IIFL Wealth Management Limited

January 18, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper programme (IPO financing)	0.00	2,000.00	[ICRA]A1+; Assigned
Commercial paper programme (IPO financing)	2,000.00	0.00	[ICRA]A1+; Withdrawn
Commercial Paper programme	500.00	500.00	[ICRA]A1+; outstanding
Secured NCD programme	100.00	100.00	[ICRA]AA(stable); outstanding
Total	**2,600.00**	**2,600.00**	

Rating action

ICRA has assigned the rating of [ICRA]A1+ (pronounced ICRA A one plus) to Rs. 2,000 crore Commercial paper programme (IPO financing) of IIFL Wealth Management Limited (the company). ICRA has also withdrawn the rating of [ICRA]A1+ (pronounced ICRA A one plus) previously assigned to Rs. 2,000 crore Commercial paper programme (IPO financing) of the company. ICRA has an outstanding rating of [ICRA]AA(stable) (pronounced ICRA double A stable) on Rs. 100 crore Secured NCD programme and outstanding rating of [ICRA]A1+ (pronounced ICRA A one plus) on Rs. 500 crore Commercial Paper programme of the company.

Rationale

While arriving at the ratings, ICRA has taken a consolidated view of the credit profiles of key India Infoline group companies (collectively referred to as IIFL group) given their common promoters and senior management team, shared brand name, and strong financial and operation synergies.

The ratings factor in IIFL group's diversified business revenues constituted by its financing, distribution and broking operations, the group's robust risk management systems and healthy capitalisation profile backed by a strong consolidated net worth of Rs. 4,581 crore as on June 30, 2017.

Going forward, ICRA expects the group companies to continue to receive financial, managerial and operational support from the promoters. The ratings would be sensitive to the group's ability to profitably manage its relatively new lines of business, while maintaining superior asset quality through business cycles.

Outlook: Stable

ICRA believes that IIFL group will continue to benefit from its diversified business profile, its demonstrated track record and its robust risk management systems. The outlook may be revised to 'Positive' if there is a substantial and sustained improvement in the company's profitability, leading to an improvement in its financial risk profile. The outlook may be revised to 'Negative' if there is significant deterioration in the asset quality of the credit book and profitability indicators, thereby adversely affecting its financial risk profile.

Key rating drivers

Credit strengths

Diversified financial services group with presence in consumer finance, capital market activities (broking and financial products distribution), wealth management and microfinance – IIFL group is engaged in financing (carried out through an NBFC and a housing finance company), broking (through its equity and commodity broking subsidiaries) and distribution (through its wealth management companies). Apart from having a diversified loan book of Rs. 27,636 (including wealth finance book) crore as on June 30, 2017, the group is also a large player in distribution of financial products with assets under advice, management and distribution of Rs. 1,26,908 crore as on June 30, 2017. The group is among the leading players in retail broking with a total market share of 2.18% in FY2017.

Diversified lending book; increasing focus on retail lending provides comfort – The company has a diversified lending book which stood at Rs. 27,636 (including wealth finance book) crore as on June 30, 2017 with the mortgage segment accounting for 54% of the portfolio followed by capital market[1] (20%), gold (10%), commercial vehicles (11%), healthcare and SME (4%) and microfinance (1%). The diversity in the portfolio has been achieved through a steady growth in new business lines like commercial vehicle (CV) financing, SME loans, wealth finance and micro finance. The mortgage book (including home loans and loans against property) has been the key growth driver for the lending portfolio, growing at a CAGR of ~40% over the last three years (FY2014 to FY2017). The group's concentration on gold loans has gradually reduced over the years, constituting 10% of the lending book as on June 30, 2017, compared with 36% as on March 31, 2014. Going forward, the management intends to grow the lending book at a steady pace of 20%-25% while maintaining the focus on mortgage loans. The group's increasing focus on retail lending provides credit comfort.

