April 20, 2022

IIFL Wealth Management Limited: Ratings reaffirmed and ratings assigned/reaffirmed for commercial paper programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper programme	500	1,000	[ICRA]A1+; Assigned/reaffirmed
Commercial paper programme (IPO financing)	3,000	3,000	[ICRA]A1+; Reaffirmed
Long-term principal protected market linked debenture programme	300	300	PP-MLD[ICRA]AA (Stable); Reaffirmed
NCD programme	100	100	[ICRA]AA (Stable); Reaffirmed
Total	**3,900**	**4,400**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings for IIFL Wealth Management Limited (IWML; standalone) are based on a consolidated view of IWML and its subsidiaries (referred to as IIFL Wealth/the Group/the company; consolidated), given the common senior management team and the 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. 2,62,780 crore as on December 31, 2021. 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 (loss of assets under management (AUM) due to client attrition of 0.5% as of September 30, 2021). ICRA also considers the comfortable capitalisation with the demonstrated ability to raise equity.

While the Group's profitability had declined in FY2020 due to the change in the revenue recognition model to trail basis, the same improved in FY2021 and 9M FY2022 (profit after tax (PAT)/average total assets (ATA) of 5% and return on equity (RoE) of 19% in 9M FY2022 compared to 3% and 12%, respectively, in 9M FY2021). ICRA draws comfort from the management's strategy of focusing on increasing the share of annual recurring assets (53% as of December 31, 2021, 49% as on March 31, 2021 and 40% as on March 31, 2020) instead of transaction/brokerage assets, which could help reduce the volatility in income.

ICRA takes into consideration the modest lending operations with a loan book of Rs. 3,983 crore as on December 31, 2021. Moreover, the top 20 exposures formed 50% of the total loans and 57% of the consolidated net worth as on September 30, 2021. The loans are primarily to IIFL Wealth's clients. The ratings also factor in the concentration of the funding, which is largely through its own client base in the form of principal protected market linked debentures (PP-MLDs). ICRA takes note of the increase in the share of commercial papers (CP) to ~30-35% of the consolidated borrowings. The same is, however, expected to decline to ~20% in six months.

ICRA takes note of the announcement of Bain Capital's plan to acquire a 24.98% stake in IIFL Wealth from General Atlantic and Fairfax, subject to approvals from various regulatory authorities. In ICRA's opinion, the aforementioned announcement and proposed transaction are not expected to have any adverse impact on the company's credit profile.

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. 2,62,780 crore as on December 31, 2021. It is also one of the largest managers of alternative investment funds (AIFs) with AUM of Rs. 32,666 crore as of December 31, 2021. The company has seen a transition with the increasing share of annual recurring assets to 53% as on December 31, 2021 (40% as on March 31, 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. 3,983 crore as on December 31, 2021. The company has a presence in wealth management across five geographies with 27 offices and 249 relationship managers as on March 31, 2021.

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. 2,828 crore as on December 31, 2021 with a reported gearing of 1.93x. On a standalone basis, IWPL reported a CRAR of 22.48% with a Tier I capital of 22.07% as of December 30, 2021 (23.11% and 22.06%, respectively, as on March 31, 2021). 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 CP 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. It distributed Rs. 907.01 crore of dividends in the past three years, with an average dividend payout ratio of 70-75%. ICRA derives comfort from the Group's demonstrated ability to raise equity.

The company's profitability also remains strong. With the significant increase of 31% YoY in the AUM, the revenues were higher in 9M FY2022 at Rs. 1,086 crore (up 42% YoY) while the cost-to-income ratio declined to 50.5% (54.3% in 9M FY2021).

IIFL Wealth (consolidated basis) reported a PAT of Rs. 414 crore in 9M FY2022 (PAT/ATA of 5% and RoE of 19%) compared to Rs. 267 crore in 9M FY2021 (PAT/ATA of 3% and RoE of 12%).

Comfortable asset quality – IWPL, a 100% subsidiary of IIFL Wealth, provides loans against securities, loan against property, margin trading funding and unsecured loans and had a loan book of Rs. 3,983 crore as on December 31, 2021 (Rs. 3,620 crore as on March 31, 2021). 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 4% of the AUM.

