

IIFL Wealth Management Limited

April 11, 2019

Summary of rated instruments

Instrument	Previous Rated Amount(Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper programme (IPO Financing)	-	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	

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 of Rs. 7,734 crore as on December 31, 2018. The strengths are partially offset by the moderate seasoning of the portfolio and the exposure to the risky construction and real estate portfolio comprising ~12% of the consolidated assets under management (AUM) as on December 31, 2018.

On January 31, 2018, the IIFL Group had announced the restructuring of the corporate business lines. This would result in 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 National Company Law Tribunal (NCLT) has approved the proposed demerger. 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, post the completion of the demerger process

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 group's 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 group's 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.

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 of Rs. 41,148 crore (including the wealth finance book) as on December 31, 2018 (+24% 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. 1,60,573 crore as on December 31, 2018 (+25% 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 group has a diversified lending book which stood at Rs. 41,148 crore (including the wealth finance book) as on December 31, 2018 with the mortgage segment accounting for 53% of the portfolio followed by wealth finance (12%), commercial vehicles (9%), gold (13%), MSME (7%), capital market¹ (2%) and microfinance (4%). The diversity in the portfolio has been achieved through a steady growth in segments like commercial vehicle (CV) financing, SME loans, wealth finance and micro finance. Within mortgage, home loan has been the key growth driver with a YoY growth of 49% as on December 31, 2018 while loans against property (LAP) had grown moderately at 5%. The Group's concentration on gold loans has gradually reduced from a peak in 2014, and constituted 13% of the lending book as on December 31, 2018, compared to 36% as on March 31, 2014. However, ICRA notes the 57% YoY growth in the gold loan book as on December 31, 2018. The Group's increasing focus on retail lending provides credit comfort. With the tightening of liquidity resulting into slowdown in disbursements, the AUM for India Infoline Finance on a consolidated basis remained stable at Rs. 36,400 crore in Q3FY2019 as compared to the previous quarter. The wealth finance loan book declined to Rs. 4,748 crore as on December 31, 2018 from Rs. 6,191 crore as on September 30, 2018 with the company exiting non core assets as a conscious strategy.

Further, on February 4, 2019, India Infoline Finance Limited (IIFL) announced the signing of a binding agreement to sell its Commercial Vehicle (CV) business to Indostar Capital Finance Limited (ICF). As per the agreement, the CV AUM of Rs. 3,949 crore (~11% of the overall AUM of IIFL with Rs. 2,450 crore being on book portfolio and Rs. 1,499 crore being securitised/assigned portfolio) will be transferred to ICF. The transaction is expected to release capital and help IIFL focus on its core areas of business such as home loans, SME, gold and micro-finance loans. IIFL will no longer operate in CV Finance business and has signed a 3 year non-compete agreement with Indostar Capital for CV business

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%, 27% and 19%, respectively, of the total income² in 9M 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 cyclicity in the domestic capital markets.

¹Including wealth finance book

² Income is net of interest expense

Adequate capitalisation; demonstrated ability of the Group to raise equity – The IIFL Group’s capitalisation is comfortable with a consolidated gearing³ of 4.13 times as on December 31, 2018. The consolidated net worth⁴ stood at Rs. 7,734 crore as on December 31, 2018. At the Group level, the gearing is expected to remain at around 5-5.5 times in the medium term. India Infoline Finance (the NBFC) reported a CRAR of 20.7% with Tier I of 17.4% as of December 31, 2018 (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. IIFL Wealth Finance raised equity capital of Rs. 745.71 crore in Q1 FY2019 by selling IIFL Holdings’ stake of 5.1% to marquee financial investors (Amansa, General Atlantic, HDFC Standard Life Insurance, Rimco, Steadview and Ward Ferry). ICRA derives comfort from the Group’s demonstrated ability to raise equity.

Profitability metrics remain strong – On a consolidated basis, IIFL’s operating income increased by 37% to Rs. 3,864 crore in FY2018 from Rs. 2,833 crore in FY2017, supported by healthy growth across segments. ICRA expects the lending and distribution business to remain the key growth drivers for the Group, with broking revenues remaining largely dependent on capital market conditions. With economies of scale and digitisation of lending operations, the group’s operating expenses reduced, thereby resulting in higher operating profit. The Group reported a consolidated net profit of Rs. 1,162 crore (3.0% of ATA) in FY2018 compared to Rs. 822 crore (2.9% of ATA) in FY2017. For 9M FY2019, the Group reported a consolidated net profit of Rs. 872 crore, as per IND AS, compared to Rs. 741 crore in 9M FY2018, a YoY growth of 18%.

For India Infoline Finance Limited, NIMs improved in FY2018 supported by lower cost of funds with an increase in capital market borrowings. With the increased focus on small ticket loans, operating expenses have been increasing. Overall, the company’s net profitability has remained in the range of 1.7-1.8%. With the increase in the incremental cost of borrowings in FY2019, ability to pass on the higher cost of borrowings and a change in the mix towards higher-yielding products would help determine profitability.

