

Motilal Oswal Financial Services Limited

31st July 2023

Strong performance already priced in

In Q1 FY24, Motilal Oswal Financial Services Limited (MOFSL) demonstrated a strong performance. The retail F&O ADTO witnessed an impressive growth of 173% on YoY and 68% on a QoQ basis. The retail cash and F&O market share increased by 60 bps and 40 bps on a QoQ basis, settling at 6.2% and 4.3% in Q1 FY24, respectively. The number of NSE active clients recorded a decline of ~18% on a YoY basis, standing at ~0.8 Mn, despite that the Company maintained a market share of 2.5% in NSE active clients. The AUM of the Asset segment of Motilal Oswal Asset Management Company (MOAMC) grew by 19% on a YoY basis, mainly led by mark-to-market gains. The AUM of the Wealth segment witnessed an impressive growth of ~93% YoY in Q1 FY24. Motilal Oswal Home Finance Ltd (MOHFL) reported an AUM growth of 6% on a YoY basis resulting in 7% YoY growth in NII in Q1 FY24. Therefore, based on our revised estimates, we maintain a NEUTRAL rating on MOFSL, with a target price of Rs. 892.

Continue to add Relationship Managers (RMs) while margins remain under pressure in short-term

In Q1 FY24, the wealth management segment demonstrated a robust increase in revenue by ~35% on a YoY basis. This growth trend is anticipated to continue in the coming quarters due to the benefits of recruiting senior leadership positions across geographies. The Company onboarded 15 new RMs during Q1 FY24, raising the total number of RMs to 197. The Company intends to sustain the hiring of RMs at a similar pace over the next few quarters. The positive impact of this hiring strategy on the Company's performance is expected to become evident as the RM matures. However, augmented recruitment activities are expected to exert pressure on the margins in the short term.

Strong performance in the capital market segment

In Q1 FY24 capital market segment contributed ~70% of the revenue and has shown a strong performance by growing 44% on a YoY and 18% on a QoQ basis. This segment reported an all-time high quarterly profit by increasing 63% on a YoY and 15% on a QoQ basis. Within the segment, brokerage revenue which contributes ~51% of the capital market segment, has shown a strong performance, up by 16% on a YoY and 10% on a QoQ basis, led by an increasing share of >2 years clients from 62% in Q4 FY23 to 68% in Q1 FY24. These clients help the Company to improve ARPU which is up ~6% on a YoY and ~3% on a QoQ basis.

View & Valuation

We expect MOFSL to improve its ARPU in the broking segment, grow its distribution AUM by 15%, grow its wealth management AUM by 54%, and increase its revenue in the IB business by ~2x. Based on our revised estimates, we change our view from 'BUY' to 'NEUTRAL' on MOFSL with a target price of Rs. 892, using the 'Sum-Of-The-Parts' (SOTP) method.

NEUTRAL

CMP Rs. 840

TARGET Rs. 892 (+6.2%)

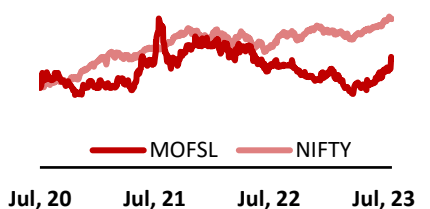
Company Data

Bloomberg Code	MOFSIN
MCAP (Rs. Mn)	1,21,616
O/S Shares (Mn)	148
52w High/Low	889 / 551
Face Value (in Rs.)	1
Liquidity (3M) (Rs. Mn)	135

Shareholding Pattern %

	Jun 23	Mar 23	Dec 22
Promoters	69.66	69.68	69.46
FIIIs	6.41	6.47	7.35
DIIIs	6.1	6.28	5.95
Non-Institutional	17.83	17.58	17.22

MOFSL vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs. Mn)	FY23	FY24E	FY25E
Revenue	41,771	51,568	56,070
Net Profit	9,348	13,260	15,764
Total Assets	2,30,099	2,55,877	2,82,507
Net Worth	62,832	72,257	83,306
ROA (%)	4%	5%	6%
ROE (%)	15%	18%	19%

Source: Company, Keynote Capitals Ltd.

