

Motilal Oswal Financial Services Limited

31st July 2024

Pressure on yields

During the quarter, Motilal Oswal Financial Services Limited (MOFSL) demonstrated a strong revenue growth of 54%/8% on a YoY/QoQ basis. The Company is transitioning from a traditional services like broking and distribution to wealth management services. During the quarter, the capital market segment revenue grew by 38% on a QoQ basis as the Company has completed 6 deals on the investment banking side. In the wealth management segment, the Company's total assets under advisory and distribution business grew by 105% and 42% on a YoY basis, respectively. Due to this revenue for the wealth management business grew by 42% on a YoY basis. Asset & private wealth management segment comprises of Asset Management, Private Equity and Private Wealth Management businesses. The AUM of asset management saw a strong growth of 70%/22% on a YoY/QoQ basis. Private Wealth AUM also grew by 65%/12% on a YoY/QoQ basis. Motilal Oswal Home Finance Ltd (MOHFL) reported an AUM growth of 8% on a YoY basis.

Continue to add Relationship Managers (RMs) across segments

In Q1 FY25, the Company continued to expand its sales team and increase RMs across various segments in the future. In the housing finance segment, the Company had onboarded 26 RMs during the quarter, taking the total count to 951. Additionally, they want to double this RMs count to ~2,000 in FY25, which will impact its cost-to-income ratio. In the segment of Asset & PWM, the Company has increased the number of RMs to 576 in Q1FY25. This expansion had an impact on the Company's margin profile. Going forward, in the Asset & PWM segment, there will be a slowdown in hiring and the Bank will focus on improving productivity and margins.

Housing finance segment is struggling to grow

In Q1 FY25, the loan book in the housing finance segment grew marginally by 0.6% on a QoQ basis. Over the last couple of quarters, the Company has constantly increased its RM pace while the growth is still lacking.

QoQ impact on yields

The Company is reporting a strong growth in asset management AUM and PWM AUM. However, the segment revenue degrew by ~5% in wealth management and ~20% in Asset & PWM on a QoQ basis, indicating pressure on yields.

View & Valuation

We expect MOFSL to grow its ARPU in the broking segment, expand its distribution AUM, increase its wealth management AUM and grow its housing finance segment loan book, led by a constant increase in RMs across segments. While we are seeing margin pressure across the segments and expect the same to continue due to increased competition. Based on our revised estimates, we have maintained our 'NEUTRAL' View on MOFSL with a target price of Rs. 677, using the 'Sum-Of-The-Parts' (SOTP) method for FY25E.

NEUTRAL

CMP Rs. 654

TARGET Rs. 677 (+3.5%)

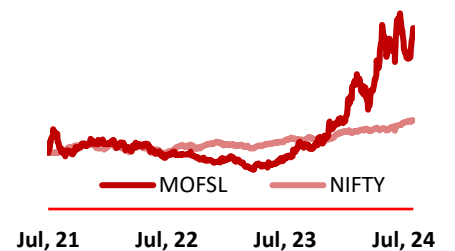
Company Data

Bloomberg Code	MOFSIN
MCAP (Rs. Mn)	3,90,735
O/S Shares (Mn)	597
52w High/Low	720 / 199
Face Value (in Rs.)	1
Liquidity (3M) (Rs. Mn)	609

Shareholding Pattern %

	Jun 24	Mar 24	Dec 23
Promoters	69.04	69.16	69.39
FIIs	6.46	6.73	6.48
DIIIs	6.06	6.94	6.76
Non-Institutional	18.43	17.16	17.37

MOFSL vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs. Bn)	FY24	FY25E	FY26E
Revenue	71	88	103
Net Profit	24	32	37
Total Assets	318	449	572
Net Worth	87	121	156
ROA (%)	8%	7%	6%
ROE (%)	28%	26%	24%

Source: Company, Keynote Capitals Ltd.

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Q1 FY25 Result Update

Result Highlights (Rs. Mn)

