

Robust broking volumes; diversification remains key

Motilal Oswal (MOSL) reported a mixed Q1FY21 performance wherein broking revenue was healthy but asset & wealth management saw pressure. The topline stayed flat at ₹ 633 crore (excluding MTM impact) while earnings increased 29% YoY to ₹ 167 crore, led by MTM gains on investments.

Capital market faring well with higher cash volumes

MOSL is the ninth largest retail broker in India ranked on active client base of 4.1 lakh (client base of 15.4 lakh). With average daily turnover (ADTO) of ₹ 28500 crore, it enjoys 3% market share as on June 2020. Healthy ADTO growth at 51% YoY in Q1FY21 to ₹ 28500 crore, coupled with rise in number of active clients to 4.1 lakh led to robust topline at ₹ 343 crore, up 24% YoY. Strong surge in cash volumes led cash ADTO to ₹ 3200 crore, up 88.2% YoY. Volume growth is expected to continue ahead but new regulatory regime of providing upfront margins could impact volumes, though quantum is difficult to ascertain. MOSL has provided ₹ 66 crore for negative crude settled derivatives on MCX. Strong operational efficiency supported PAT at ₹ 61 crore; up 53% YoY. On the back of a broad-based equity market pick-up, treasury reported MTM gains on investments worth ₹ 130 crore.

Retail, equity focus to lead to steady growth in AUM ahead

Led by upscale in equity markets, AUM recovered to ₹ 35200 crore in Q1FY21 vs. ₹ 29700 crore in Q4FY20. Market share of equity AUM stayed broadly stable at 1.9%. Higher focus on granularity led retail AUM/total AUM at 39%, higher than industry at 19%. SIP flows remained broadly steady at ₹ 130 crore. Steady growth in AUM would benefit topline, earnings ahead.

Steady improvement in margin, business seen in home finance

Muted disbursement on account of lockdown led to sluggish loan book growth at ₹ 3686 crore. Increase in yield coupled with steady decline in cost of funds led to improvement in margin at 5.8%. Customers under moratorium declined from ~36% in April 2020 to ~26% in June 2020. PCR increased to 87% vs 66% QoQ. Adopting cautious stance, ~54% of disbursements are to salaried customers. Expect steady growth in earnings led by business growth and benefit from shift to new tax regime, however Covid pressure not ruled out.

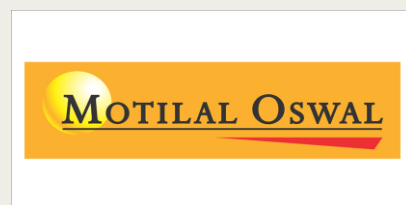
Valuation & Outlook

Presence in diversified businesses gives MOFSL an edge. Wealth, AMC business are seen curtailing cyclicity of business cycles. However, we expect Covid related stress may be seen in housing finance business. Broking volumes to stay steady though new regulatory regime related to upfront margins may act as a deterrent. Diversified business coupled with prudent management are expected to be key drivers for the stock. We estimate FY22E PAT at ₹ 523 crore. We value MOSL on SOTP basis, implying value of 20.9x FY22E PAT, giving a target price of ₹ 765. Maintain **BUY**.

Key Financial Summary

	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
ADTO (₹crore)	13,700	17,400	23,500	24,500	25,000	3.1%
Market Share calculated (%)	1.9	1.8	1.6	2.0	1.8	5.7%
Total Revenue (₹crore)	2,935	2,677	2,613	2,558	2,700	1.7%
Net Profit (₹crore)	622	294	183	504	523	68.9%
EPS (₹)	43	20	13	35	36	
Book Value (₹)	201	212	214	237	262	
P/E (x)	17	36	58	21	20	
RoE (%)		9.6	5.7	10.1	9.9	

Source: Company, ICICI Direct Research



Particulars

	Amount
Market Capitalisation	₹ 10069 crore
Networth (FY20)	₹ 3123 crore
52 week H/L	903/426
Face Value	₹ 1
Promoter (%)	69.8
DII Holding (%)	4.9
FII Holding (%)	9.6
Others (%)	15.7

Key Highlights

- Healthy traction in broking business led by strong ADTO growth
- Recovery in equity market led to MTM gains vs. losses seen in Q4FY20
- Impact of upfront margins to be seen
- Maintain BUY rating with revised target price of ₹ 765

