

CMP: INR 716

Rating: Buy | Outlook: Positive

Target Price: INR 1432

Stock Info

BSE	532892
NSE	MOTILALOFS
Bloomberg	MOFS IN
Reuters	MOFS.BO
Sector	Stock broking and allied
Face Value (INR)	1
Equity Capital (INR Cr)	14.795
Mkt Cap (INR Cr)	10,747.17
52w H/L (INR)	823.65 / 550.75

Shareholding Pattern %

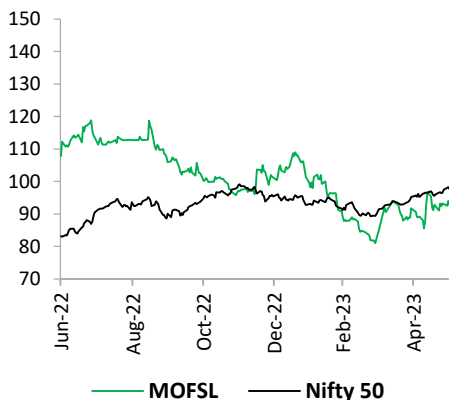
(As on June, 2023)

Promoters	69.68
Public & Others	30.32

Stock Performance (%)

	1m	6m	12m
MOFSL	12.28	3.04	-6.61
Nifty 50	3.03	4.94	21.02

MOFSL V/S Nifty



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Investment Rationale

We believe the long-term prospects of the bank remain attractive on the back of:

- 1) Traditional full service brokerage business performed well despite challenges from modern discount broking business.
- 2) The IB business has underperformed in FY23 but, is expected to perform better going forward due to strong pipeline in FY24.
- 3) The home finance business has seen a loss during 2018. The company has hired experienced personnel in their senior management team owing to which, its performance in FY23 has improved and will continue to improve in FY24.
- 4) The Asset & Wealth business of MOFSL has performed well as compared to its peers.
- 5) There was a turnaround across all segments. All segments of the MOFSL group has performed well. Market share for broking business was up 96 bps YoY to 3.4%. The total asset and wealth management business AUM crossed INR 1 tn in FY23. PAT for home finance business grew 44% YoY in FY23.

Capital Markets Business

Capital markets business consists of **8000 franchise channel which contributes to more than 55% of brokerage income**. They follow a variable model in which 65% is taken by the franchise. It is difficult to survive for small brokers to survive in this business, which is an **opportunity for MOFSL to convert them into franchise**. **MOFSL has a separate franchise on boarding team** for this. MOFSL has 95 own branches in tier 1 cities. More than **50% of the clients are from digital channel**. During the last 2 years, **company has 35% active clients (i.e. 65% dormant clients)**. Company added 6.5L active clients last year. And they have 4-5 lakhs monthly active clients. The company is **predominantly having presence in western and northern side** of the country. Brokerage business of the company is strong. The company is confident in their traditional broking business, and believes that their customer relationship distinguishes it from modern broking business as 60% of their revenue comes from customers with vintage of 5 years. Their **brokerage business is B2C and despite facing challenges from modern discount brokerage business, they have performed well**. The difference between MOFSL's traditional full service brokerage and modern discount brokerage is that adds value for them, is **that MOFSL has investment advisor to guide their clients with proper investment strategy whereas in the modern broking, clients invest on their own without any guidance from the broker**. Broking business is expected to grow by 20- 25% in FY24.

Investment Banking Business

Revenue from IB business for FY23 came at INR 3,140 lakhs (down 17% YoY) which was the lowest in its capital market segment. During FY22, IB business had 13 deals which reduced to around 4 in FY23. Their IB business have a **strong pipeline for FY24 and is expected to grow going forward**.

Asset & Wealth Management Business

The AMC business of the company is **equity driven**. 47% of the AUM consists of MF, PMS, PE/RE and AIF. The company had face the challenge of underperformance during FY21 and FY22. This led to change in their philosophy, from making high gains to consistent performance. The company has also **on boarded new talent** to improve their performance. **Pratik Agarwal joined the AMC business in October'2022, as the head of business and investment strategy, with 28 years of experience in fund management and equity research**. Prior to joining here, He used to work with ASK investment Managers, as business head and chief investment officer. He has also worked with BOI AXA MF and BNP Paribas MF as Head of Equity and SBI Capital Markets as head of research.