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Q1 FY24 Result Update

Result Highlights (Rs. Mn)

Particulars	Q1FY24	Q1 FY23	Change % (Y-o-Y)	Q4 FY23	Change % (Q-o-Q)	FY23
Revenue from Operations	14,998	7,537	99.0%	10,274	46.0%	41,771
Expenses						
Fees and commission expense	2,174	2,223	-2.2%	2,034	6.9%	8,613
Impairment on financial instruments	233	86	173.0%	53	337.1%	428
Employee benefits expense	3,179	2,322	36.9%	2,720	16.9%	10,084
Other expenses	1,031	899	14.6%	1,031	0.0%	3,882
EBITDA	8,381	2,007	317.5%	4,436	88.9%	18,765
Finance Cost	2,159	1,109	94.7%	1,896	13.9%	5,958
Depreciation and amortization expense	174	134	29.9%	128	36.1%	584
Other income	312	44	604.8%	62	404.9%	200
Total expenses	8,949	6,772	32.2%	7,861	13.9%	29,549
PBT	6,360	809	685.8%	2,475	157.0%	12,423
Tax	1,098	497	121.2%	805	36.4%	3,094
PAT	5,261	313	1582.0%	1,670	215.1%	9,328
Share of associates	14	7	108.7%	-15	-198.0%	20
PAT incl share of associates	5,276	320	1550.2%	1,655	218.8%	9,348
EPS	35.6	2.1	-	11.4	-	62.9

Segment Highlights (Rs. Mn)

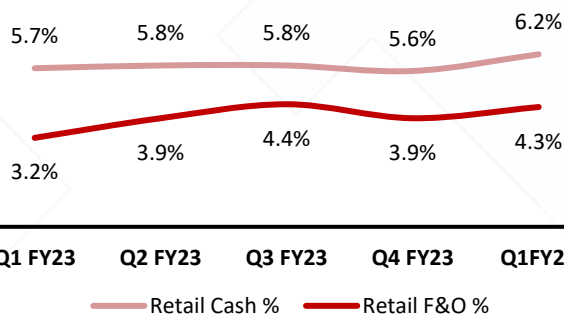
Particulars	Q1FY24	Q1 FY23	Change % (Y-o-Y)	Q4 FY23	Change % (Q-o-Q)	FY23
Capital Markets						
Revenue	8,794	6,107	44.0%	7,448	18.1%	28,326
PAT	1,554	956	62.6%	1,355	14.7%	5,047
PAT Margin %	17.7%	15.7%	202 Bps	18.2%	-52 Bps	17.8%
Asset and Wealth Management						
AMC Revenue	1,376	1,398	-1.6%	1,308	5.2%	5,551
Private Equity Revenue	388	318	22.0%	551	-29.6%	1,770
Wealth Management Revenue	643	476	35.1%	657	-2.1%	2,228
PAT	641	583	9.9%	660	-2.9%	2,584
PAT Margin %	26.6%	26.6%	3 Bps	26.2%	40 Bps	27.1%
Housing Finance						
Net Interest Income (NII)	757	708	6.9%	755	0.3%	2,962
NIM %	7.6%	7.6%	0 Bps	7.7%	-10 Bps	7.7%
PAT	286	321	-10.9%	315	-9.2%	1,333

Source: Company, Keynote Capitals Ltd.

