

Motilal Oswal Financial Services Limited

3rd Nov 2023

Preparing for future opportunities

In Q2 FY24, Motilal Oswal Financial Services Limited (MOFSL) demonstrated a strong performance. The retail F&O ADTO witnessed an impressive growth of 139% on YoY and 27% on a QoQ basis. During the quarter, the retail cash and F&O market share increased by 90 bps and 30 bps on a QoQ basis, settling at 7.1% and 4.6% in Q2 FY24, respectively. The number of NSE active clients recorded a decline of ~12% on a YoY basis, standing at ~0.8 Mn, due to which the Company's market share in the NSE active clients marginally fell from 2.5% in Q1FY24 to 2.4% in Q2FY24. The AUM of Motilal Oswal Asset Management Company (MOAMC) grew by 18% on a YoY basis, mainly led by mark-to-market gains. The AUM of the Wealth segment witnessed an impressive growth of ~91% on a YoY basis in Q2 FY24. Motilal Oswal Home Finance Ltd (MOHFL) reported an AUM growth of 3% on a YoY basis, resulting in 4% YoY growth in NII in Q2 FY24.

Continue to add Relationship Managers (RMs) across segments

In Q2 FY24, the Company is in the process of expanding its sales team and has outlined plans to increase RMs across various segments in the future. In the housing finance segment, the Company had onboarded 187 RMs during the quarter, taking the total count to 629. Additionally, they want to grow this RMs count by 1,000 in FY24. In the realm of private wealth management, the Company has been consistently increasing the number of RMs, progressing from 128 RMs three years ago to 221 in Q2FY24, with a target of reaching 300 RMs by FY26. This expansion had an impact on the Company's margin profile. However, the Company expects to regain these margins as newly onboarded RMs become profitable. Furthermore, the Company is actively adding RMs to its private wealth management business in tier II cities, recognizing the presence of a significant number of new investors residing outside major metropolitan areas.

Strong performance in the capital market segment

In Q2 FY24, the capital market segment contributed ~72% of the revenue. This segment showcased a strong performance by growing 41% on a YoY and 15% on a QoQ basis. Furthermore, this segment reported an all-time high quarterly profit of Rs. 1,796 Mn, reflecting a growth of 33% and 14% on a YoY and QoQ basis, respectively. Within the segment, brokerage revenue, which contributes ~57% of the capital market segment, showcased a substantial growth of 32% and 29% on a YoY and QoQ basis, led by continued traction and improvement in market share across the cash and F&O segment. The Company's client base, consisting of customers with a tenure of more than two years, forms 66% in Q2 FY24. These clients help the Company to improve ARPU, which is up ~13% on a YoY and ~7% on a QoQ basis.

View & Valuation

We expect MOFSL to improve its ARPU in the broking segment, grow 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. Based on our revised estimates, we have changed our view from 'NEUTRAL' to 'BUY' on MOFSL with a target price of Rs. 1,147, using the 'Sum-Of-The-Parts' (SOTP) method for FY25E.

BUY

CMP Rs. 1,012

TARGET Rs. 1,147 (+13.2%)

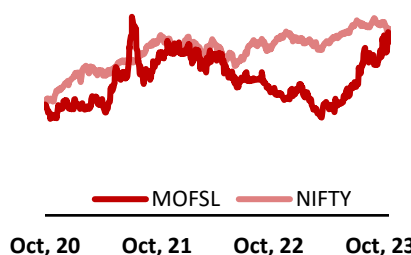
Company Data

Bloomberg Code	MOFSIN
MCAP (Rs. Mn)	1,45,473
O/S Shares (Mn)	148
52w High/Low	1,094 / 551
Face Value (in Rs.)	1
Liquidity (3M) (Rs. Mn)	241

Shareholding Pattern %

	Sep 23	Jun 23	Mar 23
Promoters	69.53	69.66	69.68
FIIs	6.29	6.41	6.47
DIIIs	6.29	6.11	6.28
Non-Institutional	17.90	17.83	17.57

MOFSL vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs. Mn)	FY23	FY24E	FY25E
Revenue	41,771	53,574	60,791
Net Profit	9,348	14,983	18,002
Total Assets	2,30,099	3,14,108	3,82,743
Net Worth	62,832	81,344	1,03,964
ROA (%)	4%	5%	5%
ROE (%)	15%	18%	17%

Source: Company, Keynote Capitals Ltd.