Housing Finance Business

During 2018, the home finance business faced a lot of challenges which led to a loss of INR 97 crore in Q3FY18. Post 2018, learning from their past failures, they have **restructured their home finance business**. They have **on boarded experienced people** to improve their home finance business. The home finance business **appointed Arvind Hali as the new MD, Sukesh Bhowal as the CEO and Amr Bahl as the deputy MD and COO of the business**. **Arvind Hali** was previously associated with Art Housing Finance as its MD and CEO and has over two decades of experience in the financial domain. Prior to Art Housing, he was associated with various financial organizations such as Intec Capital, AU Financiers limited, Capri global, Dhanlaxmi Bank, Reliance Capital, Standard Chartered Bank, and GE countrywide. **Amar Bahl** has over 21 years of experience in the financial industry. He last worked with Art housing finance as the president and COO. Prior to that, he has worked with Reliance Capital and Reliance Home Finance as SVP and Business Head of Affordable Housing, Home Loans, and Construction Finance. **Sukesh Bhowal** has an experience of over 27 years in business management, sales & distribution, retail lending, mortgage lending, real estate lending and retail banking. Prior to joining MOHFL, he was associated with DCB Bank, where he headed the Mortgages, Micro-Mortgages, Construction Finance and Gold Loans segments and was responsible for starting and scaling up these businesses. They also made changes to their underwriting process. For instance, loan for construction is given only if the project is complete to the extent of 85%. Further, MOFSL's **100% of the portfolio is B2C** and no corporate funding is done, which helps them diversify their risk. **Company's current NIMs are at 6% and cost of funds is at 8.5%, with a cost to income ratio of 38%, which is expected to increase in short term. For FY24, NIMs are expected to be around 7%, and the cost of funds are expected to increase by 50bps. Company is expecting a loan book growth of 10% till FY25. Post FY25, 15% - 20% growth is expected.**

OUTLOOK

We have a positive outlook on the company. With the changes in senior management, the company is expected to perform well in the future. Broking business is expected to grow by 20- 25% in FY24. The IB business is expected to grow in FY24 due to strong pipeline for FY24. Further, in the housing finance side, company is expecting a loan book growth of 10% till FY25, with NIM at 7%. We have a target price of INR 1,432.

Peer Analysis

Anand Rathi Wealth Ltd

Anand Rathi Wealth business's AUM for FY23 stands at 379.42 bn and revenue increased by 31% YoY to INR 5.58 bn in FY23.

360 one WAM Ltd

Wealth Management business AUM stands at INR 1.09k bn and revenue at INR 0.23k bn. Asset Management business AUM is INR 0.58k Cr and revenue is INR 4.55 bn.

MOFSL

Motilal Oswal wealth management business's AUM has crossed INR 520 bn and it's net sales was up by 51% YoY to INR 58 bn. AMC AUM stood at INR 456.2 bn and revenue for FY23 came at INR 5.55 bn. The total Asset & Wealth Management AUM crossed INR 1 tn mark.

Motilal Oswal Financial Services Ltd (SOTP Valuation)

Entity	Base	Figures (In Bn)	Multiple	Intrinsic Value
Capital Market	FY25 PAT	9.78	2	19.56
Asset Management Company	FY25 PAT	4.39	1.3	5.71
Housing Finance Company	FY25 PAT	2.15	1.3	2.79
Fund Based	FY25 AUM	61.23	3	183.70
Unallocated				
Total				212
No. of Shares				0.1479
Target Price				1,432

