

September 17, 2024

To,  
**BSE Limited**  
P. J. Towers,  
Dalal Street, Fort,  
Mumbai – 400001

**Sub.: India Ratings & Research Private Limited – Revision in Rating Outlook from “Stable” to “Positive”**

Dear Sir/Madam,

Pursuant to the provisions of Regulation 51 read with Part B of Schedule III of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“Listing Regulations”) (as amended), we wish to inform the Exchange that India Ratings & Research Private Limited has revised the Rating Outlook **from “Stable” to “Positive”** for Debt instrument(s) of Motilal Oswal Home Finance Limited (“the Company”).

The details of instrument wise rating of the Company are mentioned herein below in the table:

Instrument Type	Previous Rated Amount (Rs. in Crore)	Current Rated Amount (Rs. in Crore)	Rating/ Outlook (updated)	Rating Action
Non-convertible Debenture	500	425	IND AA/Positive	Affirmed and outlook revised to Positive from Stable
Principle protected market-linked debentures	500	425	IND PP-MLD AA/Positive	Affirmed and outlook revised to Positive from Stable
Bank Loan	2150	2150	IND AA/Positive	Affirmed and outlook revised to Positive from Stable

The Rating Rationale Letter received from India Ratings & Research Private Limited for the Company is enclosed herewith.

Kindly take the same on record.

Thanking you,  
Yours faithfully,

**For Motilal Oswal Home Finance Limited**

**Sunny Ganatra**  
Company Secretary & Compliance Officer

Encl.: As above

## India Ratings Revises Outlook on Motilal Oswal Home Finance's Bank Loans and NCDs to Positive; Affirms 'IND AA'

Sep 17, 2024 | Housing Finance Company

India Rating and Research (Ind-Ra) has taken the following rating action on Motilal Oswal Home Finance Limited's (MOHFL) debt instruments. The detailed rating action is as follows:

### Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Non-convertible debentures*, \$	-	-	-	INR4,250 (reduced from INR5,000)	IND AA/Positive	Affirmed; Outlook revised to Positive from Stable
Principal protected market-linked debentures *, \$	-	-	-	INR4,250 (reduced from INR5,000)	IND PP-MLD AA/Positive	Affirmed; Outlook revised to Positive from Stable
Bank loans	-	-	-	INR21,500	IND AA/Positive	Affirmed; Outlook revised to Positive from Stable

\*Details in annexure;

\$NCD limit of INR4,250 million stands fungible between NCDs and PP-MLDs.

These refer to full principal protection wherein the issuer is obligated to pay the full principal upon maturity.

The rating of MLDs is an ordinal assessment of the underlying credit risk of the instrument and does not factor in the market risk that investors in such instruments will assume. This market risk stems from the fact that coupon payment on these instruments will be based on the performance of a reference index (to be detailed in the information memorandum of the issue).

PP-MLD refers to full principal protection wherein the issuer is obligated to pay the full principal upon maturity.

### Analytical Approach

Ind-Ra continues to fully consolidate MOFSL's [group companies](#) while arriving at the ratings, on account of the strong financial, managerial and operational linkages among them.

Ind-Ra [opines](#) the group restructuring proposal by MOFSL is a credit neutral event for all the rated group companies.

### Detailed Rationale of the Rating Action

The Positive Outlook factors in the likelihood of a scale-up of the overall franchise revenue and profit pools across different segments, and the presence of seasoned management, sizeable investment book, market share gains in the capital market business, strong revenue per customer in the broking business compared to peers along with sizeable lending businesses across capital markets and the housing subsidiary.

The rating action reflects MOFSL's established franchise with the ability to offer a wider range of product and services across broking, wealth, asset management, private & real estate equity funds across customer profiles, along with consistent and predictable cash flow generation from its broking, lending business on both housing and capital market

linked and asset & private wealth management businesses. The ratings also factor in MOFSL's adequate capitalisation and liquidity, as well as the fungibility of liquidity across the group entities if required during extreme events. Ind-Ra also has high support expectations from the parent, as MOHFL remains core to MOFSL Group's strategy. MOHFL has adequate capitalisation which is likely to grow over the next three years. The ratings are also supported by MOHFL's diversified funding profile.

