KEYNOTE

Motilal Oswal Financial Services Limited

Opportunities to drive growth, valuations to follow

30th Dec 2022

Incorporated in 1987, Motilal Oswal Financial Services Limited (MOFSL) started as a stock broker and has graduated into a well-diversified financial services company that provides a host of products and services across Retail and Institutional Broking, Private Wealth Management, Investment Banking, Private Equity, Asset Management (AMC), and Housing Finance. With over three decades of experience in the capital market, MOFSL has witnessed multiple market cycles and black swan events. The Company's research and advisory support to its broking clients has contributed to client retention, despite competition from discount brokers. MOFSL is well-positioned to take advantage of the increasing participation of retail clients in the equity markets on the back of its established franchise. We initiate coverage on Motilal Oswal Financial Services Limited with a BUY rating and a target price of Rs. 896 using the 'Sum-Of-The-Parts' (SOTP) method.

Diversification of business to increase future opportunities

MOFSL has aptly diversified its business operations to reduce industry risk and expand on opportunities. The Company diversified into the AMC business, which is expected to increase AUM owing to fund performance. The wealth management business will benefit from the rise of High-Net-Worth Individuals (HNIs) and Ultra HNIs (UHNIs) in India, which is expected to increase at a CAGR of 12% and 7%, respectively, from CY21 to CY26. In investment banking, the Company has a strong pipeline of ~25 deals worth Rs. ~200 Bn from sectors like BFSI, Auto, Consumer, Healthcare, and Industrials. In 2020, the Company also diversified into the Insurance broking business, which grew by more than 40% YoY in FY22.

Value unlocking in the Housing Finance segment

The Company entered the housing finance segment in 2015 but faced numerous difficulties in scaling it up. In 2020, the Company appointed Arvind Hali as the MD & CEO and Amar Bahl as the Deputy MD & COO of Motilal Oswal Home Finance Ltd (MOHFL), each having more than 20 years of experience in the industry. The Company rebuilt this segment conservatively by implementing proper processes and systems. The changes have resulted in constant improvement in collection ratio, yields, NIM, decreasing NPAs, and cost of funds. The disbursements have increased by 80% YOY in H1 FY23. The management is currently discussing the demerger of the housing finance segment to unlock the latent value.

View & Valuation

The broking business is expected to maintain a 2.5% market share based on the addition of Demat Accounts, followed by a rise in AMC AUM, which is expected to revive on the back of the scheme's performance and addition of new AUM. The wealth management segment AUM is expected to grow at 18% CAGR from FY22 to FY24E. The revival in the housing finance segment is evident by 80% YoY growth in disbursements in H1 FY23. Based on the expectation of business improvement, we initiate coverage of MOFSL with a BUY rating and a target price of Rs. 896 using the SOTP valuation method.

BUY

CMP Rs. 686

TARGET Rs. 896 (+30.6%)

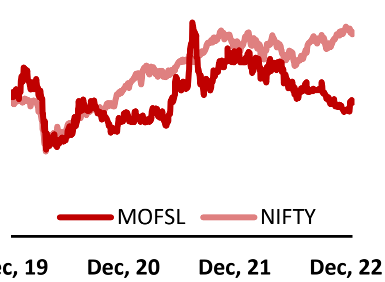
Company Data

MCAP (Rs. Mn)	1,01,471
O/S Shares (Mn)	149.1
52w High/Low	1,006 / 651
Face Value (in Rs.)	1
Liquidity (3M) (Rs. Mn)	94

Shareholding Pattern %

	Sept 22	Jun 22	Mar 22
Promoters	69.57	69.50	69.50
FIIs	9.29	9.80	10.08
DIIs	5.01	4.02	3.63
Non-Institutional	16.12	16.67	16.78

MOFSL vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

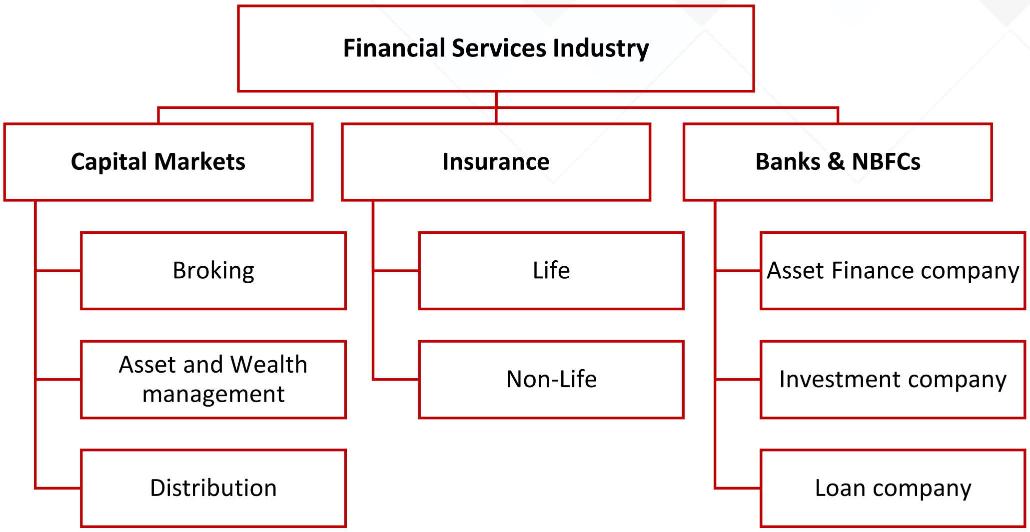
(Rs Mn)	FY22	FY23E	FY24E
Revenue	42,968	46,372	52,575
Net Profit	13,125	13,834	16,787
Total Assets	1,69,233	1,98,193	2,35,639
Net Worth	57,007	68,503	82,357
ROA (%)	8%	7%	7%
ROE (%)	23%	20%	20%

Source: Company, Keynote Capitals Ltd.

Chirag Maroo, *Research Analyst*
Chirag@keynotecapitals.net

Financial Services Industry Overview

Over the last decade, the structural story of financialization in India has accelerated, resulting in a shift from holding physical assets to financial assets. According to the RBI, the share of financial savings increased from 45% to 52%, while savings of physical assets fell from 55% to 48% from FY16 to FY21; thus, the financialization of savings and the popularity of financial services emerged as a megatrend. The financial services industry in India can be classified as follows:



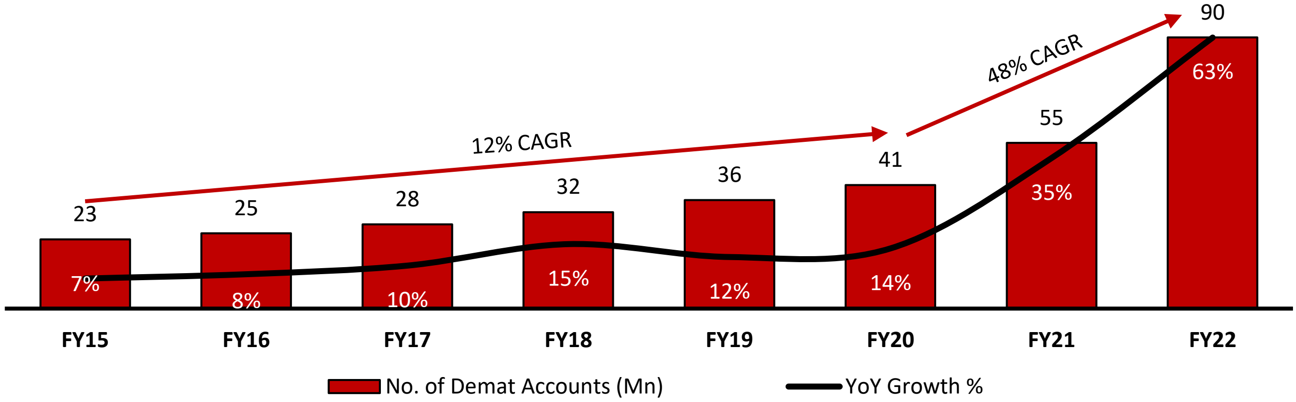
Source: IBEF, Company, Keynote Capitals Ltd.

Capital Markets

Broking industry

A brokerage firm is an intermediary between an investor and a securities exchange. Over the past decade, the broking industry has evolved significantly due to the disruption led by discount brokers, which led to a robust client addition. COVID-19 was a pivot point for the broking industry, with the rapid adoption of technology and the ability to on-board clients digitally has boosted the industry's growth. The industry has witnessed consistent growth in Demat Accounts, growing at a CAGR of 10% for seven years till 2020. In the last couple of years, this trend was accentuated & the Demat accounts grew at a CAGR of 48%.

Total Demat Accounts has seen accelerated growth in last two years



Source: NSDL & CDSL, Industry, Keynote Capitals Ltd.

Investment Banking: The IPO market did exceptionally well in FY22, witnessing the highest fund mobilization via the primary market, with 76 IPOs compared to 69 in FY21. The funds raised through 52 main-board IPOs in FY22 was Rs. ~1.1 Trn compared to Rs. ~0.31 Trn raised through 30 IPOs in FY21. The primary market witnessed an increase in retail participation in FY22, with an average of 1.41 Mn applications compared to 1.27 Mn in FY21.

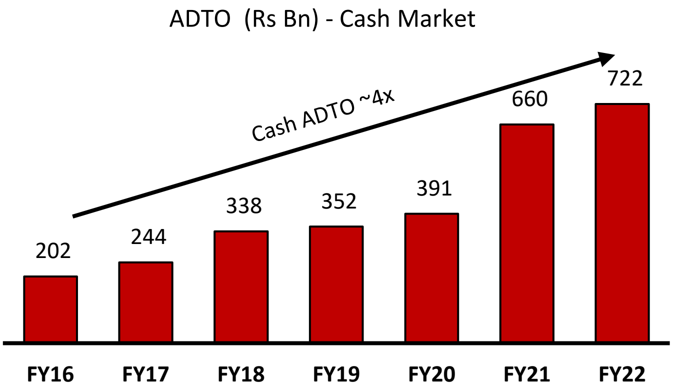
Private Equity: Venture Capital firms invested $48 Bn in Indian companies via 1,624 deals with significant investments into tech-driven sectors, like start-ups, IT & ITeS, and e-commerce. In FY22, eight major investments worth more than $1 Bn took place, led by Flipkart's $3.6 Bn pre-IPO round marking the re-entry of SoftBank. Sequoia Capital was the most active investor with 105 investments, followed by Tiger Global with 60.

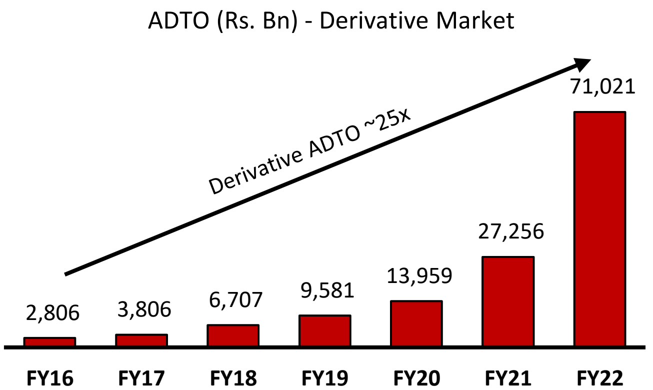
Industry trends

***Rise of digital brokers* –** The industry shifted from traditional brokers (~36% of active industry clients in FY22 from 81% in FY19) to discount brokers (~64% of active industry clients in FY22 from 19% in FY19) due to significant technological improvements and smartphone penetration. With increasing consumer preference towards discount brokers, traditional brokers have launched hybrid plans that include discount brokerage along with traditional services to attract clients.

***Consolidation in the industry* –** The Indian broking industry has become highly concentrated, with the top 5 players constantly gaining market share from 38% in FY16 to 62% in FY22. The top 10 players commanded 80% market share in FY22 compared to 57% in FY16.

The surge in Average Daily Turnover (ADTO)





Source: NSDL & CDSL, Industry, Keynote Capitals Ltd.

Distribution segment

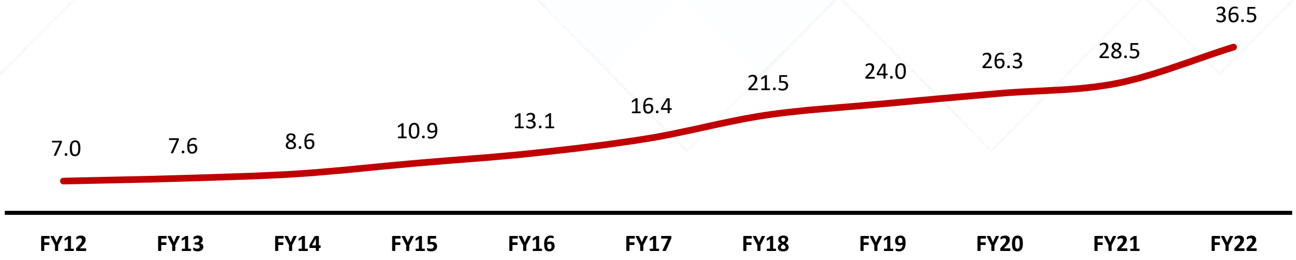
Distribution plays a vital role in the financial services industry by facilitating access to financial products and services for customers. Efficient distribution can contribute to the success of these products and services and support the growth and stability of the financial services sector.