The company reported non-performing advances (NPAs) of Rs. 85 crore as of December 31, 2021, comprising 2.1% of gross advances, with net NPAs of 1.5%. The same was recovered in Q4 FY2022. While the reported asset quality remains comfortable, the loan book, which is backed by financial assets, is susceptible to a decline in prices that may lead to 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 (72% of overall borrowings as on December 31, 2021; 89% as of March 31, 2021). ICRA draws comfort from the limited funding requirements, given the limited growth expected in the loan book. The company increased its reliance on CP to 27% as on December 31, 2021 (9% as of March 31, 2021) to fund growth (loan book and investments – largely in-transit book). The same is, however, expected to decline. Overall, on a steady-state basis, the share of CPs is likely to stabilise at ~20% in the next six months.

Earnings remain exposed to capital market movements and regulatory uncertainties – The company's net inflows are exposed to fluctuations in the capital markets. While the high AUM of Rs. 2,62,780 crore as on December 31, 2021 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 (53% as of December 31, 2021, 49% as on March 31, 2021 and 40% as on March 31, 2020) instead of 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 distribution fees from the manufacturer.

The company's revenues were impacted in FY2020 by the change in the revenue recognition model, whereby the revenues on distribution were on a trail basis even for the portfolio management services (PMS) and AIFs. However, with the growth in the AUM and the increase in the share of ARR (annual recurring revenue assets), the revenues in FY2021 were similar to the FY2019 level, which was prior to the transition to the recurring revenue-based model. ICRA draws comfort from the increase in the share of the ARR in the revenue to 64% in FY2021 and 67% in 9M FY2022 from 58% in FY2020.

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. 3,983 crore as on December 31, 2021. Further, the portfolio is largely concentrated on a single product, i.e. loan against securities to HNI clients. ICRA also notes that the top 20 exposures formed 50% of the total loans and 57% of the consolidated net worth as of September 30, 2021.

Liquidity position: Adequate

As on December 31, 2021, IIFL Wealth has debt repayment due of Rs. 2,172 crore till June 30, 2022. Against this, the company has cash and liquid investments of Rs. 1,192 crore and sanctioned but unutilised bank lines of Rs. 145 crore. IIFLWP had positive cumulative mismatches in the less-than-1-year bucket as on December 31, 2021. While the repayments on its loan book, as per the structural liquidity statement (SLS), are limited, the actual repayments on the loan book are much higher (SLS is as per actual maturity and not behavioural), providing comfort. ICRA takes note of the increase in CP to 27% of the consolidated borrowings as of December 31, 2021. The share of CP is, however, expected to reduce to ~20% over the next six months and will remain a key monitorable.

IWML (standalone) had cash and liquid investments of Rs. 369 crore as of December 31, 2021 against repayments of Rs. 492 crore due by June 30, 2022.

Rating sensitivities

Positive factors – 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 maintaining the profitability with RoE of >16%.

Negative factors – 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

About the company

IIFL Wealth Management Limited (IIFL Wealth), founded in 2008, is one of the largest private wealth management firms in India. It was a part of the IIFL Group with IIFL Holdings Limited (renamed IIFL Finance) holding a majority stake of 53.3% 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. It was listed on September 19, 2019.

IIFL Wealth's (consolidated) net worth stood at Rs. 2,828 crore as on March 31, 2021. It generated a net profit of Rs. 369 crore on net revenues of Rs. 1,053 crore in FY2021 compared to a net profit of Rs. 206 crore on net revenues of Rs. 850 crore in FY2020. For H1 FY2022, the company reported a net profit of Rs. 259 crore on net revenues of Rs. 666 crore.

Key financial indicators (audited)

IIFL Wealth Management Limited (consolidated)	FY2020	FY2021	9M FY2022*
Net revenues (Rs. crore)	850	1,053	1,086
Profit after tax (Rs. crore)	206	369	414
Net worth (Rs. crore)	2,992	2,828	2,828
Loan book (Rs. crore)	3,536	3,620	3,983
Total AUM (Rs. crore)	1,56,897	2,07,044	2,62,780
Total assets (Rs. crore)	13,019	8,740	9,782
Return on assets (%)	1.80%	3.39%	5.96%
Return on net worth (%)	6.90%	13.06%	19.52%
Gross gearing (times)	2.95	1.67	1.93
Gross NPA (%)	-	2.2%	2.1%
Net NPA (%)	-	1.7%	1.5%
Gross stage 3 (%)	-	-	-
Net stage 3 (%)	-	-	-