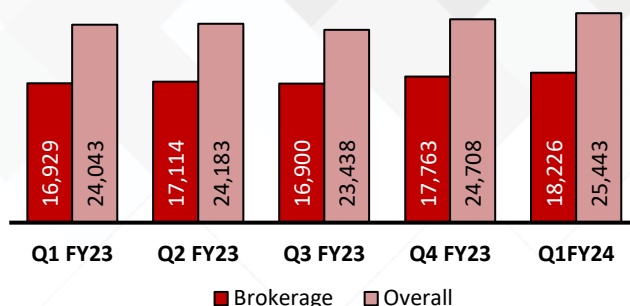
MOFSL | Quarterly Update

Capital Markets segment quarterly business progression

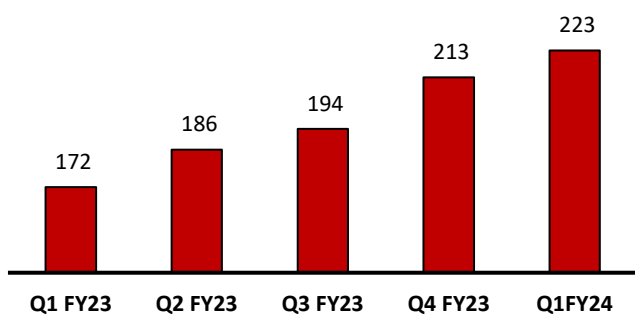
ADTO market share (%)



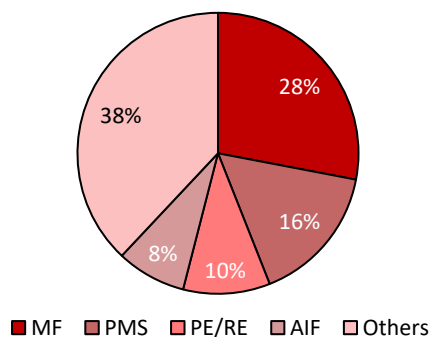
Average Revenue per Paying User (ARPU)



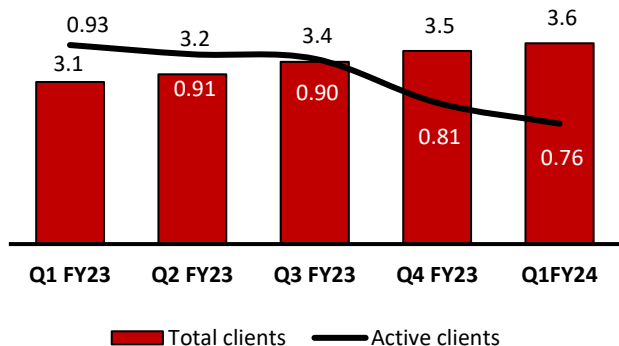
Distribution AUM (Rs. Bn)



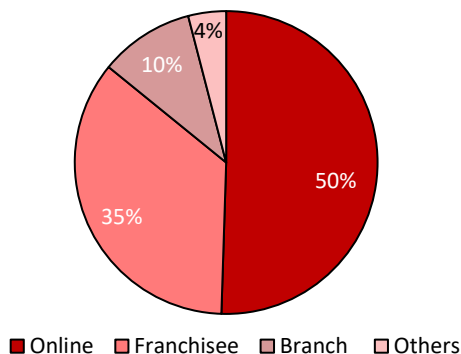
Distribution AUM Mix (Q1 FY24)



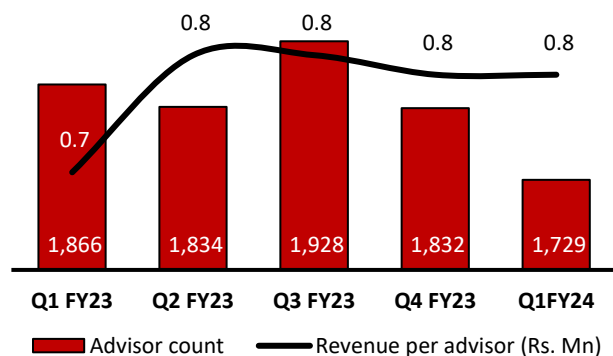
Client base (Mn)