Credit challenges

Liquidity position in current operating environment remains a key monitorable – Since September 2018, there has been a considerable squeeze in the debt capital markets. As a result, the ability of issuers to find adequate refinance for their short-term borrowings has been impacted. While the reliance on short-term commercial papers for India Infoline Finance (consolidated) has reduced to 12% as on December 31, 2018 as compared to 30% as on March 31, 2018 and 24% as on September 30, 2018, its ability to generate enough liquidity to refinance its short-term borrowings in the current operating environment will be a key monitorable. ICRA, however, takes note of the significant pool of assets (~Rs. 2,300 crore as on March 28, 2019 with significant accruals to this pool every month), which could be securitised/assigned to generate additional liquidity. In addition, ICRA notes the availability of adequate bank lines to address short-term market repayments.

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 ~46% of the total net worth as of March 31, 2018. The group has seen slippages in the construction finance and real estate segment (accounting for ~12% of the consolidated portfolio) which has thereby resulted into a deterioration in asset quality with gross and net NPA⁵ 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). While these exposures remain vulnerable to lumpy asset quality

³ Including minority interest

⁴ Including minority interest

⁵ Combined for NBFC, HFC and MFI businesses

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, CV and construction and real estate segments. While the overall asset quality for the group is expected to improve with the sale of CV business (net NPA% for CV business (4.4%) being higher than overall net NPA% (1.5%) as on December 31, 2018), the 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 37%) has resulted in a moderately seasoned portfolio. Given the moderate seasoning in the financing businesses, which contribute the largest proportion to the Group's revenues (49% for FY2018), 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

As per the information provided by the Group, the liquidity cushion for IIFL group (excluding wealth entities stood at Rs. 2,194 crore as on March 20, 2019, comprising on-balance sheet liquidity (in the form of unencumbered fixed deposits, Government securities and liquid mutual funds) of Rs. 998 crore and unutilised working capital limits of Rs. 1,196 crore. In addition to this, the Group has a significant pool of assets (~Rs. 2,300 crore as on March 28, 2019 with significant accruals to this pool every month), which could be securitised/assigned to generate additional liquidity. Further, sale of CV business to ICF is expected to generate liquidity for the entity. The liquidity profile remains adequate in relation to the near-term debt maturities (debt obligations of ~Rs. 7,024 crore due till May 2019 for the group (excluding wealth entities). The Group's ability to continue to raise capital/funds and maintain a healthy liquidity profile would be a key monitorable given the current operating environment.

With the significant reduction in the reliance on commercial papers (8% of borrowings as on February 28, 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 February 28, 2019. The company has liquid investments of Rs. 1,110 crore and unutilised bank lines of Rs. 246 crore as on February 27, 2019 which is comfortable against debt repayments of Rs. 380 crore till May 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 ICRA's Credit Rating Methodology for Brokerage Houses ICRA's Approach for Rating Commercial Papers
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, 2018, 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 57.7% in IIFL Wealth Management Limited as on March 31, 2018.

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. For 9MFY2019 (as per IND AS), it reported a net profit of Rs. 290.4 crore as compared to Rs. 296.7 crore in 9MFY2018.

IIFL Holdings Limited

IIFL Holdings Limited (formerly known as India Infoline Ltd.) was founded in 1995 as an independent financial research provider. The group's name 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.

The IIFL Group's consolidated net worth stood at Rs. 5,066 crore as on March 31, 2018. The group reported a PAT of Rs. 1,162 crore (Rs. 911 crore after minority interest) in FY2018 on total assets of Rs. 43,703 crore compared to PAT of Rs. 822 crore (Rs. 686 crore after minority interest) in FY2017 on total assets of Rs. 33,761 crore. The group reported a PAT of Rs. 872 crore in 9M FY2019 (as per IND AS) on total assets of Rs. 42,927 crore.

Key financial indicators (audited; consolidated for IIFL Holdings)

	FY2017	FY2018	9M FY2018 [^]	9M FY2019 [^]
Total revenues	4,925	6,437	4,847	5,496
Profit after tax	822	1,162	741	872
Net worth ⁶	5,637	6,566	6,122	7,734
Loan book (AUM)	25,896	37,835	33,135	41,148
Total assets	33,761	43,703	35,310	42,927
PAT/ATA [*]	2.9%	3.0%	2.86%	2.68%
Return on equity [*]	14.59%	17.70%	16.14%	15.03%
Gross NPA	1.82%	1.71%	2.10%	3.74%
Net NPA	0.58%	0.79%	1.18%	1.5%
Capital adequacy ratio	18.1%	16.2%	18.2%	17.4%
Gearing ⁷	4.32	5.02	4.55	4.13

Amounts in Rs. crore

[^] As per IND AS

^{*} Annualised

⁶ Including minority interest

⁷ Including minority interest

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 (FY2020) Date & Rating	Chronology of Rating History for the past 3 years				
					FY2019	FY2018	FY2017		
					Nov-18	Feb 18	Aug 17	Oct-16	
1	Commercial Paper Programme (IPO Financing)	Short Term	2,000	NA	[ICRA]A1+; assigned Apr-19	-	-	-	-
2	Commercial Paper Programme	Short Term	500	NA	[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)

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	[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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