Particulars	Q1FY25	Q1FY24	Change % (Y-o-Y)	Q4FY24	Change % (Q-o-Q)	FY24
Revenue from Operations	23,123	14,998	54.2%	21,413	8.0%	70,678
Expenses						
Fees and commission expense	3,619	2,174	66.4%	3,619	0.0%	11,378
Impairment on financial instruments	150	233	-35.9%	173	-13.6%	540
Employee benefits expense	3,970	3,179	24.9%	3,983	-0.3%	13,298
Other expenses	1,457	1,031	41.4%	1,323	10.1%	4,803
EBITDA	13,928	8,381	66.2%	12,315	13.1%	40,659
Finance Cost	3,177	2,159	47.1%	2,947	7.8%	10,141
Depreciation and amortization expense	218	174	25.9%	239	-8.8%	826
Other income	54	312	-82.8%	169	-68.3%	628
Total expenses	12,591	8,949	40.7%	12,284	2.5%	40,986
PBT	10,586	6,360	66.5%	9,297	13.9%	30,319
Tax	1,750	1,098	59.4%	2,051	-14.7%	5,863
Share of associates	-	14	-100%	-	-	-0
PAT	8,836	5,276	67.5%	7,246	21.9%	24,456
EPS	14.6	8.9		12.0		40.7

Segment Highlights (Rs. Mn)

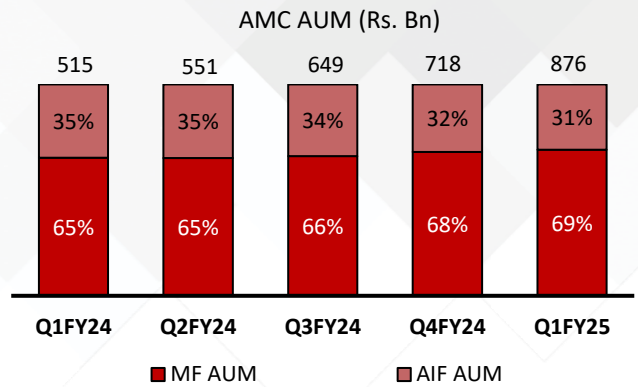
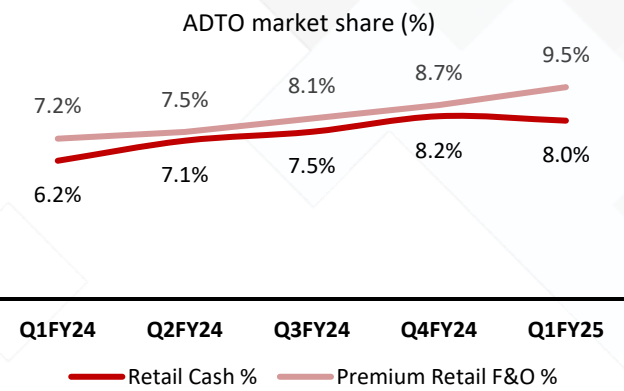
Particulars	Q1FY25	Q1FY24	Change % (Y-o-Y)	Q4FY24	Change % (Q-o-Q)	FY24
Capital Markets*						
Revenue	1,340	1,360	-1.5%	970	38.1%	32,350
PAT	570	600	-5.0%	470	21.3%	8,030
PAT Margin %	42.5%	44.1%	-158 Bps	48.5%	-592 Bps	24.8%
Wealth Management*						
Revenue	5,300	3,730	42.1%	5,570	-4.8%	
PAT	1,770	1,050	68.6%	2,110	-16.1%	
PAT Margin %	33.4%	28.2%	525 Bps	37.9%	-449 Bps	
Asset and Private Wealth Management*						
Revenue	3,850	2,920	31.8%	4,810	-20.0%	17,740
PAT	1,570	1,210	29.8%	2,100	-25.2%	6,070
PAT Margin %	40.8%	15.7%	2507 Bps	43.7%	-288 Bps	34.2%
Housing Finance						
Net Interest Income (NII)	820	760	7.9%	780	5.1%	3,120
NIM %	7.6%	7.6%	0 Bps	7.6%	0 Bps	7.6%
PAT	280	290	-3.4%	310	-9.7%	1,290

Source: Company, Keynote Capitals Ltd.

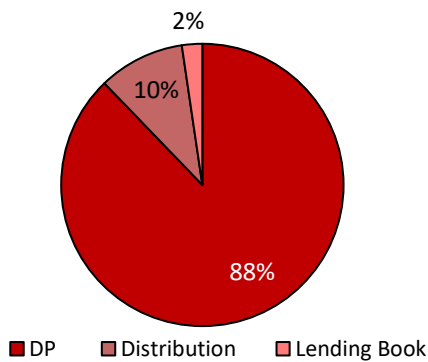
Note*: The Company has started reporting wealth management business separately which has been carved out from the capital market and asset and wealth management segment.

