January 22, 2021

IIFL Wealth Management Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term principal protected market linked debenture programme	300	300	PP-MLD[ICRA]AA(Stable); reaffirmed
NCD programme	100	100	[ICRA]AA(Stable); reaffirmed
Commercial paper programme	200	500	[ICRA]A1+; assigned/ reaffirmed
Commercial paper programme (IPO financing)	3,000	3,000	[ICRA]A1+; reaffirmed
Total	**3,600**	**3,900**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings for IIFL Wealth Management Limited (IWML) are based on a consolidated view of IIFL Wealth Management Limited and its subsidiaries (referred to as IIFL Wealth/the Group/company), given the common senior management team and strong financial and operational synergies.

The ratings factor in IIFL Wealth's leading market position, as reflected in the assets under advice, management and distribution of Rs. 1,67,091 crore as on September 30, 2020. The company's senior management team has significant experience and expertise in the wealth management business, which has helped it grow into a leading player in the wealth management industry. The franchisee built over the years has helped ensure low client attrition (less than 2.5% p.a.). ICRA also takes into account the comfortable capitalisation with the demonstrated ability to raise equity. The ratings consider the reduction in the Group's profitability on account of a change in the revenue recognition model to trail basis and the mark-to-market (MTM) losses on its alternate investment funds (AIFs), with profit after tax/average total assets (PAT/ATA) of 1.8% and return on equity (RoE) of ~7% in FY2020. ICRA draws comfort from the management's strategy of focusing on increasing the share of annual recurring assets (42% as on September 30, 2020; 37% as on March 31, 2019) as opposed to transaction/brokerage assets, which could help reduce the volatility in income.

ICRA considers the modest lending operations with a loan book of Rs. 2,836 crore as on September 30, 2020 and the top 20 exposures forming 48% of the total loans and 46% of the consolidated net worth as on June 30, 2020. The loans are primarily to IIFL Wealth's clients. The ratings also factor in the concentration of the funding sources, which is largely through its own client base in the form of principal protected market linked debentures (PP-MLDs).

The outlook is Stable as the company is expected to maintain its strong position in wealth management with the gearing likely to remain under 3.5x.

Key rating drivers and their description

Credit strengths

Strong market position in wealth management – IIFL Wealth offers advisory, asset management, broking and distribution services to high net worth individuals (HNIs) and ultra HNIs. Its leading market position is reflected in the assets under advice, management and distribution of Rs. 1,67,091 crore as on September 30, 2020. It is also one of the largest managers of AIFs with assets under management (AUM) of Rs. 19,023 crore as of September 30, 2020. It has a subsidiary, IIFL Wealth Prime Limited (IWPL), which is a non-banking financial company (NBFC) that provides loans against securities to the clients of the wealth management business with a loan book of Rs. 2,836 crore as on September 30, 2020. The company has a presence in wealth management across nine geographies with 31 offices and 297 relationship managers as on September 30, 2020.

Experienced and Stable management team – The company's senior management team has significant experience and expertise in the wealth management business, which has helped it grow into a leading player in the wealth management industry. Apart from the senior management, the bankers have average experience of over seven years in IIFL Wealth and overall experience of more than 12 years.

Comfortable capitalisation; demonstrated ability to raise equity – The consolidated net worth stood at Rs. 3,089 crore as on September 30, 2020 with a reported gearing of 2.72x. ICRA takes note of the one-time special interim dividend of ~Rs. 300 crore paid by the company. On a standalone basis, IWPL reported a CRAR of 24.5% with a Tier I capital of 23.2% as of September 30, 2020 (32.8% and 28.7%, respectively, as on March 31, 2019). While the gearing remains comfortable, ICRA takes note of the likely increase in the same for one to two weeks when the company would utilise commercial paper for initial public offering (IPO) financing. The capitalisation has been supported by a regular equity infusion of Rs. 904 crore in FY2016 by General Atlantic and an equity infusion of Rs. 745.71 crore in Q1 FY2019. The infused capital was utilised for the acquisition of Chennai-based wealth management company, Wealth Advisors India Pvt. Ltd, for Rs. 253.6 crore in cash. Further, the company purchased the wealth business of L&T Finance for Rs. 230 crore. With minimal additional sponsor investments in AIFs, a low capital-intensive business and moderate growth plans for the loan book, IIFL Wealth is currently comfortably capitalised. ICRA derives comfort from the Group's demonstrated ability to raise equity.

Comfortable asset quality – IWPL, a 100% subsidiary of IIFL Wealth, provides loans against securities and had a loan book of Rs. 2,836 crore as on September 30, 2020 (Rs. 4,798 crore as on March 31, 2019). These loans are largely to the clients of the wealth management business and are sourced by the wealth relationship managers. The loan book accounted for ~2% of the wealth management AUM and is expected to remain within ~3-4% of the AUM. The reported asset quality indicators remain comfortable with gross and net NPAs of 0% and zero credit losses since inception. While the asset quality remains comfortable, the loan book, which is backed by financial assets, is susceptible to a decline in prices that may result in a decline in the loan-to-value (LTV) ratios. ICRA derives comfort from the fact that the portfolio largely comprises the clients of the wealth management business and the company does not have any aggressive plans to grow its portfolio.

