

March 07, 2023^(Revised)

IIFL Wealth Distribution Services Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper programme	300	300	[ICRA]A1+; reaffirmed
Total	300	300	

*Instrument details are provided in Annexure-I

Rationale

The rating for IIFL Wealth Distribution Services Limited (IWDSL) is based on the consolidated view of the entity and its subsidiaries (referred to as 360 ONE/the Group), given the common senior management team and the strong financial and operational synergies.

The rating factors in 360 ONE's leading market position in the wealth management business, supported by its experienced and stable senior management team. The rating notes the Group's comfortable capitalisation and strong profitability. The rating, however, takes into account the concentrated funding profile and the exposure of net flows and earnings to fluctuations in the capital markets.

360 ONE's assets under management (AUM) and distribution stood at Rs. 2.75 lakh crore as on December 31, 2022. The franchisee, built over the years, has helped ensure low client attrition (loss of AUM of 1% in FY2022 due to annual client attrition). To reduce the volatility in income on account of transaction/brokerage assets, the management has been focusing on increasing the share of assets with a recurring nature of income (61% of AUM as on December 31, 2022, 53% as on December 31, 2021 and 45% as on December 31, 2020). This, coupled with the increasing AUM, has also driven the healthy profitability. The return on equity (RoE) and return on assets (RoA) were healthy at 21.7% and 6.5%, respectively, in 9M FY2023, driving comfortable capitalisation despite the high dividend payout rate.

The Group's borrowing requirements are driven by the lending operations to its wealth clients with a loan book of Rs. 4,233 crore as on December 31, 2022 and are backed by the client's AUM. The top 20 exposures formed 48% of the total loans and 66% of the consolidated net worth as on December 31, 2022. The rating factors in the funding concentration, through principal protected market linked debentures (PP-MLDs), which are likely to remain limited and the group would incrementally look at raising NCDs/ zero Coupon Bonds (ZCBs) with the changes in taxation of MLD instruments in the Union Budget 2023. These would largely be issued to its captive client base.

The outlook is Stable as the Group is expected to maintain its strong position in wealth management with the gearing likely to remain under 3.5 times.

Key rating drivers and their description

Credit strengths

Strong market position in wealth management – 360 ONE offers advisory, asset management, broking and distribution services to HNIs and ultra HNIs. Its leading market position is reflected in the AUM and distribution of Rs. 2.75 lakh crore as on December 31, 2022 (YoY growth of 4.7% from Rs. 2.63 lakh crore as on December 31, 2021). It is one of the largest managers of alternative investment funds (AIFs) with AUM of Rs. 34,927 crore as on December 31, 2022 (Rs. 32,666 crore as on December

31, 2021). The Group has seen a transition with the increasing share of annual recurring assets and has a presence in wealth management across 4 countries with 25 offices and 228 relationship managers as on March 31, 2022.

Its subsidiary, IIFL Wealth Prime Limited (IWPL), is a non-banking financial company (NBFC) that largely provides loans against securities to the clients of the wealth management business.

The Group'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 relationship managers have average experience of over five years in the Group and overall experience of more than 13 years.

Comfortable capitalisation; demonstrated ability to raise equity – The consolidated net worth stood at Rs. 3,085 crore as on December 31, 2022 with a reported gearing of 1.86 times. On a standalone basis, IWPL reported a CRAR of 26.03% as on December 31, 2022 (21.71% as on December 31, 2021). The capitalisation has been supported by regular equity raise of Rs. 904 crore in FY2016 from General Atlantic and Rs. 745.71 crore in Q1 FY2019 from Amansa, General Atlantic, HDFC Standard Life Insurance, Rimco, Steadview and Ward Ferry. The capital was partly utilised for the acquisition of the Chennai-based wealth management company, Wealth Advisors India Pvt. Ltd., for Rs. 253.6 crore in cash in FY2018. Further, the Group purchased the wealth business of L&T Finance for Rs. 230 crore in FY2020.

The profitability also remains strong. With a significant increase in the AUM, the operating income was higher in 9M FY2023 at Rs. 1,523 crore (up 2% YoY), while the cost-to-income ratio declined to 47.9% (55.6% in 9M FY2022). The Group reported a profit after tax (PAT) of Rs. 502 crore in 9M FY2023 (RoE of 21.7%) against Rs. 412 crore in 9M FY2022 (RoE of 19.5%).

With minimal additional sponsor investments in own manufactured AIFs, a low capital-intensive business and moderate growth plans for IWPL's loan book, the Group is currently comfortably capitalised. This has driven the high dividend payouts at ~75-80% during the last few years, which can be calibrated, if required, to support growth and maintain the leverage within the stated levels.

