

BUY

TP: Rs 2,365 | ▲ 23%

360 ONE

| Diversified Financials

| 20 January 2023

Resilient model; high ROE – maintain BUY

- ROAE up 160bps YoY and 60bps QoQ to 23.5% in Q3, showing a consistent expansion trend
- Business model resilient with a focus on recurring revenue streams; overall ARR flows strong, including alternatives
- Maintain BUY with a revised TP of Rs 2,365 (vs Rs 2,206) as we roll valuations forward

Mohit Mangal

research@bobcaps.in

Return ratios expand: 360 One's (formerly IIFL Wealth) ROAE stood at 23.5% in Q3FY23, rising 160bps YoY and 60bps QoQ. We observe consistent expansion in return ratios over the long term as well (from 11% in Q1FY21). The company declared an interim dividend of Rs 17 for the quarter, in line with its policy of distributing 70-80% of profits to shareholders. Net profit rose 16% YoY and 4% QoQ to Rs 1.8bn, beating our estimate by 4%. The cost-to-income (C/I) ratio declined to 45.5% vs. 52.9% in Q3FY22 but increased 120bps sequentially due to technology and rebranding charges.

Resilient model: With a diversified product suite, 360 One remains fairly insulated against adverse changes in the macro environment. The company generated Rs 60bn of net flows (ex-custody) in Q3. Notably, among these, AIF net flows at Rs 20bn were the highest in the last seven quarters. Within the wealth segment, ARR net flows of Rs 78bn soared 98% YoY and 8% QoQ. However, we saw net outflows of Rs 44bn on the transactional side, with some movement to the ARR bucket. AUM grew 5% YoY (vs. 9% expected) and operating revenue rose 10% YoY (8% QoQ).

AUM and net profit expected to clock 17% CAGR: Based on the Q3 performance, we now factor in a 17% CAGR in AUM over FY22-FY25 to Rs 4.2tn from Rs 4.4tn earlier. Owing to the sturdy business model, the negative macro environment is unlikely to have a major impact on profitability as (a) flows into IIFL One remain strong given that large clients favour the advisory model over distribution, (b) the NBFC business earns robust margins, and (c) traction in AMC business continues. Our net profit CAGR stands revised to 17% over FY22-FY25 to Rs 9.3bn (vs. Rs 9.4bn earlier). We expect ~29% ROAE and ~7% ROAA by FY25.

Maintain BUY: The stock is trading at 19x FY25E EPS and appears undervalued, in our view. Following our estimate revisions and rollover to FY25E valuations, we have a new TP of Rs 2,365 (vs. Rs 2,206), valuing the stock at 23x FY25E P/E multiple – in line with the 3Y average given a robust model and strong fundamentals. BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	IIFLWAM IN/Rs 1,922
Market cap	US\$ 2.1bn
Free float	78%
3M ADV	US\$ 2.9mn
52wk high/low	Rs 1,950/Rs 1,236
Promoter/FPI/DII	22%/23%/2%

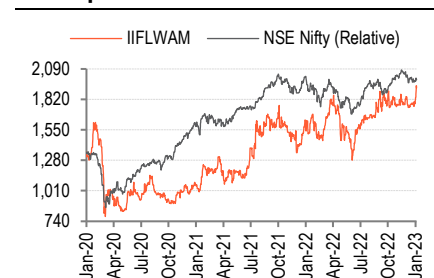
Source: NSE | Price as of 20 Jan 2023

Key financials

Y/E 31 Mar (Rs mn)	FY22A	FY23E	FY24E
PBT (Rs mn)	7,513	9,019	10,633
PBT growth (%)	54.9	20.0	17.9
Adj. net profit (Rs mn)	5,818	6,854	8,081
EPS (Rs)	64.1	75.6	89.2
Consensus EPS (Rs)	64.1	78.4	91.1
P/E (x)	30.0	25.4	21.6
MCap/AUM (%)	0.0	0.0	0.0
ROE (%)	20.0	22.6	25.9

