BOBCAPS
TRUST | INNOVATION | EXCELLENCE

FIRST LIGHT

05 September 2022

RESEARCH

BOB Economics Research | Monthly Economic Buffet

Economic Round-up: August 2022

IIFL Wealth | Target: Rs 2,277 | +36% | BUY

NDR takeaways – Spotlight on recurring revenue and new clients

SUMMARY

India Economics: Monthly Economic Buffet

Following the statements by major central bankers at Jackson Hole, it is expected that global monetary conditions will continue to tighten, until inflation is brought down. This has made investors jittery as it also increases the risk of recession. Some signs slowdown are emerging from flash PMIs, increased cost of living in the UK, and drop in consumer confidence in Eurozone. China's recovery also remains uneven. Impact of PBOC/Fed/ECB/BoE decisions will be keenly watched going ahead.

Click here for the full report.

IIFL Wealth

- Management focused on driving recurring income and net fund flows to scale the business and curb cyclicality
- Phygital model planned for Rs 50mn-250mn clientele and physical meetings for Rs 250mn+ bracket; Rs 500mn+ targeted for advisory
- Maintain BUY given strong, sticky client base, favourable industry drivers and low valuations; TP unchanged at Rs 2,277

Click here for the full report.

Daily macro indicators

Indicator	31-Aug	01-Sep	Chg (%)
US 10Y yield (%)	3.19	3.25	6bps
India 10Y yield (%)	7.19	7.22	2bps
USD/INR	79.46	79.56	(0.1)
Brent Crude (US$/bbl)	96.5	92.4	(4.3)
Dow	31,510	31,656	0.5
Hang Seng	19,954	19,597	(1.8)
Sensex	59,537	58,767	(1.3)
India FII (US$ mn)	**29-Aug**	**30-Aug**	**Chg ($ mn)**
FII-D	(85.4)	(1.1)	84.3
FII-E	257.7	534.3	276.6

Source: Bank of Baroda Economics Research

BOBCAPS Research
research@bobcaps.in

MONTHLY ECONOMIC BUFFET

02 September 2022

Economic Round-up: August 2022

Sonal Badhan
Economist

Following the statements by major central bankers at Jackson Hole, it is expected that global monetary conditions will continue to tighten, until inflation is brought down. This has made investors jittery as it also increases the risk of recession. Some signs slowdown are emerging from flash PMIs, increased cost of living in the UK, and drop in consumer confidence in Eurozone. China's recovery also remains uneven. Impact of PBOC/Fed/ECB/BoE decisions will be keenly watched going ahead.

Global growth: Given the indication by flash PMIs for Aug'22, both manufacturing and services activity in US and Europe seems to be facing setbacks in the wake of elevated prices. While in US CPI remains sticky and PPI has begun to come down, they remain a concern in the Eurozone and UK. Looming energy crisis and fast approaching winter season can add to the woes of Europe. In the US, impact of aggressive rate hikes by the Fed is set to hamper growth. In addition, China's industrial production, retail sales, FAI, property investment, home sales, all registered weaker than estimated growth in Jul'22. However, supported by PBOC's stimulus measures, official PMIs (both manufacturing and services) are beginning to see a turnaround in Aug'22. But, sustaining the momentum will be the key, which remains tough task if demand from US and Europe falters.

Global Central Banks: Last month, number of developments around monetary policy guidance by major central bankers impacted the mood of the market. Most important of it was US Fed Chair's Jackson Hole speech, signalling that Fed will continue to aggressively hike rates until inflation is tamed. ECB officials too hinted that monetary policy tightening will continue even if there is a risk of recession. BoE raised rate by 50bps—biggest since CY95. On the other hand, owing to signs of troubles in the domestic economy, PBOC announced stimulus measures.

Key macro data releases: India's real GDP rose by 13.5% in Q1FY23, fastest pace compared to the last three quarters, despite an elevated base (20.1% in Q1FY22). While GVA rose by 12.7% in Q1FY23 against 3.9% in Q4FY22 and compared to 18.1% in Q1FY22. Sector wise, services outperformed.

CPI came in slightly lower at 6.7% in Jul'22, down from 7% in Jun'22. Food inflation moderated further, supported by softening prices of vegetables, meat and fish, oils & fats, and milk & milk products. Core inflation edged down by 30bps to 5.7% in Jul'22 on account of sharp dip in transport and communication. We believe RBI will hike rates by another 50bps during the year. Going forward, we expect India's 10Y yield to trade in the range of 7.20-7.30% in the coming fortnight. We also expect the rupee to trade in the Rs 79.75-80.0/$ range in the near-term.

