FIRST LIGHT

16 September 2022

RESEARCH

IIFL Wealth | Target: Rs 2,277 | +33% | BUY

Annual report analysis: Recurring model bears fruit

SUMMARY

IIFL Wealth

- Slew of fund launches by IIFL AMC a positive; AMC along with IIFL One remain focus segments, with the lens on up-and-coming tier-2/3 markets
- Recurring income model validated as its contribution rose to 55% of AUM and 65% of revenue at end-FY22
- We maintain BUY on rising margins, loyal clients, a strong platform and low valuations; TP unchanged at Rs 2,277 (25x FY24E P/E)

Click here for the full report.

Daily macro indicators

Indicator	13-Sep	14-Sep	Chg (%)
US 10Y yield (%)	3.41	3.4	0bps
India 10Y yield (%)	7.08	7.12	4bps
USD/INR	79.15	79.44	(0.4)
Brent Crude (US$/bbl)	93.2	94.1	1.0
Dow	31,105	31,135	0.1
Hang Seng	19,327	18,847	(2.5)
Sensex	60,571	60,347	(0.4)
India FII (US$ mn)	**12-Sep**	**13-Sep**	**Chg ($ mn)**
FII-D	(36.2)	93.9	130.1
FII-E	212.9	578.5	365.6

Source: Bank of Baroda Economics Research

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BUY
TP: Rs 2,277 | ⮝ 33%

IIFL WEALTH | Diversified Financials | 15 September 2022

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IIFL AMC and IIFL One in focus: In FY22, IIFL AMC launched a suite of new funds and raised commitments in the AIF category, closing the year with Rs 556bn in AUM (+49% YoY) and 77bps in yield. The IIFL One business reported AUM of Rs 327bn (+17% YoY) and yield of 30bps, led by traction in discretionary PMS.

Targeting new geographies: IIFL Wealth sees tremendous opportunity in tier-2 and 3 cities because these markets are under-serviced even as they now form a sizeable share of new wealth creation in India. The company's strong platform, expert team and broad experience bode well for capturing market share in these geographies. A focus on building digital capabilities has also enhanced its ability to expand customised wealth management solutions to untapped segments.

ARR model gaining traction: In FY20, IIFL Wealth transitioned its business model from being transaction-driven to a more sustainable annuity distribution-commission model. Although financials initially took a hit, the new annual recurring revenue (ARR) model has been steadily gaining traction. Recurring revenue grew 56% YoY to Rs 9.1bn in FY22 and recurring AUM grew 42% YoY to Rs 1.4tn. At end-FY22, 55% of the company's AUM and 65% of revenue was based on ARR, which management expects will grow further. Overall net flows stood at Rs 314bn, a bulk of which were recurring in nature.

Stable financial parameters: Higher revenue (46% YoY) coupled with operating leverage supported expansion in ROAE from 7% in FY20 to 20% in FY22 and in ROAA from 1.8% to 6%. The cost-to-income ratio fell 300bps YoY to 51% in FY22 and is expected to decline further. Asset-liability management held strong, and contingent liabilities remained under control. Per management, the business is backed by a robust central risk management department with a well-defined policy to mitigate risks.

Maintain BUY: The stock is trading at 19x FY24E EPS and appears undervalued, in our view. We retain BUY with an unchanged TP of Rs 2,277 set at 25x FY24E EPS – a 10% premium to the 3Y average given a robust model, strong fundamentals and supportive macro climate.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	IIFLWAM IN/Rs 1,707
Market cap	US$ 1.9bn
Free float	77%
3M ADV	US$ 0.9mn
52wk high/low	Rs 1,908/Rs 1,236
Promoter/FPI/DII	23%/22%/3%

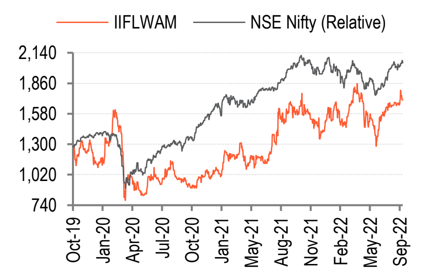
Source: NSE | Price as of 15 Sep 2022

Key financials

Y/E 31 Mar (Rs mn)	FY22A	FY23E	FY24E
PBT (Rs mn)	7,513	9,271	10,947
PBT growth (%)	54.9	23.4	18.1
Adj. net profit (Rs mn)	5,818	6,954	8,210
EPS (Rs)	64.1	77.1	91.1
Consensus EPS (Rs)	64.1	78.0	91.1
P/E (x)	26.6	22.1	18.7
MCap/AUM (%)	5.9	4.9	4.1
ROE (%)	20.0	22.7	25.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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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.

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