Source: Company, Bloomberg, BOBCAPS Research

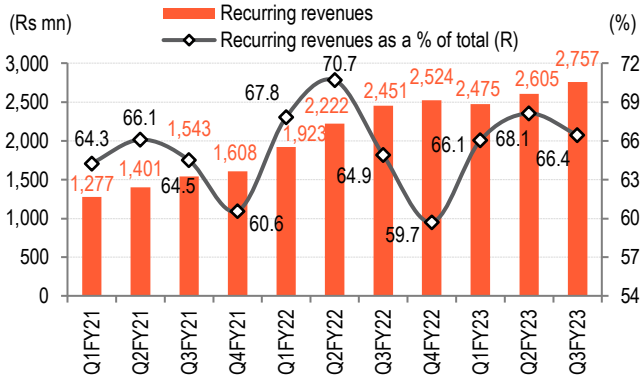
Stock performance



Source: NSE

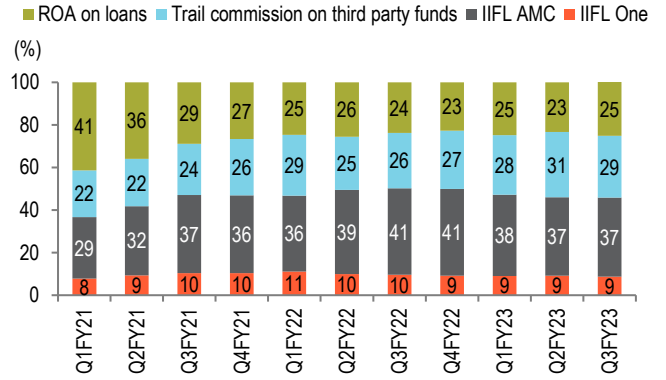


Fig 1 – Recurring revenue gaining traction...



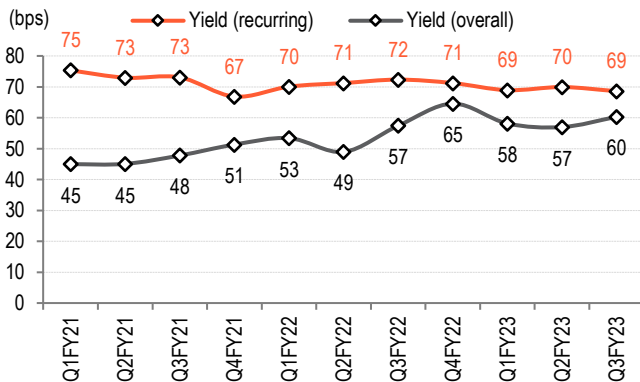
Source: Company, BOBCAPS Research

Fig 2 – ...with a focus on IIFL One and AMC segments



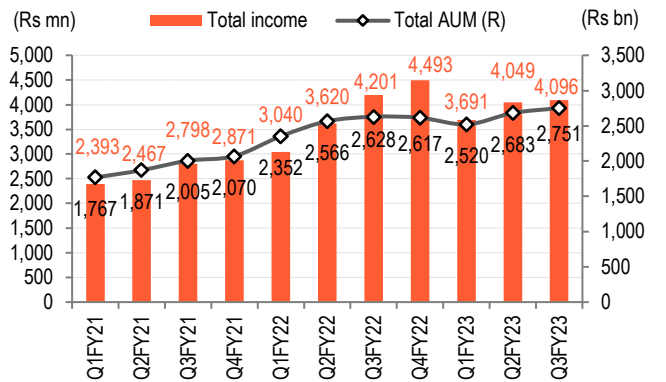
Source: Company, BOBCAPS Research

Fig 3 – ARR yield steady



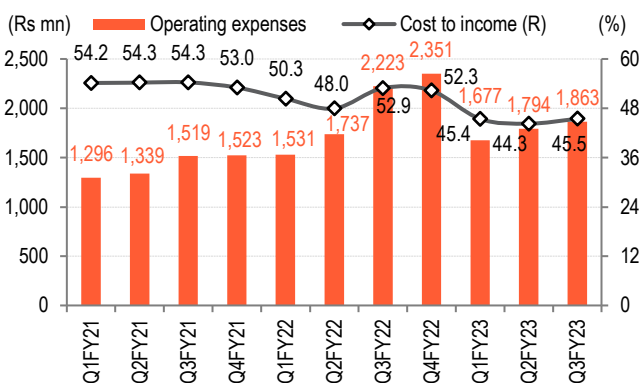
Source: Company, BOBCAPS Research Note: The above yields are calculated