Research Analyst

Kajal Gandhi
kajal.gandhi@icicisecurities.com

Vishal Narnolia
vishal.narnolia@icicisecurities.com

Yash Batra
yash.batra@icicisecurities.com

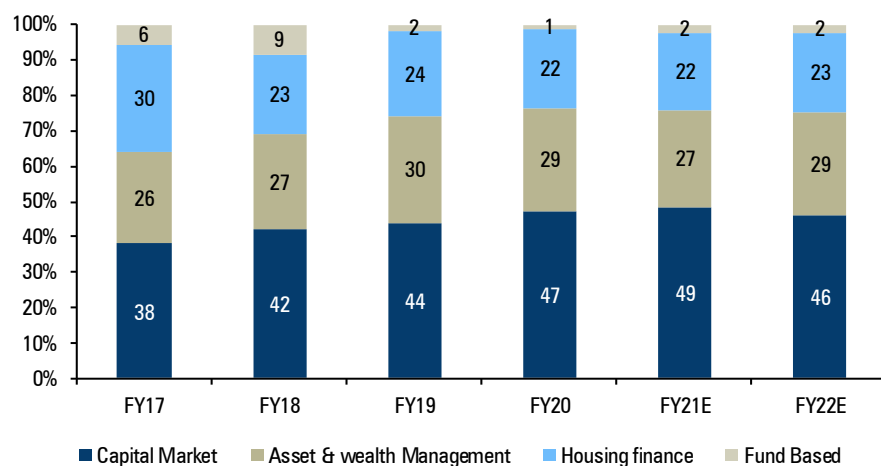
Snapshot of company

Exhibit 1: Consolidated P&L

	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Broking	343.4	277.8	23.6%	338.1	1.6%
Investment Banking	0.4	0.3	43.7%	0.9	-53.5%
Asset Management	103.6	144.3	-28.2%	131.6	-21.3%
Wealth Management	22.1	22.1	-0.1%	25.5	-13.3%
Private Equity	21.9	24.0	-8.8%	31.3	-30.0%
Fund Based	138.2	33.9	307.7%	-342.3	-140.4%
Housing Finance	133.3	152.7	-12.7%	139.8	-4.6%
Total Revenues	762.9	655.2	16.4%	324.8	134.9%
Total revenues after intercompany adjustment	590.9	612.0	-3.4%	623.6	-5.2%
Operating Costs	328.7	299.7	9.7%	346.2	-5.1%
EBITDA	262.2	312.2	-16.0%	277.4	-5.5%
PBT	142.8	178.8	-20.1%	139.2	2.6%
Exceptional Items	-66.6	0.0	NA	0.0	NA
Reported PAT	166.9	129.4	29.0%	-253.7	NA