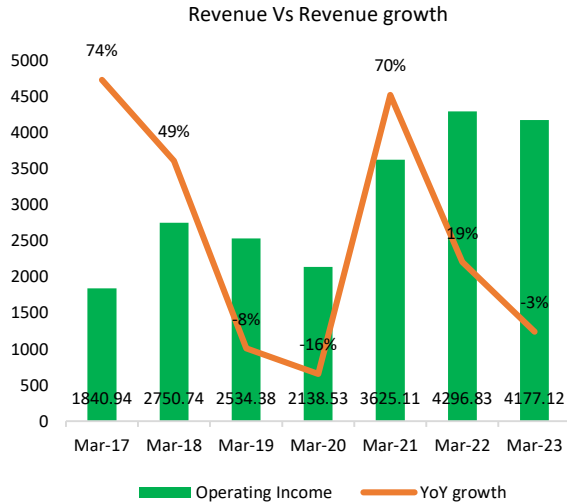


Chart 1: Revenue Vs Revenue growth

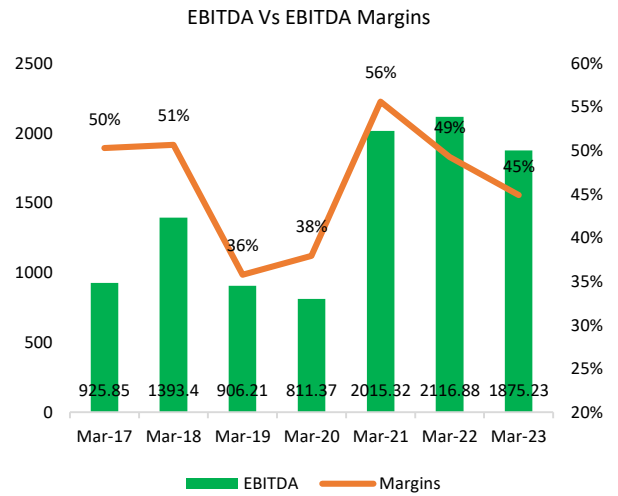


Chart 2: EBITDA Vs EBITDA Margins

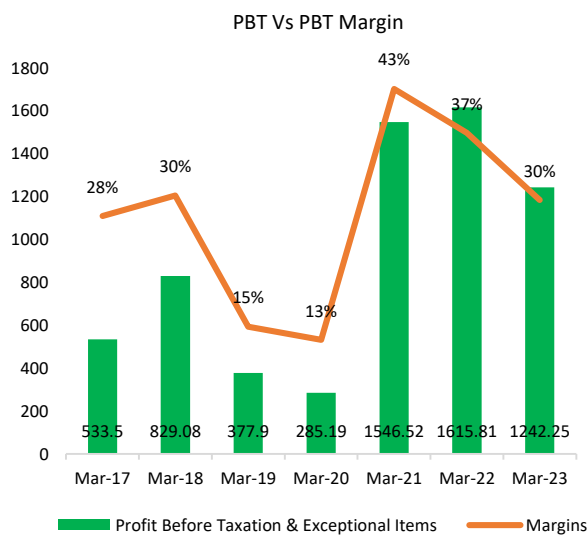


Chart 3: PBT Vs PBT Margin

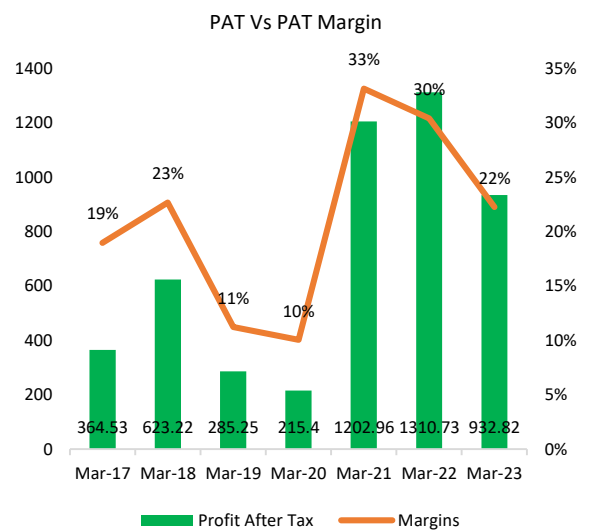


Chart 4: PAT Vs PAT Margin

Consolidated Statement of Profit/ Loss (All figures in INR Cr.)