Investor participation through distributors has been a key driver for the industry's growth. In FY22, distributors contributed 55% of the mutual fund industry AUM, and the direct route contributed 45%. The distribution segment is expected to grow due to increasing wealth, financial literacy, government initiatives, and technological advancement.

Asset and Wealth Management industry

In the last decade, the AUM of the Indian Mutual Fund (MF) industry has grown at a CAGR of 18% to Rs. ~36.5 Trn in FY22. AUM of equity mutual funds (excluding arbitrage) stood at Rs. ~17.6 Trn contributing 47% of the total AUM with net inflows of Rs. ~2.3 Trn compared to Rs. ~0.7 Trn outflows in FY21. New 2.7 crores SIPs were registered in FY22 compared to 1.4 crores in FY21. CRISIL estimates that the MF industry will grow at a CAGR of 19% to reach Rs. ~87 Trn by 2027E from current levels.

Mutual fund industry's AUM (Rs. Trn)



Source: AMFI, Keynote Capitals Ltd.

In July 2021, the AUM of the Indian wealth management industry stood at Rs. ~21.8 Trn, representing ~9% of the country's GDP. This is significantly lower than the AUM levels in developed markets ranging from 60-75% of GDP. Wealth managers mainly deal in MFs, PE Funds, Portfolio Management Services (PMS), FDs, Real Estate Funds, NCD, Structured Products, Tax-Free Bonds, etc.

Industry trends

Increased infusion in equities – In the past decade contribution of Equity AUM in the industry rose from 29.8% to 48.6%, attributing to increasing financial awareness and increased retail participation in equities from ~18% in FY14 to ~23% in FY22.

Increasing preference for passive funds – With rising awareness and preference for passive funds, the contribution of ETFs has also increased tremendously from 1.7% in March 2012 to 10.8% in Mar 2022. Since Mar 2012, ETFs have posted the highest growth, with assets soaring at 43.7% CAGR.

Increasing asset concentration in Beyond-30 (B-30) cities – Historically, AUM remained concentrated in the Top-30 (T-30) cities, with institutional investors contributing ~83%. In contrast, B-30 cities with high-equity exposure investors held the rest. In the last five years, the MF penetration ratio in B-30 gradually increased from 10% to 17% and is expected to increase further.

Increasing contribution through direct channels – Direct channel contribution to MF AUM rose from 42% in FY17 to 45.6% in FY22. Increased investing in mutual funds via direct channels was attributed to the increased adoption of fintech apps which has made investing process easy and cheaper.

Major regulatory changes – In the past few years, there have been multiple regulatory interventions like Cap on Total Expense Ratio (TER), reclassification of mutual fund schemes, discontinuation of upfront commission to distributors, additional TER of up to 30Bps for penetration in B-30 cities, and key employees to invest at least 20% earnings in schemes they manage to make it investor friendly. Besides this, in Dec 2022, SEBI issued performance benchmarking guidelines for the PMS, which can help investors make more informed decisions about investing. This will come into effect from April 1, 2023.

Financialization of savings **–** A significant portion of the wealth of Indian households is in the form of gold and real estate. The capital in these assets significantly shifted to the financial asset class (primarily equities) due to the change in the mindset of investors from capital preservation to wealth creation. Increasing financial knowledge due to wealth and AMC penetration into Tier II & III cities will help increase contribution from UHNIs in non-metro cities.

Other factors **–** As India advances, favorable demographics, growing financial inclusion, higher investable surplus due to high disposable income, ease of investing, increasing financial savings and awareness, investor-friendly regulations, tax incentives, digitalization, and perception of mutual funds as long-term wealth creators, are expected to be growth drivers for the industry.

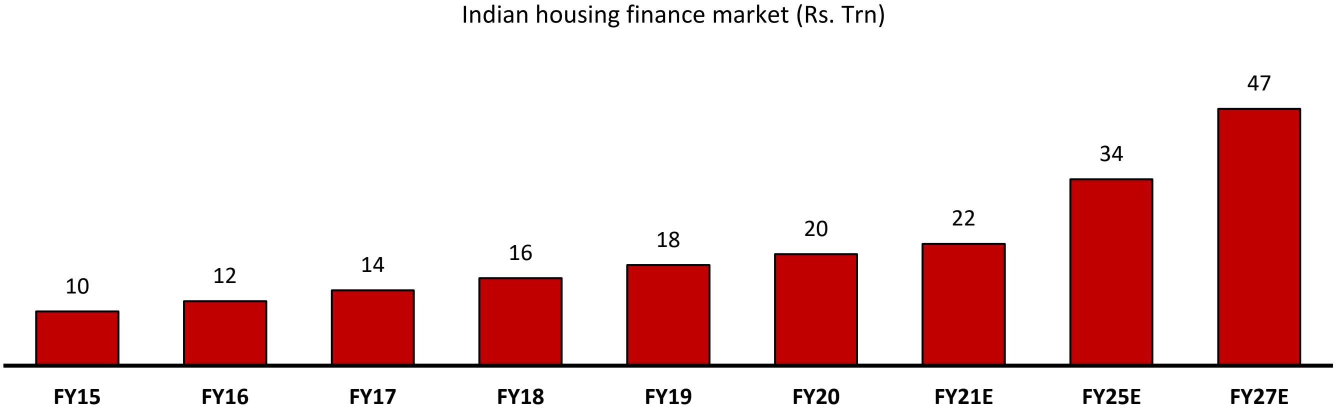
Industry growth to continue in double digits

Segment	CAGR 2017-22	CAGR 2022-27E	2022 AUM (Trn)	2027E AUM (Trn)
MF	16%	19%	36.5	87
Alternative Investment Fund (AIF)	50%	32%	6.4	26
PMS	19%	18%	4.4	10
Life Insurance	13%	14%	52.5	102

Source: CRISIL report, Keynote Capitals Ltd.

Housing Finance industry

The home loan market is expected to grow from Rs. 21 Trn in FY21 to Rs. 47 Trn in FY27. The revolutionary Credit Linked Subsidy Scheme (CLSS) and Real Estate Regulatory Authority (RERA) have been well-equipped on the demand side. In CLSS, the central and state governments will contribute 25% and 13% of the housing cost, respectively, lowering the load on home buyers by ~38%. On the other side, the RERA accreditation forces developers to act fast on informing customers about the project's status and deliver houses on schedule. It is expected that, as GDP per capita increases, discretionary spending will also increase, including the purchase of larger homes. This will lead to a rise in mortgage penetration, as observed in countries such as the United States and China. It is anticipated that this chain reaction will also occur in India.



Source: CRISIL, Keynote Capitals Ltd.

Industry trends

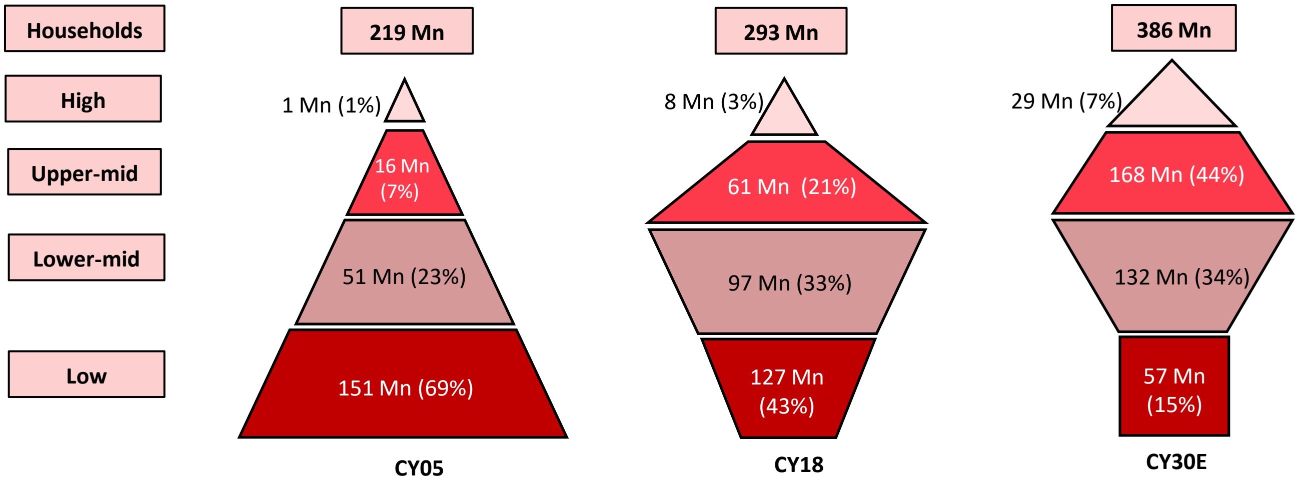
Housing demand – Pradhan Mantri Aawas Yojna (PMAY) verified a startling demand for houses and aims to provide a home for every citizen by 2024. As of October 2022, 12.3 Mn houses have been sanctioned, of which 6.4 Mn houses have been completed. The Ministry of Housing and Urban Affairs predicts that by 2050, ~53% of Indians will live in urban areas, creating a huge need for homes.

Nuclearization – The average household size of Indian families shrunk from 4.8 in 2017 to 4.4 in 2020, which is expected to shrink further, creating housing demand.

Improved housing affordability – The housing affordability index in India has decreased from 4.8 in FY11 to 3.2 in FY22, which shows an increase in housing affordability.

Housing affordability index = house price / annual income

Increasing share of the premium houses – The housing industry is witnessing a substantial development in the high-end segment, banking on the growing disposable income levels. The High-end or "premium" segment contributed ~24% to overall housing in 2018, which is expected to increase to 51% by 2030.



Source: Home First Finance Company Ltd Annual Report, Keynote Capitals Ltd.

Increase in mortgage penetration – The average ratio of mortgages to GDP in India has increased from 7% in FY12 to 11% in FY22, but is still low compared to 20%-30% in other countries, indicating considerable growth ahead. Moreover, an increase in GDP per capita leads to a rise in discretionary expenditure, including bigger houses. This increases mortgage penetration.

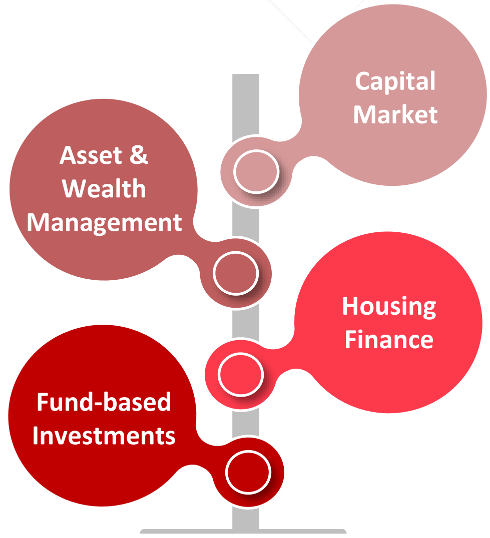
Favorable demographics – Currently, 65% of the Indian population is under 35 years, and it is predicted that the working-class population will increase by 10 Mn between 2021 and 2031. This will induce demand for more homes from the working section of the country.

About Motilal Oswal Financial Services Limited

Incorporated in 1987 as a small sub-broking unit, Motilal Oswal Financial Services (MOFSL) has now become a well-diversified financial services company that provides various products and services across Retail and Institutional Broking, Private Wealth Management, Investment Banking, Private Equity, AMC, and Housing Finance.

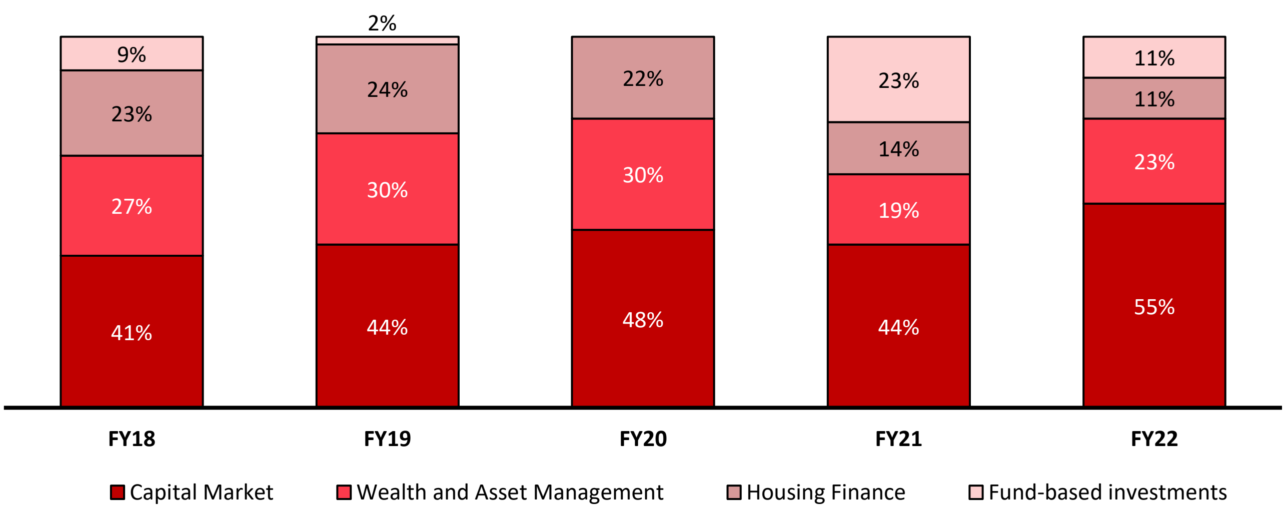
MOFSL is a multi-faceted financial services company with a presence in over 550 cities and an employee strength of more than 10,500 as of FY22. The group caters to retail and institutional clients through its 7,098 outlets (franchisees and other partners).

