles and idiosyncratic risk events. Over FY20-FY24, MOFSL Group delivered 33% CAGR growth in operating profit (excluding treasury investments PAT), driven by the wealth management (39% CAGR), capital markets (39% CAGR), asset & private wealth (25% CAGR) and housing finance (35% CAGR) businesses. While a certain portion of the business is also supported by growth in the capital markets growth, it has maintained and scaled-up its market share by widening its franchise strength with multiple product offerings. With a total client base of around 7.3 million at end-1QFY25, the group caters to both retail and institutional clients through over 2,500 business locations, taking the pan-India pin code coverage to 98.0%. As on June 2024, about 89% of MOFSL Group customers had only single product relationship, indicating potential cross-sale opportunity over the long term with expected financialisation of savings. The Securities and Exchange Board of India also defines MOFSL as a QSB (qualified stock brokers) in India, by virtue of their size and scale of operations, and its impact on investors and securities market.

Also, despite the broking business being fairly fragmented, MOFSL is among the top players and had a market share (retail cash average daily turnover) of 8.0% in terms of retail cash turnover and 9.5% in terms of F&O premium turnover at end-1QFY25. Also, MOFSL's market share (in terms of average daily turnover) has moved up in the cash market to 8.0% in 1QFY25 from 5% in 4QFY23, and in the futures and option premium market to 9.5% in 1QFY25 from 7.0% in 4QFY23. Moreover, MOFSL has expanded into different business verticals to provide a wide range of products, such as retail broking, institutional broking, investment banking, asset management, private wealth management, private equity and affordable housing finance. In retail broking, research and advisory support to clients has led to client stickiness across market cycles, despite stiff competition from discount brokers. The group has one of the highest average revenue per customer in the broking industry. The group has a high profitability in its wealth management business segment as it operates on the advisory mode with strong cross-sell capabilities across products within the group where a large part of its assets remains equity, offering higher spread margin in terms of revenue across the different lines of business operations.

With an increasing retail participation in the past three years across discount brokerages, there could be a gradual migration of clients towards full-service providers, benefitting the MOFSL Group due to evolving regulations for discount brokers. Given volatility in the financial market business, such as private wealth, asset management and wealth management, its volume could see a certain moderation. However, the benefit of a widening of participation in the equity markets would stand to accrue on a recurring basis and operating leverage benefits of an established franchise would continue to play out for MOFSL.

High Support Expectations from Parent as MOFL Remains Core to Group's Strategy: The rating is driven by the high likelihood of parent support, if required. MOFL shares the parent's brand name and has strong managerial, financial and operational linkages with the parent. At end-1QFY25, MOFL's net worth represented 16.0% of the MOFSL group's net worth (1QFY25: INR97.8 billion). Also, MOFL has seen regular equity infusions from MOFSL Group, with recent equity infusion of INR 900 million completed during 1QFY25.

MOFSL is a well-established brand in the capital market business; its lending business acts as a diversification to mitigate cyclicality in the capital market business. The company's franchise has strengthened because of the growth in the capital market business, with increased market participation driving strong income across the asset management, wealth and broking businesses. The capital market business continues to generate significant amount of cashflow, part of which is cyclical and can be deployed to support the growth of MOFL.

Adequate Capitalisation: The consolidated leverage (debt to equity) was conservative at 1.6x in 1QFY25 (FY24: 1.6x; FY23: 1.7x; FY22: 1.1x; FY21: 1.3x). During FY24, promoter group companies infused INR 1000 million in MOFL, which along with healthy internal accruals during FY24, led to an improvement in MOFL's capital adequacy ratio to 33.9% in FY24 (FY23: 26.5%). MOFSL Group intends to keep the gross leverage less than 2x in the medium term at the group level (board approved limit of 3x). The gross leverage (ex-housing) stood at 1.5x at end-1QFY25. Ind-Ra expects the group's cash generating businesses – wealth management, asset and private wealth management - to supplement any further capital requirement of MOFL, thus limiting any incremental borrowing requirement. Furthermore, MOFSL is adequately capitalised with the group's quoted treasury investment book (equity investment including alternate funds), which housed the group's investments of INR70.2 billion at end-1QFY25. The company may raise short-term debt for working capital needs, if required.

Business at MOFL Continues to Scale up, Profitability Linked to Capital Market Buoyancy: MOFL primarily provides loan against share (LAS; 10% of the total loan book), unsecured loans and others (90% to the total loan book) to its clients. The LAS business maintains 50% of loan to value for the clients, as prescribed by the regulator. Unsecured loans are provided to the existing high net worth individuals clients for catering to their margin requirements. In 1QFY25, MOFL did not have any material non-performing assets. The scale of operations of MOFL has been growing, with a total asset base of INR56,041 million at FY24 (growth of more than 3x compared to FY21 levels of INR15,062 million) and the interest income expanded at a CAGR of 92% over FY21-FY24. Although the net profit improved to INR2178 million in FY24 (FY23: INR650 million; FY22: INR1,364 million; FY21: INR330 million; FY20: loss of INR105 million), it is likely to be volatile, given the exposure to capital markets. The return on assets improved during FY24 to 4.2% (FY23: 1.7%; FY22: 6.6%; FY21: 2.9%; FY20: negative 1.6%), mainly due to the net gain of INR1,937 million on fair value changes in FY24 (FY23: INR268 million; FY22: INR960 million). Ind-Ra expects the volatility in the business model to continue, given the nature of its business.