Stable asset quality; however, moderate portfolio seasoning – IIFL group's reported asset quality (combined for NBFC, HFC and MFI businesses) indicators remain sound with gross NPA at 2.04% and net NPA at 0.94% as at June 30, 2017. With the revision in NPA recognition norms for NBFCs, which require them to recognise NPAs at 90+ overdue by FY2018 (IIFL NBFC moved to 90-day NPA recognition from Q1 FY2018), the ability of the group to accelerate the recovery process and keep credit costs under check, remains a key item to monitor.

Diverse revenue sources; fee income (broking, distribution, PMS, commodities business) provides support to lending operations – Financing, wealth management (distribution) and retail broking activities are the key revenue contributors for the group, accounting for 74%, 14% and 12% respectively of the total income in FY2017. The share of consolidated operating income from financing and distribution activities has increased steadily over the years while the share from the capital market related activities has declined. The wealth management business has steadily grown over the past four years and contributed 14% of the group revenues in FY2017 (vis-a-vis 11% in FY2013). The contribution of the wealth management business to overall revenues has been good given the robust growth in client base and assets under management. Although the dependence on capital market related businesses has been reducing, the group's revenue and profitability indicators remain vulnerable to cyclicality in the domestic capital markets.

Adequate capitalisation with Tier-1 CRAR of 18.1% and consolidated gearing[2] of 4.50 times as on June 30, 2017; demonstrated ability of the group to raise equity – IIFL group's capitalisation is comfortable with a gearing of 4.50 times and consolidated net worth of Rs. 4,581 crore as on June 30, 2017. The net worth improved with equity infusion of Rs. 1,005 crore (in IIFL NBFC) by CDC Group Plc in September 2016 and Rs. 904 crore (in IIFL Wealth Finance) by General Atlantic, Singapore in March 2016. At the group level, the gearing is expected to remain around 5-5.5 times in the medium term.

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[1] Including wealth finance book

[2] Including minority interest

Adequate liquidity and funding profile; greater stability in funding base with a shift towards longer tenure NCDs – The group's resource profile is fairly diversified across bank borrowings, NCDs and commercial papers. The share of market based borrowings increased with NCDs constituting 35% of the total borrowings as on June 30, 2017 vis-a-vis 20% as on March 31, 2013. The share of bank borrowings reduced slightly to 42% as on June 30, 2017 from 43% as on March 31, 2013 while that of commercial paper declined to 23% as on June 30, 2017 from 37% as on March 31, 2013.

Profitability metrics continue to be good despite the shift in focus towards lower yielding loan products – The group's consolidated net interest margins (NIMs) declined to 5.43% of average total assets (ATA) in FY2017, from 7.01% of ATA in FY2015, with the company focussing on the safer, lower yielding mortgage segment. The share of higher yielding segments like gold loans and capital markets financing reduced during this period. The group's non-interest income also decreased on account of lower broking income, as the retail broking yields decreased to 1.58 bps in FY2017 from 1.93 bps in FY2016, on account of both F&O and cash segment yields reducing to 0.54 bps and 9.70 bps in FY2017 from 0.69 and 10.40 bps in FY2016 respectively. Nevertheless, with decreasing cost of funds because of lower interest rates in the economy and reducing operating expenses with an increase in scale and digitisation of lending operations, the group's profitability remained good with PAT/ATA of 2.90% during FY2017 compared with 2.63% during FY2016.

Credit weaknesses

Exposure to the more risky commercial LAP and land funding segments and high exposure to the riskier self-employed segment – The group continues to have some exposure to the more risky commercial LAP and land funding segments. However, the presence of adequate collateral mitigates risk in land funding to some extent. The group, like most of its peers, also has high exposure to the riskier self-employed segment whose earning profile is more volatile than the salaried segment.