IIFL Wealth Management Limited (consolidated)	FY2020	FY2021	9M FY2022*
Solvency (Net stage 3/Net worth)	-	-	-
CRAR (%)	27.55%	23.11%	22.48%

Source: *Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

		Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years				
Sr. No.	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding As of March 31, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020		
					Apr-20-22	Jan-18-22	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
1	Long-term principal protected market linked debenture programme	Long Term	300	249.8	**PP-MLD [ICRA]AA (Stable)**	PP-MLD [ICRA]AA (Stable)	PP-MLD [ICRA]AA (Stable)	PP-MLD[ICRA] AA(Stable)	-	-
2	Commercial paper programme (IPO financing)	Short Term	3,000	-	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
3	Commercial paper programme	Short Term	1,000	496.5	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Secured NCD programme	Long Term	100	-	**[ICRA]AA (Stable)**	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term principal protected market linked debenture programme	Complex
Commercial paper programme	Very Simple
NCD programme	Very Simple
Commercial paper programme (IPO financing)	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's 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
INE466L07027	Long-term principal protected market linked debenture programme	27-Dec-21	Linked to G-sec	15-May-25	120	PP-MLD[ICRA]AA (Stable)
INE466L07027	Long-term principal protected market linked debenture programme	30-Dec-21	Linked to G-sec	15-May-25	100	PP-MLD[ICRA]AA (Stable)
INE466L07027	Long-term principal protected market linked debenture programme	07-Jan-22	Linked to G-sec	15-May-25	29.8	PP-MLD[ICRA]AA (Stable)
Not Placed	Long-term principal protected market linked debenture programme *	-	-	-	50.2	PP-MLD [ICRA]AA (Stable)
Not Placed	Secured NCD programme*	-	-	-	100	[ICRA]AA (Stable)
INE466L14890	Commercial paper programme	23-Apr-21	6.60%	13-Apr-22	26.5	[ICRA]A1+
INE466L14890	Commercial paper programme	13-Jan-22	4.95%	13-Apr-22	5	[ICRA]A1+
INE466L14AV1	Commercial paper programme	28-Feb-22	5.65%	5-Sep-22	25	[ICRA]A1+
INE466L14AV1	Commercial paper programme	2-Mar-22	5.65%	5-Sep-22	90	[ICRA]A1+
INE466L14AW9	Commercial paper programme	4-Mar-22	5.65%	1-Sep-22	50	[ICRA]A1+
INE466L14AX7	Commercial paper programme	10-Mar-22	5.15%	9-Jun-22	150	[ICRA]A1+
INE466L14AX7	Commercial paper programme	25-Mar-22	4.95%	9-Jun-22	25	[ICRA]A1+
INE466L14AY5	Commercial paper programme	16-Mar-22	5.10%	14-Jun-22	125	[ICRA]A1+
Not Placed	Commercial paper programme	-	-	7-365 days	503.5	[ICRA]A1+
Not Placed	Commercial paper programme (IPO financing)	-	-	7-30 days	3,000	[ICRA]A1+

**Proposed; Source: Company*

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 Wealth Portfolio Managers Limited	100%	Full Consolidation
IIFL Asset Management Limited	100%	Full Consolidation
IIFL Trustee Limited	100%	Full Consolidation
IIFL Wealth Prime Limited	100%	Full Consolidation
IIFL Wealth Securities IFSC Limited	100%	Full Consolidation
IIFL Altiore Advisors Private Limited	100%	Full Consolidation
IIFL Wealth Employee Welfare Benefit Trust	100%	Full Consolidation
IIFL Wealth Capital Markets Limited	100%	Full Consolidation
IIFL Asset Management (Mauritius) Limited	100%	Full Consolidation

IIFL Inc.	100%	Full Consolidation
IIFL Capital Pte. Limited	100%	Full Consolidation
IIFL Private Wealth Management (Dubai) Limited	100%	Full Consolidation
IIFL Capital (Canada) Limited	**100%**	**Full Consolidation**

Source: IIFL Wealth

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