March 05, 2020

IIFL Wealth Management Limited: Ratings assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper programme (IPO Financing)	2,000	3,000	[ICRA]A1+; assigned/outstanding
Commercial paper programme	200	200	[ICRA]A1+; outstanding
Secured NCD programme	100	100	[ICRA]AA(stable); outstanding
Total	**2,300**	**3,300**	

**Instrument details are provided in Annexure-1*

Rationale

While ICRA used to take a consolidated view of IIFL Holdings Limited, following the scheme of demerger (effective May 2019), there has been a restructuring, thereby creating three separate entities – India Infoline Finance Limited (lending operations), IIFL Wealth Management Limited (wealth and asset management) and IIFL Securities Limited (capital markets and broking business). The ratings for IIFL Wealth Finance are based on a consolidated view of IIFL Wealth Management Limited and its subsidiaries (referred to as IIFL Wealth/Group/company), given their 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. 1,50,762 crore as on December 31, 2019. The company's senior management team has significant experience and expertise in the wealth management business, which has helped the company grow into a leading player in the wealth management industry. The franchisee built over the years has helped in ensuring low client attrition (less than 2.5% p.a.) as well as low employee attrition (team leader attrition rate of sub-4% p.a.). ICRA also takes into account the comfortable capitalisation with demonstrated ability to raise equity. Although the Group's profitability has reduced on account of a change in the revenue recognition model to trail basis, it remains comfortable with PAT/ATA of 2.5% and RoE of ~9% in 9M FY2020. ICRA draws comfort from the management's strategy of focusing on increasing the share of annual recurring revenues (58% in 9M FY2020; 42% in FY2019) as opposed to transaction/brokerage revenues (40%), which could help reduce the volatility in income.

ICRA considers the modest lending operations with a loan book of Rs. 4,027 crore as on December 31, 2019 with the top 20 exposures forming 38% of the total loans and 59% of consolidated net worth as of June 30, 2019. The loans are largely to the clients of IIFL Wealth. 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).

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.150,762 crore as at December 31, 2019 (+16% YoY). It is also one of the largest managers of AIFs (alternative investment funds) with assets under management (AUM) of Rs. 19,213 crore. It has a subsidiary, IIFL Wealth Finance Limited (IIFLWF), which is an NBFC that provides loans against securities to the clients of the wealth management business with a loan book of Rs. 4,027 crore as on December 31, 2019. The company has a presence in wealth management across nine geographies with 26 offices and 384 relationship managers as on September 30, 2019.

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 five years in IIFL Wealth and overall experience of more than 10 years with a sub-4% attrition rate p.a.

Comfortable capitalisation; demonstrated ability to raise equity – The consolidated net worth stood at Rs. 3,062 crore as on December 31, 2019 with a reported gearing of 2.55x. On a standalone basis, the company reported a CRAR of 32.8% with Tier I of 28.7% as of March 31, 2019 (21.9% and 17.0%, respectively, as on March 31, 2018). While the gearing of the company remains comfortable, ICRA takes note of the likely increase in gearing for ~one to two weeks when the company would utilise Commercial Paper for 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 has entered into an agreement to purchase the wealth business of L&T Finance for Rs. 230 crore. With not much of 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 – IIFLWF, a 100% subsidiary of IIFL Wealth, provides loans against securities with a loan book of Rs. 4,027 crore as on December 31, 2019 (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 stood at ~3% of the wealth management AUM and is expected to remain at ~3-4% of the AUM. The reported asset quality indicators remain comfortable with gross and net NPA 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-values (LTVs). 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 the portfolio.

