August 07, 2019

IIFL Wealth Management Limited: Rating of [ICRA]A1+ assigned to Commercial Paper Programme (IPO Financing)

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper programme (IPO Financing)	-	500.00	[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**	**1,100.00**	

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 the IIFL Group), given their common promoters and senior management team, shared brand name, and strong financial and operational synergies.

The ratings factor in the IIFL Group's diversified business revenues constituted by its financing, distribution and broking operations, the Group's granular retail portfolio, strong profitability and healthy capitalisation profile backed by a strong consolidated net worth[1] of Rs. 5,953 crore as on March 31, 2019. The strengths are partially offset by the moderate seasoning of the portfolio and the exposure to the risky construction and real estate portfolio comprising ~15% of the assets under management (AUM) of India Infoline Finance (Consolidated) as March 31, 2019.

On January 31, 2018, the IIFL Group had announced the restructuring of the corporate business lines thereby creating three listed entities, one for each line of business – India Infoline Finance (loans and mortgages), IIFL Wealth (wealth and asset management business) and IIFL Securities (capital markets and broking business). The Board of Directors of the Company at its meeting held on January 31, 2018, had approved the reorganization of IIFL Group. ICRA has taken note of this and will take an appropriate rating action, if required, subsequent to the assessment of the revised business and operational plans of the independent demerged entities.

Outlook: Stable

ICRA believes that the IIFL Group will continue to benefit from its diversified business profile with a granular retail portfolio and healthy capitalisation. The outlook may be revised to Positive if there is a sustained improvement in the profitability, leading to an improvement in its financial risk profile with growth in its portfolio while maintaining the asset quality. The outlook may be revised to Negative if the liquidity position deteriorates or there is a significant deterioration in the asset quality of the credit book and profitability indicators, thereby adversely affecting its financial risk profile.

[1] *Excluding minority interest; pro forma*

Key rating drivers

Credit strengths

Diversified financial services group with presence in consumer finance, capital market activities, wealth management and microfinance – The IIFL Group is engaged in financing (carried out through two non-banking finance companies (NBFCs), a housing finance company (HFC) and a microfinance company (NBFC-MFI), broking (through its equity and commodity broking subsidiaries) and distribution (through its wealth management companies). Apart from having a diversified loan book (AUM) of Rs. 34,904 crore as on March 31, 2019 (+29% YoY), the Group's wealth management subsidiary is also a large player in the distribution of financial products with assets under advice, management and distribution of Rs. 1,69,312 crore as on March 31, 2019 (+28% YoY) and a loan book of Rs. 4,798 crore. The Group is among the leading players in retail broking with a total market share of ~2% in FY2019.

Diversified lending book; increasing focus on retail lending provides comfort – India Infoline Finance has a diversified lending book which stood at Rs. 34,904 crore as on March 31, 2019 with home loans accounting for 35% of the portfolio followed by business loans (24%), gold (18%), developer and construction finance (14%), microfinance (7%) and capital market (2%). The total AUM grew by 29% on YoY basis (excluding the impact of sale of CV business) to Rs 34,904 crore as at March 31, 2019. Within the AUM, the off balance sheet book has grown substantially to Rs. 7,379 crore (21% of AUM) from Rs.2,105 crore (share of 8% of AUM excluding CV) as on March 31, 2018. The AUM growth was largely led by a substantial increase – 42% in the home loans book, 53% in the gold loans financing book, 9% increase in the business finance loans while microfinance loans grew by 172% albeit on a relatively smaller base. The wealth finance loan book declined to Rs. 4,798 crore as on March 31, 2019 from Rs. 6,191 crore as on September 30, 2018 with the company exiting non core assets as a conscious strategy.

Diverse revenue sources; fee income provides support to lending operations – Financing, wealth management (distribution) and retail broking activities are the key income contributors for the Group, accounting for 59%, 24% and 17%, respectively, of the total income[2] in FY2019 (48%, 28% and 23%, respectively, in FY2018). The share of consolidated operating income from financing and distribution activities has increased steadily over the years while the share of capital market related activities has declined. The contribution of the wealth management business to overall revenues has been good given the robust growth in the client base and AUM. 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 –The consolidated net worth[3] stood at Rs. 5,953 crore as on March 31, 2019. India Infoline Finance (the NBFC) reported a CRAR of 19.2% with Tier I of 16.0% as of March 31, 2019 (16.2% and 14.8%, respectively, as on March 31, 2018). The increase in CRAR was on account of sub-debt issuance of Rs. 325 crore subscribed by CDC Group plc. The consolidated gearing for India Infoline Finance stood at 5.9x (managed gearing of 8.1x) as on March 31, 2019.

IIFL Wealth Finance raised equity capital of Rs. 745.71 crore in Q1 FY2019 by selling IIFL Finance's (erstwhile IIFL Holding's) stake of 5.1% to marquee financial investors (Amansa, General Atlantic, HDFC Standard Life Insurance, Rimco, Steadview and Ward Ferry). The gearing for IIFL Wealth Management stood low at 2.1x as on March 31, 2019 on a consolidated basis (3.7x as of FY2018). ICRA derives comfort from the Group's demonstrated ability to raise equity.