Diversification of business divisions



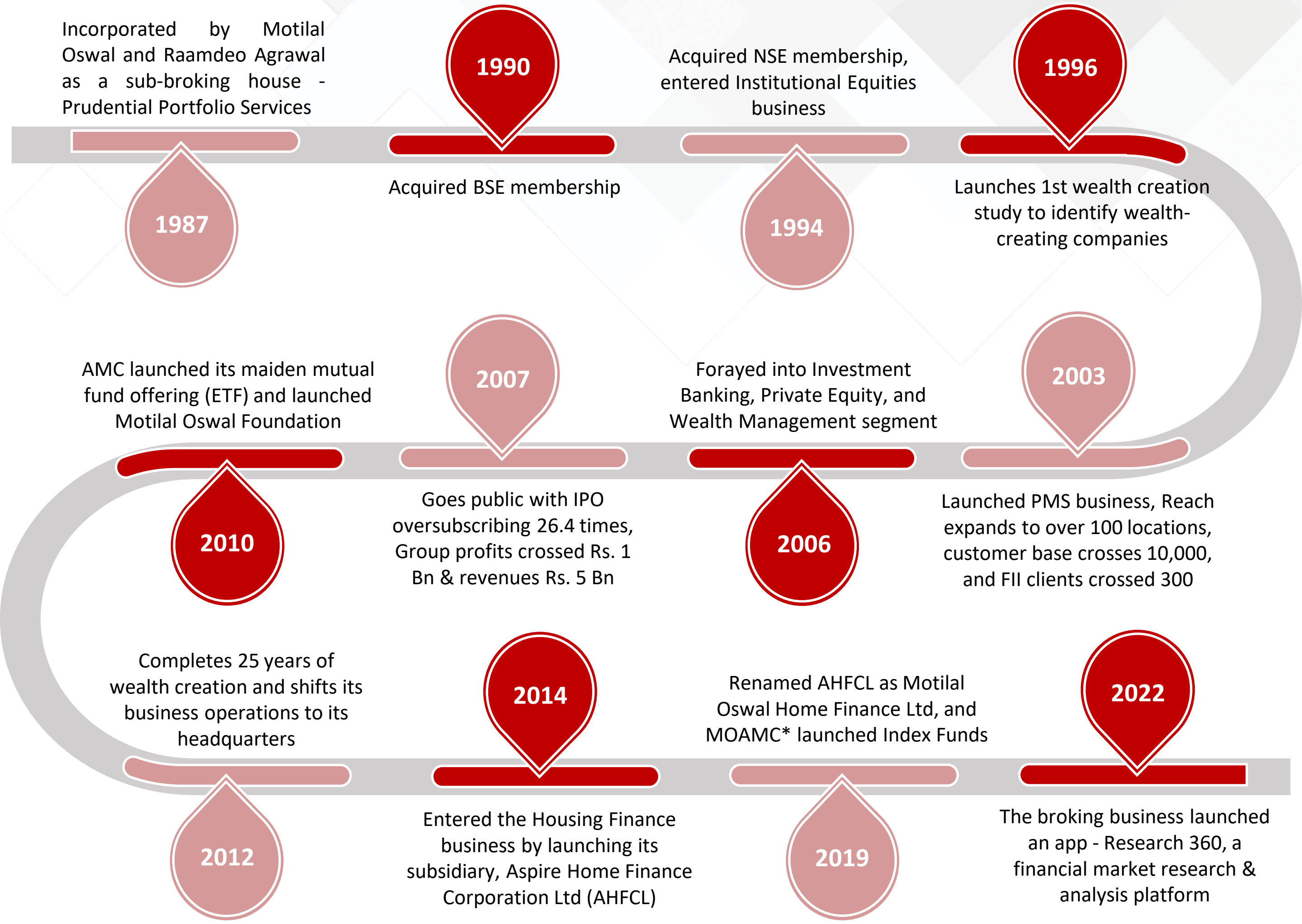
Source: Company, Keynote Capitals Ltd.

Revenue Mix (%)



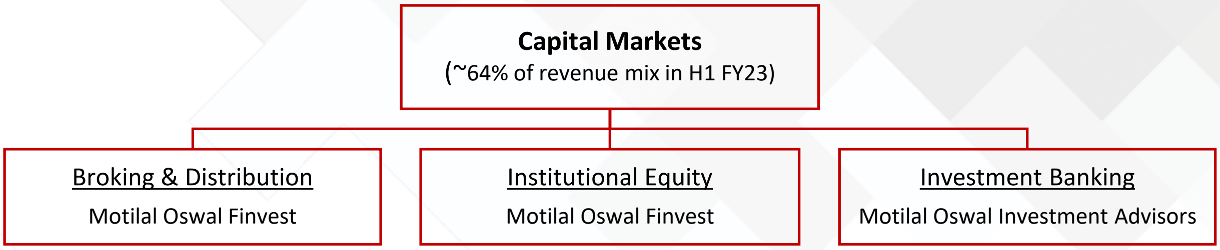
Source: Company, Keynote Capitals Ltd.

Business timeline of MOFSL



** Motilal Oswal Asset Management Company*
Source: Company, Keynote Capitals Ltd.

Capital Markets

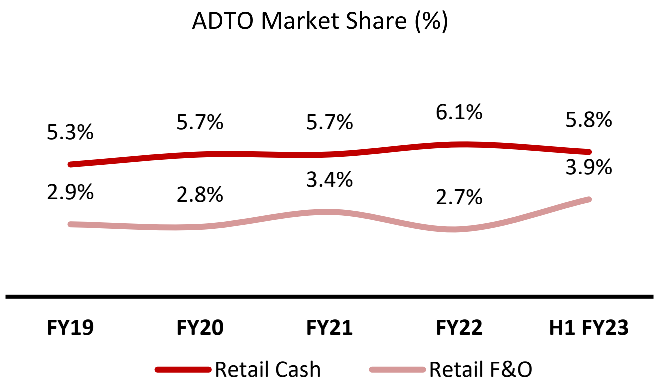


Source: Company, Keynote Capitals Ltd.

Broking & Distribution

MOFSL's broking business is the largest contributor to the overall revenue supported by the funding business providing a margin trade facility. Some players in the industry have been shifting towards a zero-brokerage model, while MOFSL operates on the traditional model. The Company offers a research-based advisory call to its retail customers through technical (short-term trades) and fundamental (long-term trades) research reports which help them trade with the Company by making informed investment decisions resulting in client stickiness. The Company follows the 'Phygital' model that includes characteristics of the traditional model and digitalization.

MOFSL offers a bouquet of financial products, including equities, derivatives, currency, commodities, depository services, PMS, MF, and insurance products, serving participants across FIIs, domestic institutions, HNIs, and retail investors.



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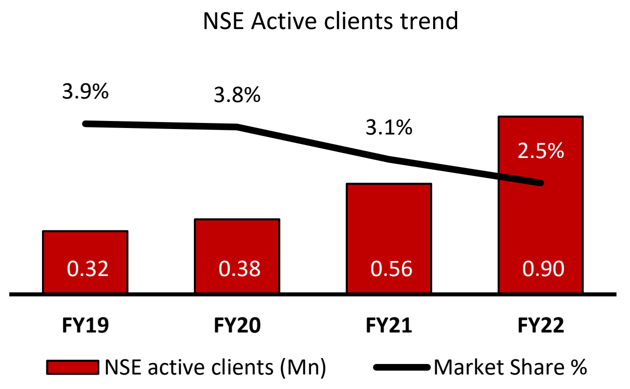

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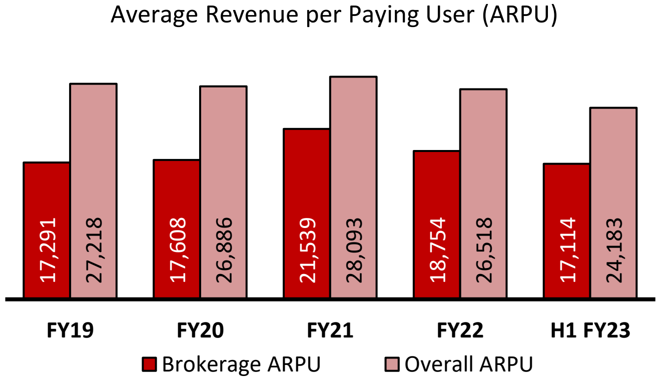

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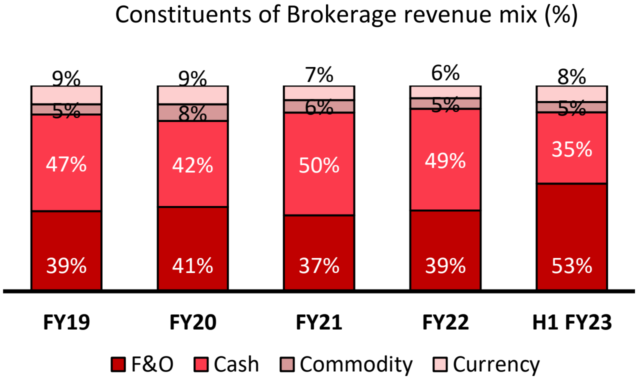
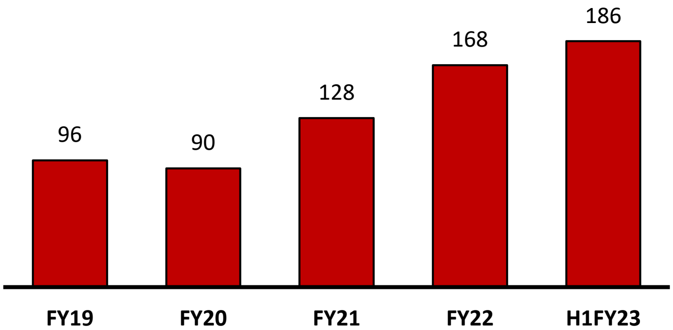


Source: Company, Keynote Capitals Ltd.

In FY20, the Company diversified into the insurance broking business, registering a strong premium collection of Rs. 570 Mn in FY22 compared to Rs. 400 Mn in FY21, up 43% YoY. The Company has partnered with HDFC Life, ICICI Prudential Life, and Bajaj Life for life insurance products and Aditya Birla Health, Care Health, and Star Health and Allied for health insurance products.

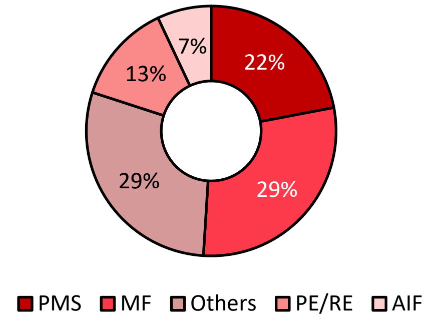
In the last three years, the Company's distribution division grew at a CAGR of 21%, reaching an AUM of Rs. 168 Bn in FY22, synergizing with AMC, PE/RE, and wealth management. The Company acquires clients through the franchise, private client (HNI), online, and branch channels. Despite this progress, the Company has still only tapped 20% of its ~7,000 franchisees for the distribution business, leaving massive room for growth.

Distribution AUM (Rs. Bn)



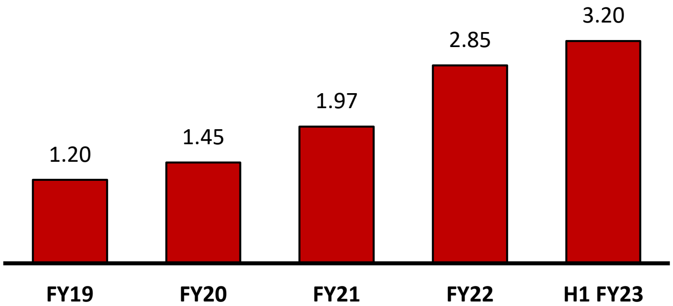
Source: Company, Keynote Capitals Ltd.

Distribution AUM Mix (Q2 FY23)



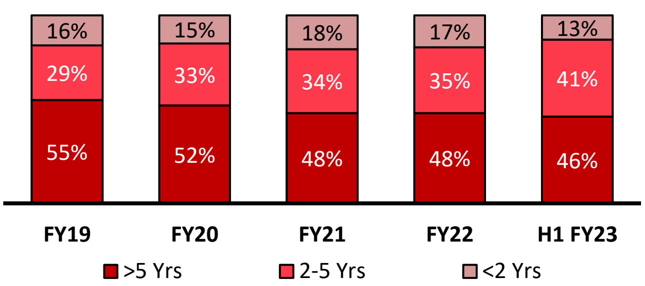
Source: Company, Keynote Capitals Ltd.