Comfortable profitability, albeit lower, compared to previous years – With the change in the revenue recognition model, whereby the revenues on distribution are now on a trail basis even for portfolio management services (PMS) and alternate investment funds (AIFs)), the company's overall revenues declined in 9MFY2020 to Rs. 674

crore from Rs. 1,067 crore in FY2019. The profit before tax (PBT) was lower at Rs. 272 crore in 9MFY2020 compared to Rs. 537 crore in FY2019. With the reduction in the tax rate, PAT stood at Rs. 207 crore in 9M FY2020 (PAT/ATA of 2.6% and RoE of 9.2%) compared to Rs. 384 crore in FY2019 (PAT/ATA of 4.0% and RoE of 16.1%). While the change is expected to impact the profitability in the short to medium term, it reduces the volatility associated with transactional income. Further, the company is looking to shift to the advisor-driven model from the current broker-driven model, which would help reduce the regulatory uncertainties associated with the distribution fees from the manufacturer.

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 (3% as December 31, 2019 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 – The company's net inflows are exposed to fluctuations in the capital markets. While the currently high AUM of Rs. 1,43,856 crore is expected to support revenues, lower net inflows could impact revenue growth. ICRA draws comfort from the management's strategy of focusing on increasing its share of annual recurring revenues (58% in 9M FY2020; 42% in FY2019) as opposed to transaction/brokerage revenues (40%), which could help reduce the volatility in income. The revenues are further susceptible to regulatory changes such as the regulations for the total expense ratio (TER). The company's strategy to move to an advisory model from the broker model would help reduce the impact of regulatory changes.

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

Modest scale of lending operations with concentration of top 20 exposures – The company's lending operations remain modest with a loan book of Rs. 4,027 crore as on December 31, 2019. 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 38% of the total loans and 59% of the consolidated net worth as of June 30, 2019.

Liquidity position: Adequate

IIFLWF has positive cumulative mismatches in the less than 1 year bucket as on December 31, 2019. IIFLWM on a consolidated basis has cash and liquid investments of Rs. 4,123 crore and unutilised bank lines of Rs. 448 crore as on January 31, 2020 which is comfortable against debt repayments of Rs. 3,518 crore till April 30, 2020.

Rating sensitivities

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

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 sustainable basis will 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), 24% of the total equity capital is held by the 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. The entity was listed on September 19, 2019.

IIFL Wealth Management's (consolidated – referred to as IIFL Wealth) net worth stood at Rs. 3,045 crore as on December 31, 2019. It generated a net profit of Rs. 207 crore on net revenues of Rs. 674 crore in 9M FY2020 compared to a net profit of Rs. 300 crore on total revenues of Rs. 821 crore in 9M FY2019.

Key financial indicators (consolidated for IIFL Wealth Management Limited)

	FY2018 IND-AS	FY2019 IND-AS	9MFY2020 IND-AS
Total revenues	1,043	1,067	674
Profit after tax	369	384	207
Net worth[1]	1,863	2,911	3,045
Loan book	6,715	4,798	4,027
AUM[2]	1,12,416	1,36,601	150,762
Total assets	9,567	9,780	11,570
PAT/ATA	4.3%	4.0%	2.6%
Return on equity	22%	16%	9%
Gross NPA	-	-	-
Net NPA	-	-	-
Gearing[3]	3.74	2.10	2.55

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 (Rs. crore)	Amount Outstanding (Rs. crore)	Current Rating (FY2020) Date & Rating	Chronology of Rating History for the past 3 years									
						FY2020						FY2019	FY2018		FY2017
					05-Mar-20	22-Jan-20	29-Nov-19	22-Nov-19	07-Aug-19	08-May-19	11-Apr-19	30-Nov-18	14-Feb-18	11-Aug-17	05-Oct-16
1	Commercial Paper Programme (IPO Financing)	Short Term	3,000	-	[ICRA]A1+; assigned/outstanding	[ICRA]A1+	[ICRA]A1+	-	-	-	-	-	-	-	-
2	Commercial Paper Programme	Short Term	200	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[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)	[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

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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	[ICRA]AA(stable)
NA	Commercial Paper Programme	-	-	7-365 days	200	[ICRA]A1+
NA	Commercial Paper Programme	-	-	7-30 days	3,000	[ICRA]A1+

Source: Company Data

**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 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 05, 2018)	100%	Full Consolidation
IIFL Wealth Employee Welfare Benefit Trust	100%	Full Consolidation
IIFL Wealth Employee 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

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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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