Fig 4 – Income growth strong; AUM below expectations



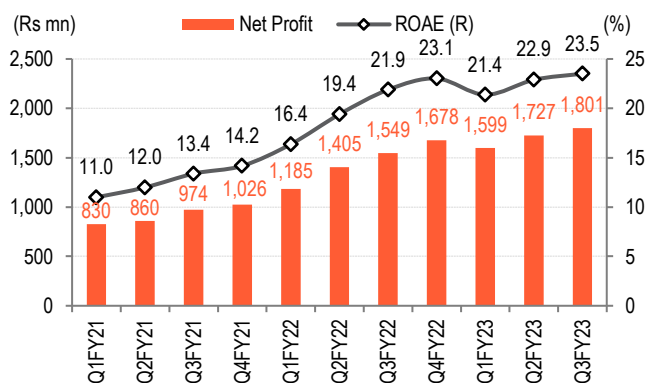
Source: Company, BOBCAPS Research

Fig 5 – C/I ratio higher this quarter



Source: Company, BOBCAPS Research

Fig 6 – Net profit grew 16% YoY; ROAE at 23.5%



Source: Company, BOBCAPS Research

Fig 7 – AUM breakup – Recurring AUM growth strong

(Rs mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
Recurring AUM	16,64,940	13,89,461	19.8	15,49,645	7.4
IIFL One Assets	4,05,938	3,12,818	29.8	3,65,528	11.1
Funds managed by IIFL AMC	5,90,527	5,57,479	5.9	5,57,656	5.9
Trail commissions managed by third party funds	6,23,735	4,77,660	30.6	5,83,622	6.9
Loans	44,740	41,505	7.8	42,840	4.4
Non-Recurring AUM	10,86,396	12,38,337	(12.3)	11,33,212	(4.1)
Brokerage	9,83,425	10,25,962	(4.1)	10,19,827	(3.6)
Direct Stocks	5,76,310	5,38,737	7.0	5,84,581	(1.4)
Debt Instruments & Bonds	2,59,473	2,98,904	(13.2)	2,70,119	(3.9)
Mutual Funds - Direct Code / Feeders	1,47,643	1,88,321	(21.6)	1,65,127	(10.6)
Distribution Assets Not Earning Trail Fees	1,02,971	2,12,375	(51.5)	1,13,385	(9.2)
Mutual Fund where upfront fees received earlier	-	9,107	(100.0)	-	NA
Managed Accounts where upfront fees received earlier	1,02,971	2,03,268	(49.3)	1,13,385	(9.2)
Total AUM	27,51,336	26,27,798	4.7	26,82,857	2.6

Source: Company, BOBCAPS Research

Fig 8 – Revenue breakup – Strong traction in non-recurring revenue as well

(Rs mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
Recurring Revenues	2,757	2,451	12.5	2,605	5.8
Fees on PMS- Discretionary/Non- Discretionary (IIFL One)	240	233	2.8	238	0.6
Management Fees on funds managed by IIFL AMC	1,024	997	2.7	960	6.6
Trail commission on third party funds	798	634	25.9	797	0.2
ROA on loans	695	587	18.4	610	14.0
Non-recurring revenues	1,393	1,325	5.1	1,219	14.2

Source: Company, BOBCAPS Research

Fig 9 – Yields remained rangebound

Yields (calculated) (bps)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
Recurring	69	72	(4bps)	70	(1bps)
Fees on PMS- Discretionary/Non- Discretionary (IIFL One)	25	30	(5bps)	28	(3bps)
Management Fees on funds managed by IIFL AMC	71	74	(3bps)	70	1bps
Trail commission on third party funds	53	55	(2bps)	57	(4bps)
ROA on loans	635	609	26bps	578	57bps
Non-recurring	50	43	8bps	44	6bps
Yield on AUM (Overall excluding double counting)	60	64	(4bps)	57	3bps

Source: BOBCAPS Research

Earnings call highlights

Net flows

- 360 One's net flows ex-custody stood at Rs 60bn in Q3FY23, with wealth management constituting Rs 34.6bn and asset management (AMC) bringing in the balance. Within the AMC segment, alternatives saw strong flows at Rs 20bn. Private equity had high inflows in 2017 that have been coming up for redemptions over the last 9-12 months. Hence, the net flow number may look muted despite good gross inflows. Credit and Real Estate are newer funds and thus the net flows look higher.
- IIFL One saw robust net flows of Rs 36.8bn (vs. Rs 84.3bn in 9MFY23).
- The transactional business reported a net outflow of Rs 43bn in Q3, of which some part is moving into the annual recurring revenue (ARR) bucket while some portion is general outflow.
- Net flows on the ARR side are guided to move in the range of Rs 300bn-400bn in FY24 (Rs 300bn in FY23E) vs. ~Rs 220bn in 9MFY23.
- Multi-asset classes and more product innovation would be required to attract higher flows in case markets become choppy.