MOFSL | Quarterly Update

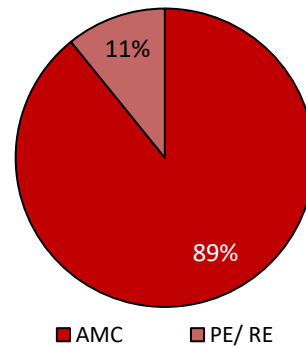
Quarterly business progression



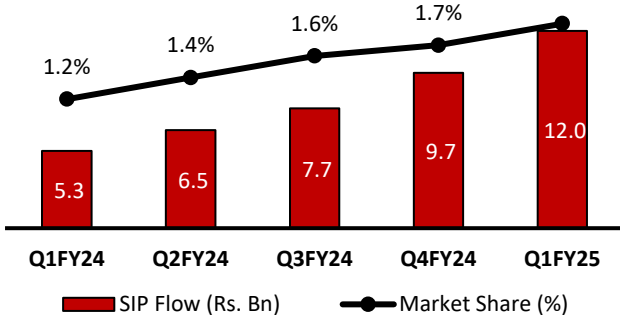
Wealth Management AUM (Rs. 2,651 Bn)
Mix (%)



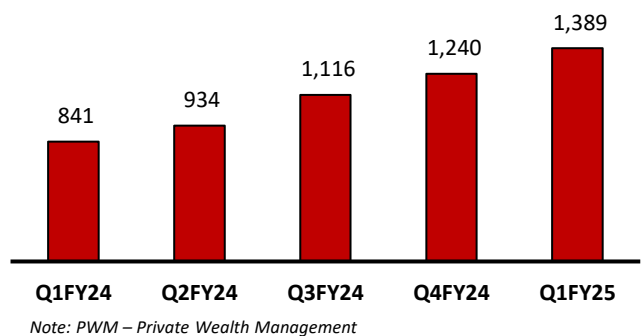
Asset Management AUM (Rs. 982 Bn) Mix (%)



Improvement in AMC MF SIP market share (%)



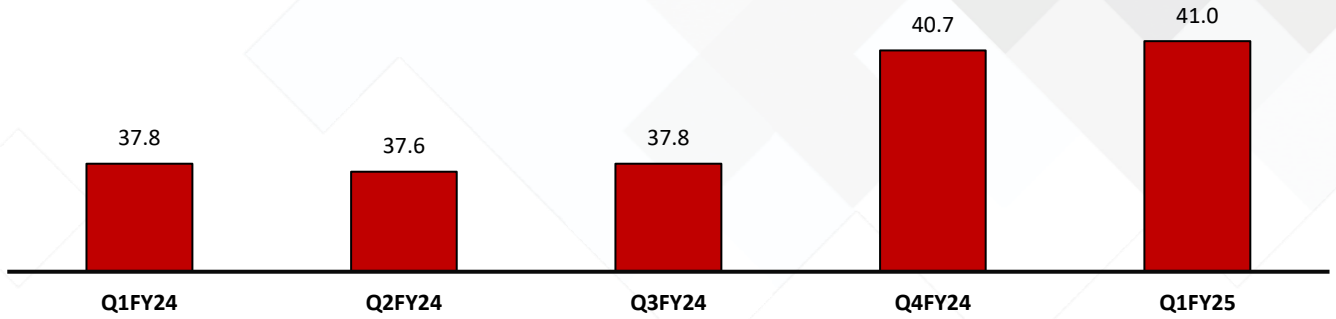
Growing PWM AUM (Rs. Bn) on a QoQ and YoY basis



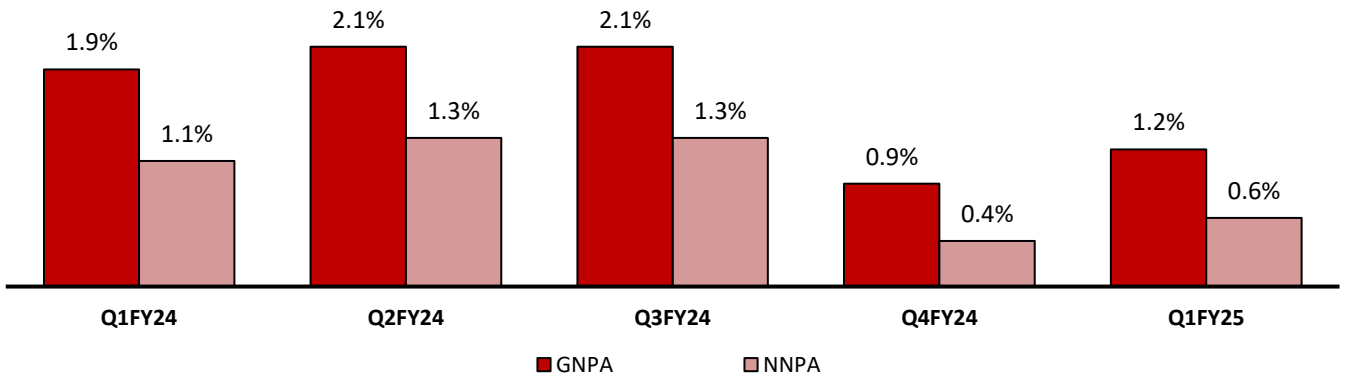
Particulars	Wealth Management	Private Wealth Management
Internal RM	2,059	NA
External WM	8,818	NA
Families	NA	13,000
AUM per Clients/ Family (Rs. Mn)	2.0	100
AUM per RM (Rs. Mn)	240	2410
Clients/ Families per RM	126	23