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Q2 FY24 Result Update

Result Highlights (Rs. Mn)

Particulars	Q2FY24	Q2FY23	Change % (Y-o-Y)	Q1FY24	Change % (Q-o-Q)	H1FY24	H1FY23	Change % (Y-o-Y)	FY23
Revenue from Operations	16,392	13,205	24.1%	14,998	9.3%	31,384	20,742	51.3%	41,771
Expenses									
Fees and commission expense	2,801	2,142	30.8%	2,174	28.8%	4,975	4,365	14.0%	8,613
Impairment on financial instruments	106	189	-43.8%	233	-54.5%	340	274	23.8%	428
Employee benefits expense	3,099	2,436	27.2%	3,179	-2.5%	6,278	4,757	32.0%	10,084
Other expenses	1,341	998	34.4%	1,031	30.1%	2,366	1,897	24.8%	3,882
EBITDA	9,045	7,442	21.5%	8,381	7.9%	17,425	9,449	84.4%	18,765
Finance Cost	2,411	1,259	91.5%	2,159	11.7%	4,570	2,368	93.0%	5,958
Depreciation and amortization expense	173	156	10.9%	174	-0.5%	346	289	19.6%	584
Other income	115	44	159.1%	312	-63.1%	426	89	381.7%	200
Total expenses	9,931	7,179	38.3%	8,949	11.0%	18,875	13,951	35.3%	29,549
PBT	6,576	6,071	8.3%	6,360	3.4%	12,935	6,880	88.0%	12,423
Tax	1,242	981	26.6%	1,098	13.1%	2,340	1,477	58.4%	3,094
PAT	5,334	5,090	4.8%	5,261	1.4%	10,595	5,403	96.1%	9,328
Share of associates	-12	10	-217.6%	14	-183.3%	2	17	-86.0%	20
PAT incl share of associates	5,322	5,100	4.3%	5,276	0.9%	10,598	5,420	95.5%	9,348
EPS	35.8	34.3		35.6		71.4	36.2		62.7

Segment Highlights (Rs. Mn)

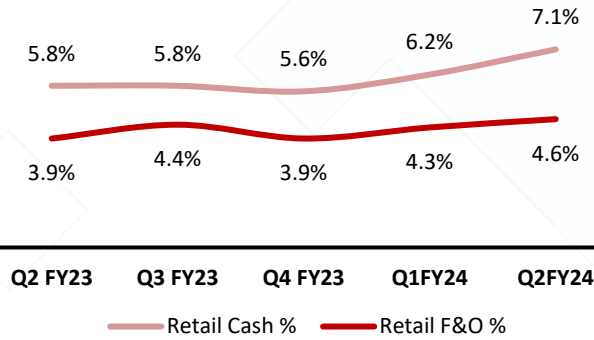
Particulars	Q2FY24	Q2FY23	Change % (Y-o-Y)	Q1FY24	Change % (Q-o-Q)	H1FY24	H1FY23	Change % (Y-o-Y)	FY23
Capital Markets									
Revenue	10,191	7,219	41.2%	8,794	15.9%	19,038	13,327	42.9%	28,326
PAT	1,796	1,349	33.1%	1,554	15.6%	3,377	2,306	46.4%	5,047
PAT Margin %	17.6%	18.7%	-106 Bps	17.7%	-5 Bps	17.7%	17.3%	43 Bps	17.8%
Asset and Wealth Management									
AMC Revenue	1,501	1,433	4.7%	1,376	9.1%	2,877	2,831	1.6%	5,551
Private Equity Revenue	461	391	17.9%	388	18.8%	871	710	22.7%	1,770
Wealth Management Revenue	571	514	11.1%	643	-11.2%	1,213	990	22.5%	2,228
PAT	682	669	1.9%	641	6.4%	1,339	1,252	6.9%	2,584
PAT Margin %	26.9%	28.6%	-169 Bps	26.6%	29 Bps	27.0%	27.6%	-64 Bps	27.1%
Housing Finance									
Net Interest Income (NII)	773	743	4.0%	757	2.1%	1,528	1,451	5.3%	2,962
NIM %	7.7%	7.6%	10 Bps	7.6%	10 Bps	7.7%	7.8%	-10 Bps	7.7%
PAT	328	334	-1.8%	286	14.7%	614	656	-6.4%	1,333