Continuous improvement in client base (Mn)



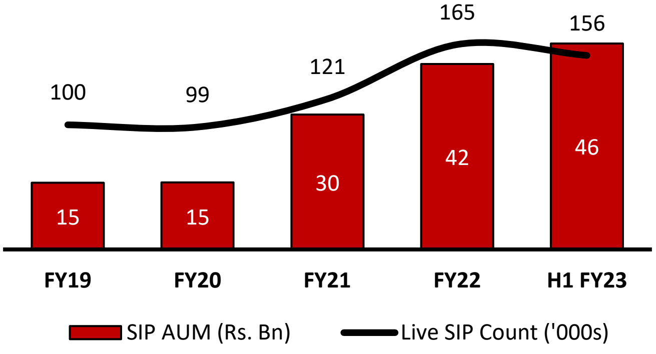
Source: Company, Keynote Capitals Ltd.

Majority of revenue contributed by 5 yrs+ Franchisees



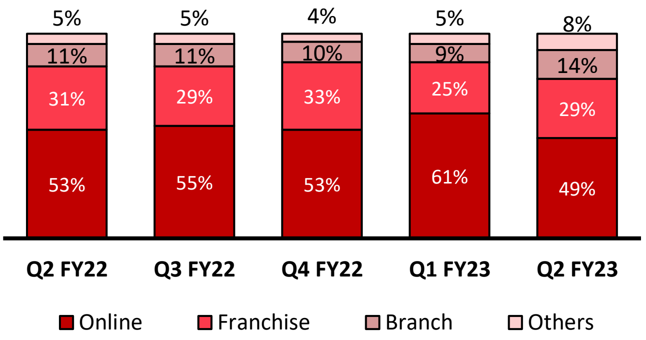
Source: Company, Keynote Capitals Ltd.

Distribution SIP AUM and count



Source: Company, Keynote Capitals Ltd.

Emphasis on diversified sourcing model



Source: Company, Keynote Capitals Ltd.

The Company provides these services using a network of branches across major cities that provides a local footprint and opportunities to cross-sell online applications enabling customers to trade & track conveniently a bouquet of products giving a sustainable revenue stream and need-based solutions.

Investment Banking

Motilal Oswal Investment Advisors Ltd. (MOIAL) handles the Company's investment banking division. In FY22, MOIAL executed 13 deals, including IPOs of Aditya Birla Sun Life AMC, GR Infraprojects, Metro Brands, and QIPs of Burger King and Union Bank of India, among others. MOIAL successfully executed three deals in Q2 FY23 worth Rs. ~23.3 Bn. Currently, the Company has a strong pipeline of ~25 deals worth Rs. ~200 Bn from sectors like BFSI, Auto, Consumer, Healthcare, and Industrials.

Institutional Equities

MOFSL institutional broking services provide cash and derivatives services to domestic and foreign institutions. As of Q2 FY23, the Company has a bouquet of services catering to 810+ institutional clients.

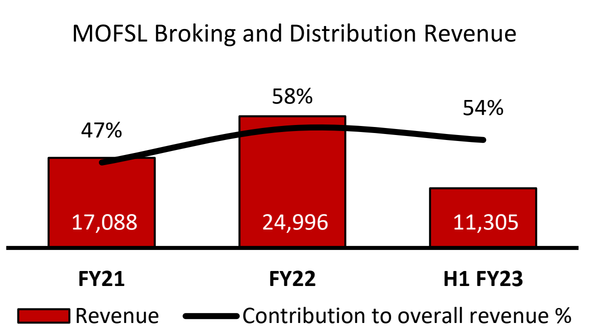
MOFSL launched a free application, Research 360, as a one-stop solution with access to knowledge and research of market news and update across all market segments, available to all investors and traders. The Company is also planning to launch a subscription-driven research platform.

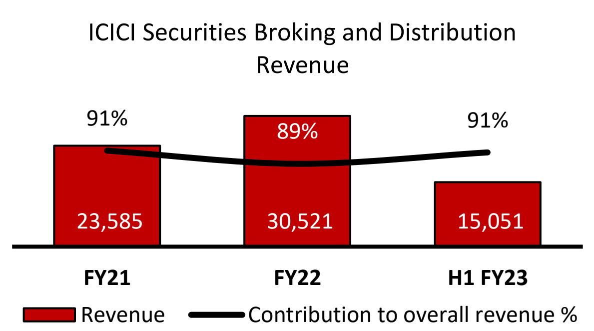
Various services offered by the platform include:

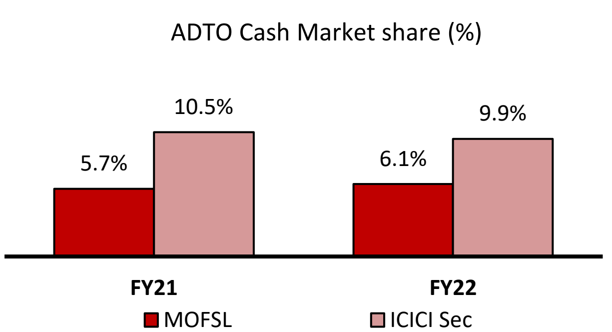
- Stock overview
- Ace investors portfolio
- MO ready basket & research calls
- Techno-funda scans
- Result analysis

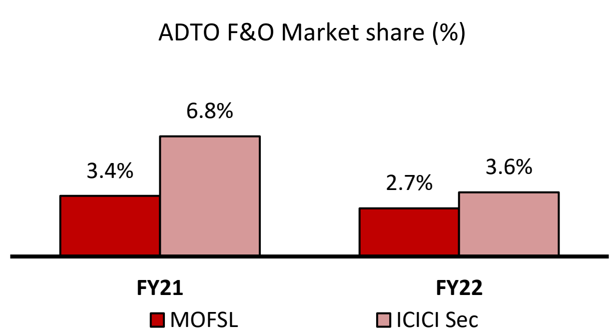
Source: Company, Keynote Capitals Ltd.

Broking segment peer analysis with ICICI Securities









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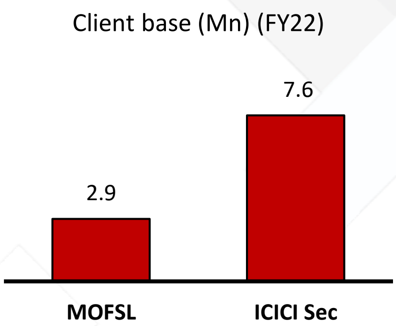
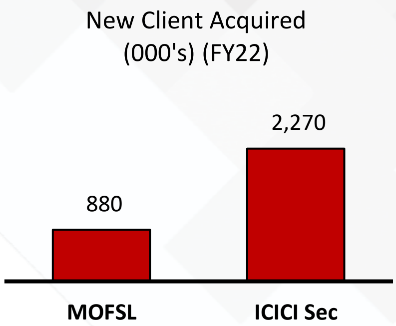
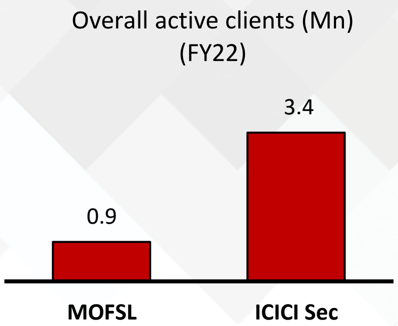
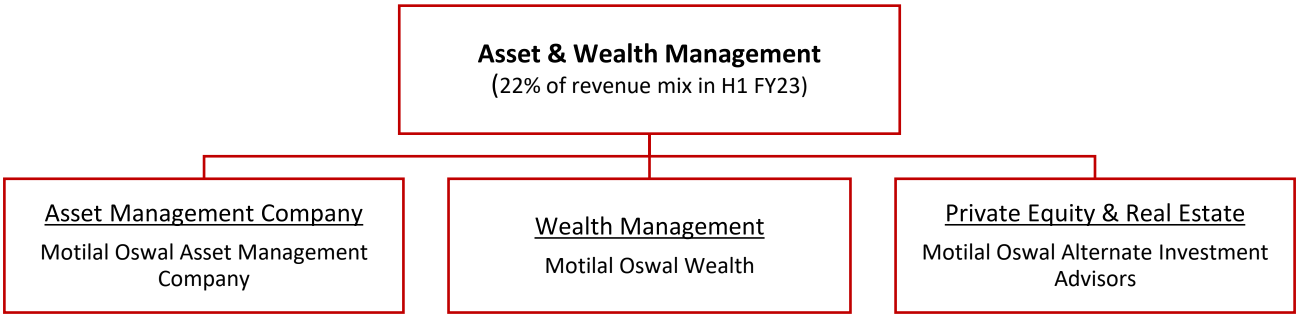






Source: Company, Keynote Capitals Ltd.

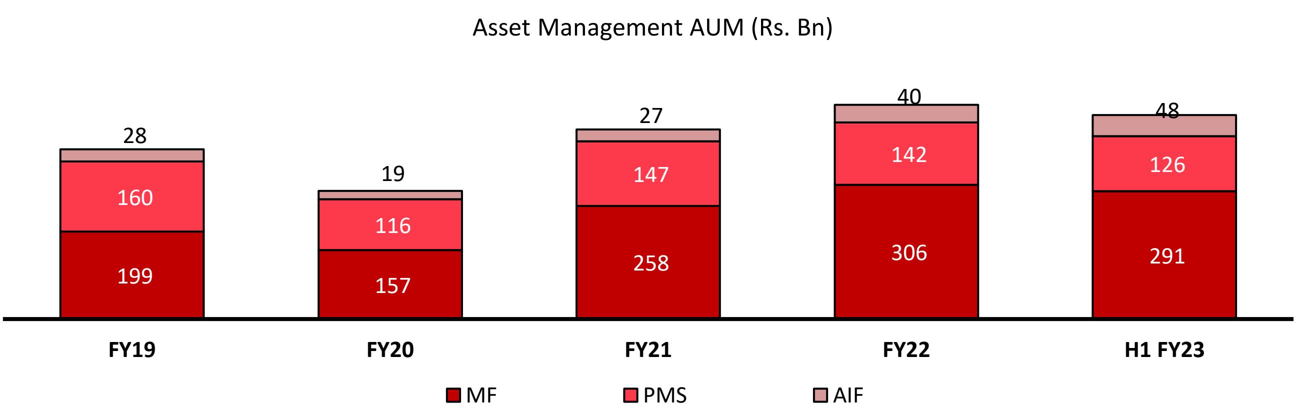
Asset & Wealth Management



Source: Company, Keynote Capitals Ltd.

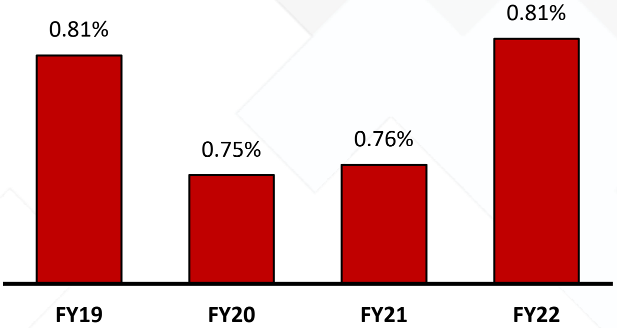
Motilal Oswal Asset Management Company (MOAMC) can be divided into MF, PMS, and AIF. From FY18 to FY22, the revenue of AMC business has grown at a CAGR of ~5%, and AUM has grown at a CAGR of 8%. The Company expanded its presence in international markets in 2016 with the Motilal Oswal India Fund (MOIF) launch.

The Company received strong traction in passive offerings crossing Rs. ~100 Bn AUM in FY22, helping the Company onboard clients new to equity class or with a lower risk appetite. MOAMC launched seven passive funds, including three index funds, three exchange-traded funds (ETFs), and one fund-of-fund (FoF) in Q2 FY23.



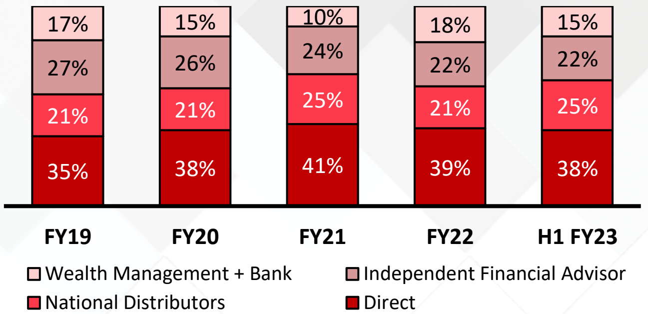
Source: Company, Keynote Capitals Ltd.

MOAMC MF Market share (%)



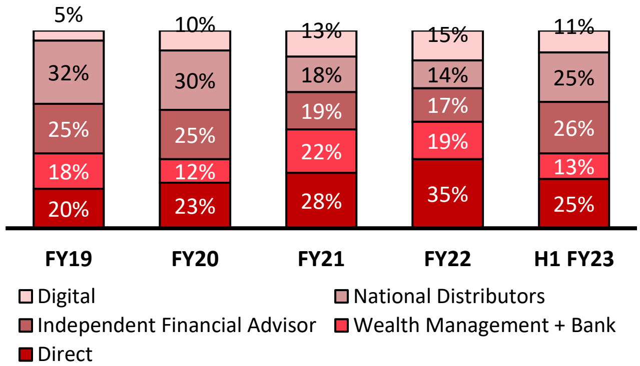
Source: Company, Keynote Capitals Ltd.