Credit challenges

Funding profile remains concentrated – The funding profile remains concentrated with the company's borrowings largely being from its own client base through PP-MLDs. IIFL Wealth has significantly reduced its reliance on commercial papers (less than 1% as on September 30, 2020 from 63% as on March 31, 2018), which has helped increase the duration of its liability base, albeit with an increase in the cost of funds. ICRA draws comfort from the limited funding requirements, given the limited expected growth in the loan book.

Earnings remain exposed to capital market movements and regulatory uncertainties – With the change in the revenue recognition model, whereby the revenues on distribution are now on a trail basis even for the portfolio management services (PMS) and AIFs, the company's overall revenues declined in FY2020 to Rs. 851 crore from Rs. 1,067 crore in FY2019. The revenues were further impacted in Q4 FY2020 on account of the MTM loss on the sponsor and non-sponsor AIFs of Rs. 79 crore incurred in Q4 FY2020. The profit before tax (PBT) was lower at Rs. 286 crore in FY2020 compared to Rs. 537 crore in FY2019 due to lower revenues and partly due to higher employee expenses. The profit after tax (PAT) was lower at Rs. 206 crore in FY2020 (PAT/ATA of 1.8% and RoE of 7%) compared to Rs. 384 crore in FY2019 (PAT/ATA of 4.0% and RoE of 16.1%).

For H1 FY2021, the company reported a PAT of Rs. 169 crore (PAT/ATA of 2.8% and RoE of 11.6%) on revenues of Rs. 486 crore. The loan book declined in H1 FY2021, which resulted in lower revenues despite the growth in the AUM. This was offset by the reversal of the MTM losses, which the company had incurred in Q4 FY2020 in its sponsor and non-sponsor AIFs.

The company's net inflows are exposed to fluctuations in the capital markets. While the currently high AUM of Rs. 1,67,091 crore as on September 30, 2020 is expected to support revenues, lower net inflows could impact revenue growth. ICRA draws comfort from the management's strategy of focusing on increasing the share of annual recurring assets (42% as on September 30, 2020; 37% as on March 31, 2019) as opposed to transaction/brokerage assets, which could help reduce the volatility in income. The revenues are also susceptible to regulatory changes such as the regulations for the total expense ratio (TER). The company's strategy of moving to an advisory model from the broker model would help reduce the regulatory uncertainties associated with the distribution fees from the manufacturer.

Franchisee risks – The company relies on its brand and the franchisee developed over a period for the retention and acquisition of clients. Any reputational damage could affect the business. A risk mitigant would be the seasoned relationship manager base with low client attrition rates.

Modest scale of lending operations with concentration of top 20 exposures – IIFL Wealth's lending operations remain modest with a loan book of Rs. 2,836 crore as on September 30, 2020. Further, the portfolio is entirely concentrated on a single product, i.e. loans against securities to HNI clients. ICRA also notes that the top 20 exposures formed 48% of the total loans and 46% of the consolidated net worth as of June 30, 2020.

Liquidity position: Adequate

IWPL had positive cumulative mismatches in the less-than-1-year bucket as on September 30, 2020. On a consolidated basis, it had cash and liquid investments of Rs. 1,398 crore and unutilised bank lines of Rs. 145 crore as on December 25, 2020, which are adequate for debt repayments of Rs. 1,564 crore till June 2021.

Rating sensitivities

Positive triggers – ICRA will upgrade the ratings/change the outlook to Positive if the company is able to increase the annual recurring assets to 75% of the AUM on a sustained basis while growing the AUM and increasing the profitability with an RoE of >16%.

Negative triggers – ICRA will downgrade the ratings/change the outlook to Negative if there is a material and prolonged erosion in the company's AUM with high client and advisor attrition. Increase in the consolidated gearing beyond 3.5x on a sustained basis remains a rating trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of IIFL Wealth Management Limited

About the company

IIFL Wealth Management Limited (IIFL Wealth), founded in 2008, is one of the largest private wealth management firms in India. The entity was a part of the IIFL Group with IIFL Holdings Limited (renamed IIFL Finance) holding a majority stake of 53.3% in IIFL Wealth as on March 31, 2019. After the scheme of arrangement (effective May 2019), the demerger of the wealth business undertaking of IIFL Finance Limited into IIFL Wealth became effective. The entity was listed on September 19, 2019.