Quarterly business progression – Housing Finance segment

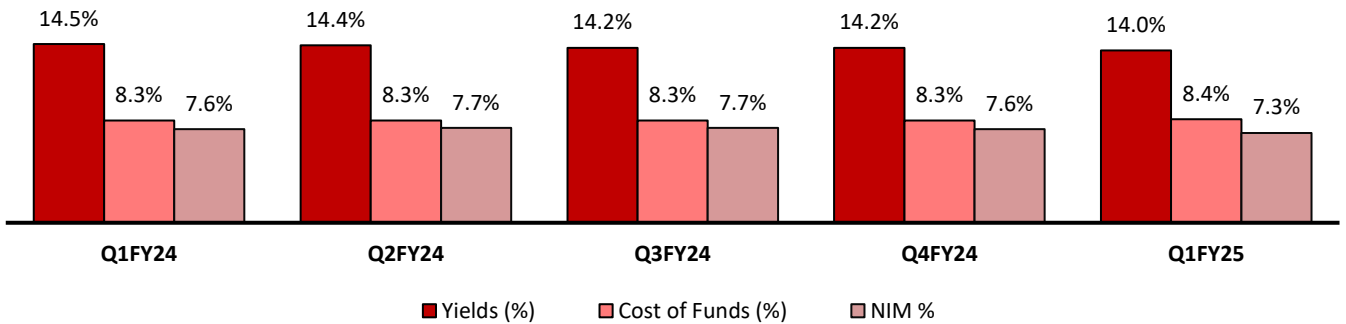
Loan book (Rs. Bn)



GNPA and NNPA trend (%)



Other operating metrics (%)



Source: Company, Keynote Capitals Ltd.

Q1 FY25 Conference Call Takeaways

General highlight

- The Company is shifting from a broking and distribution business to a wealth management business.
- The Company has invested Rs. 1.5 Bn to date in enhancing its digital business capabilities.

Capital Markets

- Capital markets comprise of Institutional Equities and Investment Banking businesses.
- The investment banking business completed 6 deals during the quarter with an issue size of Rs. 54 Bn.

Asset and Private Wealth Management

- Asset & Private Wealth Management segment comprise of Asset Management, Private Equity and Private Wealth Management businesses.
- AMC business AUM grew by 70% on a YoY basis.
- The Company's recent hiring of RMs has an impact on AUM per RM as ~69% of these RMs have less than three years of experience. It typically takes 3-4 years for RMs to fully develop their capabilities. The Company expects an improvement as these RMs gain more experience and reach full productivity.

Wealth Management

- The Company is developing strategies aimed at retail clients to introduce products focused on algorithmic and high-frequency trading.
- The new regulation on transaction charges is expected to have a quarterly impact of Rs. 100 Mn. Additionally, further clarification is needed regarding the regulation on lot sizes.
- Total Assets under advice grew by 105% on a YoY basis
- Distribution AUM grew by 42% on a YoY basis.
- The Company has acquired 0.15 Mn clients in Q1FY25.

Housing Finance

- In the housing finance segment, the cost-to-income ratio is expected to rise as the Company is actively recruiting and is in an investment phase for this business. The Company has added a net 26 sales RM in Q1FY25, and management is guiding to double the sales force in FY25.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Revenue from Operations	41,771	70,678	88,152	1,02,795	1,20,507
Growth %	-3%	69%	25%	17%	17%
Expense					
Fees and commission expense	8,613	11,378	13,305	15,509	18,174
Impairment on financial instruments	428	540	532	620	727
Employee benefits expense	10,084	13,298	16,853	19,645	23,020
Other expenses	3,232	3,662	4,597	4,597	4,597
EBITDA	19,414	41,799	52,865	62,424	73,990
Depreciation and amortization expense	584	826	887	1,034	1,212
Finance Cost	5,958	10,141	12,862	14,992	17,568
Other income	200	628	550	600	650
Total expenses	29,549	40,986	50,205	58,522	68,575
PBT	12,423	30,319	38,497	44,874	52,582
Tax	3,094	5,863	6,929	8,077	9,465
PAT	9,328	24,456	31,567	36,796	43,117
Shares (Mn)		597.0	597.0	597.0	597.0
EPS		41.0	52.9	61.6	72.2