Source: Company, Keynote Capitals Ltd.

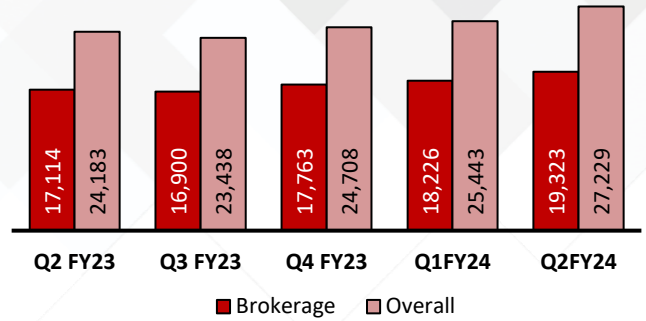
MOFSL | Quarterly Update

Capital Markets segment quarterly business progression

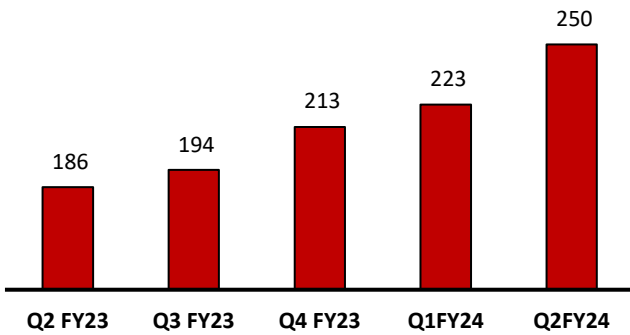
Improvement in ADTO market share (%)



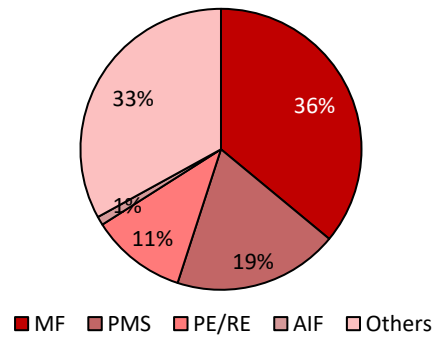
Average Revenue per Paying User (ARPU) increasing on a QoQ and a YoY basis



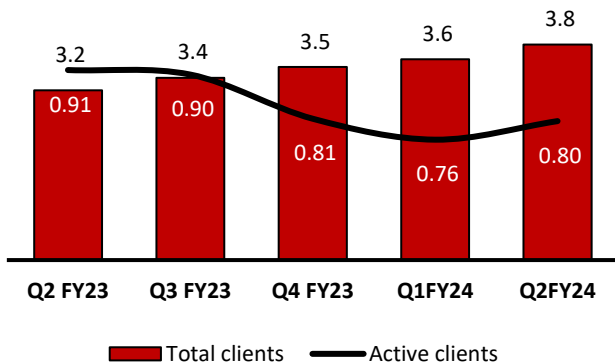
Rising distribution AUM (Rs. Bn) on a QoQ and a YoY basis



