

Strengths in businesses gradually playing out...

About the stock: Motilal Oswal Financial is a diversified financial services company, which include broking, wealth/asset management, housing and PE.

- The company has an active client base of 33.6 lakh as on December 2022
- Consolidated RoE reported around 19%

Q3FY23 Results: Decent performance; retail F&O market share up 54 bps QoQ

- ADTO was up 32% QoQ and 205% YoY to ₹ 292000 crore, though cash turnover with the same witnessed a dip of 26% YoY to ₹ 2300 crore in ADT
- Moderation in active clients at 9 lakh; ARPU down to ₹ 23438 compared to ₹ 24183 QoQ
- Revenue was up 11% YoY and 5% QoQ led by AMC and broking segment
- Opex up 4.4% YoY and 2.0% QoQ. PAT declined 6.4% YoY and 1.7% QoQ to ₹ 2170 crore

What should investors do? Motilal Oswal's share price has grown ~12% over the past three years. Diversified revenue streams with wealth and AMC gaining strength, F&O business uptick and prudent management are key drivers.

- We retain our **BUY** rating on the stock

Target Price and Valuation: We value the diversified business on SoTP basis with a revised target price of ₹ 790 per share.

Key triggers for future price performance:

- Focus on quality customers and lower breakeven period for digital customers to aid revenue growth & ARPU
- Continuous rise in RM count, expected to increase AUM growth momentum in wealth
- Sustainable earnings & gain in market share remain positive triggers
- Strong growth, improving credit cost and steady NIMs to improve return ratios for housing business

Alternate Stock Idea: Apart from Motilal, in our coverage we also like CAMS.

- CAMS is a mutual fund transfer agency. It provides technology driven financial infrastructure & services to MFs and other financial institutions
- BUY with a target price of ₹ 2760



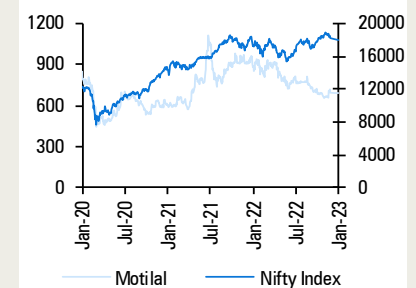
Particulars

Particulars	Amount
Market Capitalisation	₹ 10225 crore
Networth	₹ 6230 crore
52 week H/L	960 /651
Face Value	₹ 1

Shareholding pattern

in (%)	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	70.4	69.5	69.5	69.6	69.5
FII	10.2	10.1	9.8	9.3	7.4
DII	2.9	3.6	4.0	5.0	6.0
Others	16.5	16.8	16.7	16.1	17.2

Price Chart



Recent Event & Key risks

- Sequential fall in active clients & decline in ARPU
- **Key Risk:** (i) Decline in market share in broking business, (ii) Fund based business negative MTM

Research Analyst

Kajal Gandhi
kajal.gandhi@icicisecurities.com

Vishal Namolia
vishal.namolia@icicisecurities.com

Pravin Mule
pravin.mule@icicisecurities.com

Key Financial Summary

	FY19	FY20	FY21	FY22	3 year CAGR (FY19-FY22)	FY23E	FY24E	FY25E	3 year CAGR (FY22-25E)
ADTO (₹ crore)	17,400	23,500	59,800	1,23,100	92.0%	2,83,130	3,39,756	3,73,732	44.8%
Total Revenue (₹ crore)	2,653	2,613	3,924	4,051	15.2%	4,807	5,415	6,013	14.1%
Net Profit (₹ crore)	298	190	1,265	1,312	63.9%	1,217	1,323	1,452	3.4%
EPS (₹)	20.5	12.8	86.3	88.0		81.6	88.7	97.4	
Book Value (₹)	212.4	208.4	302.3	380.6		388.9	0.0	405.1	
P/BV (x)	3.3	3.3	2.3	1.8		1.8	1.7	1.7	

Key takeaways of recent quarter & conference call highlights

Q3FY23 Results: Moderate top line impacted PAT

- ADTO grew 32% QoQ/205% YoY to 292000 crore but cash turnover moderated. Retail F&O ADTO market share grew 54 bps QoQ to 4.4% in Q3FY23. Overall market share (ex-prop) was up 42 bps QoQ, 136 bps YoY to 3.8%. Funding book grew 14% QoQ to ₹ 3320 crore
- Active clients have registered 14% YoY growth at 9 lakh. However, on a QoQ basis, the active client base has moderated as of December 2022.
- AMC AUM was at ₹ 46480 crore with MF AUM at ₹ 29530 crore and Alternates AUM at ₹ 16700 crore.
- Total revenue was up 11% YoY & 5% QoQ to ₹ 11455 crore led by AMC and broking revenues
- On a sequential basis, ARPU was down to ₹ 23438 compared to ₹ 24183 QoQ. This can be attributed to decline in cash volumes, which are high yielding
- Cost of client acquisition was at ₹ 2500
- Total opex up 4.4% YoY and 2% QoQ. Due to moderated topline, PAT declined 6.4% YoY and 1.7% QoQ to ₹ 2170 crore

Q3FY23 earnings conference call highlights

Capital Market business –

- Retail F&O market share up by ~50 bps
- Net interest income in IPO funding ₹ 46.7 crore
- Acquired 511000 clients in retail broking division
- NSE active clients up 14% YoY at 900000
- Average payback period of digital channels came down to six months vs. 12 months earlier
- MTF book up 14% YoY at ₹ 3320 crore
- Market share in commodity ~7%
- Added 67000 new SIPs during the quarter
- Cost of acquisition is ₹ 2500
- Overall 175 bps increase in CoF of which almost half of it is passed on to customers. (NIMs at 5.8% on overall book).