Comfortable asset quality – IWPL provides loans against securities (including AIF investments) to its clients in the wealth management business and the same is sourced by the wealth relationship managers. The loan book accounted for 1.5% of the wealth management AUM as on December 31, 2022.

IWPL reported gross non-performing advances (GNPAs) of Rs. 85 crore, comprising 2.1% of gross advances, with net NPAs of 1.5% as on December 31, 2021. The same was recovered in Q4 FY2022, leading to nil NPAs as on date. While the reported asset quality remains comfortable, the loan book, which is backed by financial assets, is susceptible to decline in prices that may lead to an increase in the loan-to-value (LTV) ratios. While the collateral held by the company against most of its loans is liquid, a part of the same may not be liquid in a few instances, which could impact the asset quality. ICRA derives comfort from the fact that the loan portfolio largely comprises the clients of the wealth management business and the company does not have any aggressive plans to grow its loan portfolio.

Credit challenges

Franchisee risks – The Group 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. The ability to retain the relationship manager base will also be critical to maintain the low client attrition rates.

Loan book and funding profile remains concentrated – The funding profile remains concentrated with the Group's borrowings largely comprising PP-MLDs (74% of the overall borrowings as on December 31, 2022; 66% as on March 31, 2022). With changes in taxation on PP-MLD instruments as announced under the Union Budget 2023, the incremental PP-MLD borrowings are likely to remain limited and the Group would incrementally look at raising NCDs/ZCBs. Similar to PP-MLDs, the investors in the NCDs/ZCBs would largely be its wealth management clients. The Group's funding requirements will be driven by the growth in the loan book and its contribution to the sponsor share in the AIFs.

The borrowing from CPs reduced to 22% as on December 31, 2022 from 28-30% as on June 30, 2022 with increased reliance on PP-MLDs and bank loans, and is likely to continue at similar levels. The CP borrowings is largely driven by the short-term in-transit investment book for down-selling to clients and the margin funding book under IIFL Wealth Distribution Services.

IWPL's lending operations remain modest with a loan book of Rs. 4,233 crore as on December 31, 2022. 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 48% of the total loans and 66% of the consolidated net worth as on December 31, 2022.

Earnings remain exposed to capital market movements and regulatory uncertainties – The Group's net inflows are exposed to fluctuations in the capital markets. While the AUM is expected to support revenues, lower net inflows could impact revenue growth. The Group's revenues were impacted in FY2020 by the change in the revenue recognition model, whereby the revenues on distribution were payable on a trail basis even for the portfolio management services (PMS) and AIFs. The management is focusing on increasing the share of recurring assets instead of transaction/brokerage assets, which has helped to reduce the volatility in income. With growth in the AUM and increase in the share of annual recurring revenue (ARR) assets, the revenues in FY2021 and FY2022 have improved substantially. The revenues are also susceptible to regulatory changes such as the regulations for the total expense ratio (TER). The Group's strategy of moving to an advisory model from the broker model has helped to reduce the regulatory uncertainties associated with distribution fees from the manufacturer.

Environmental and social risks

Given the service-oriented business of the Group, its direct exposure to environmental risks/material physical climate risks is not significant. While wealth management can be exposed to environmental risks indirectly through the portfolio of assets, such risks are not material for the Group as its portfolio is diversified in nature. Further, the investments are typically short-to-medium-term that could allow the Group to adapt and take incremental exposure only to businesses that face relatively lesser downside environmental risks.

With regard to social risk, data security and customer privacy are among the key sources of vulnerability for wealth management institutions as any material lapse could be detrimental to their reputation and invite regulatory censure. The Group has not faced any such lapse over the years, which highlights its sensitivity to such risks. Also, the disclosures made by the Group outline the key policies, processes, and investments made by it to mitigate the occurrence of such instances.

Liquidity position: Adequate

As on January 31, 2023, the entity had cash and cash equivalents of Rs. 1,068 crore and sanctioned but unutilised bank lines of Rs. 100 crore, which is sufficient to cover its debt repayments of Rs. 872 crore till March 31, 2023. Further, as per the structural liquidity statement (SLS), while the contractual repayments from loan assets are limited, the actual repayments received are much higher, which provides comfort. IWPL had positive cumulative mismatches in the less-than-1-year bucket as on September 30, 2022 as per SLS. The liquidity position remains adequate.

Rating sensitivities

Positive factors – ICRA will upgrade the rating/change the outlook to Positive if the Group is able to increase the annual recurring revenue assets to 75% of the AUM, on a sustained basis, while growing the AUM and maintaining healthy profitability.