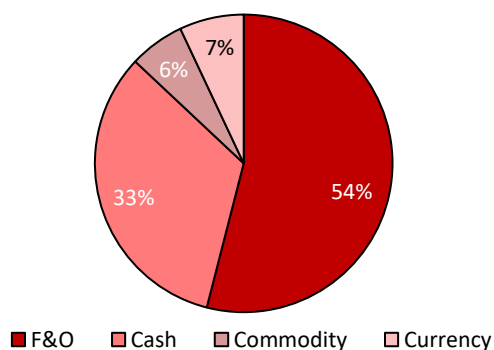
Client sourcing model (Q1 FY24)



Advisor productivity for direct channels

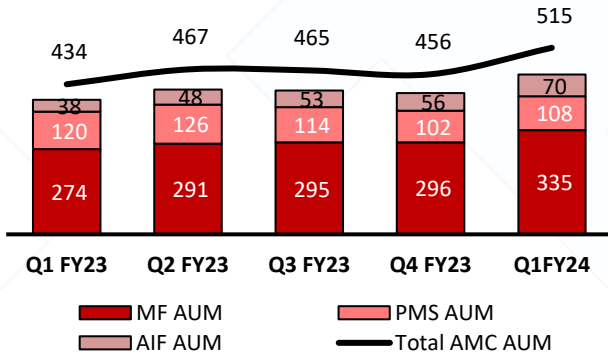


Brokerage mix (Q1 FY24)

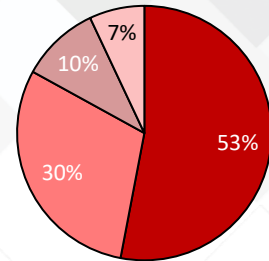


Asset and Wealth Management segment quarterly business progression

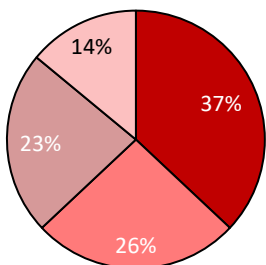
AMC AUM (Rs. Bn)



AMC Alternates AUM Mix (Q1 FY24)

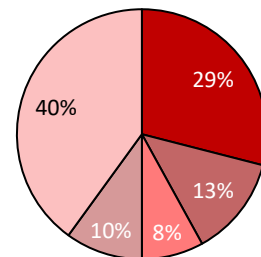


AMC MF AUM Mix (Q1 FY24)



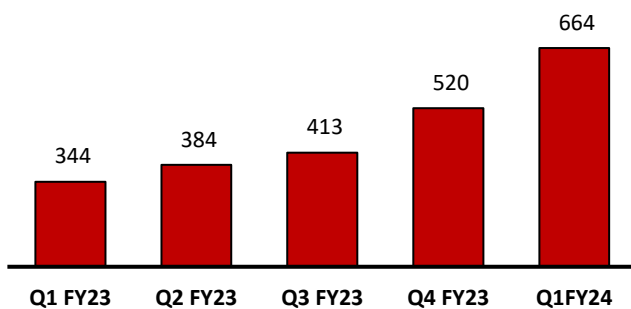
■ Direct
■ National Distributors
■ Independent Financial Advisor
■ Wealth Management + Bank

Wealth AUM Mix (Q1 FY24)

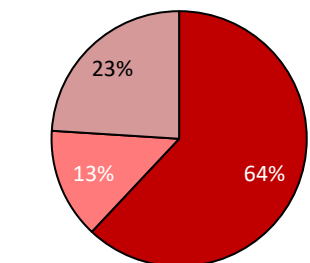


■ MF
■ PMS
■ AIF
■ PE/RE
■ Others

Wealth Management AUM (Rs. Bn)