Presence in Extremely Competitive Segment with Regulatory Risks: The capital market industry continues to witness regulatory as well as technology risks. MOFSL Group has invested heavily in the past three years in terms of manpower and IT systems to ensure meeting the required level of compliance in the light of regulatory changes. The brokerage industry is characterised by stiff competition, as reflected by the loss of market share by MOFSL Group in terms of active NSE clients (FY24: 2%; FY20: 3%) mainly due to aggressive pricing strategy implemented by discount brokerages. Also, the regulatory requirement of higher upfront margin has led to an increasing need for funding broking customers that has led to expanded balance sheet leverage. While the growing preference of financial instruments over traditional saving methods coupled with low equity investment penetration in the share of household savings offers significant potential for expansion, the inherently cyclical nature of equities could impact the profitability.

Liquidity

Adequate: The group had sanctioned unutilised bank lines of INR32 billion for contingencies, and unencumbered cash and bank balance, and liquid investment of INR15.3 billion at end-August 2024. The liquidity position is adequate to meet debt repayment obligations over September-October 2024. The group's liquidity pool is fungible for the liquidity requirements of the group companies. As per June-2024 ALM Statement, MOFL had surplus liquidity across maturity buckets. The consolidated debt stood at INR159.4 billion at end-1QFY25. Of this, INR30 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, such as margin financing and debtors book funding in the broking business and loan against shares in non-baking finance companies.

Rating Sensitivities

Positive: A significant scaling up of the group franchise with a maintaining and improving market share in its business lines across capital market cycles, along with diversifying revenue streams further and maintaining 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 sharp deterioration in MOFSL's liquidity and/or access to funding due to unexpected market-wide shocks; and
- the consolidated gross leverage (ex-housing) exceeding 2.0x on a sustained basis.

Any Other Information

FINANCIAL SUMMARY (MOFL, STANDALONE)

Particulars	FY24	FY23
Total tangible assets (INR million)	56,000	48,233
Total tangible equity (INR million)	15,272	11,580
Profit after tax (INR million)	2,178	650
Return on average tangible assets (%)	4.2	1.7
Tangible equity/ tangible assets (%)	27.3	24.0
Gross debt / tangible equity (x)	2.6	3.2
Source: Company, Ind-Ra		

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on MOFL, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

About the Company

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, LAS, 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.

Key Financial Indicators

Particulars (MOFSL, CONSOLIDATED)	FY24	FY23
Total tangible assets (INR million)	3,17,371	2,29,100
Total tangible equity (INR million)	86,396	61,523
Profit after tax (INR million)	24,456	9,328
Return on average tangible assets (%)	9.3	4.7
Tangible equity/ tangible assets (%)	27.2	26.9
Gross debt / tangible equity (x)	1.6	1.7
Source: Company, Ind-Ra		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook						
	Rating Type	Rated Limits (million)	Rating	29 January 2024	18 September 2023	21 July 2023	25 May 2023	17 August 2022	14 February 2022	27 Octobe 2021
Commercial paper	Short-term	INR40,000	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+
Non-convertible debentures	Long-term	INR1,500	IND AA/Positive	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable
Principal protected market-linked debentures$	Long-term	INR1,000	IND PP-MLD AA/Positive	IND PP-MLD AA/Stable	IND PP-MLD AA/Stable	IND PP-MLD AA/Stable	IND PP-MLD AA/Stable	IND PP-MLD AAemr/Stable	IND PP-MLD AAemr/Stable	IND PP-ML AAemr/Stab

$ NCD limit of INR1,000 million stands fungible between NCDs and PP-MLDs.

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Commercial paper	Low
Non-convertible debenture	Low
Principal protected market linked debentures	High*

* Instrument characterised by underlying market risk

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

Annexure

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook
PP-MLD	INE01WN07052	4 August 2022	NIFTY50 LINKED	3 February 2025	INR140	IND PP-MLD AA/Positive
PP-MLD	INE01WN07052	8 September 2022	NIFTY50 LINKED	3 February 2025	INR327.4	IND PP-MLD AA/Positive
PP-MLD (Unutilised)					INR532.6	IND PP-MLD AA /Positive
Source: NSDL, MOFL						

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook
NCD	INE01WN07110	14 February 2024	9.20	14 February 2034	INR500	IND AA/Positive
NCD (Unutilised)					Nil	IND AA/Positive
Source: NSDL, MOFL						

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APPLICABLE CRITERIA

Rating FI Subsidiaries and Holding Companies

Non-Bank Finance Companies Criteria

Securities Firms Criteria

Evaluating Corporate Governance

Financial Institutions Rating Criteria

The Rating Process