However, the ability to maintain and manage the franchise scale and reach during market volatility along with the modest scale of operations of the housing subsidiary and its asset quality seasoning are the rating constraints.

## List of Key Rating Drivers

### Strengths

- Well-established franchise in capital markets
- High support expectations from parent as housing finance remains core to group's strategy
- Capitalisation adequate to support medium-term growth
- Diversified funding profile

### Weaknesses

- MOHFL business yet achieve scale-up
- Asset quality stabilised; adequate seasoning of new book remains monitorable

## Detailed Description of Key Rating Drivers

**Well-established Franchise in Capital markets:** The Motilal Oswal Group is a well-established brand in the financial services industry, having an equity broking business since 1987. The group has witnessed multiple market cycles and idiosyncratic risk events. Over FY20-FY24, MOFSL Group delivered 33% CAGR growth in operating profit (excluding treasury investments PAT), driven by the wealth management (39% CAGR), capital markets (39% CAGR), asset & private wealth (25% CAGR) and housing finance (35% CAGR) businesses. While a certain portion of the business is also supported by growth in the capital markets growth, it has maintained and scaled-up its market share by widening its franchise strength with multiple product offerings. With a total client base of around 7.3 million at end-1QFY25, the group caters to both retail and institutional clients through over 2,500 business locations, taking the pan-India pin code coverage to 98.0%. As on June 2024, about 89% of MOFSL Group customers had only single product relationship, indicating potential cross-sale opportunity over the long term with expected financialisation of savings. The Securities and Exchange Board of India also defines MOFSL as a QSB (qualified stock brokers) in India, by virtue of their size and scale of operations, and its impact on investors and securities market.

Also, despite the broking business being fairly fragmented, MOFSL is among the top players and had a market share (retail cash average daily turnover) of 8.0% in terms of retail cash turnover and 9.5% in terms of F&O premium turnover at end-1QFY25. Also, MOFSL's share (in terms of average daily turnover) moved up in the cash market to 8.0% in 1QFY25 from 5% in 4QFY23, and in the futures and option premium market to 9.5% from 7.0%. Moreover, MOFSL has expanded into different business verticals to provide a wide range of products, such as retail broking, institutional broking, investment banking, asset management, private wealth management, private equity and affordable housing finance. In retail broking, research and advisory support to clients has led to client stickiness across market cycles, despite stiff competition from discount brokers. The group has one of the highest average revenue per customer in the broking industry. The group has a high profitability in its wealth management business segment, as it operates on the advisory mode with strong cross-sell capabilities across products within the group where a large part of its assets remains equity, offering higher spread margin in terms of revenue across the different lines of business operations.

With an increasing retail participation in the past three years across discount brokerages, there could be a gradual migration of clients towards full-service providers, benefitting the MOFSL Group due to evolving regulations for discount brokers. Given volatility in the financial market business, such as private wealth, asset management and wealth management, its volume could see a certain moderation. However, the benefit of a widening of participation in the equity markets would stand to accrue on a recurring basis and operating leverage benefits of an established franchise would continue to play out for MOFSL.

**High Support Expectations from Parent as Housing Finance Remains Core to Group's Strategy:** The rating is driven by the high likelihood of parent support, if required. MOHFL shares the parent's brand name and has strong managerial, financial and operational linkages with the parent. As of 1QFY25, MOHFL's net worth represents 13.2% of the MOFSL group's net worth (1QFY25: INR97.8 billion). Also, MOHFL has seen regular equity infusions from MOFSL, totalling INR8.5 billion till date.

MOFSL is a well-established brand in the capital market business; its lending business acts as a diversification to mitigate cyclical in the capital market business. The company's franchise has strengthened because of the growth in the capital market business, with increased market participation driving strong income across the asset management, wealth and broking businesses. The capital market business continues to generate significant amount of cashflow, part of which is cyclical and can be deployed to support the growth of its housing business. MOFSL is among the leading players in full service brokerage and has an established pan-India presence.