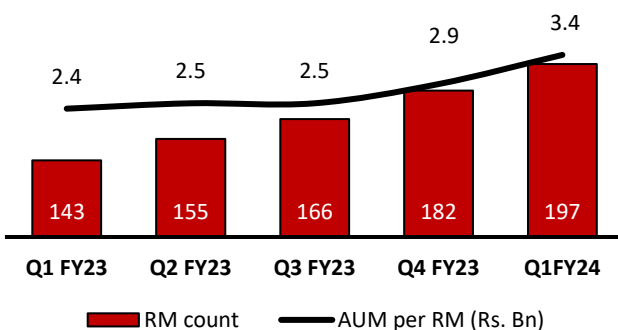


Contribution from Vintage RMs (Q1 FY24)



■ 0-3 Yrs
■ 3-5 Yrs
■ 5+ Yrs

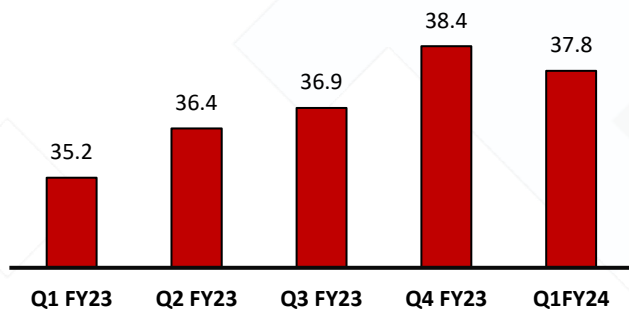
Constant RM addition



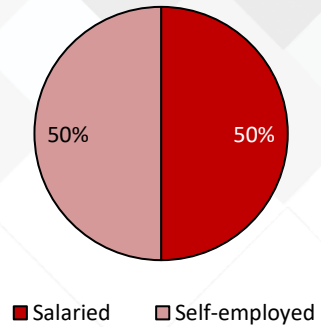
■ RM count
— AUM per RM (Rs. Bn)

Housing Finance segment quarterly business progression

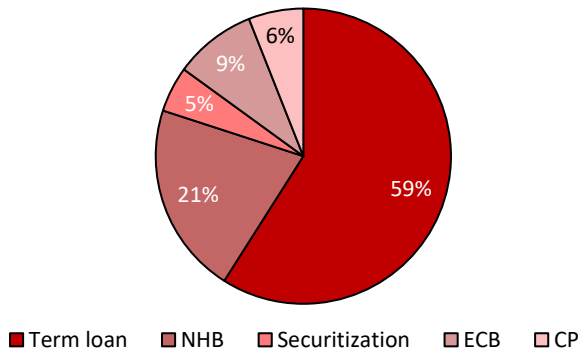
Loan book (Rs. Bn)



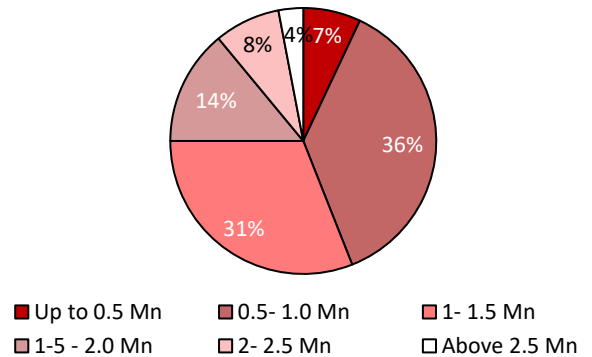
Customer Mix (Q1 FY24)



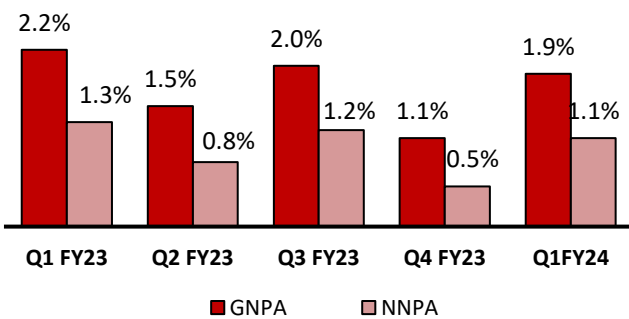
Liability Mix (Q1 FY24)