MOAMC MF AUM sourcing mix (%)



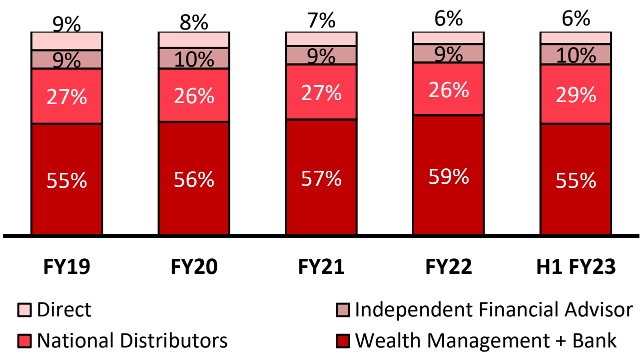
Source: Company, Keynote Capitals Ltd.

MOAMC MF Gross Sales Mix (%)



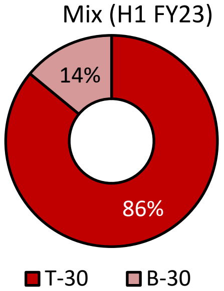
Source: Company, Keynote Capitals Ltd.

AIF AUM sourcing mix (%)



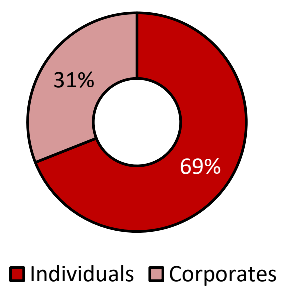
Source: Company, Keynote Capitals Ltd.

MF Monthly Average AUM (MAAUM) Location Mix (H1 FY23)



Source: Company, Keynote Capitals Ltd.

Share of Individuals in MFs (H1 FY23)



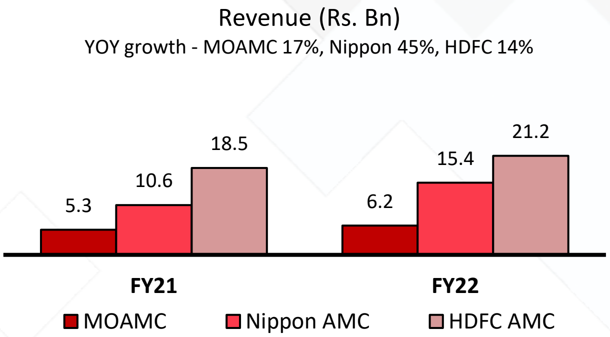
Source: Company, Keynote Capitals Ltd.

Currently, the Company has 19 AIF schemes and 5 PMS schemes in operation and is striving to expand its offerings as it believes this will contribute in increasing net yields. The AMC business operates on a trail-based model nullifying the effect of the upfront fee structure ban, and ~30% of non-MF AUM was performance fee-linked as of FY22.

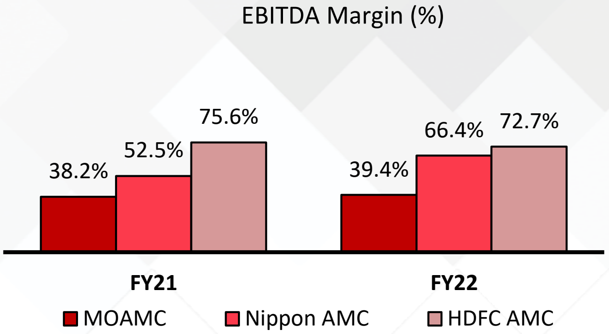
The growth in AUM is strongly linked to AMC's scheme performance. In the last couple of years, the size of the sales team has increased by nearly 50%, while the AUM has grown by 8% from FY19 to FY22. The benefits of sales team expansion will be visible in the future. The AUM was historically 100% captive (internal), which is now 40% captive and 60% external and is expected to go further down. The Company has been hiring talented individuals to strengthen this business, a recent example being Prateek Agarwal as its Executive Director to lead the business and investment strategy.

KEYNOTE

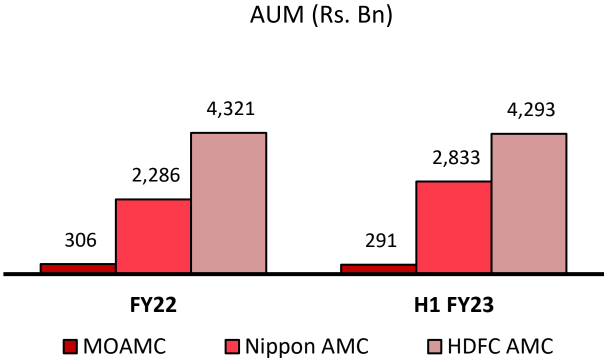
AMC peer analysis with Nippon Life India and HDFC AMC



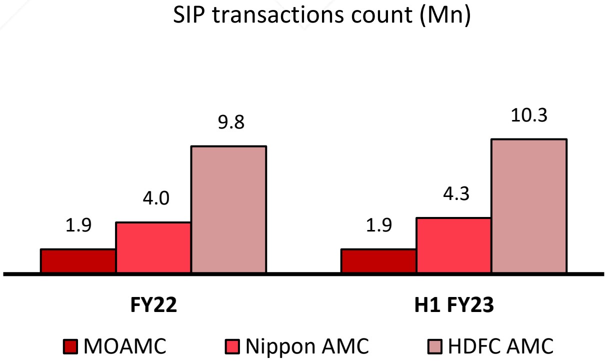
Source: Company, Keynote Capitals Ltd.



Source: Company, Keynote Capitals Ltd.



Source: Company, Keynote Capitals Ltd.

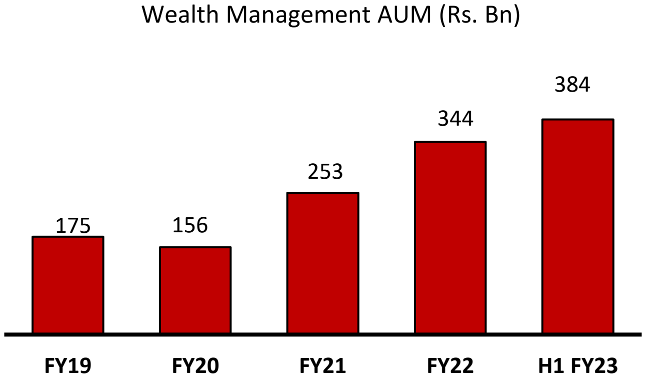


Source: Company, Keynote Capitals Ltd.

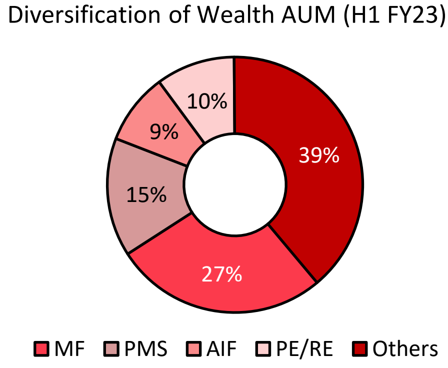
Wealth Management

In the last four years, the revenue of the wealth management business has grown at a CAGR of ~15%, and AUM has grown at a CAGR of ~18%. The Company has ~63% of its AUM in equity instruments with a strong pipeline of products across asset classes, which helps garner high yields providing a cushion in the downturn. The Company has adopted an open architecture model that enables incremental sales to be driven by non-captive products, resulting in more diversified products offering.

The segment is expected to see some pressure on operating margins in the near term as the Company is onboarding 40-50 Relationship Managers (RMs) with various offerings in FY23. The profitability from RMs is generally visible from the third year onwards, which is expected to increase AUM as productivity builds up.

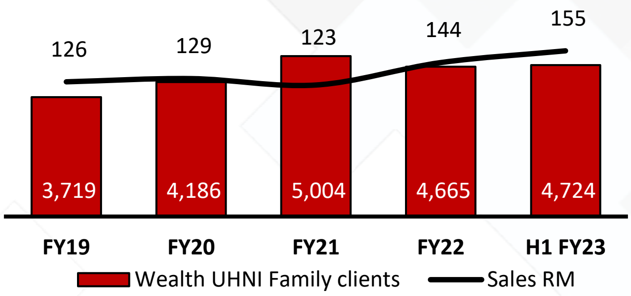


Source: Company, Keynote Capitals Ltd.

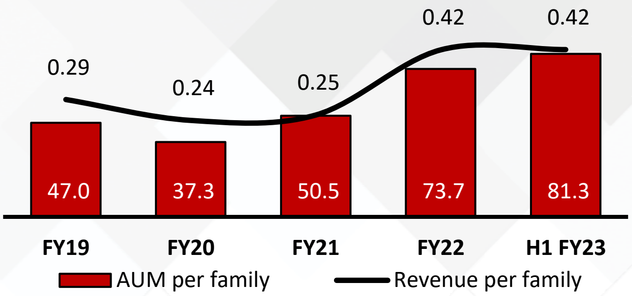


Source: Company, Keynote Capitals Ltd.

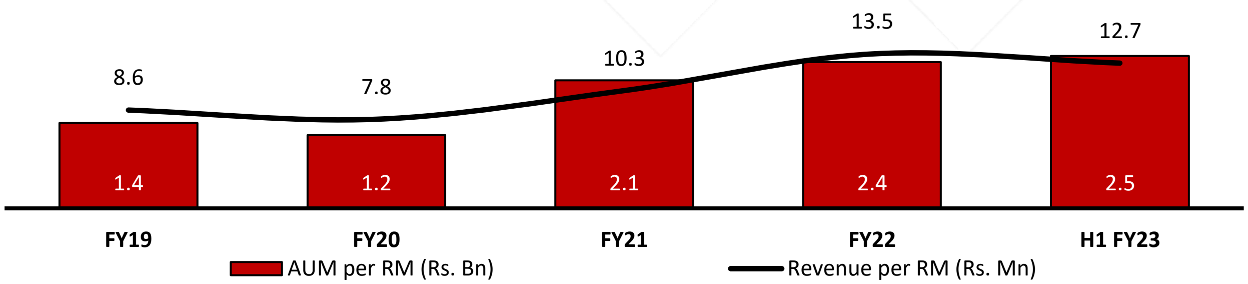
Growth in UHNI Family Clients & Sales RM



AUM and Revenue per Family Trend (Rs. Mn)



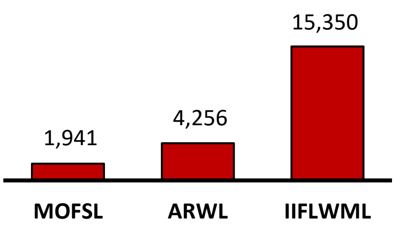
Increasing RM productivity



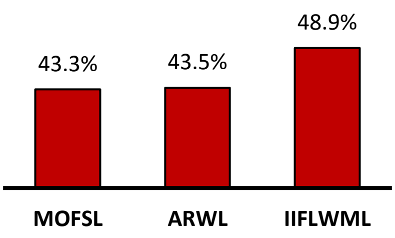
Source: Company, Keynote Capitals Ltd.

Wealth management peer analysis with Anand Rathi (ARWL) and IIFL Wealth (IIFLWML)

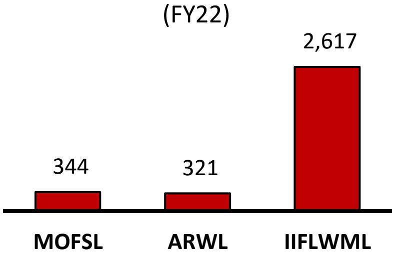
Revenue (Rs. Mn) (FY22)



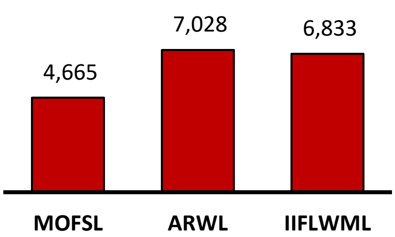
EBITDA Margin (FY22)



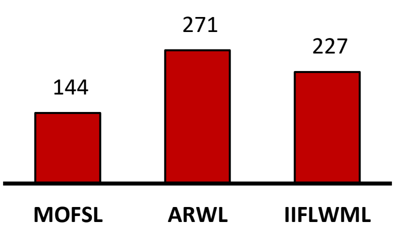
Wealth AUM (Rs. Bn) (FY22)



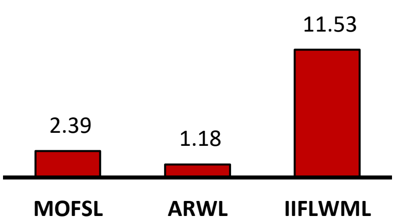
Family clients (FY22)



RM Count (FY22)



AUM per RM (Rs. Bn) (FY22)



Source: Company, Keynote Capitals Ltd.

Private Equity & Real Estate

The Company's Private Equity arm, Motilal Oswal Alternate Investment Advisors (MOAIAL), manages growth capital and real estate funds following the philosophy of Quality, Growth, Longevity, And Price (QGLP). Some of the recent private equity investments are Asian Footwears (Rs. 2,250 Mn), Kushal's Retail Pvt Ltd (Rs. 900 Mn), and Pathkind Diagnostics (Rs. 1,944 Mn).