IIFL One

- The company remains positive on the discretionary segment. Management indicated that the business saw strong inflows, but a large client had temporary liquidity needs and thus the outflow. It expects the client to reinvest the funds next quarter.
- The yields remained low at 41bps (reported) vs. 48bps in Q2 on the discretionary side of the business because a large client that came on board in mid-December will only be charged fees from January upon deployment of funds.
- Management expects IIFL One to be the most important vertical for flows over the next 12-18 months. Most of the bigger clients want the company to work as an advisor or portfolio manager and not a mere distributor.
- The company is investing in technology and research simultaneously to deliver a full platform to clients.

MTM (Marked to Market)

MTM can be broadly classified into three parts: wealth management ARR, wealth management TBR (Transactional Brokerage) and AMC.

- Per management, most of the active fund managers have underperformed in the last quarter. Moreover, there is MTM on the bond fund. Thirdly, the flows came towards the second half of the quarter.
- The transactional side saw greater variation as Rs 35bn-40bn worth of unlisted investments were reported at book value.

- On the AMC side, private equity is valued at the market multiple on a conservative side. Thus, there was an MTM effect.

Other updates

- NIM was higher in Q3 as the company was able to lend at 50-75bps higher rates and was also successful in borrowing at competitive rates.
- Managed account AUM has doubled since FY22, but the yield has come down as (a) older assets that moved into trail commission mode have lower retention rates, and (b) fixed income saw high inflows which also carry lower retention rates as compared to the equity side.
- Other income was negative (-Rs 50mn) this quarter due to foreign exchange losses.
- The non-transactional business included several debt transactions over the last quarter which are otherwise equity-dominated. Management expects debt to dominate over the next 12-18 months. If markets see slower activity, then the company estimates that earnings on non-ARR segment can have a 10-15% variation; thus, Rs 1.4bn earned in Q3 can potentially drop to Rs 1bn-1.3bn in the future.
- The company recorded Rs 180mn of carry income in the AMC segment in Q3.
- Mumbai Angels has launched two new funds: a Rs 10bn angel fund and a Rs 3bn VC fund, which will invest in ~500 startups over the next 3-4 years.
- IIFL Wealth announced a fourth interim dividend of Rs 17/sh. Dividend payout is proposed to continue at 70-80% of PAT.

Financial snapshot

Fig 10 – P&L

(Rs mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
Total income	4,096	4,201	(2.5)	4,049	1.2
Recurring Revenues	2,757	2,451	12.5	2,605	5.8
Transactional / Brokerage Assets	1,393	1,325	5.1	1,219	14.2
Other income	(54)	424	NA	225	NA
Costs	1,863	2,223	(16.2)	1,794	3.9
Employee Costs	1,318	1,713	(23.1)	1,313	0.4
Admin and Other expenses	545	509	7.0	481	13.2
Profit before Taxes (PBT)	2,232	1,978	12.8	2,255	(1.0)
Taxes	431	429	0.4	528	(18.3)
Profit after Tax (PAT)	1,801	1,549	16.3	1,727	4.3