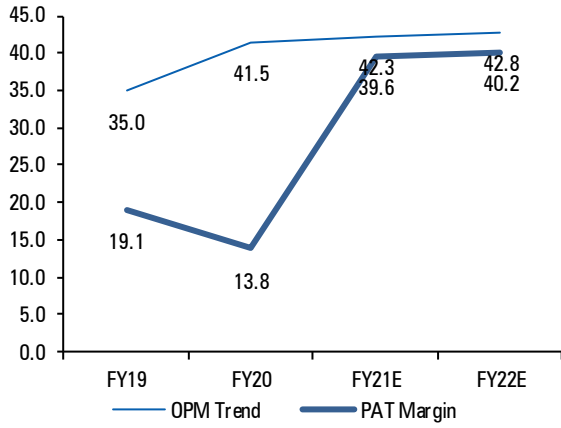
Source: Company, ICICI Direct Research

Exhibit 2: Diversified revenue mix



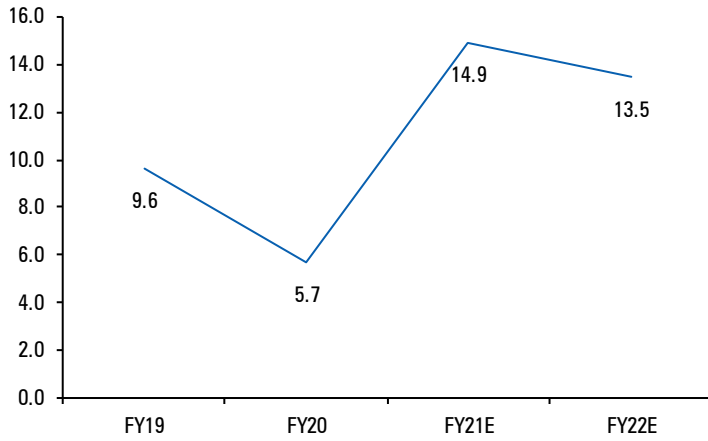
Source: Company, ICICI Direct Research

Exhibit 3: EBITDA margin, PAT margin trend



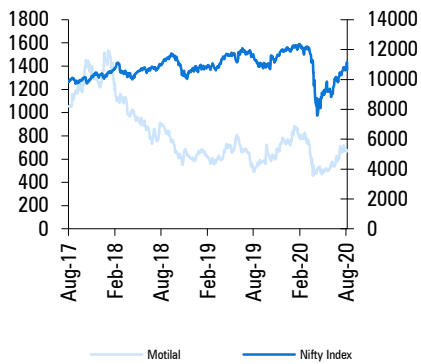
Source: Company, ICICI Direct Research

Exhibit 4: RoE to improve, going ahead



Source: Company, ICICI Direct Research

Exhibit 5: Price Chart



Source: Company, ICICI Direct Research

Valuation

Presence in diversified businesses gives MOFSL an edge. Wealth, AMC business are seen curtailing cyclicality of business cycles. However, we expect Covid related stress to be seen in housing finance business. Broking volumes to stay steady though new regulatory regime related to upfront margins may act as a deterrent. Diversified business coupled with prudent management are expected to be key drivers for the stock. We estimate FY22E PAT at ₹ 523 crore. We value the company on SOTP basis, implying value of 20.9x FY22E PAT, providing a target price of ₹ 765. Maintain **BUY**.

Exhibit 6: SOTP valuation

Business Segment	Value (₹crore)	₹share
AMC	5,234	359
Broking & IB	4,737	325
PE & other business	1,322	91
Home Finance	1,826	125
Holding company discount	15%	15%
Value per share	11,151.7	765.4

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 7: Profit & Loss	(` crore)			
	FY19	FY20	FY21E	FY22E
Total Revenue	2,677	2,613	2,558	2,700
Operating Cost	1,543	1,327	1,271	1,302
EBITDA	937	1,084	1,082	1,155
Interest Expense	517	486	568	560
PBT	396	244	654	697
Tax	10	6	15	17
PAT	294	183	504	523

Source: Company, ICICI Direct Research

Exhibit 8: Balance Sheet	(` crore)			
	FY19	FY20	FY21E	FY22E
Sources of Funds				
Equity				
Net-worth	3050	3123	3626	4149
Borrowings	5160	4627	5627	5595
Minority Interest	40	30	30	30
Total Liabilities	8250	10111	9253	9745

Application of Funds

Fixed assets	300	273	273	273
Investment	2690	3089	2720	2720
Loans and Advances	4880	4079	5528	5971
Working Capital (net)	360	404	608	657
Deferred tax assets (net)	20	124	124	124
Total Assets	8250	10111	9253	9745

Source: Company, ICICI Direct Research

Exhibit 9: Key Ratios	(` crore)			
	FY19	FY20	FY21E	FY22E
No of Eq Shares (Crore)	14.57	14.57	14.57	14.57
EPS (`)	20.2	12.6	34.6	35.9
Book Value(`)	212	214	237	262
BVPS (`)	209	214	237	262
P/E (x)	36.1	58.0	21.1	20.3
P/B (x)	3.5	3.4	3.1	2.8
RoE (%)	9.6	5.7	10.1	9.9
ADTO (`crore)	17400	23500	24500	25000
Market Share (%)	1.8	1.6	2.0	1.8
Yield (%)	0.014	0.014	0.013	0.013

Source: Company, ICICI Direct Research

Exhibit 10: Growth ratios	(%)			
	FY19	FY20	FY21E	FY22E
Total Asset	-20.8	22.6	-17.3	5.8
Total Income	-8.8	-2.4	-2.1	5.6
ADTO	27.0	35.1	4.3	2.0
Expences	13.7	-14.0	-4.2	2.5
Net Profit	-0.5	-37.7	174.7	3.9
Book Value	4.0	2.4	10.6	10.4
EPS	-52.7	-37.7	174.7	3.9

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruvi Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

ANALYST CERTIFICATION

We /I, Kajal Gandhi, CA, Vishal Narnolia, MBA and Yash Batra, MBA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock broking and distribution of financial products. ICICI Securities Limited is a Sebi registered Research Analyst with Sebi Registration Number – INH000000990. ICICI Securities Limited Sebi Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.