The growth capital invests in established mid-market businesses with growth characteristics, mature business models, thematic & structural stories, and a leading market position. It mainly focuses on investments in consumer, financial services, pharmaceutical, and niche manufacturing sectors but remains agnostic for relevant opportunities. The growth funds include - India Business Excellence Fund (IBEF) (Rs. 5.5 Bn), IBEF - II (Rs. 10 Bn), and IBEF - III (Rs. 20 Bn).

The real estate fund partners with credible and reputed developers across India's major cities, investing in mid-income residential projects of developers across real estate classes (residential, commercial, and retail). Real estate funds include - India Realty Excellence Fund (IREF) (Rs. 1.6 Bn in residential projects), IREF-II (Rs. 4.9 Bn) & IREF-III (Rs. 10.3 Bn - counter-cyclical opportunities), IREF-IV (Rs. 11.5 Bn in the major cities through structured equity transactions), and IREF-V (Rs. 8 Bn in post-approval projects in major cities through senior secured lending).

Housing Finance

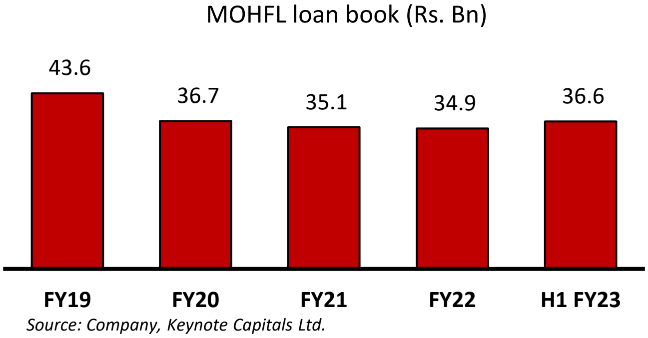
In 2014, the Company diversified in the housing finance division as Aspire Home Finance Corporation Ltd (AHFCL), later renamed Motilal Oswal Home Finance Ltd. (MOHFL). MOHFL's primary focus has been providing home loans to individuals and families for purchase, construction, and house extension. It also provides loans for the repair and renovation to families in the new-to-credit, self-employed, and cash-salaried categories.

Macroeconomic factors like demonetization, RERA, GST, and the absence of the collection engine coupled with the lack of vertical structure led to a surge in NPAs. Thus, the Company rebuilt its housing finance business with a conservative approach in terms of processes, systems, human resources, and structure resulting in a noticeable dip in disbursements and loan book in FY19.

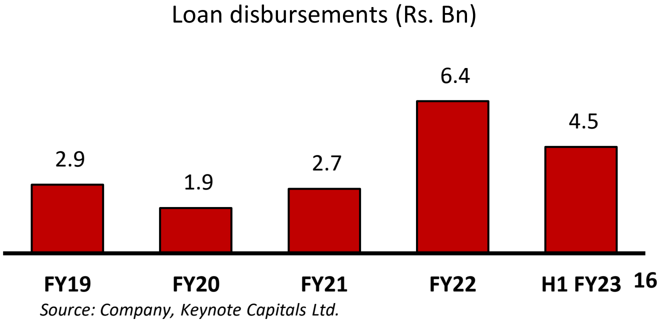
Due to Covid induced lockdown, disbursements remained muted for Q1 FY22. However, it gradually picked up, and the highest monthly disbursement was witnessed in March 2022. During FY22, MOHFL received a commitment of $50 Mn from the US International Development Finance Corporation, the world's largest financial institution, to provide affordable housing finance to women and low-income group borrowers in India for 15 years at a fixed competitive rate.

The Company invested significantly in technology to reduce operational costs and turnaround time and improve customer experience. MOHFL launched the PMAY portal in FY21, which has benefited its customers.

The Company intends to focus its loan book on the self-employed segment, which yields better risk-adjusted returns. MOHFL expects rapid growth in its retail books, with a blend of non-housing books. The Company is evaluating the potential demerge of its housing finance business.

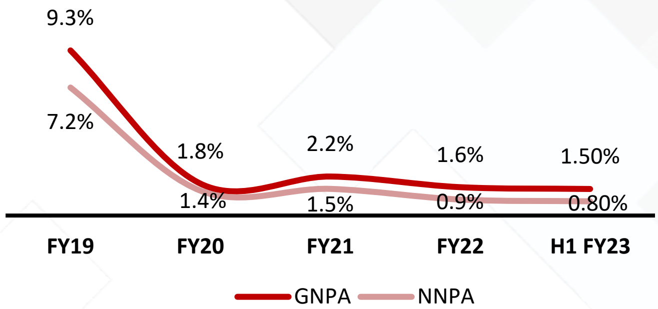


Source: Company, Keynote Capitals Ltd.



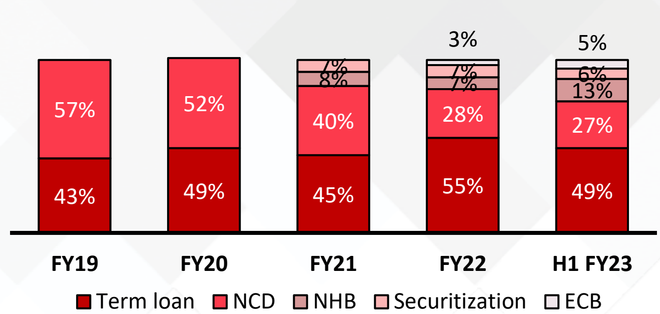
Source: Company, Keynote Capitals Ltd.

GNPA and NNPA trend



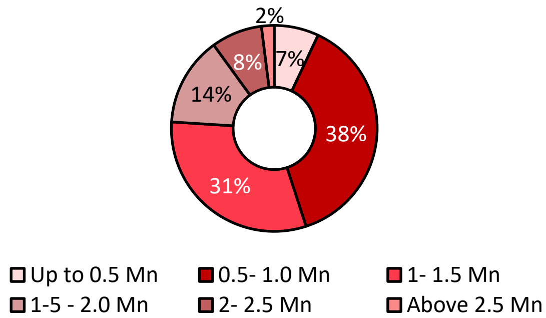
Source: Company, Keynote Capitals Ltd.

Liability mix (%)



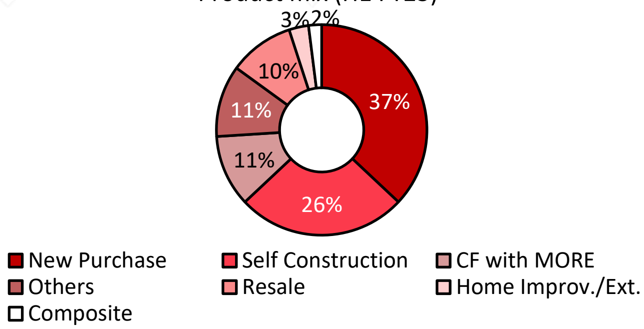
Source: Company, Keynote Capitals Ltd.

AUM by ticket size (H1 FY23)



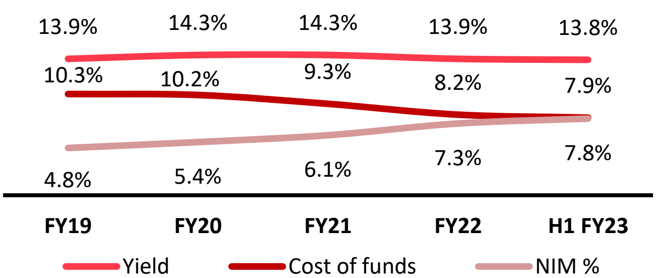
Source: Company, Keynote Capitals Ltd.

Product mix (H1 FY23)



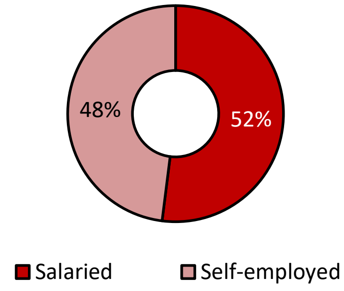
Source: Company, Keynote Capitals Ltd.

Key ratios



Source: Company, Keynote Capitals Ltd.

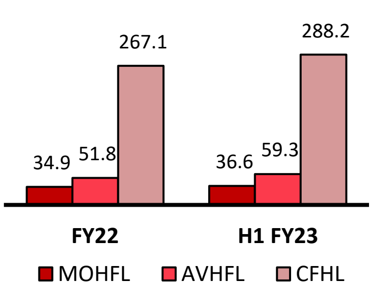
Customer mix (H1 FY23)



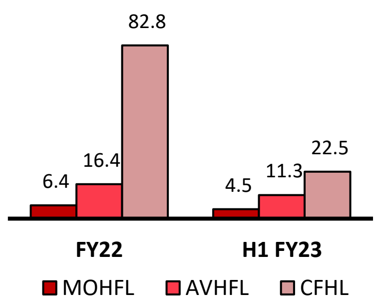
Source: Company, Keynote Capitals Ltd.

Housing finance peer analysis with Aptus Value Housing Finance (AVHRL) & Can Fin Homes (CFHL)

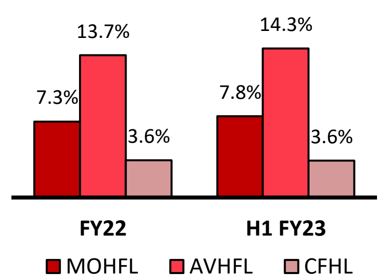
Loan Book (Rs. Bn)



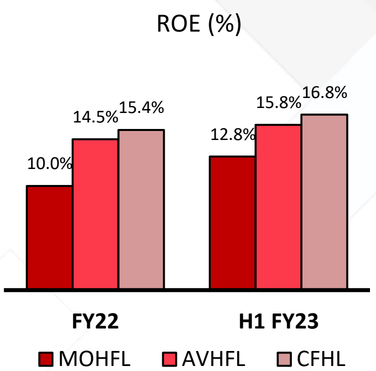
Disbursements (Rs. Bn)

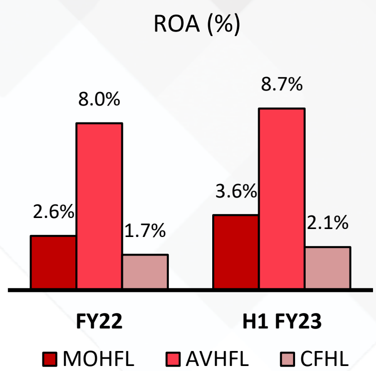


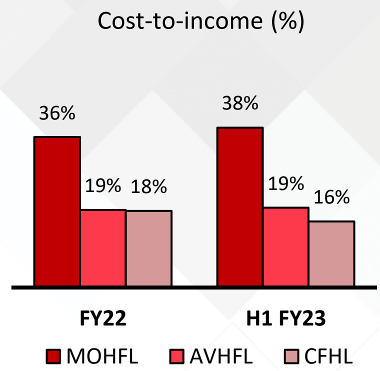
NIM (%)

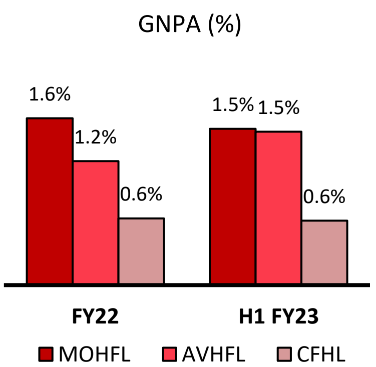


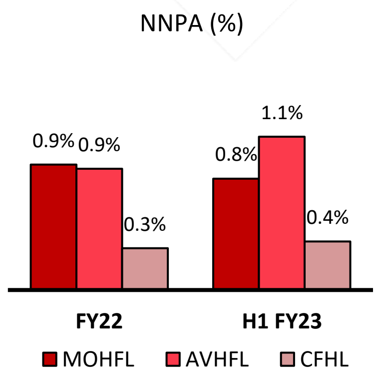
Source: Company, Keynote Capitals Ltd.

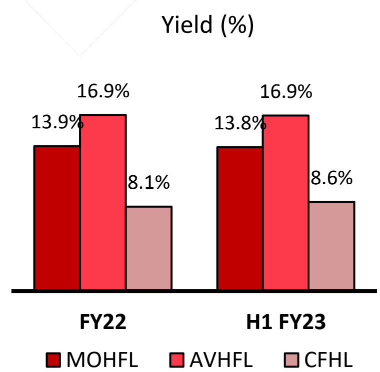








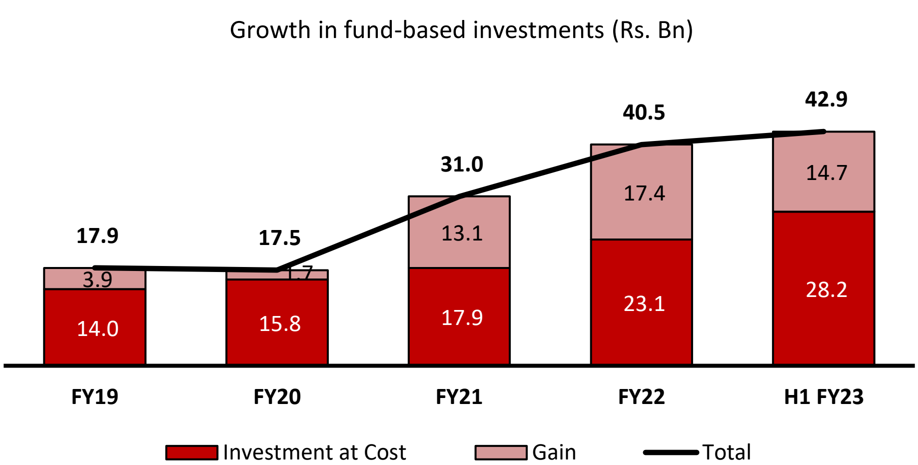




Source: Company, Keynote Capitals Ltd.

