IIFL Wealth Management Limited

June 28, 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	500.00	500.00	[ICRA]A1+; outstanding
Secured NCD programme	100.00	100.00	[ICRA]AA(stable); outstanding
Total	**600.00**	**2,600.00**	

Rating action

ICRA has assigned the rating of [ICRA]A1+ to the Rs. 2,000 crore IPO Financing Programme of IIFL Wealth Management Limited (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. 5,066 crore as on March 31, 2018.

On 31st January 2018, IIFL group had announced to restructure their corporate business lines. The wealth and asset management business of IIFL will be consolidated into IIFL Wealth. ICRA has taken a note of the announcement and will take an appropriate rating action, if required, subsequent to statutory and regulatory approvals. The detailed release on the event can be accessed here

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. 37,835 (including wealth finance book) crore as on March 31, 2018 (+46% YoY), the group is also a large player in distribution of financial products with assets under advice, management and distribution of Rs. 1,31,762 crore as on March 31, 2018 (+10% YoY). The group is among the leading players in retail broking with a total market share of ~2% in FY2018.

Diversified lending book; increasing focus on retail lending provides comfort – The company has a diversified lending book which stood at Rs. 37,835 (including wealth finance book) crore as on March 31, 2018 with the mortgage segment accounting for 49% of the portfolio followed by wealth finance (18%), commercial vehicles (11%), gold (11%), healthcare and SME (7%), capital market[1] (3%) and microfinance (2%). 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. While the mortgage book (including home loans and loans against property) has been the key growth driver for the lending portfolio in the past, in FY2018, the loan against property (LAP) portfolio for the group has largely been stable with a YoY growth of 2% resulting into an overall decline in share of mortgage loans to 49% as on March 31, 2018 from 54% as on March 31, 2017. The group's concentration on gold loans has gradually reduced over the years, constituting 11% of the lending book as on March 31, 2018, 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%. 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 1.7% and net NPA at 0.8% as at March 31, 2018 (1.8% and 0.6% respectively as on March 31, 2017). The NPAs for the group are largely contributed by LAP, CV and Construction and Real Estate. 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 income contributors for the group, accounting for 48%, 28% and 23% respectively of the total income[2] in FY2018. 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 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 CRAR of 16.2% and consolidated gearing[3] of 5.02 times as on March 31, 2018; demonstrated ability of the group to raise equity – IIFL group's capitalisation is comfortable with a gearing of 5.02 times and consolidated net worth of Rs. 5,066 crore as on March 31, 2018. At the group level, the gearing is expected to remain around 5-5.5 times in the medium term. ICRA also derives comfort from the group's demonstrated ability to raise equity.

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[1]Including wealth finance book

[2] Income is net of interest expense

[3]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 28% of the total borrowings as on March 31, 2018 vis-a-vis 20% as on March 31, 2013. The share of bank borrowings reduced to 28% as on March 31, 2018 from 43% as on March 31, 2013 while that of commercial paper increased to 42% as on March 31, 2018 from 37% as on March 31, 2013.

Profitability metrics remain strong –The net interest margins for the group have declined over the years with the group focussing on the safer, lower yielding mortgage segment and the decline in share of higher yielding segments like gold loans and capital markets financing. Nevertheless, with decreasing cost of funds and reducing operating expenses with an increase in scale and digitisation of lending operations, the group's profitability remained good. The group reported a consolidated net profit of Rs. 1,162 crore (3.0% of ATA) in FY2018 as compared to Rs. 822 crore (2.9% of ATA) in FY2017.

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. ICRA also takes note of the strategy of the group to reduce incremental exposures to the LAP segment. 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 three 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 37%) has resulted in a moderately seasoned portfolio. Given the moderate seasoning in the financing businesses, which contribute the largest proportion of group revenues (49% for FY2018), 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 India Infoline Finance 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. 385.3 crore on total income of Rs. 1,074.9 crore in FY2018 compared to a net profit of Rs. 250.47 crore on total income of Rs. 791.6 crore in FY2017.

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. 5,066 crore as on March 31, 2018. IIFL Holdings Limited (consolidated) reported a. The company reported a PAT of Rs. 1,162 crore (Rs 911 crore after minority interest) in FY2018 on a total assets of Rs. 43,703 crore as compared to PAT of Rs. 822 crore (Rs 686 crore after minority interest) in FY2017 on a total asset of Rs. 33,761 crore.

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

	FY2017	FY2018	Q4FY2017	Q4FY2018
Total Revenues	3,164	3,854	852	1,036
Profit after tax	822	1162	235	318
Networth	4,381	5,066	4,381	5,066
Loan Book (AUM)	25,896	37,835	25,896	37,835
Total assets	33,761	43,703	33,761	43,703
Return on assets	2.90%	3.00%	2.88%	3.07%
Return on equity	14.59%	17.70%	16.64%	19.37%
Gross NPA	1.82%	1.71%	1.82%	1.71%
Net NPA	0.58%	0.79%	0.58%	0.79%
Capital adequacy ratio	18.10%	16.20%	18.10%	16.20%
Gearing	4.32	5.02	4.32	5.02

Amounts in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
					Date & Rating			FY2018	FY2017	FY2016
					Jun 18	Mar 18	Feb 18	Aug 17	Oct 16	Sept 15
1	Commercial Paper Programme (IPO financing)	Short term	2,000.00	NA	[ICRA]A1+;	-	-	-	-	-
2	Commercial Paper Programme	Short Term	500	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+;
3	Secured NCD Programme	Long term	100	-	[ICRA]AA (stable)	[ICRA]A A(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	Secured NCD Programme*	NA	NA	NA	100.00	[ICRA]AA(stable)
NA	Commercial Paper Programme	-	-	7-365 days	500.00	[ICRA]A1+
NA	Commercial Paper Programme (IPO Financing)	-	-	7-30 days	2,000.00	[ICRA]A1+

Source: Company Data

**Not yet issued*

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

Ankur Verma
+91 22 61143427
Ankur.verma@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:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

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) 6606 9999