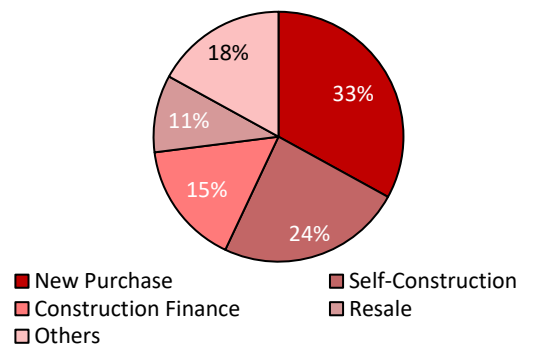
AUM by ticket size (Q1 FY24)



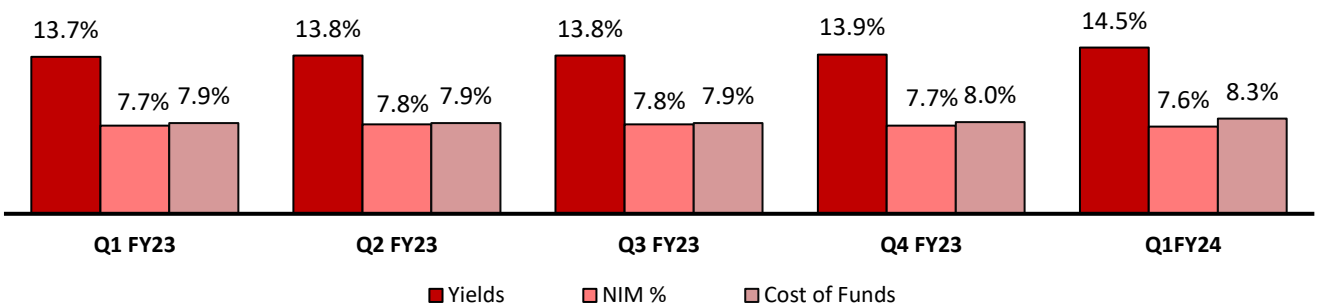
GNPA and NNPA trend (%)



Product Mix (Q4 FY23)



Other operating metrics (%)



Q1 FY24 Conference Call Takeaways

Capital Markets

- The company has guided to improve ARPU in the brokerage segment as it focuses on quality clients, which can further improve margin of the Company.
- Retail F&O ADTO market share grew by 44 bps QoQ to 4.3%.
- Institutional equity business ADTO grew 67% on YoY/62% on QoQ basis.
- In the quarter, the contribution from the cash segment in the brokerage business has improved, and therefore overall yield has improved QoQ and YoY.
- Share of brokerage income from clients >2 years has improved from 62% in Q4FY23 to 68% in Q1FY24, showcasing the stickiness of the clients.
- Franchisees revenue contributed by >5 years clients has improved QoQ from 45% in Q4FY23 to 56% in Q1FY24.
- Investment banking division saw six transactions during the quarter, and the Company continues to have a strong pipeline in this division to be executed in a year.

Asset and Wealth Management

- AMC AUM grew by 19% YoY, mainly led by mark-to-market gains.
- The Company is launching first-of-its-kind ETFs like microcap funds and further plans to launch more such products.
- The Company focuses on growing the MF business led by strong performance and turnaround in an active MF scheme.
- The Company's ongoing recruitment has resulted in rising employee costs, impacting short-term margins. However, as the hiring process normalizes, and the RM team gains experience within the Company, it is expected to yield higher margin for the Company.
- The company plans to increase RMs, aiming to reach 300 by FY26 from the current 197.
- The company plans to launch its sixth fund in real estate, with a fund size of Rs. 20 Bn in Q2 FY24.
- The company has strengthened its leadership position across geographics.