Fund-Based Investments

The fund-based investments include sponsor commitments and investments in quoted and private equity funds, real estate funds, and other strategic investments. These investments have helped seed the MOFSL's businesses and can provide liquidity for future business investments. The Company had strategically allocated capital to long-term RoE-enhancing opportunities like MOHFL and sponsor commitments to its MF and PE funds. These investments recorded a 19% cumulative extended internal rate of return (XIRR) on total investments and 27% XIRR on PE/RE investments since inception.

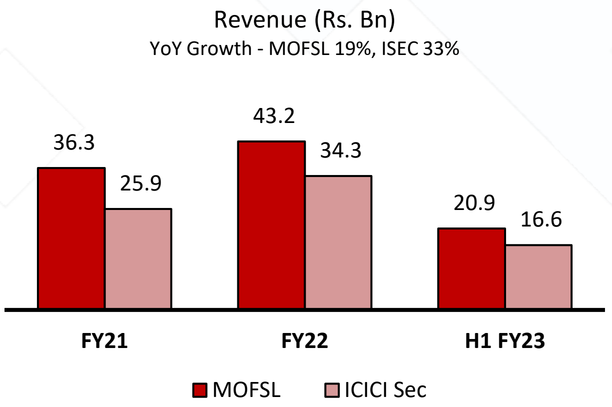


Source: Company, Keynote Capitals Ltd.

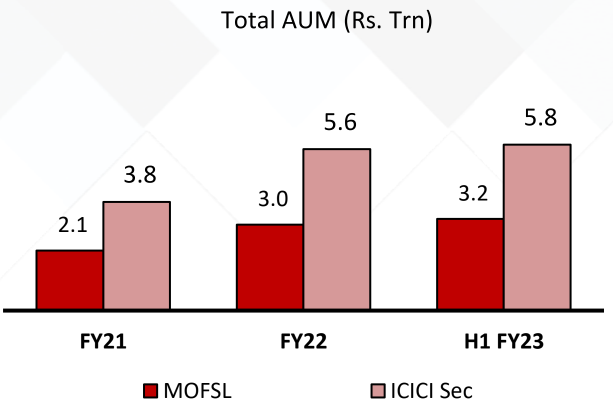
KEYNOTE

Peer Analysis (Consolidated)

ICICI Securities can be compared to MOFSL, as the business operations are similar. ICICI Securities Limited is engaged in broking (institutional and retail), distribution, merchant banking, private equity, and investment banking services.



Source: Company, Keynote Capitals Ltd.



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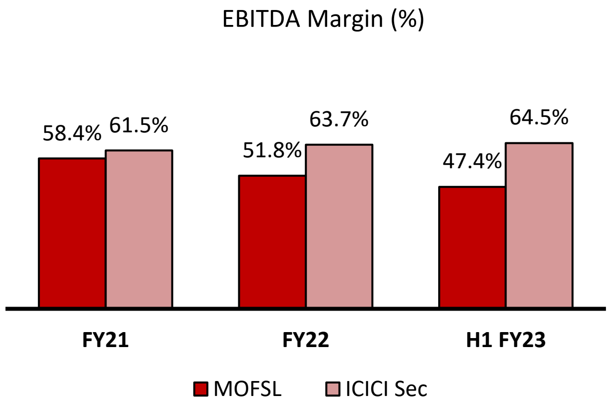

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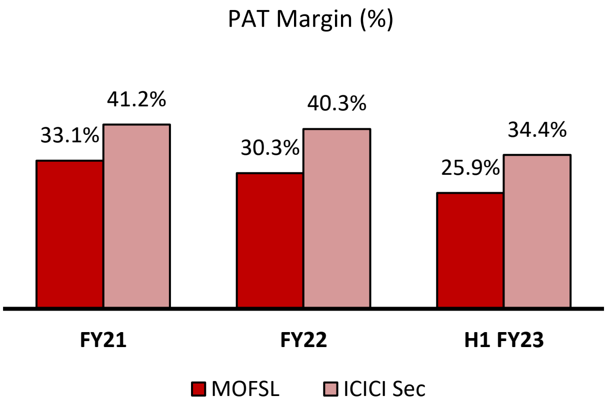

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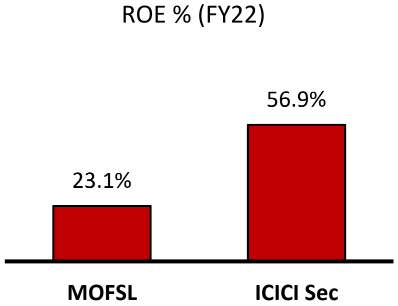
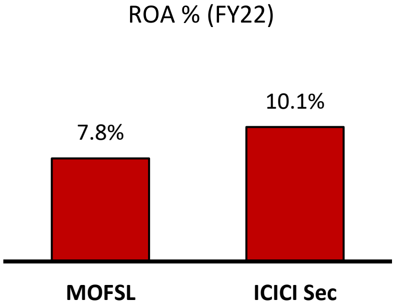
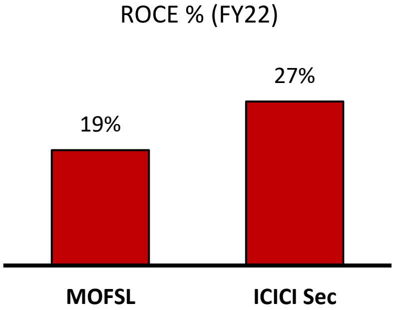






Source: Company, Keynote Capitals Ltd.

Management Analysis

Key Managerial Personnel

Name	Designation	Qualification	With Company since
Motilal Oswal	MD & CEO	CA	1987
Raamdeo Agarawal	Chairman, NED	CA	1987
Navin Agarwal	MD & CEO (MOAMC), NED	CA, ICWA, CS, CFA	2000
Rajat Rajgarhia	CEO (Institutional equities), WTD	CA, MBA	2001
Vishal Tulsyan	MD & CEO (Private Equity)	CA	2006
Ajay Menon	CEO (Broking & Distribution), WTD	CA	2010
Abhijit Tare	CEO (Investment Banking)	CA	2011
Ashish Shanker	MD & CEO (Private Wealth)	BBM	2012
Shalibhadra Shah	CFO	CA	2006
Kailash Purohit	CS and Compliance Officer	CS	2018
Prateek Agarwal	Executive Director	Bachelor of Engineering, PGDM (Finance & Marketing)	2022

NED is Non-executive director, WTD is Whole-time director
Source: Company, Keynote Capitals Ltd.

The senior-level management has been with the Company for an average of 19 years, which gives MOFSL the experience advantage. To strengthen the AMC business, the Company hired Prateek Agarwal to lead the business and investment strategy of MOAMC in October 2022. Prateek Agarwal has 28 years of experience in fund management and equity research. He has worked as Business Head and Chief Investment Officer (CIO) with ASK Investment Managers. Before ASK, he was associated with marquee investment institutions like BoI AXA Mutual fund, BNP Paribas Mutual Fund, and SBI Capital Markets.

Besides this, the Company also hired senior talents for the wealth management segment. Industry Stalwarts like Apurva Kothari, Srinivas Mendu, and Narender Reddy joined the Company at the senior level. All of them have a rich experience of 18+ years in the industry.

Particulars	FY20	FY21	FY22	Q2 FY23
% Promoter Holding	68.76%	70.66%	69.50%	69.57%
Promoter + Senior Management Salary (Rs Mn)	258	192	373	N/A
Promoter + Senior Management Salary as a % of PAT	7.3%	3.6%	4.6%	

Source: Company, Keynote Capitals Ltd.

Promoter shareholding has been constant, with an average of 69% for the past three years. Promoter and senior-level management salaries have also been within the prescribed ceiling, i.e., within 10% of PAT for promoters and senior managers.

Opportunities for MOFSL

Diversification of business to increase future opportunities

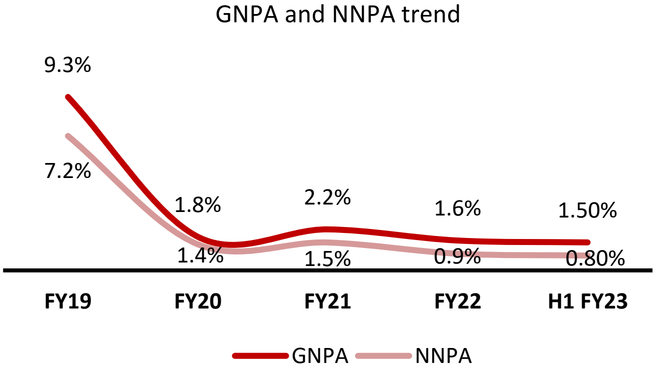
The Company has aptly diversified its business operations to reduce industry risk and expand its business opportunities. In the AMC business, the Company is expected to increase AUM owing to fund performance and the addition of new AUM. The wealth management business will likely benefit from the rise in HNIs and UHNIs. The number of HNIs was 7,96,961 in 2021, which is expected to reach 14,07,287 by 2026, registering a CAGR of 12%, and UHNIs are expected to grow at a CAGR of 7% from 13,637 in CY21 to 19,006 in CY26. Advisory asset management, tax planning, and financial planning have one of the highest demands in the wealth management industry. In the investment banking business, the Company has a strong pipeline of ~25 deals worth ~Rs 200 Bn from industries like BFSI, Auto, Consumer, Healthcare, and Industrials. In 2020, the Company also diversified into the Insurance broking business, which is growing more than 40% YoY in FY22.

Value unlocking in the housing finance segment

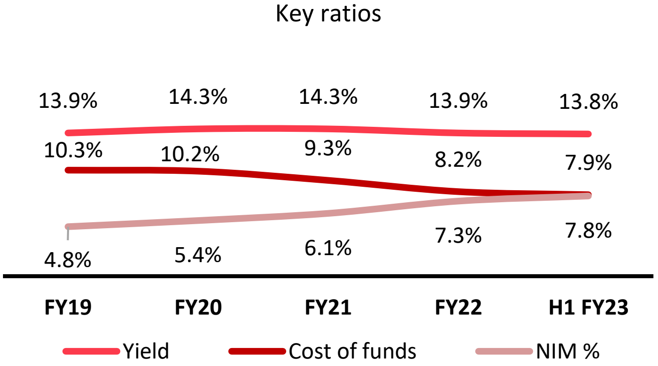
The Company entered the housing finance segment to attain diversification but faced difficulties in scaling up for numerous reasons. However, the Company rebuilt its housing finance business with a conservative approach in terms of processes, systems, human resources, and structure resulting in a noticeable dip in disbursements and loan book in FY19. In 2020, MOHFL appointed Arvind Hali as the new MD and CEO and Amar Bahl as the Deputy MD and COO. Both individuals have over 20 years of experience in the industry.

Arvind Hali is responsible for leading the Company's overall strategy, improving operations, and expanding the business. He had previously worked for organizations such as Art Housing Finance, Intec Capital, AU Financiers, Capri Global, Dhanlaxmi Bank, Reliance Capital, Standard Chartered Bank, and GE Countrywide. Amar Bahl has over 21 years of experience in the financial services industry, having previously worked for ART Housing Finance, Reliance Capital, and Reliance Home Finance. He has successfully created over $1.7 billion in assets under management in housing finance and over $1.4 billion in commercial finance.

MOHFL has been focusing on increasing its geographic reach by expanding its branches from 73 in FY20 to 108 in H1 FY23. The changes have resulted in constantly improving fundamentals like increasing collection ratio, yields, and NIM, and the decreasing NPAs and cost of funds of the Company.



Source: Company, Keynote Capitals Ltd.



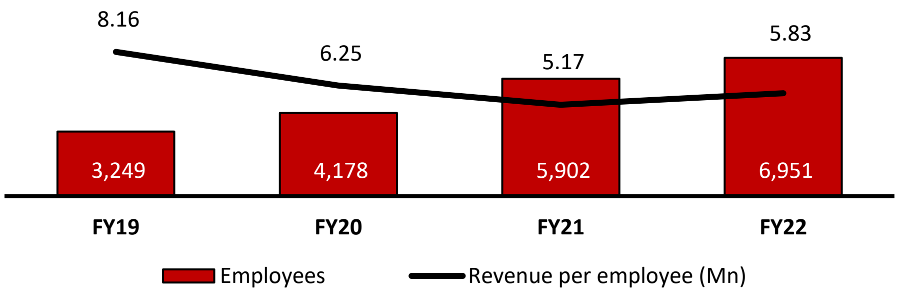
Source: Company, Keynote Capitals Ltd.

The housing finance industry is expected to grow at ~13% CAGR from FY21- FY27E. In H1FY23, the disbursements of MOHFLs increased by 80% YoY. The management expects to see continued growth in disbursement in the coming quarters. The Company is currently considering the possibility of demerging the housing finance segment in order to unlock its latent value. In the past few years, the Company has significantly improved its housing finance business. With the dedicated team now focused on this business, there is potential for further enhancement in its performance.