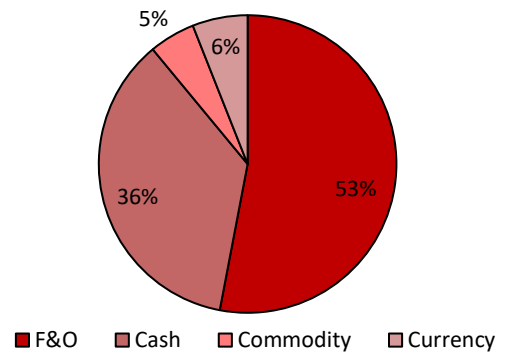
Distribution AUM Mix (Q2 FY24)



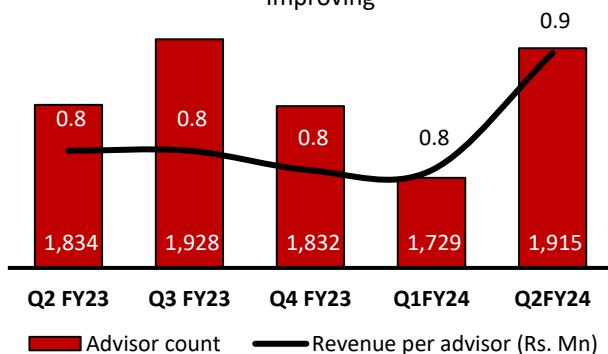
Client base (Mn)



Brokerage mix (Q2 FY24)

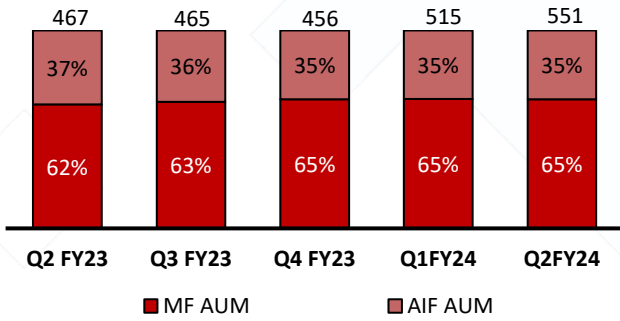


Advisor productivity for direct channels is improving

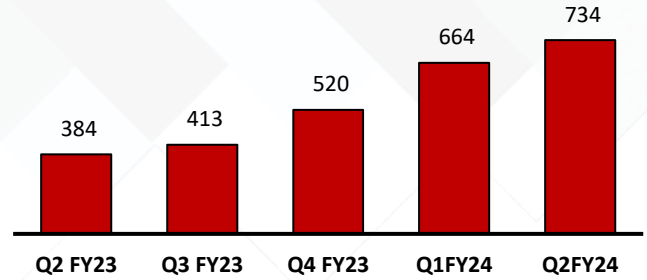


Asset and Wealth Management segment quarterly business progression

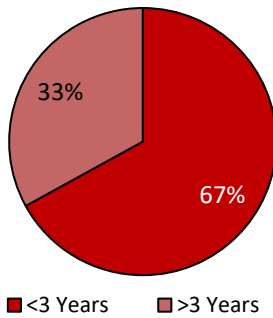
AMC AUM (Rs. Bn)



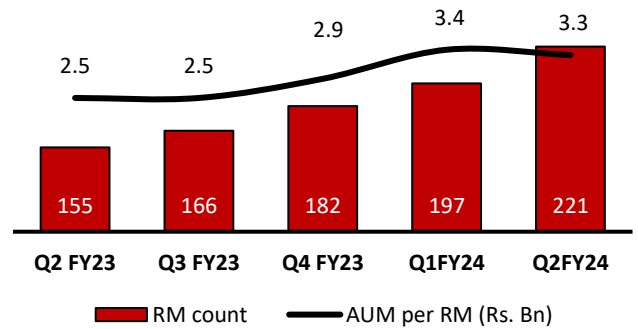
Growing wealth management AUM (Rs. Bn) on a QoQ and YoY basis



Contribution from Vintage RMs (Q2 FY24)