Source: Company, BOBCAPS Research

Fig 11 – Balance sheet

(Rs mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
Financial assets	86,029	87,291	(1.4)	85,669	0.4
Cash and cash equivalents	2,286	3,459	(33.9)	2,622	(12.8)
Bank Balance	2,381	3,312	(28.1)	2,257	5.5
Derivative financial instruments	0	2	(100.0)	5	(100.0)
Receivables	4,386	4,165	5.3	4,182	4.9
Loans	43,096	41,894	2.9	40,069	7.6
Investment	30,996	33,458	(7.4)	32,710	(5.2)
Other financial assets	2,884	1,001	188.1	3,825	(24.6)
Non- Financial assets	11,797	10,533	12.0	10,783	9.4
Current tax assets	1,467	984	49.1	1,475	(0.5)
Deferred tax assets	37	15	146.7	12	210.9
Property plant and equipment	2,805	2,802	0.1	2,769	1.3
Capital work in progress	294	6	4,798.3	129	128.4
Goodwill	4,176	3,734	11.8	3,734	11.8
Other Intangible assets	1,413	1,533	(7.8)	1,431	(1.3)
Right-of-use Assets	337	162	108.1	352	(4.2)
Other non-financial assets	1,269	1,297	(2.2)	882	43.8
Total Assets	97,827	97,824	0.0	96,452	1.4
Financial liabilities	65,018	67,897	(4.2)	64,172	1.3
Derivative financial instruments	610	2,596	(76.5)	569	7.3
Payables	5,183	3,699	40.1	5,356	(3.2)
Debt Securities	54,796	51,228	7.0	53,490	2.4
Borrowings	2,010	500	301.9	1,904	5.6
Subordinated Liabilities	680	2,830	(76.0)	831	(18.2)
Finance Lease obligation	370	187	97.8	385	(3.9)
Other financial liabilities	1,371	6,857	(80.0)	1,638	(16.3)
Non-Financial liabilities	1,917	1,648	16.3	1,900	0.9
Current Tax liabilities	657	544	20.7	791	(17.0)
Provisions	104	135	(22.7)	103	1.5
Deferred Tax liabilities	657	580	13.3	681	(3.5)
Other non-financial liabilities	500	389	28.4	325	53.5
Total Liabilities	66,936	69,545	(3.8)	66,071	1.3
Equity	30,891	28,279	9.2	30,381	1.7
Equity share capital	178	177	0.6	178	0.2
Other equity	30,713	28,102	9.3	30,204	1.7
Total Liabilities and Equity	97,827	97,824	0.0	96,452	1.4

Source: Company, BOBCAPS Research

Fig 12 – Ratio analysis

(%)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
Recurring Revenues as a % of total revenue from operations	66.4	64.9	154bps	68.1	(168bps)
Non-Recurring Revenues as a % of total revenue from operations	33.6	35.1	(154bps)	31.9	168bps
Other income as a % of total revenue	(1.3)	10.1	NA	5.5	NA
Recurring AUM as a % of total AUM	60.5	52.9	764bps	57.8	275bps
Non-Recurring AUM as a % of total AUM	39.5	47.1	(764bps)	42.2	(275bps)
Cost to Income Ratio (%)	45.5	52.9	(741bps)	44.3	119bps
ROAE	23.5	21.9	163bps	22.9	61bps

Source: Company, BOBCAPS Research

Valuation methodology

The stock is trading at 19x FY25E EPS and appears undervalued, in our view. Following our estimate revisions and rollover to FY25E valuations, we have a new TP of Rs 2,365 (vs. Rs 2,206), valuing the stock at 23x FY25E P/E– in line with the three-year average. Our TP carries 23% upside from current levels.

We retain BUY as 360 One has maintained a niche position in the under-penetrated wealth management business, enjoys a track record of innovative products and has a strong team leader (TL)-driven model that boasts of low attrition at both, the client and TL level. Further, owing to its sturdy business model, we believe the negative macro environment is unlikely to have a major impact on profitability as (a) flows into IIFL One remain strong given that large clients favour the advisory model over distribution, (b) the NBFC business earns robust margins, and (c) traction in AMC business continues.

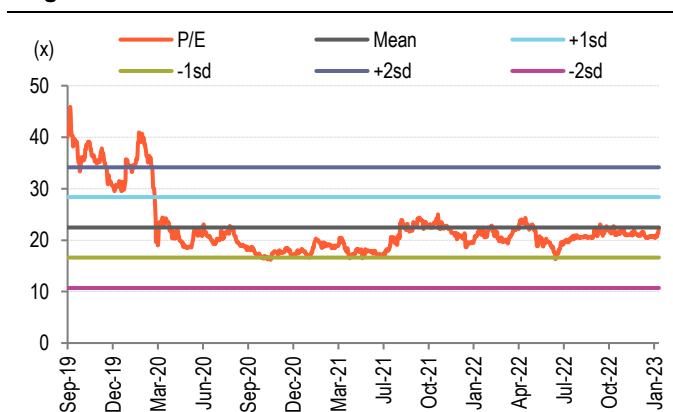
Based on the Q3 performance, we pare our FY23/FY24/FY25 net flow (net new money) estimates by 8%/8%/1% to Rs 288bn/Rs 365bn/Rs 4440n, and cut AUM forecasts by ~5% in each of these years to Rs 4.2tn by FY25 from Rs 4.4tn earlier. Our net profit CAGR stands revised to 17% over FY22-FY25 to Rs 9.3bn (vs. Rs 9.4bn earlier). We now expect ~29% ROAE and ~7% ROAA by FY25.