COMPANY UPDATE

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 2,277 | ⮝ 36%

IIFL WEALTH | Diversified Financials | 02 September 2022

NDR takeaways – Spotlight on recurring revenue and new clients

- **Management focused on driving recurring income and net fund flows to scale the business and curb cyclicality**
- **Phygital model planned for Rs 50mn-250mn clientele and physical meetings for Rs 250mn+ bracket; Rs 500mn+ targeted for advisory**
- **Maintain BUY given strong, sticky client base, favourable industry drivers and low valuations; TP unchanged at Rs 2,277**

Mohit Mangal
research@bobcaps.in

Takeaways from roadshow with Karan Bhagat, the Founder, MD & CEO of IIFL Wealth:

Focus on ARR, net flows: IIFL Wealth has successfully scaled its annual recurring revenue (ARR) business over the last three years and aims to have 80-85% of its topline from recurring streams vs. 68-72% currently. Net flows totalled ~Rs 60bn in Q1FY23, but management expects to close the year relatively higher given quarterly deviations. We forecast net flows (net new money) of Rs 340bn/Rs 405bn/Rs 452bn by end-FY23/FY24/FY25 with AUM reaching Rs 3.1tn/Rs 3.8tn/Rs 4.5tn.

Cyclicity to reduce further: Cyclicity has reduced and the company aims to further smooth revenue flows by building up ARR, ensuring a favourable asset mix of both debt and equity, and garnering traction in the alternate investment space.

Thrust on mid-market category: The Rs 50mn-250mn mid-market client category is typically dominated by distribution whereas IIFL Wealth's Rs 250mn-500mn business is a mix of distribution and advisory. Those above Rs 500mn are targeted to eventually move towards advisory services. The company is entering the Rs 50mn-250mn arena in Apr'23 and intends to service the space in the phygital (physical + digital) mode, thereby potentially doubling the span of control from 30 clients to 50-60. Management believes its Rs 250mn+ client base will favour physical meetings.

Growing client awareness: Clients above Rs 250mn (potential to become Rs 500mn in three years) now have clear expectations of delivery and are moving towards advisory services. Also, investments are increasingly being directed toward direct plans.

Low attrition: Per management, attrition is low in the company's senior relationship and investment teams. The focus is on replacing departures with the right candidates so that clients stay connected to the platform. Attrition on the client side is also low.

Maintain BUY: IIFL Wealth is trading at 18x FY24E EPS and appears undervalued. We retain BUY with a 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 1,678
Market cap	US$ 1.9bn
Free float	77%
3M ADV	US$ 0.8mn
52wk high/low	Rs 1,908/Rs 1,236
Promoter/FPI/DII	23%/22%/3%

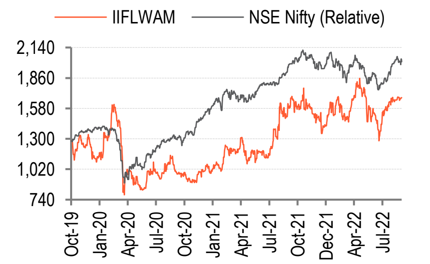
Source: NSE | Price as of 1 Sep 2022

Key financials

Y/E 31 Mar (Rs mn)	FY22P	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	77.0	89.0
P/E (x)	26.2	21.8	18.4
MCap/AUM (%)	5.8	4.9	4.0
ROE (%)	20.0	22.7	25.5

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

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.

Rating distribution

As of 31 August 2022, out of 119 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 67 have BUY ratings, 30 have HOLD ratings, 5 are rated ADD*, 1 is rated REDUCE* and 16 are rated SELL. Of these, 2 companies rated BUY and 1 rated ADD have been investment banking clients in the last 12 months. (*Our ADD and REDUCE ratings are in the process of being migrated to the new recommendation structure.)

Analyst certification

Each of the analysts mentioned in this research report certify, with respect to the sections of the report for which they are responsible, that (1) all of the views expressed in this report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

Important disclosures

This product is a compilation of previously published research notes. To view the complete report along with the associated Analyst certifications and Company-specific disclosures, please click on the hyperlink accompanying each excerpt.

General disclaimers

BOBCAPS is engaged in the business of Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2025. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017. BOBCAPS CIN Number: U65999MH1996GOI098009.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities —that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Other disclosures

BOBCAPS does not have any financial interest in the subject company. BOBCAPS does not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS is not engaged in any market making activities for the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.