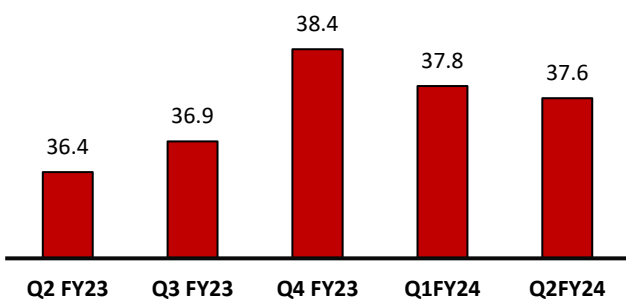


Constant RM addition

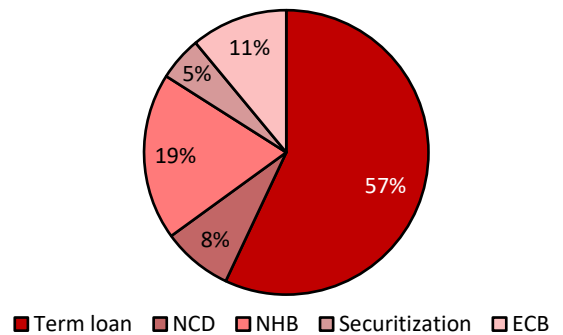


Housing Finance segment quarterly business progression

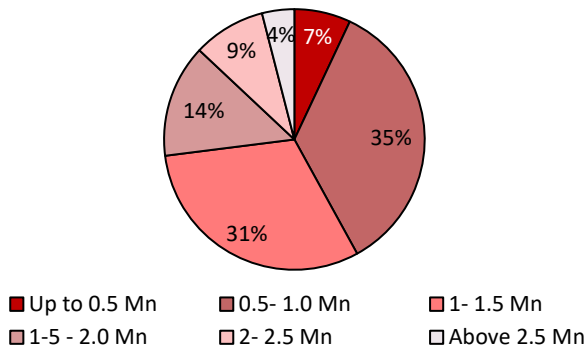
Loan book (Rs. Bn)



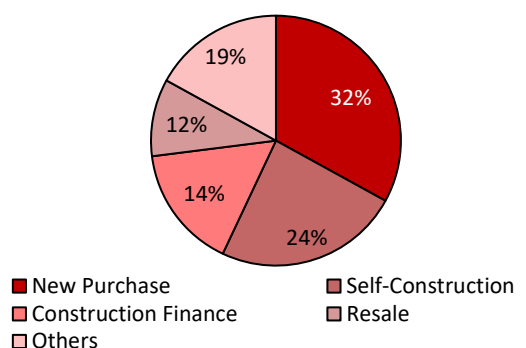
Liability Mix (Q2 FY24)



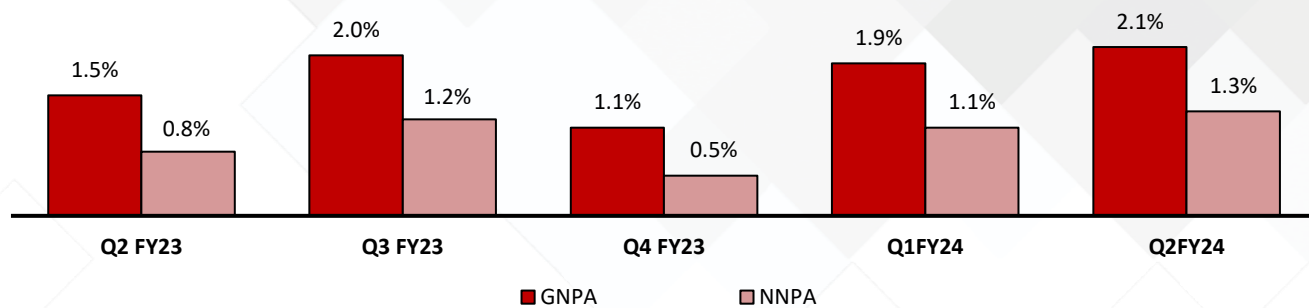
AUM by ticket size (Q2 FY24)