Housing Finance

- The Company has strengthened its leadership team by adding new CEO, COO, and CBO, who individually have more than 25 years of experience. This will act like a key factor to the next leg of growth in this segment.
- Since the senior management team is in place, the Company wants to strengthen its sales force in the next 6-9 months. This will help to drive growth in AUM.
- The Company is doubling the sales force from 500 to ~1000 over the next 2-3 quarters while keeping the branch network same to control costs.

MOFSL | Quarterly Update

- The Company asserts that RM is projected to reach breakeven by the second year. During the initial year, their productivity is 1 to 1.5 times their cost. In the second year, it increases to 2 to 2.5 times; by the third and fourth years, it surpasses 3 times, marking the point at which the RM becomes profitable.
- In the liability mix of housing finance, the Company is replacing shorter-term tenure with longer-term by increasing its book from NHB.
- Gross NPA has increased in the quarter due to a slowdown in collections compared to Q4 FY23.
- Construction finance is expected to range between 15% to 20%. The Company benefits from a synergistic opportunity in the construction sector due to the strong performance of its real estate fund management team. This enables the Company to underwrite the construction finance book, creating a high-quality portfolio.
- The Company aims to increase ROA from the current 3% to a target of 3.5%.

Other Update

- Due to the regulatory framework of the broking business, they cannot have housing finance and NBFC together, so they propose a separate subsidiary.

SOTP Valuation

Particulars	FY24E
Capital Market (Broking, Distribution, & IB)	
Revenue (Rs. Mn)	31,583
PAT (Rs. Mn)	5,369
PAT Margin (%)	17%
P/E (x)	11
Capital Market – Business Value (Rs. Mn) (1)	59,060
Asset Management	
Revenue (Rs. Mn)	7,320
PAT (Rs. Mn)	1,757
PAT Margin (%)	24%
P/E (x)	20
Asset Management – Business Value (Rs. Mn) (2)	35,138
Private Equity	
Revenue (Rs. Mn)	1,470
PAT (Rs. Mn)	485
PAT Margin (%)	33%
P/E (x)	10
Private Equity – Business Value (Rs. Mn) (3)	4,851
Wealth Management	
Revenue (Rs. Mn)	3,203
PAT (Rs. Mn)	1,025
PAT Margin (%)	32%
P/E (x)	20
Wealth Management – Business Value (Rs. Mn) (4)	20,500
Housing Segment	
PAT (Rs. Mn)	1,538
Book Value (Rs. Mn)	13,015
P/B (x)	0.8
Housing Segment – Business Value (Rs. Mn) (5)	10,412

Source: Company, Keynote Capitals Ltd. estimates

Particulars	FY24E
Investment for MTM – Net Value (Rs. Mn) (6)	2,033
SOTP	
Total (Rs. Mn) (1+2+3+4+5+6)	1,31,994
No. Eq. Shares (Mn)	148
Target Price (Rs.)	892
CMP (Rs.)	840
% Upside/(Downside)	6.2%

Source: Company, Keynote Capitals Ltd. estimates

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Revenue from Operations	42,968	41,771	51,568	56,070	59,063
Growth %	19%	-3%	23%	9%	5%
Expense					
Fees and commission expense	8,929	8,613	10,340	10,678	11,247
Impairment on financial instruments	947	428	414	337	355
Employee benefits expense	8,676	10,084	12,407	12,926	13,022
Other expenses	3,225	3,232	3,662	4,597	4,597
EBITDA	21,193	19,414	24,745	27,532	29,842
Depreciation and amortization expense	483	584	517	562	592
Finance Cost	4,782	5,958	6,204	6,744	7,103
Other income	230	200	130	130	130
Total expenses	27,040	29,549	34,017	35,181	36,463
PBT	16,158	12,423	17,681	21,019	22,730
Tax	3,051	3,094	4,420	5,255	5,682
PAT	13,107	9,328	13,260	15,764	17,047
Share of associates	17	20	258	281	296
PAT incl share of associates	13,125	9,348	13,519	16,045	17,343
Shares (Mn)	149.1	148.0	148.0	148.0	148.0
EPS	87.9	63.0	89.6	106.6	115.2

Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Cash, Cash equivalents & Bank	53,153	88,369	93,515	1,01,733	1,16,303
Investments	46,849	47,870	59,251	66,645	76,190
Debtors	10,033	10,291	13,368	15,828	18,095
Loans	49,045	72,176	78,038	84,972	97,142
Other financial assets	3,559	2,917	3,613	4,165	4,762
Property, plant & equipment	3,237	4,265	3,613	4,165	4,762
Current tax assets (net)	338	349	434	500	571
Deferred tax assets (net)	635	607	795	916	1,048
Other Intangible assets	330	393	506	583	667
Other non-financial assets	2,054	2,863	2,746	2,999	3,429
Total Assets	1,69,233	2,30,099	2,55,877	2,82,507	3,22,968
Creditors	37,009	34,484	44,077	49,983	57,142
Debt Securities	39,688	69,651	75,870	83,306	95,237
Borrowings	21,827	33,108	36,129	38,321	43,809
Deposits	10	17	14	17	19
Other financial liabilities	8,380	24,548	21,677	20,826	23,809
Current tax liabilities	317	367	289	333	381
Provisions	2,442	2,364	2,890	3,332	3,809
Deferred tax liabilities	1,880	2,105	2,023	2,333	2,667
Other non-financial liabilities	675	624	650	750	857
Share Capital	149.1	147.9	149.1	149.1	149.1
Other Equity	56,595	62,375	71,604	82,601	94,532
Non-controlling Interest	263	309	504	556	556
Total Equity & Liabilities	1,69,233	2,30,099	2,55,877	2,82,507	3,22,968

Source: Company, Keynote Capitals Ltd. estimates

Segmental Data

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Capital Markets					
Revenue (Mn)	25,373	28,326	31,583	33,512	35,107
PAT	4,897	5,047	5,369	5,697	5,968
PAT Margin %	19.3%	17.8%	17.0%	17.0%	17.0%
AMC					
AUM (Bn)	490	454	637	777	953
Revenue (Mn)	6,225	5,551	7,320	8,941	9,529
Yield %	1.27%	1.22%	1.15%	1.15%	1.00%
Wealth Management					
AUM (Bn)	344	520	801	961	115
Revenue (Mn)	1,941	2,228	3,203	3,652	4,036
Yield %	0.56%	0.43%	0.40%	0.38%	0.35%
Private Equity					
AUM (Bn)	74	103	113	119	125
Revenue (Mn)	1,306	1,770	1,470	1,425	1,247
Yield %	1.76%	1.72%	1.30%	1.30%	1.30%
Housing Finance					
Loan Book (Bn)	34.9	38.4	42.2	46.5	51.1
NII	2,710	2,962	3,078	3,247	3,572
NIM %	7.8%	7.7%	7.3%	7.0%	7.0%
Net worth (Mn)	10,070	11,477	13,015	14,827	16,820

Valuation Ratios

Particulars	FY22	FY23	FY24E	FY25E	FY26E
Per Share Data					
EPS	87.9	63.0	89.6	106.6	115.2
Growth %	9%	-28%	42%	19%	8%
Book Value Per Share	382	425	488	563	644
Return Ratios					
Return on Assets (%)	8%	4%	5%	6%	5%
Return on Equity (%)	23%	15%	18%	19%	18%
Return on Capital Employed (%)	17%	10%	12%	13%	12%
Valuation					
PE (x)		13	9	8	7
Price to Book (x)		1.9	1.7	1.5	1.3

KEYNOTE Rating History

Date	Rating	Market price at Recommendation	Upside/Downside
30 th December 2022	BUY	686	+30.6%
25 th January 2023	BUY	692	+27.2%
2 nd May 2023	BUY	608	+17.9%
31 st July 2023	NEUTRAL	840	+6.2%

Source: Company, Keynote Capitals Ltd. estimates

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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