IIFL Wealth's (consolidated) net worth stood at Rs. 2,991 crore as on March 31, 2020. It generated a net profit of Rs. 206 crore on net revenues of Rs. 851 crore in FY2020 compared to a net profit of Rs. 384 crore on net revenues of Rs. 1,067 crore in FY2019. For H1 FY2021, the company reported a net profit of Rs. 169 crore on net revenues of Rs. 486 crore.

Key financial indicators (consolidated for IIFL Wealth Management Limited)

	FY2019 IND-AS	FY2020 IND-AS	H1 FY2021 IND-AS
Net revenues	1,067	851	486
Profit after tax	384	206	169
Net worth[1]	2,911	2,991	2,847
Loan book	4,798	3,535	2,836
AUM[2]	1,36,601	1,38,792	1,67,091
ARR/AUM	43%	45%	47%
Total assets	9,780	13,021	11,440
PAT/ATA	4.00%	1.80%	2.77%
Return on equity	16%	7%	12%
Gross NPA	-	-	-
Net NPA	-	-	-
Gearing[3]	2.1	2.95	2.72

Amounts in Rs. crore

Ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

[1] Including minority interest

[2] AUM, advisory and distribution (excluding custody assets)

[3] Including minority interest

Rating history for last three years

Sr. No.	Instrument	Type	Amount Rated	Amount Outstanding	Current Rating (FY2021)	Rating History for the Past 3 Years				
					Rating	FY2020			FY2019	
					Jan-22-21	Oct-28-20	Mar-05-20, Jan-22-20, Nov-29-19	Nov-22-19, Aug-07-19, May-08-19, Apr-11-19	Nov-30-18, Oct-19-18, Aug-20-18, Jul-25-18, Jun-28-18, May-25-18, May-14-18	Mar-16-18, Mar-13-18, Feb-14-18, Jan-18-18, Dec-13-17, Nov-01-17, Oct-12-17, Sep-13-17, Sep-06-17, Aug-11-17, Aug-09-17, Aug-04-17, Jul-24-17, Jul-19-17, Jun-21-17, Jun-02-17, May-02-17, Apr-24-17
1	Long-term principal protected market linked debenture programme	Long-Term	300	-	PP-MLD [ICRA]AA (Stable); reaffirmed	PP-MLD[ICRA] AA(Stable)	-	-	-	-
2	Commercial paper programme (IPO Financing)	Short Term	3,000	NA	[ICRA]A1+; reaffirmed	[ICRA]A1+	[ICRA]A1+	-	-	-
3	Commercial paper programme	Short Term	500	NA	[ICRA]A1+; assigned/ reaffirmed	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Secured NCD programme	Long Term	100	-	[ICRA]AA (Stable); reaffirmed	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)

Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in.

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term principal protected market linked debenture programme*	NA	NA	NA	300	PP-MLD[ICRA]AA(Stable)
NA	Secured NCD programme*	NA	NA	NA	100	[ICRA]AA(Stable)
NA	Commercial paper programme	-	-	7-365 days	500	[ICRA]A1+
NA	Commercial paper programme	-	-	7-30 days	3,000	[ICRA]A1+

Source: IIFL Wealth

**Not yet placed*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
IIFL Distribution Services Limited	100%	Full Consolidation
IIFL Investment Adviser and Trustee Services Limited	100%	Full Consolidation
IIFL Alternate Asset Advisors Limited	100%	Full Consolidation
IIFL Asset Management Limited	100%	Full Consolidation
IIFL Trustee Limited	100%	Full Consolidation
IIFL Wealth Finance Limited	100%	Full Consolidation
IIFL Wealth Securities IFSC Limited (w.e.f. June 22, 2018)	100%	Full Consolidation
IIFL Wealth Advisors (India) Limited (w.e.f. November 22, 2018)	100%	Full Consolidation
IIFL Altiore Advisors Limited (w.e.f. November 5, 2018)	100%	Full Consolidation
IIFL Wealth Employee Welfare Benefit Trust	100%	Full Consolidation
IIFL Asset Management (Mauritius) Limited (formerly known as IIFL Private Wealth (Mauritius) Limited	100%	Full Consolidation
IIFL Inc.	100%	Full Consolidation
IIFL (Asia) Pte. Limited	100%	Full Consolidation
IIFL Securities Pte. Limited	100%	Full Consolidation
IIFL Capital Pte. Limited	100%	Full Consolidation
IIFL Private Wealth Management (Dubai) Limited	100%	Full Consolidation
IIFL Private Wealth Hong Kong Limited	100%	Full Consolidation
IIFL Capital (Canada) Limited (w.e.f. November 3, 2018)	100%	Full Consolidation

Analyst Contacts

Karthik Srinivasan
+91 22 61143444
karthiks@icraindia.com

Sahil Udani
+91 22 61143429
sahil.udani@icraindia.com

Neha Parikh
+91 22 61143426
neha.parikh@icraindia.com

Jui Kulkarni
+91 22 61143427
jui.kulkarni@icraindia.com

Relationship Contact

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 2556 0194/ 6606 9999

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