Wealth business –

- RM count increased from 139 to 166 YoY, which has increased opex during the quarter
- Aim to double RMs base in next two years
- As the vintage of RMs improve, the result on bottomline will be visible

Home Finance –

- Seen strong traction in home finance business
- CoF down 40 bps, spreads increased to 5.9% (up 34 bps)
- Had guided earlier that one-fourth of restructured book can slip and, hence, GNPA was at 2%
- Lower disbursements in construction finance during the quarter. Overall AUM reduced due to subsidy received. Going ahead disbursements will be aided by retail disbursements

- Addition in leadership position will give strong runway for growth over the next two to three years
- Marginal slippage was due to restructured book, which is provided adequately at average rate of ~13%
- Opex to remain elevated due to new hiring, etc
- Restructured book was at ₹ 251 crore on AUM of ₹ 3660 crore

Asset Management Business –

- Gross sales in AMC was ~₹ 1700 crore and redemptions were ~₹ 800 crore
- Passive AUM is ~20% of overall AUM.

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP		M Cap	EPS (₹)				P/E (x)			P/ABV (x)			RoE (%)						
	(₹)	TP(₹)		Rating	(₹ Cr)	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E			
Motilal	685	790	Buy	10225	86.3	88.0	81.6	88.7	7.9	7.8	8.4	7.7	2.3	1.8	1.8	1.7	28.5	23.1	21.0	22.4
CAMS	2258	2760	Buy	11064	42.1	58.7	56.6	58.0	5.8	4.2	4.3	4.2	2.3	1.8	1.6	0.0	39.8	44.3	37.9	34.8
IIFL Sec	62	75	Hold	1891	7.3	10.1	10.3	10.2	8.5	6.2	6.0	6.1	1.9	1.6	1.3	1.0	23.9	28.5	23.3	18.8
5 paisa	294	375	Hold	902	5.8	4.7	10.8	15.5	50.7	62.6	27.2	19.0	4.7	2.3	2.1	1.9	10.0	5.2	8.2	10.6

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

₹ crore	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Broking	7,486.0	7,259.0	3.1	7,152.0	4.7	Overall market share (ex-prop) was up 42 bps QoQ to 3.8%
Asset Management	2,499.0	1,675.0	49.2	2,335.0	7.0	AUM up 8% QoQ & 21% YoY at ₹ 41300 crore
Fund Based	113.0	84.0	34.5	136.0	-16.9	
Housing Finance	1,357.0	1,290.0	5.2	1,315.0	3.2	
Total Revenues	11,455.0	10,308.0	11.1	10,938.0	4.7	
Total Revenues after Intercompany adjustments	10,639.0	10,351.0	2.8	10,166.0	4.7	
Operating Costs	6,022.0	5,767.0	4.4	5,902.0	2.0	Opex in home finance division to remain elevated
EBITDA	4,128.0	4,584.0	-9.9	3,772.0	9.4	
PBT	2,923.0	3,014.0	-3.0	2,964.0	-1.4	
Reported PAT	2,170.0	2,319.0	-6.4	2,208.0	-1.7	Moderate top line impacted PAT growth

Source: Company, ICICI Direct Research

Exhibit 3: SOTP

Business Segment	₹/share
AMC	182
Broking & IB	326
PE & other business	118
Home Finance	142
Fund based & others	161
Holding company discount	15%
Value per share	790

Source: Company, ICICI Direct Research

Financial summary

Exhibit 4: Profit and loss statement					
	₹ crore				
	FY21	FY22	FY23E	FY24E	FY25E
Total Revenue	3,924	4,051	4,807	5,415	6,013
Operating Cost	1,609	2,147	2,369	2,669	2,964
EBITDA	2,092	1,601	2,101	2,367	2,628
Interest Expense	430	478	711	821	985
PBT	1,458	1,616	1,623	1,763	1,936
PAT	1,265	1,312	1,217	1,323	1,452

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet					
	₹ crore				
	FY21	FY22	FY23E	FY24E	FY25E
Sources of Funds					
Equity					
Net-worth	4432	5674	5799	5915	6040
Minority Interest	56	26	29	32	35
Borrowings	5693	6152	7259	8638	10366
Total Liabilities	10181	11852	13087	14584	16441

Application of Funds					
Fixed assets	316	324	333	343	354
Investment	3922	4685	4919	5165	5423
Loans and Advances	4520	4905	6278	7533	9040
Trade Receivable	1422	1939	1556	1543	1624
Total Assets	10181	11852	13087	14584	16441

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios					
	FY21	FY22	FY23E	FY24E	FY25E
No of Eq Shares (Crore)	14.7	14.9	14.9	14.9	14.9
EPS (₹)	86.3	88.0	81.6	88.7	97.4
Book Value(₹)	302	381	389	0	405
BVPS (₹)	302	381	389	397	405
P/E (x)	7.9	7.8	8.4	7.7	7.0
P/B (x)	2.3	1.8	1.8	1.7	1.7
RoE (%)	28.5	23.1	21.0	22.4	24.0

Source: Company, ICICI Direct Research

Exhibit 7: Growth					
	%				
	FY21	FY22	FY23E	FY24E	FY25E
Total Asset	0.7	16.4	10.4	11.4	12.7
Total Income	50.2	3.2	18.7	12.6	11.0
ADTO	154.5	105.9	130.0	20.0	10.0
Expences	21.2	33.5	10.3	12.6	11.0
Net Profit	567.1	3.8	-7.2	8.6	9.8
Book Value	45.1	25.9	2.2	2.0	2.1
EPS	573.9	2.0	-7.2	8.6	9.8

Source: Company, ICICI Direct Research

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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, AkruTI Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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