**Capitalisation Adequate to Support Medium-term Growth:** The consolidated leverage (debt to equity) was conservative at 1.6x in 1QFY25 (FY24: 1.6x; FY23: 1.7x; FY22: 1.1x; FY21: 1.3x). MOHFL's capital adequacy ratio stood at 46.5% in 1QFY25 (FY24: 51%; FY23: 51%; FY22: 52%; FY21: 50%). The company is not planning any further capital infusion in the near term. The company intends to keep the gross leverage less than 2x in the medium term. The gross leverage (ex-housing) stood at 1.5x at end-1QFY25. Ind-Ra expects the group's cash generating businesses – wealth management, asset and private wealth management - to supplement any further capital requirement of MOHFL, thus limiting any incremental borrowing requirement. Furthermore, MOFSL is adequately capitalised with the group's quoted treasury investment book (equity investment including alternate funds), which housed the group's investments of INR70.2 billion at end-1QFY25. The company may raise short-term debt for working capital needs, if required. At end-1QFY25, MOHFL's leverage stood at 2.3x and it plans to cap the leverage at 6.0x in the medium- to long term. MOHFL plans to gradually build up the leverage.

**Diversified Funding Profile:** MOHFL has well-diversified funding in the form of bank borrowings, refinancing from National Housing Bank (NHB; ['IND AAA'/Stable](#)), external commercial borrowings as well as non-convertible debentures. It has bank lines from 22 public & private banks and financial institutions, forming 62% of the total funding as of 1QFY25, followed by NHB (14%), non-convertible debentures (7%), securitisation (3%) and external commercial borrowing (14%). Also, MOHFL has a committed parent line from MOFSL of INR5 billion. MOFSL has substantial board approved limits to further infuse capital in MOHFL, if required. MOHFL has also availed an external commercial borrowing line and plans to increase NHB funding under the affordable category, helping manage funding cost in rising interest rate scenario.

**MOHFL Business Yet Achieve Scale-up:** MOHFL has undertaken substantial write-offs, along with the sale to an asset reconstruction company to clean up the delinquent book originated before April 2018. With increased oversight from MOFSL and the change in the management, a collection team has been set up and each borrower has been mapped with internal information technology systems. The company strategy remains focused on affordable housing/ loan against property and developer financing for driving loan book growth. During FY20-FY24, MOHFL's loan book grew at a modest CAGR of 2.7% to reach INR40.3 billion in FY24. The operating leverage remains low as the branch disbursement compared with the team size remains low, thus providing scope for expansion in the long term. MOHFL has taken several corrective measures such as increasing senior management leadership, strengthening of collections and recovery infrastructure by creating over 550 member team, and enhancing credit appraisal and risk monitoring systems. Moreover, significant investments have been made in technology, processes and people to fill the critical gaps at the operational level to support and enhance the business scale up. Also, for builder finance, MOHFL is using the group expertise in the real estate segment for sourcing and underwriting, whereas operations are managed by its inhouse team. However, the exposure here is capped at 20% of overall loan book (stands at 15% in overall book).

**Asset Quality Stabilised; Adequate Seasoning of New Book Remains Monitorable:** The management believes the disbursements made after FY18 and the revamp of credit policies, improved control on branch sales and collection team, revamped monthly information systems, and the restructuring of systems and processes should provide the company better control on credit costs. This is partly evident from the controlled slippages with gross non-performing assets in the new book at 0.5% as against 1.2% on its overall book, where the new book forms 60% of the loan book at end-1QFY25. However, this book has yet to witness a complete seasoning cycle; therefore, establishing credit cost remains a challenge. Ind-Ra will closely monitor the developments on this front and its impact on the company's financial profile.

MOHFL's gross NPA ratio declined to 1.2% (with healthy provision coverage of 47%) in 1QFY25 (1QFY24: 1.9%), however, restructured loans reduced to 4.85% (5.89%). The collection efficiency of restructured loans also improved to 88.4% in 1QFY25 (1QFY24: 81.2%). The restructured book remains a key monitorable; however it is not expected to lead to an increase in the credit cost, as the company has created adequate provision coverage of 11% in Stage 2 restructured assets. Moreover, its lower loan-to-value ratio and the substantial equity of borrower in residential property purchased would act as deterrents against wilful delays.