Fig 13 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
AUM	29,18,453	35,16,735	42,37,666	30,62,412	37,05,519	44,46,622	(4.7)	(5.1)	(4.7)
Recurring AUM	16,80,454	20,95,282	26,09,568	17,63,346	22,07,760	27,38,244	(4.7)	(5.1)	(4.7)
Non-recurring AUM	12,37,998	14,21,453	16,28,098	12,99,066	14,97,759	17,08,378	(4.7)	(5.1)	(4.7)
Net flows	2,87,919	3,64,807	4,39,592	3,14,094	3,98,114	4,44,662	(8.3)	(8.4)	(1.1)
Recurring revenue	10,698	13,187	16,095	10,790	13,642	16,697	(0.8)	(3.3)	(3.6)
Non-recurring revenue	5,300	5,000	5,000	4,800	4,600	4,800	10.4	8.7	4.2
Revenue	16,398	18,987	21,895	16,390	19,042	22,297	0.1	(0.3)	(1.8)
Cost to income	45.0	44.0	44.0	45.0	44.0	44.0	0bps	0bps	0bps
PAT	6,854	8,081	9,319	6,761	7,998	9,365	1.4	1.0	(0.5)
ROAE (%)	22.6	25.9	28.7	22.1	24.9	27.7	58bps	101bps	102bps

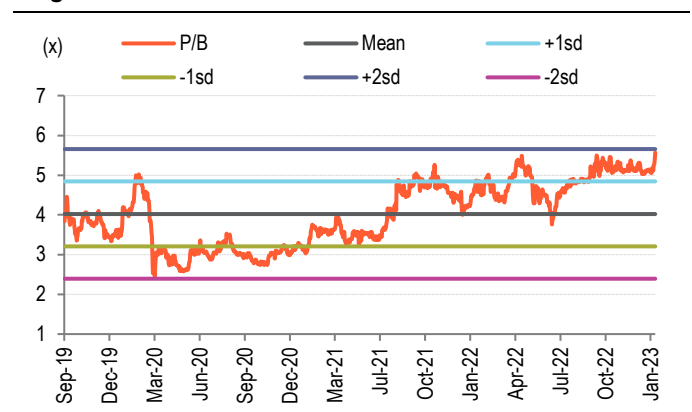
Source: BOBCAPS Research

Fig 14 – 1Y fwd P/E band



Source: Bloomberg, BOBCAPS Research

Fig 15 – 1Y fwd P/B band



Source: Bloomberg, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- **Goodwill risk:** 360 One's business is built on the goodwill of existing clients with new clients being acquired by word of mouth. Any change in the company's reputation due to a customer's bad experience can result in loss of goodwill, thereby hampering its ability to acquire new customers or even leading to attrition among existing clients.
- **Volatile capital markets:** Volatility in capital markets persists, especially after the uncertainty due to Covid-19 and recent geopolitical tensions. This could lead to abnormal losses/profits in client portfolios. Coupled with a drop in new wealth creation, this may slow the pace of estimated growth in the wealth industry, which may result in slower AUM growth for the company. As per management, a 20% fall in the benchmark can result in an 8-12% decline in AUM.
- **Growth in IIFL One assets may be slower than anticipated:** The company has been a pioneer in pushing for the shift to a recurring revenue model, spearheaded by the IIFL One proposition where revenue is earned as fees from clients rather than commissions from mutual funds. However, the speed of client conversion to this proposition may be slower than expected. Also, pricing pressures may arise as other competitors move to similar models.
- **High dependence on senior team leaders:** 360 One is dependent on senior TLs, bankers and RMs to retain and expand the client base over the long term. Any substantial TL attrition may lead to a corresponding increase in client attrition or may even slow AUM growth.
- **Regulatory issues:** Several regulatory changes have been introduced in the last few years, altering the dynamics of the business (for example, change in commission earned from upfront to trail). Any further changes can affect the income earned by the company.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Recurring revenue	5,830	9,120	10,698	13,187	16,095
Non-recurring revenue	3,325	4,862	5,300	5,000	5,000
Other income	1,374	1,372	400	800	800
Total income	10,529	15,354	16,398	18,987	21,895
Operating expenses	5,679	7,841	7,379	8,354	9,634
PBT	4,849	7,513	9,019	10,633	12,261
PBT growth (%)	69.3	54.9	20.0	17.9	15.3
Tax	1,156	1,696	2,165	2,552	2,943
Tax rate (%)	23.8	22.6	24.0	24.0	24.0
Reported PAT	3,693	5,818	6,854	8,081	9,319