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[2] *Income is net of interest expense; pro forma*

[3] *Excluding minority interest; pro forma*

Profitability metrics remain strong – On a consolidated basis[4], IIFL's income increased by 16% to Rs. 7,414.4 crore in FY2019 from Rs. 6,418.7 crore in FY2018, with the growth in lending and distribution business partially offset by the decline in broking business. The Group reported a consolidated net profit of Rs. 1,252.9 crore (2.2% of ATA) as per IND AS as compared to Rs. 1,162 crore (3.0% of ATA) in FY2018. The broking revenues remains largely dependent on capital market conditions.

For India Infoline Finance Limited, the net profitability (excluding extraordinary income) as % of average managed assets stood at 1.5% in FY2019 as compared to 1.4% in FY2018. The increase in cost of funds was offset by the change in the mix towards higher-yielding products. Profitability for IIFL Wealth Management was strong at ~4% in FY2019 (~4.4% in the previous year).

Credit challenges

Asset Quality impacted by exposure to riskier construction finance and real estate segments – The Group continues to have some exposure to the riskier commercial LAP and land funding segments. The top 10 exposures in the real estate sector formed ~32% of the India Infoline Finance's net worth as of March 31, 2019. The group has seen slippages in the construction finance and real estate segment (accounting for ~14% of the portfolio, and a majority of the portfolio under moratorium) which has thereby resulted into a deterioration in asset quality with gross and net NPA%[5] of 3.7% and net NPA of 1.5% as on December 31, 2018 (1.7% and 0.8%, respectively, as on March 31, 2018). With the company part recovering some of the NPAs in the real estate book and writing off few exposures, the gross and net NPA % improved to 1.95% and 0.62% respectively as on March 31, 2019. The reported asset quality was also supported by the sale of CV business whose asset quality was weaker as compared to the overall asset quality indicators. While these exposures remain vulnerable to lumpy asset quality deteriorations, ICRA notes management expertise in the sector as well as the presence of adequate collateral and exposure to a bouquet of projects, thereby reducing dependence on specific projects. The NPAs for the Group are largely contributed by the LAP, and developer & construction finance segments. Ability of the Group to accelerate the recovery process and keep credit costs under check remains a key monitorable. ICRA further draws comfort from the management's focus on retail mortgage loans and the Group's strategy of reducing incremental exposure to the LAP segment. The Group, like most of its peers, also has high exposure to the riskier self-employed segment, where the earnings profile is more volatile than the salaried segment.

High growth in loan book over past two-three years; a large part of the loan book yet to be tested for adverse economic cycles – The high growth in the loan book over the past two years (CAGR of 26%[6]) has resulted in a moderately seasoned portfolio. Given the moderate seasoning in the financing businesses, IIFL's ability to maintain its asset quality across business cycles while growing its portfolio amid intense competitive pressure would be closely monitored by ICRA and would remain a key rating sensitivity.

Liquidity position

With the significant reduction in the reliance on commercial papers (6% of borrowings as on March 31, 2019 as compared to 43% as on September 30, 2018), the liquidity profile of IIFL Wealth Finance has improved. The company has positive cumulative mismatches in the less than 1 year bucket as on March 31, 2019. The company has liquid

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[4] *Pro forma*

[5] *Combined for NBFC, HFC and MFI businesses*

[6] *Excluding CV*

investments of Rs. 3,316 crore and unutilised bank lines of Rs. 308 crore as on June 30, 2019 which is comfortable against debt repayments of Rs. 2,575 crore till September 30, 2019. Apart from wealth finance, there are no significant short tenor borrowings on other subsidiaries of IIFL Wealth Management.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies Rating Methodology for Entities in the Brokerage Industry ICRA's Approach for Rating Commercial Papers ICRA's Policy on Withdrawal and Suspension of Credit Rating
Parent/Group Support	Not applicable
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of IIFL Holdings Limited. As on March 31, 2019, the Group had 11 subsidiaries and 19 stepdown subsidiaries, that are enlisted in Annexure-2

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 53.3% in IIFL Wealth Management Limited as on March 31, 2019. After the scheme of arrangement (effective May 2019), 24% of the total equity capital are held by promotors, 21.87% by General Atlantic Singapore Fund Pte Ltd, 18.96% by Fairfax, 7.58% by institutional investors and 26.9% by other public including employees.

IIFL Wealth Management (Consolidated) earned a net profit of Rs. 384.36 crore on total income of Rs. 1,577.26 crore in FY2019 compared to a net profit of Rs. 380.84 crore on total income of Rs. 1,714.76 crore in FY2018.

IIFL Group

IIFL Holdings, renamed as IIFL Finance Limited in FY2019, was founded in 1995 as an independent financial research provider. Prior to the Composite Scheme of Arrangement (effective May 2019), IIFL Finance Limited was engaged in the business of financing, asset and wealth management, retail and institutional broking, financial products distribution and investment banking through its various subsidiaries.