Leveraging employees and managerial experience

MOFSL has been expanding its network and has more than doubled its employee count over the last four years. As a result, the revenue per employee has decreased due to the aggressive hiring of relationship managers. As per the Company, the relationship manager starts contributing to the bottom line from the third year. The Company has expanded the AMC distribution network & sales team by nearly 50% in the last two years but has not gained from the same due to market instability in the past few years. Therefore, the performance took a hit, followed by AUM and revenue.

Trend of revenue per employee



Source: Company, Keynote Capitals Ltd.

To strengthen the future business prospectus, the Company has hired stalwarts like Prateek Agarwal, Apurva Kothari, Srinivas Mendu, and Narender Reddy at the senior level. Each of these individuals has over 18+ years of experience in the industry. Moreover, the senior-level management team has been associated with the Company for an average of 19 years, leveraging the Company with high experience and maturity in decision-making.

The trend of revenue per employee is expected to increase as many experienced industry stalwarts have been hired at the senior level. Relationship managers and the sales team have been boosted, whose benefits will be evident as the performance revives, followed by increasing AUM, resulting in growth with comfortable margins.

Challenges for MOFSL

Increased competition

The broking industry is facing challenges due to increased competition from discount brokers. MOFSL has announced its intention to continue operating as a traditional broker. However, as the industry moves towards discount brokers, the Company may struggle to retain its customer base and market share if it cannot adapt to these changes.

Macro weakness in equity markets

Weakness in the equity market could impact the Company's financial performance as most of its AUM is invested in equities.

A rise in ETFs would hurt the yield

With rising awareness and preference for passive funds, the contribution of ETFs has also increased tremendously from 2% in FY17 to 11% in FY22. MOFSL received strong traction in passive offerings crossing Rs. ~100 Bn AUM in FY22 and launched seven passive funds. While passive products, such as ETFs and index funds, tend to have lower expense ratios than actively managed funds, the increasing contribution of these products to MOFSL's AUM mix could impact yields for the Company.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Revenue from Operations	36,251	42,968	46,372	52,575	57,947
Other income	90	230	130	130	130
Total income	**36,341**	**43,198**	**46,502**	**52,705**	**58,077**
Growth %		19%	8%	13%	10%
Finance Cost	4,303	4,782	5,115	5,481	6,098
Fees and commission expense	6,359	8,929	9,765	10,541	11,035
Impairment on financial instruments	976	947	465	422	348
Employee benefits expense	6,436	8,676	9,300	10,014	11,035
Depreciation and amortization expense	475	483	465	527	581
Other expenses	2,328	3,225	3,255	3,689	4,646
Total expenses	**20,876**	**27,040**	**28,366**	**30,674**	**33,743**
PBT before exceptional items	15,465	16,158	18,136	22,031	24,334
Exceptional Items	-881	-	-	-	-
PBT	**14,584**	**16,158**	**18,136**	**22,031**	**24,334**
Tax	2,555	3,051	4,534	5,508	6,084
PAT	**12,030**	**13,107**	**13,602**	**16,523**	**18,251**
Share of associates	618	17	233	264	290
PAT incl share of associates	**12,647**	**13,125**	**13,834**	**16,787**	**18,541**
EPS	**80.7**	**88.0**	**92.8**	**112.6**	**124.4**

Balance Sheet

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Cash, Cash equivalents & Bank	34,978	53,153	49,610	51,407	51,852
Investments	39,224	46,849	58,228	71,650	86,875
Trade receivables	9,118	10,033	12,331	15,236	18,546
Loans	45,204	49,045	65,078	82,357	1,02,493
Other financial assets	6,816	3,559	4,795	5,765	6,833
PP&E	3,159	3,237	3,768	4,118	4,881
Current tax assets (net)	409	338	411	494	586
Deferred tax assets (net)	754	635	754	906	1,074
Other Intangible assets	344	330	480	576	683
Other non-financial assets	1,162	2,054	2,740	3,130	3,514
Total Assets	**1,41,168**	**1,69,233**	**1,98,193**	**2,35,639**	**2,77,337**
Payables	30,257	37,009	44,527	53,532	63,448
Debt Securities	34,972	39,688	46,582	53,532	61,496
Borrowings	21,956	21,827	23,976	28,825	34,164
Deposits	5	10	14	16	20
Other financial liabilities	5,367	8,380	8,905	10,706	12,690
Current tax liabilities	169	317	274	329	390
Provisions	1,767	2,442	2,740	3,294	3,905
Deferred tax liabilities	1,308	1,880	2,055	2,306	2,733
Other non-financial liabilities	431	675	617	741	879
Share Capital	149	149	149	149	149
Other Equity	44,466	56,595	67,939	81,703	96,907
Non-controlling Interest	323	263	415	504	556
Total Equity & Liabilities	**1,41,168**	**1,69,233**	**1,98,193**	**2,35,639**	**2,77,337**

Source: Company, Keynote Capitals Ltd. estimates

Segmental Data

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Capital Markets					
Revenue from the segment	17,118	25,373	28,492	33,052	36,771
PAT	2,912	4,897	4,844	5,619	6,251
PAT Margin %	17.0%	19.3%	17.0%	17.0%	17.0%
AMC					
AUM (Bn)	434	490	503	552	605
Revenue from the segment	5,320	6,225	6,191	6,627	7,258
Yield %	1.23%	1.27%	1.23%	1.20%	1.20%
PAT	1,602	1,829	1,795	2,021	2,177
PAT Margin %	30.1%	29.4%	29.0%	30.5%	30.0%
Wealth Management					
AUM (Bn)	253	344	413	495	570
Revenue from the segment	1,271	1,941	2,477	2,972	3,418
Yield %	0.50%	0.56%	0.60%	0.60%	0.60%
PAT	275	594	793	981	1,162
PAT Margin %	21.6%	30.6%	32.0%	33.0%	34.0%
Private Equity					
AUM (Bn)	66	74	81	90	94
Revenue from the segment	998	1,306	1,302	1,433	1,410
Yield %	1.51%	1.76%	1.60%	1.60%	1.50%
PAT	295	431	430	487	472
PAT Margin %	29.6%	33.0%	33.0%	34.0%	33.5%
Housing Finance					
Loan Book (Bn)	35.1	34.9	40.1	46.1	50.7
NII	2445	2710	3,006	3,226	3143
NIM %	7.0%	7.8%	7.5%	7.0%	6.2%
Net worth (Mn)	9,095	10,070	11,477	13,154	15,132
PAT	398	929	1,407	1,678	1,977

Valuation Ratios

Particulars	FY21	FY22	FY23E	FY24E	FY25E
Per Share Data					
EPS	80.7	88.0	92.8	112.6	124.4
Book Value Per Share	301	382	460	552	655
Return Ratios					
Return on Assets (%)	9%	8%	7%	7%	7%
Return on Equity (%)	27%	23%	20%	20%	19%
Return on Capital Employed (%)	18%	17%	15%	15%	14%
Valuation					
PE (x)	-	8	7	6	6
Price to Book (x)	-	1.8	1.5	1.3	1.1

SOTP Valuation

Particulars	FY22	FY24E
Capital Market (Broking, Distribution, & IB)		
Revenue (Rs. Mn)	25,373	33,052
PAT (Rs. Mn)	4,897	5,619
PAT Margin (%)	19%	17%
P/E (x)		10
Capital Market – Business Value (Rs. Mn) (1)		**56,188**
Asset Management		
Revenue (Rs. Mn)	6,225	6,627
PAT (Rs. Mn)	1,829	2,021
PAT Margin (%)	29%	31%
P/E (x)		20
Asset Management – Business Value (Rs. Mn) (2)		**40,423**
Private Equity		
Revenue (Rs. Mn)	1,306	1,433
PAT (Rs. Mn)	431	487
PAT Margin (%)	33%	34%
P/E (x)		10
Private Equity – Business Value (Rs. Mn) (3)		**4,871**
Wealth Management		
Revenue (Rs. Mn)	1,941	2,972
PAT (Rs. Mn)	594	981
PAT Margin (%)	31%	33%
P/E (x)		20
Wealth Management – Business Value (Rs. Mn) (4)		**19,616**
Housing Segment		
PAT (Rs. Mn)	929	1,678
Book Value (Rs. Mn)	10,070	13,154
P/B (x)		0.8
Housing Segment – Business Value (Rs. Mn) (5)		**10,523**

Source: Company, Keynote Capitals Ltd. estimates

Particulars	FY22	FY24E
Investment for MTM		
Investments (Rs. Mn)	4,665	
Debt Ex. Home Loan (Rs. Mn)	2,632	
Net Amount (Rs. Mn)	2,033	
Investment for MTM – Net Value (Rs. Mn) (5)		**2,033**
SOTP		
Total (Rs. Mn) (1+2+3+4+5)		**1,33,655**
No. Eq. Shares (Mn)		149.1
Target Price (Rs.)		896
CMP (Rs.)		686
% Upside/(Downside)		30.6%

Source: Company, Keynote Capitals Ltd. estimates

SOTP Valuation Summary

Capital Markets

The broking business is the largest contributor to this segment. We expect a 20% growth in the total number of Demat Accounts in India, with an activation rate of 37% in FY23E and 36% in FY24E, resulting in NSE active clients growing at a CAGR of 17% over a period of FY22 to FY24E. We assume MOFSL will maintain a market share of 2.5% in the subsequent year compared to FY22. This resulted in a Brokerage & Income segment revenue growing at a CAGR of 15% from FY22 to FY24E.

Distribution income contributes 8% to the revenue of the capital market segment, growing its AUM by more than 30% in FY22. We anticipate a 15% growth in AUM due to increased competition and online participation, leading to a CAGR of 2% in revenue from FY22 to FY24E.

Overall, the capital market segment is projected to grow at a CAGR of 14% from FY22 to FY24E, with an anticipated average PAT margin of 17%. This is expected to result in a CAGR of 7% in PAT from FY22 to FY24E. We compare this segment with ICICI Securities, which is trading at a TTM PE of 12.4x; since ICICI Securities has a better market share in terms of NSE active client share, we provided a ~20% discount to the TTM PE of ICICI Securities. We assumed 10x PE for the capital market segment arriving at a business value of Rs. 56,188 Mn.

Asset Management

The AMC business includes MF, PMS, and AIF. The MF grew at a CAGR of ~15% from FY19 to FY22. However, in H1 FY23, the MF AUM declined by ~5% compared to H1 FY22. We expect the MF AUM to grow 5% in FY23E and 10% in FY24E due to improved performance and growth in fresh SIP.

In the PMS segment, the AUM declined from Rs. 160 Bn in FY19 to Rs. 142 Bn in FY22, and it further reduced to Rs. 126 Bn in H1 FY23. We anticipate the Company will maintain the AUM of H1 FY23.

The Company AIF business AUM grew by more than 40% in FY22 and further accelerated in H1 FY23, increasing its AUM by ~66% compared to H1 FY22. We expect 40% AUM growth in FY23E and 30% in FY24E.

Considering the above, we expect AMC AUM to grow at a CAGR of 6% from FY22 to FY24E. The yield in the AMC segment is declining, and we expect the trend to continue. This resulted in a revenue CAGR of ~3% from FY22 to FY24E. At the same time, we expect the PAT margin to be slightly better in FY24E compared to FY22 due to improvement in performance and growth in AIF business.

We compared AMC's business with Nippon AMC, trading at a P/E multiple of 25x. Given the better NPM and size of Nippon AMC, we assume a 20% discount on the multiple and value AMC business of MOFSL at 20x arriving at a business value of Rs. 40,423 Mn.

Private Equity

Private Equity AUM has increased by 12% in FY22, and we expect the AUM to grow by 10% in FY23E & FY24E. The average yield in this segment is ~1.65% over FY19 to FY22, and we expect a similar range during FY23E and FY24E. This will likely result in a revenue CAGR of ~5% and a PAT CAGR of 6% during FY23E and FY24E.

Wealth Management

The Company has demonstrated a clear focus on this segment, as evidenced by more than 20% growth in AUM from FY18 to FY22. We expect similar growth in FY23E and FY24E as the Company aggressively hires RMs. In the past five years, the average yield in this segment was approximately 0.60%, and we expect a similar yield in the following years, leading to a 21% YoY growth in revenue. We anticipate a higher profit margin in this segment, resulting in a CAGR of 25% from FY22 to FY24E. We compare this segment with Anand Rathi, trading at a TTM P/E of 20x; given the same NPM, we assume an exact multiple for this segment and arrive at a business value of Rs. 19,616 Mn.

Housing Finance

We are applying a price-to-book ratio of 0.8x to the housing finance segment due to the Company's previous challenges in managing this segment and a YoY decrease of 8% in the loan book from FY19-22. While we have observed signs of improvement in the H1 FY23, supporting the management's assertion that the segment may experience better financial performance in the future.

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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
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Digitally signed by CHIRAG RAJESH MAROO
Date: 2023.01.02 12:42:57 +05'30'

Keynote Capitals Limited (CIN: U67120MH1995PLC088172)

Compliance Officer: Mr. Jairaj Nair; Tel: 022-68266000; email id: jairaj@keynoteindia.net

Registered Office: 9th Floor, The Ruby, Senapati Bapat Marg, Dadar West, Mumbai – 400028, Maharashtra. Tel: 022 – 68266000.

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