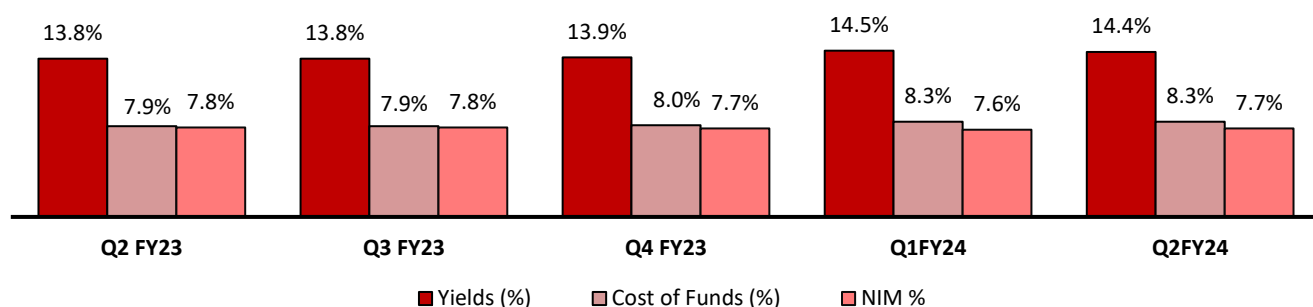
Product Mix (Q2 FY24)



GNPA and NNPA trend (%)



Other operating metrics (%)



Source: Company, Keynote Capitals Ltd.

Q2 FY24 Conference Call Takeaways

Capital Markets

- The Capital Market segment achieved its highest-ever PAT in the quarter, driven by sustained momentum and increased market share in the cash and F&O segments.
- NSE active clients stood at ~0.8 Mn during the quarter, with a market share of 2.4%
- Investment banking business completed 8 deals during the quarter.
- The Company acquired ~0.3 Mn new clients in H1FY24.
- The F&O ADTO grew by 137% YoY/27% QoQ.
- The number of Franchisees increased from 8,033 as of FY23 to 8,713 as of H1FY24.
- The Company hired 196 net broking advisors during the quarter.
- Regulatory change in the AIF distribution segment had impacted upfront distribution income for Q2FY24.
- The Company see huge potential to cross-sell the distribution segment.
- The Company had no intentions of venturing into the discount broking business, given their focus on maintaining a robust advisory business.

- In the capital market segment, there was an increase in employee costs during the quarter, driven by variable payouts due to the strong performance. Additionally, the Company is persistently investing in talent, particularly in the distribution segment.

Asset and Wealth Management

- In the AMC business, the PAT remained flat on a YoY basis mainly due to a decline in the upfront income from the AIF segment because of changes in regulations in April'23, as well as an increase in employee costs resulting from the ongoing recruitment of RMs for the wealth management business.
- During the quarter, the Company added 2,10,000 new SIP investors, which increased by 74% on a YoY and 64% on a QoQ basis.
- The Company had added a net 39 RMs in the H1FY24, resulting in higher employee expenses.

Housing Finance

- Retail disbursement grew by 53% on a QoQ basis.
- The Company is focusing on enhancing productivity through improvement in TAT and approval ratio.
- 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 is witnessing QoQ improvement in collection efficiency, which will maintain GNPA <2% and NNPA <1.5% going forward.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Revenue from Operations	42,968	41,771	53,574	60,791	65,020
Growth %	19%	-3%	28%	13%	7%
Expense					
Fees and commission expense	8,929	8,613	8,593	9,138	9,772
Impairment on financial instruments	947	428	430	366	391
Employee benefits expense	8,676	10,084	11,815	12,793	13,030
Other expenses	3,225	3,232	3,662	4,597	4,597
EBITDA	21,193	19,414	29,075	33,898	37,230
Depreciation and amortization expense	483	584	537	609	651
Finance Cost	4,782	5,958	8,056	9,747	11,075
Other income	230	200	130	130	130
Total expenses	27,040	29,549	33,726	36,918	39,481
PBT	16,158	12,423	19,978	24,003	25,669
Tax	3,051	3,094	4,994	6,001	6,417
PAT	13,107	9,328	14,983	18,002	19,252
Share of associates	17	20	269	305	326
PAT incl share of associates	13,125	9,348	15,252	18,307	19,577
Shares (Mn)	149.1	148.0	148.2	148.2	148.2
EPS	87.9	63.0	101.1	121.4	129.9

Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Cash, Cash equivalents & Bank	53,153	88,369	1,14,247	1,24,913	1,40,224
Investments	46,849	47,870	61,008	77,973	92,946
Debtors	10,033	10,291	13,422	17,674	21,068
Loans	49,045	72,176	1,05,747	1,40,351	1,73,498
Other financial assets	3,559	2,917	10,575	10,396	12,393
Property, plant & equipment	3,237	4,265	4,067	5,198	6,196
Current tax assets (net)	338	349	488	624	744
Deferred tax assets (net)	635	607	895	1,144	1,363
Other Intangible assets	330	393	569	728	867
Other non-financial assets	2,054	2,863	3,091	3,743	4,461
Total Assets	1,69,233	2,30,099	3,14,108	3,82,743	4,53,760
Creditors	37,009	34,484	56,941	72,775	86,749
Debt Securities	39,688	69,651	85,411	1,03,964	1,23,927
Borrowings	21,827	33,108	43,112	51,982	59,485
Deposits	10	17	41	52	62
Other financial liabilities	8,380	24,548	40,672	41,586	49,571
Current tax liabilities	317	367	325	416	496
Provisions	2,442	2,364	3,254	4,159	4,957
Deferred tax liabilities	1,880	2,105	2,278	2,911	3,470
Other non-financial liabilities	675	624	732	936	1,115
Share Capital	149.1	147.9	148.2	148.2	148.2
Other Equity	56,595	62,375	80,691	1,03,260	1,23,223
Non-controlling Interest	263	309	504	556	556
Total Equity & Liabilities	1,69,233	2,30,099	3,14,108	3,82,743	4,53,760

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	35,031	40,472	42,511
PAT	4,897	5,047	5,955	6,880	7,227
PAT Margin %	19.3%	17.8%	17.0%	17.0%	17.0%
AMC					
AUM (Bn)	490	454	621	747	902
Revenue (Mn)	6,225	5,551	6,208	7,471	9,023
Yield %	1.27%	1.22%	1.00%	1.00%	1.00%
Wealth Management					
AUM (Bn)	344	520	801	961	115
Revenue (Mn)	1,941	2,228	2,803	3,267	3,805
Yield %	0.56%	0.43%	0.35%	0.34%	0.33%
Private Equity					
AUM (Bn)	74	103	105	110	115
Revenue (Mn)	1,306	1,770	1,887	1,872	1,850
Yield %	1.76%	1.72%	1.80%	1.70%	1.60%
Housing Finance					
Loan Book (Bn)	34.9	38.4	40.3	44.3	48.8
NII	2,710	2,962	3,103	3,455	3,855
NIM %	7.8%	7.7%	7.7%	7.8%	7.9%
Net worth (Mn)	10,070	11,477	12,775	14,203	15,774

Valuation Ratios

Particulars	FY22	FY23	FY24E	FY25E	FY26E
Per Share Data					
EPS	87.9	63.0	101.1	121.4	129.9
Growth %	9%	-28%	60%	20%	7%
Book Value Per Share	382	425	549	701	836
Return Ratios					
Return on Assets (%)	8%	4%	5%	5%	4%
Return on Equity (%)	23%	15%	18%	17%	16%
Return on Capital Employed (%)	17%	10%	12%	12%	10%
Valuation					
PE (x)		13	10	8	8
Price to Book (x)		1.9	1.8	1.4	1.2

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%
3 rd Nov 2023	BUY	1,012	+13%

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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