Balance Sheet

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Cash, Cash equivalents & Bank	88,369	1,20,713	1,46,514	1,76,755	2,22,955
Investments	47,870	65,007	91,457	1,17,160	1,47,782
Debtors	10,291	19,181	20,730	26,556	33,497
Loans	72,176	1,00,464	1,64,622	2,18,698	2,75,861
Other financial assets	2,917	3,630	12,194	15,621	19,704
Property, plant & equipment	4,265	5,694	6,097	7,811	9,852
Current tax assets (net)	349	277	732	937	1,182
Deferred tax assets (net)	607	583	1,341	1,718	2,167
Other Intangible assets	393	339	854	1,093	1,379
Other non-financial assets	2,863	2,405	4,390	5,624	7,094
Total Assets	2,30,099	3,18,291	4,48,931	5,71,974	7,21,474
Creditors	34,484	55,637	85,360	1,09,349	1,37,930
Debt Securities	69,651	85,105	1,21,942	1,56,213	1,97,043
Borrowings	33,108	52,351	60,971	74,982	94,581
Deposits	17	419	61	78	99
Other financial liabilities	24,548	31,042	48,777	62,485	78,817
Current tax liabilities	367	431	488	625	788
Provisions	2,364	860	4,878	6,249	7,882
Deferred tax liabilities	2,105	3,540	3,414	4,374	5,517
Other non-financial liabilities	624	1,220	1,097	1,406	1,773
Share Capital	147.9	149	597	597	597
Other Equity	62,375	87,169	1,20,789	1,54,610	1,96,190
Non-controlling Interest	309	370	556	556	556
Total Equity & Liabilities	2,30,099	3,18,291	4,48,931	5,71,974	7,21,474

Source: Company, Keynote Capitals Ltd. estimates

Segmental Data

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Capital Markets					
Revenue (Mn)	28,326	32,350	40,326	48,709	59,209
PAT	5,047	8,030	8,065	9,255	10,658
PAT Margin %	17.8%	24.8%	20%	19%	18%
AMC					
AUM (Bn)	454	718	1,054	1,407	1,808
Revenue (Mn)	5,551	7,840	10,542	13,367	16,275
Yield %	1.22%	1.09%	1.00%	0.95%	0.90%
Wealth Management					
AUM (Bn)	520	1,236	1,607	2,090	2,716
Revenue (Mn)	2,228	7,720	8,841	11,493	14,941
Yield %	0.43%	0.62%	0.55%	0.55%	0.55%
Private Equity					
AUM (Bn)	103	100	111	122	134
Revenue (Mn)	1,770	2,170	2,211	2,371	2,541
Yield %	1.72%	2.16%	2.00%	1.95%	1.90%
Housing Finance					
Loan Book (Bn)	38.4	40.5	44.5	48.9	54.0

Valuation Ratios

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Per Share Data					
EPS		41.0	52.9	61.6	72.2
Growth %			29%	17%	17%
Book Value Per Share		147	204	262	330
Return Ratios					
Return on Assets (%)	4%	8%	7%	6%	6%
Return on Equity (%)	15%	28%	26%	24%	22%
Return on Capital Employed (%)	10%	17%	17%	16%	15%
Valuation					
PE (x)	16	16	12	10	9
Price to Book (x)	2.3	4.3	3.1	2.4	1.9

KEYNOTE Rating History

Date	Rating	Market Price at Recommendation	Upside/Downside
30 th Dec 2022	BUY	686	+30.6%
25 th Jan 2023	BUY	692	+27.2%
2 nd May 2023	BUY	608	+17.9%
31 st July 2023	NEUTRAL	840	+6.2%
3 rd Nov 2023	BUY	1,012	+13.0%
29 th Jan 2024	NEUTRAL	1,749	+6.1%
29 th April 2024	NEUTRAL	2,601	+7.1%
31 st July 2024	NEUTRAL	654*	+3.5%

Note*: Stock split on 10th July 2024.

Rating Methodology

Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS)	Not covered by Keynote Capitals Ltd/Rating & Fair value under Review/Keynote Capitals Ltd has suspended coverage

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