## Liquidity

**Adequate:** At end-March 2024, MOHFL's contractual structural liquidity statement had moderate gaps in less than one-year bucket, excluding committed undrawn lines; however, this remains covered with unutilised lines of INR1.8 billion and a line of credit of INR5 billion from the parent at end-August 2024. The company had cash and cash equivalents and liquid investments worth INR3.7 billion which along with the unutilised lines are equivalent to cover three months' payment obligations over September to November 2024. MOFSL Group's liquidity is adequate with the group's quoted treasury investment book (equity investment including alternate funds), which housed the group's investments of INR70.2 billion at end-1QFY25.

## Rating Sensitivities

**Positive:** A significant scaling up of the group franchise with a maintaining and improving market share in its business lines across capital market cycles, along with diversifying revenue streams further and the maintain leadership in core business, along with a sizeable scaling up of the lending franchise could be positive for the ratings.

**Negative:** Following factors could individually or collectively lead to a negative rating action:

- a material decline in the credit profile of the parent or a dilution of the majority ownership, reduced operational oversight or reduced importance of MOHFL to the parent which could reflect in a faster or higher leverage build-up,
- a sharp deterioration in the liquidity either at MOHFL or group level,
- any material deterioration in MOHFL's standalone credit profile, with a rise in delinquencies,
- a significant fall in MOHFL's capital buffers (leverage increasing and sustaining above 6.0x in medium term)
- consolidated gross leverage (ex-housing) exceeding 2.0x on sustained basis
- a sustained weakening in the operating performance which could be on account of asset quality deterioration or otherwise

## ESG Issues

**ESG Factors Minimally Relevant to Rating:** Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on MOHFL, either due to their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click [here](#). For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click [here](#).

## About the Company

MOHFL operates in the affordable housing space retail with a focus on a mix of self-employed and salaried borrowers. MOHFL had a loan book of INR40.98 billion at end-1QFY25 across over 47,000 live customer accounts with focus on the non-documented income segment under the economically weaker section/low income group category. The MOFSL group holds 97.7% stake in MOHFL. MOHFL had 111 branches spread across 12 states as of 1QFY25.

## Key Financial Indicators

Particulars (MOFSL, CONSOLIDATED)	FY24	FY23
Total tangible assets (INR million)	3,17,371	2,29,100
Total tangible equity (INR million)	86,396	61,523
Profit after tax (INR million)	24,456	9,328

Return on average tangible assets (%)	9.3	4.7
Tangible equity/ tangible assets (%)	27.2	26.9
Gross debt / tangible equity (x)	1.6	1.7
Source: Company, Ind-Ra		

## Status of Non-Cooperation with previous rating agency

Not applicable

## Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook				
	Rating Type	Rated Limits (million)	Rating	18 September 2023	9 January 2023	20 October 2022	29 November 2021	6 October 2021
Issuer rating	Short-term	-	-	-	WD	IND A1+	IND A1+	IND A1+
Non-convertible debentures\$	Long-term	INR4250	IND AA/Positive	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable
Principal protected market-linked debentures\$	Long-term	INR4,250	IND PP-MLD AA/Positive	IND PP-MLD AA/Stable	IND PP-MLD AAemr/Stable	IND PP-MLD AAemr/Stable	IND PP-MLD AAemr/Stable	IND PP-MLD AAemr/Stable
Bank loans	Long-term	INR21500	IND AA/Positive	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable

\$ NCD limit of INR4,250 million stands fungible between NCDs and PP-MLDs.

## Bank wise Facilities Details

Click here to see the details

## Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Bank loan	Low
Non-convertible debenture	Low
Principal protected market-linked debentures	High*

\* Instrument characterised by underlying market risk

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

## Annexure

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook
NCD	INE658R08180	10 February 2022	7.27	10 February 2025	2,150	IND AA/Positive
Unutilised					INR2,100	
Total Limit					INR4,250	
Source: NSDL, MOHFL						

## Contact

## **Primary Analyst**

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**About India Ratings and Research:** India Ratings and Research (Ind-Ra) is committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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## **Solicitation Disclosures**

Additional information is available at [www.indiaratings.co.in](http://www.indiaratings.co.in). The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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## **APPLICABLE CRITERIA**

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**Rating FI Subsidiaries and Holding Companies**

**Non-Bank Finance Companies Criteria**

**Evaluating Corporate Governance**

**Financial Institutions Rating Criteria**

**The Rating Process**

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