DESCRIPTION	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23
Operating Income	1,840.94	2,750.74	2,534.38	2,138.53	3,625.11	4,296.83	4,177.12
YoY growth	74%	49%	-8%	-16%	70%	19%	-3%
Employee Cost	353.40	492.08	501.77	539.80	643.58	878.21	1,008.38
Other Expenses	561.69	865.26	1,126.40	787.36	966.21	1,301.74	1,293.51
EBITDA	925.85	1,393.40	906.21	811.37	2,015.32	2,116.88	1,875.23
YoY growth	1.26	0.50	(0.35)	(0.10)	1.48	0.05	(0.11)
Margins	50%	51%	36%	38%	56%	49%	45%
Other Income	82.75	1.60	12.49	8.00	9.00	21.96	21.23
Interest	442.26	528.43	516.85	494.47	430.28	474.77	595.83
Depreciation	32.84	37.49	23.95	39.71	47.52	48.26	58.38
Profit Before Taxation & Exceptional Items	533.50	829.08	377.90	285.19	1,546.52	1,615.81	1,242.25
YoY growth	138%	55%	-54%	-25%	442%	4%	-23%
Margins	28%	30%	15%	13%	43%	37%	30%
Exceptional Income / Expenses	(27.88)	-	-	-	(88.10)	-	-
Provision for Tax	141.09	205.86	92.65	69.79	255.46	305.08	309.43
Profit After Tax	364.53	623.22	285.25	215.40	1,202.96	1,310.73	932.82
YoY growth	123%	71%	-54%	-24%	458%	9%	-29%
Margins	19%	23%	11%	10%	33%	30%	22%
Minority Interest	(10.60)	(10.00)	(4.34)	(6.21)	(4.28)	(2.67)	(3.09)
Share of Associate	6.04	9.06	13.06	(25.82)	61.77	1.72	1.96
Consolidated Net Profit	359.97	622.28	293.97	183.37	1,260.45	1,309.78	931.69
Earnings Per Share	24.91	42.89	20.18	12.38	85.98	87.85	62.99
Adjusted EPS	24.91	42.89	20.18	12.38	85.98	87.85	62.99

Consolidated Balance Sheet (All figures in INR Cr.)

DESCRIPTION	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23
EQUITY AND LIABILITIES							
Share Capital	14.45	14.51	14.57	14.81	14.66	14.91	14.79
Share Warrants & Outstandings	0.67	33.17	43.15	43.97	57.77	71.15	94.49
Total Reserves	1,770.91	2,838.22	2,995.72	3,027.53	4,388.98	5,588.31	6,142.96
Minority Interest	28.53	35.06	40.79	36.59	32.27	26.28	30.94
Total Equity	1,814.56	2,920.96	3,094.23	3,122.90	4,493.68	5,700.65	6,283.18
Non Current Liabilities							
Long-Term Borrowings	3,740.38	2,357.98	2,214.69	1,566.49	1,850.88	1,594.93	1,932.69
Other Long Term Liabilities	1.65		0.05	0.12	0.45	0.98	1.70
Long Term Provisions	32.49	14.32	2.07	2.74	2.39	2.12	3.80
Total Non-Current Liabilities	3,774.52	2,372.30	2,216.81	1,569.35	1,853.72	1,598.03	1,938.19
Current Liabilities							
Trade Payables	1,021.68	1,320.39	1,390.62	1,797.98	3,025.67	3,700.86	3,448.42
Other Current Liabilities	780.16	606.02	585.34	400.88	579.77	905.49	2,517.16
Short Term Borrowings	943.03	3,037.79	2,921.61	2,968.35	3,897.29	4,681.02	8,493.02
Short Term Provisions	104.95	153.79	130.24	132.19	191.27	273.76	269.30
Total Current Liabilities	2,849.82	5,117.99	5,027.81	5,299.40	7,694.00	9,561.13	14,727.90
Total Equities and Liabilities	8,438.90	10,411.25	10,338.85	9,991.65	14,041.40	16,859.81	22,949.27
Non-Current Assets							
PPE	290.23	263.84	266.92	333.35	350.33	356.66	465.81
Intangible assets under development		0.11	0.11				
Assets in transit		35.73	35.18				
Non Current Investments	1,325.51	2,519.27	2,530.32	2,851.02	3,693.17	4,579.22	4,766.96
Long Term Loans & Advances	4,079.50	41.78	34.60	61.53	62.09	64.36	82.70
Other Non Current Assets	85.81	99.60					
Total Non-Current Assets	5,781.05	2,960.33	2,867.13	3,245.90	4,105.59	5,000.24	5,315.47
Current Assets Loans & Advances							
Currents Investments	444.83	287.91	155.59	237.48	229.18	105.69	20.00
Inventories	0.18	0.27					
Sundry Debtors	1,260.18	1,091.69	1,518.09	746.98	911.83	1,003.32	1,029.12
Cash and Bank	462.52	453.72	689.07	1,377.95	3,497.77	5,315.25	8,836.91
Other Current Assets	49.35	82.36	225.87	199.35	116.99	189.66	244.48
Short Term Loans and Advances	440.79	5,534.97	4,883.10	4,183.99	5,180.04	5,245.65	7,503.29
Total Current Assets	2,657.85	7,450.92	7,471.72	6,745.75	9,935.81	11,859.57	17,633.80
Total Assets	8,438.90	10,411.25	10,338.85	9,991.65	14,041.40	16,859.81	22,949.27

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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