The IIFL Group's consolidated (pro forma) net worth stood at Rs. 5,953 crore as on March 31, 2019. The group reported a PAT of Rs. 964.7 crore (Rs. 288.2 crore after minority interest) in FY2018 compared to PAT of Rs. 1,162 crore (Rs. 911 crore after minority interest) in FY2018.

On 31st January 2018, IIFL group had announced to restructure their corporate business lines. The reorganization will result in three listed entities– IIFL Finance, IIFL Wealth and IIFL Securities. The Demerger of the securities business undertaking of IIFL Finance Limited into IIFL Securities Limited and the demerger of the wealth business undertaking of IIFL Finance Limited into IIFL Wealth Management Limited has become effective from May 13, 2019. The remainder of the Scheme, i.e. the amalgamation of India Infoline Finance Limited with IIFL Finance Limited, is pending and will be implemented post receipt of requisite approval from the regulators including the RBI of an NBFC license for IIFL Finance Limited.

Key financial indicators (Consolidated for IIFL Group)

	FY2017	FY2018	FY2019^
Total revenues	4,925	6,437	7,414.4
Profit after tax	822	1,162	1,252.9
Net worth[7]	5,637	6,566	5,953
Loan book (AUM)	25,896	37,835	34,904
Total assets	33,761	43,703	NA
PAT/ATA*	2.9%	3.0%	2.2%
Return on equity*	14.59%	17.70%	17.5%
Gross NPA	1.82%	1.71%	1.95%
Net NPA	0.58%	0.79%	0.62%
Capital adequacy ratio	18.1%	16.2%	19.2%
Gearing[8]	4.32	5.02	NA

Amounts in Rs. crore

^ As per IND AS- proforma for FY2019

** Annualised*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

[7] *Including minority interest*
[8] *Including minority interest*

Rating history for last three years:

Sr. No.	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Current Rating (FY2020)	Chronology of Rating History for the past 3 years					
					Date & Rating	FY2020		FY2019	FY2018		FY2017
					August-19	May-19	Apr-19	Nov-18	Feb 18	Aug 17	Oct-16
1	Commercial Paper Programme (IPO Financing)	Short Term	500	-	[ICRA]A1+; assigned						
2	Commercial Paper Programme	Short Term	500	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Secured NCD Programme	Long Term	100	-	[ICRA]AA(stable)	[ICRA]AA(stable)	[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	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

**Not yet placed*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
IIFL Commodities Limited (Formerly India Infoline Commodities Limited)	100.00%	Full Consolidation
India Infoline Media and Research Services Limited	100.00%	Full Consolidation
IIFL Management Services Limited (Formerly India Infoline Insurance Services Limited)	100.00%	Full Consolidation
IIFL Insurance Brokers Limited (Formerly India Infoline Insurance Brokers Limited)	100.00%	Full Consolidation
IIFL Facilities Services Limited (Formerly IIFL Real Estate Limited)	100.00%	Full Consolidation
IIFL Capital Inc.	100.00%	Full Consolidation
IIFL Wealth (UK) Limited	100.00%	Full Consolidation
IIFL Securities Limited (Formerly India Infoline Limited)	100.00%	Full Consolidation
India Infoline Finance Limited	84.54%	Full Consolidation
India Infoline Housing Finance Limited India	84.54%	Full Consolidation
Samasta Microfinance Limited	82.32%	Full Consolidation
Ayusha Dairy Private Limited	82.32%	Full Consolidation
IIFL Wealth Management Limited	56.42%	Full Consolidation
IIFL Distribution Services Limited	56.42%	Full Consolidation
IIFL Investment Adviser and Trustee Services Limited	56.42%	Full Consolidation
IIFL Trustee Limited	56.42%	Full Consolidation
IIFL Asset Management Limited	56.42%	Full Consolidation
IIFL Alternate Asset Advisors Limited	56.42%	Full Consolidation
IIFL (Asia) Pte. Limited	56.42%	Full Consolidation
IIFL Securities Pte. Limited	56.42%	Full Consolidation
IIFL Capital Pte. Limited	56.42%	Full Consolidation
IIFL Private Wealth Hong Kong Limited	56.42%	Full Consolidation
IIFL Asset Management (Mauritius) Limited (Formerly known as IIFL Private wealth (Mauritius) Limited)	56.42%	Full Consolidation
IIFL Inc	56.42%	Full Consolidation
IIFL Private Wealth (Suisse) SA	56.42%	Full Consolidation
IIFL Private Wealth Management (Dubai) Limited	56.42%	Full Consolidation
IIFL Wealth Finance Limited	56.42%	Full Consolidation

IIFL Asset Reconstruction Limited	100.00%	Full Consolidation
IIFL Capital (Canada) Limited	56.42%	Full Consolidation
Clara Developers Private Limited	84.54%	Full Consolidation

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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.

For more information, visit www.icra.in

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