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Equity capital	176	177	177	177	177
Reserves & surplus	28,102	29,798	30,415	31,627	33,025
Net worth	28,278	29,976	30,593	31,805	33,203
Total debt	51,036	58,250	64,949	74,746	85,832
Other liab. & provisions	36,365	49,145	47,663	51,135	54,312
Total liabilities & equities	87,401	1,07,395	1,12,612	1,25,882	1,40,144
Cash & bank balance	8,383	10,222	10,547	12,062	12,573
Fixed & Other assets	79,018	97,173	1,02,065	1,13,819	1,27,571
Total assets	87,401	1,07,395	1,12,612	1,25,882	1,40,144

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
EPS	41.8	64.1	75.6	89.2	102.8
Dividend per share	70.0	55.0	68.8	75.8	87.4
Book value per share	319.9	332.6	337.6	350.9	366.4

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
P/E	46.0	30.0	25.4	21.6	18.7
P/BV	6.0	5.8	5.7	5.5	5.2
Dividend yield (%)	3.6	2.9	3.6	3.9	4.5

DuPont Analysis

Y/E 31 Mar (bps of AAAUM)	FY21A	FY22A	FY23E	FY24E	FY25E
Operating income	50.3	59.7	57.8	56.5	54.4
Operating expenses	31.2	33.5	26.7	26.0	24.8
Other income	7.5	5.9	1.4	2.5	2.1
PBT	26.6	32.1	32.6	33.0	31.6
Tax	6.4	7.2	7.8	7.9	7.6

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
YoY growth (%)					
PBT	69.3	54.9	20.0	17.9	15.3
EPS	82.9	53.5	18.0	17.9	15.3
Profitability & Return ratios (%)					
Operating to Total income	87.0	91.1	97.6	95.8	96.3
Cost to Income ratio	53.9	51.1	45.0	44.0	44.0
PBT margin	46.1	48.9	55.0	56.0	56.0
ROE	12.7	20.0	22.6	25.9	28.7
Dividend payout ratio	167.6	85.8	91.0	85.0	85.0

Source: Company, BOBCAPS Research

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Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

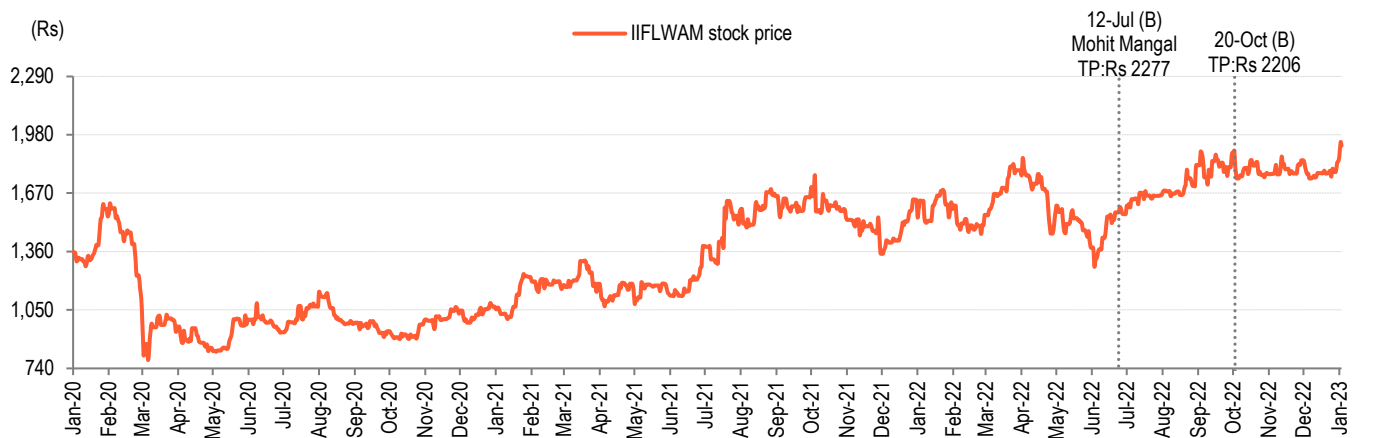
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): 360 ONE (IIFLWAM IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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