High growth in the loan book over past two years; a large part of the loan book is yet to be tested for adverse economic cycles – The high growth in the loan book over the past two years (CAGR of 27%) has resulted in a moderately seasoned portfolio. Given the moderate seasoning in the financing businesses, which contribute the largest proportion of group revenues (74% for FY2017), IIFL's ability to maintain its asset quality across business cycles while growing its portfolio amidst intense competitive pressures would be closely monitored by ICRA and it would remain a key rating sensitivity.

Analytical approach: For arriving at the ratings, ICRA has taken a consolidated view for IIFL Wealth Management Limited along with its group company – IIFL Holdings Limited (rated [ICRA]AA(Stable)/A1+) – since both have operational linkages and share a common management.

Links to applicable criteria:
ICRA's Credit Rating Methodology for Non-Banking Finance Companies

About the company

IIFL Wealth Management Limited
IIFL Wealth Management Limited (IWML) forms the wealth management and distribution arm of the IIFL Group. IIFL Holdings Limited holds the majority stake of 57.7% in IIFL Wealth Management Limited as on March 31, 2017.

IIFL Wealth Management (Consolidated) earned a net profit of Rs. 250.47 crore on total income of Rs. 1,082.86 crore in FY2017 compared to a net profit of Rs. 169.38 crore on total income of Rs. 590.87 crore in FY2016.

IIFL Holdings Limited (formerly known as India Infoline Ltd.)

IIFL Holdings Limited (IIFL Holdings, formerly known as India Infoline Ltd.) was founded in 1995 by two professionals as an independent financial research provider. The name of the company was changed to IIFL Holdings Limited in FY2014 when it became a non-operating holding company. The group is engaged in equity broking, portfolio management services, depository services, investment banking, distribution of mutual funds and other financial products, commodity broking, margin funding, consumer loan funding and wealth management.

IIFL group's consolidated net worth stood at Rs. 4,581 crore as on June 30, 2017. IIFL Holdings Limited (consolidated) reported a PAT of Rs. 822 crore (Rs 686 crore after minority interest) in FY2017 on a total operating income of Rs. 4,925 crore. Further, the company reported a PAT of Rs. 252 crore (Rs 198 crore after minority interest) in Q1 FY2018 on a total operating income of Rs. 1,478 crore.

Key Financial Indicators (Audited) (Consolidated for IIFL Holdings)

	FY2016	FY2017
Net Operating Income	2,283	2,833
Profit after tax	555	822
Networth	3,352	4,382
Loan Book (AUM)	19,615	25,896
Total assets	22,877	33,763
Return on assets	2.63%	2.90%
Return on equity	17.51%	15.66%
Gross NPA	1.44%	1.82%*
Net NPA	0.54%	0.58%*
Capital adequacy ratio	17.7%	20.7%
Gearing[3]	3.89	4.32

Amounts in Rs. crore

**NPA recognition at 120 days past due (dpd) compared with 150 dpd during FY2016*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

[3] Including minority interest

Rating history for last three years:

	Instrument	Current Rating (FY2018) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Chronology of Rating History for the past 3 years FY2018		FY2017	FY2016
					Jan-18	Dec-17	Aug-17	Oct-16	Sep-15
1	Commercial Paper Programme (IPO financing)	Short term	2,000.00	NA	[ICRA]A1+; Assigned	-	-	-	-
2	Commercial Paper Programme (IPO financing)	Short term	2,000.00	NA	[ICRA]A1+; Withdrawn	[ICRA]A1+; Assigned	-	-	-
3	Commercial Paper Programme	Short Term	500.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+;
4	Secured NCD Programme	Long term	100.00	NA	[ICRA]AA (stable)	[ICRA]AA (stable)	[ICRA]AA (stable)	[ICRA]AA (stable)	[ICRA]AA (stable);

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	IPO Financing Programme	NA	NA	NA	2,000.00	[ICRA]A1+
NA	Secured NCD Programme*	NA	NA	NA	100.00	[ICRA]AA(stable)
NA	Commercial Paper Programme	-	-	7-365 days	500.00	[ICRA]A1+

Source: Company Data, Data as on September 30, 2017
**Yet to be issued*

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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