Negative factors – ICRA will downgrade the rating/change the outlook to Negative if there is a material and prolonged erosion in the Group's AUM with high client and advisor attrition. Increase in the consolidated gearing beyond 3.5 times, on a sustained basis, remains a rating trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies Rating Approach - Consolidation
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of 360 ONE WAM Limited

About the company

IIFL Wealth Distribution Services Limited (IWDSL) is a public company incorporated under the provisions of the Companies Act, 1956. It is registered with the Securities and Exchange Board of India (SEBI) to engage in the retail broking and depository participant business. IWDSL also provides manpower services to its associate companies.

Earlier, the financial product distribution businesses of 360 ONE were carried out by three wholly-owned subsidiaries, viz. IIFL Wealth Capital Markets (IWCML) and IIFL Wealth Prime (IWPL) and IWDSL. To consolidate these distribution businesses under a single wholly-owned subsidiary, the distribution business will be demerged from IWPL and IWCML to IWDSL after getting regulatory approvals.

IWDSL's net worth stood at Rs. 45 crore as on March 31, 2022. It reported a net profit of Rs. 11 crore on total revenues of Rs. 80 crore in FY2022 compared to a net profit of Rs. 27 crore on total revenues of Rs. 86 crore in FY2021. For Q1 FY2023, the company reported a net loss of Rs. 7 crore on total revenues of Rs. 12 crore.

360 ONE WAM Limited

360 ONE WAM Limited (erstwhile IIFL Wealth Management Limited; 360 ONE WAM), 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.

360 ONE's (consolidated – referred to as 360 ONE/the Group) net worth stood at Rs. 3,085 crore as on December 31, 2022. It earned a net profit of Rs. 582 crore on a total operating revenue of Rs. 2,024 crore in FY2022 against a net profit of Rs. 369 crore on a total operating revenue of Rs. 1,634 crore in FY2021. The profit for 9M FY2023 was Rs. 502 crore on a total operating revenue of Rs. 1,523 crore.

Key financial indicators (audited)

360 ONE WAM Limited (consolidated)	FY2021	FY2022	9M FY2023*
Total operating revenues	1,634	2,024	1,523
Profit after tax	369	582	502
Net worth	2,828	2,998	3,085
Loan book	3,620	4,384	4,233
Total AUM	2,07,044	2,61,745	275,134
Total assets	8,740	10,740	9,783
Return on assets	3.39%	5.97%	6.53%
Return on net worth	13.06%	19.41%	21.72%
Gross gearing (times)	1.80	1.94	1.86
Gross NPA	2.2%	NIL	NIL

360 ONE WAM Limited (consolidated)	FY2021	FY2022	9M FY2023*
Net NPA	1.8%	NIL	NIL
Gross stage 3	NIL	NIL	NIL
Net stage 3	NIL	NIL	NIL
Solvency (Net stage 3/Net worth)	NIL	NIL	NIL
CRAR	23.11%	23.61%	26.03%

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)					Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Jan 31, 2023 (Rs. crore)	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Mar 07, 2023	Oct 12, 2022	Jan 18, 2022	-	-
1	Commercial paper programme	Short term	300	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial paper programme	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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
Not placed	Commercial paper programme	-	-	7-365 days	300	[ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	IIFL Wealth Ownership	Consolidation Approach
IIFL Distribution Services Limited (formerly IIFL Distribution Services Limited)	100%	Full Consolidation
IIFL Investment Adviser and Trustee Services Limited	100%	Full Consolidation
360 ONE Portfolio Managers Limited	100%	Full Consolidation
IIFL Asset Management Limited	100%	Full Consolidation
IIFLW CSR Foundation	100%	Full Consolidation
IIFL Trustee Limited	100%	Full Consolidation
IIFL Wealth Prime Limited	100%	Full Consolidation
IIFL Wealth Securities IFSC Limited (w.e.f. June 22, 2018)	100%	Full Consolidation
IIFL Altire Advisors Private Limited (w.e.f. November 05, 2018) (Formerly known as Altire Advisors Private Limited)	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 Capital Pte. Limited	100%	Full Consolidation
IIFL Private Wealth Management (Dubai) Limited	100%	Full Consolidation
IIFL Capital (Canada) Limited (w.e.f. November 3, 2018)	100%	Full Consolidation

Source: 360 ONE WAM Limited annual report FY2022

Note: ICRA has taken a consolidated view of the parent (360 ONE), its subsidiaries and associates while assigning the rating

Corrigendum

Document dated March 07, 2023, has been corrected with revisions as detailed below:

- The link for 'Rating Approach – Consolidation' is added to the Applicable rating methodologies of the Analytical approach section on Page No. 4 of the document.

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