

**BUY**

TP: Rs 2,277 | ▲ 33%

**IIFL WEALTH**

| Diversified Financials

| 15 September 2022

## Annual report analysis: Recurring model bears fruit

- 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)

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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-served 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%

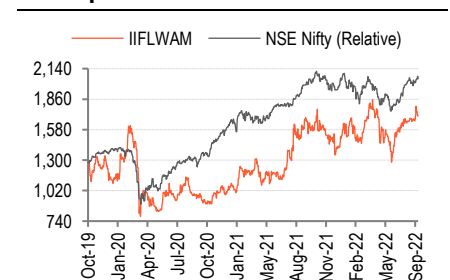
Source: NSE | Price as of 15 Sep 2022

### 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

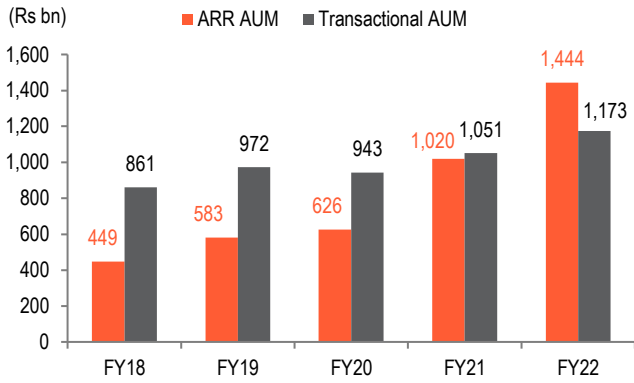


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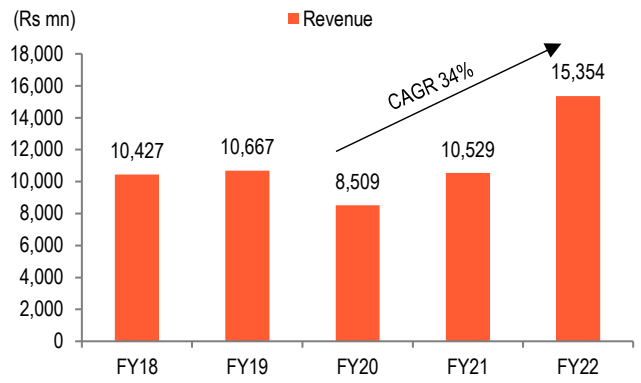
## Focus charts: FY22

**Fig 1 – ARR AUM growth higher than transactional AUM**



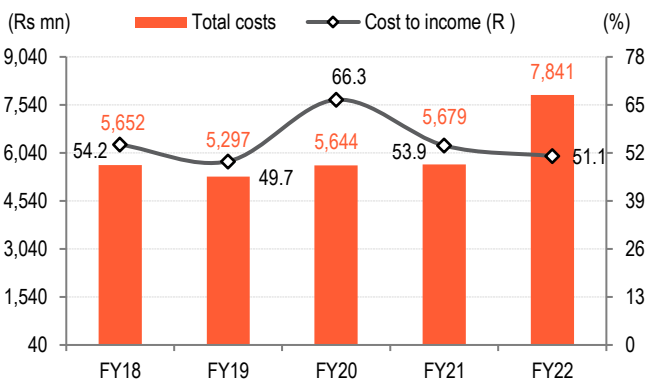
Source: Company, BOBCAPS Research

**Fig 2 – Revenue growth up over last three years**



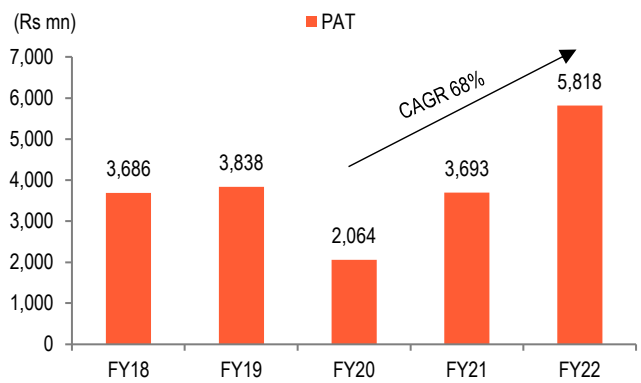
Source: Company, BOBCAPS Research

**Fig 3 – C/I ratio on a downward trend**



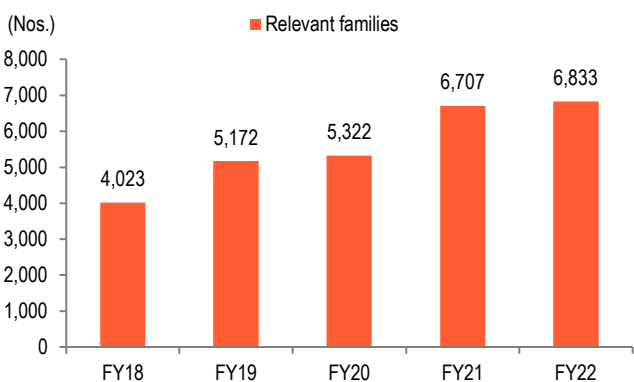
Source: Company, BOBCAPS Research

**Fig 4 – Net profit has risen over last three years**



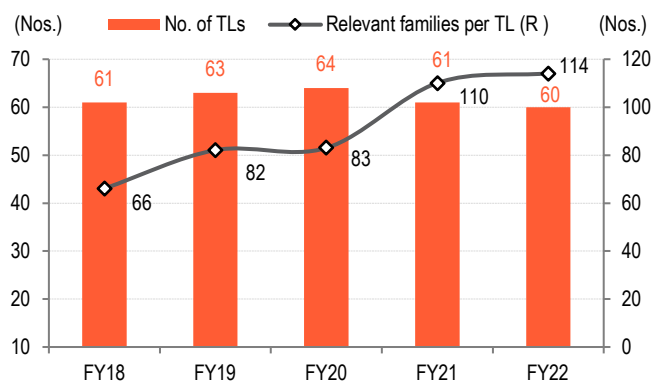
Source: Company, BOBCAPS Research

**Fig 5 – Relevant families\* on the rise**



Source: Company, BOBCAPS Research | Note: Relevant families refer to clients with a minimum AUM of Rs10mn

**Fig 6 – ...serviced by productive team leaders (TL)**



Source: Company, BOBCAPS Research

## IIFL AMC and IIFL One lead growth

### IIFL AMC – Stellar performance

IIFL Wealth Management (IIFL Wealth) is the largest alternative asset manager in India and aims to further consolidate its position. In FY22, the company introduced a suite of alternate investment funds (AIF) and also raised commitments, closing the year at Rs 556bn in AUM (+49% YoY) and 77bps in yield.

### Strong traction in AIFs

**Fig 7 – Slew of AIF launches in FY22**

Fund	Activity	Fund profile
IIFL Special Opportunities Fund – Series 8 (SOF8)	Raised commitments	Focussed on opportunities in the consumer tech space
SOF9 and SOF10	Fund launch	Late-stage pre-IPO funds aimed at capturing the opportunity of investing in companies that are likely to go public in the next 3-4 years
Monopolistic Market Intermediaries Fund (MMIF)	Fund launch	Same underlying objective as SOF8
Multi Strategy Fund – Series 2 (Fund of Funds)	Fund launch	Invests in SOF8 and MMIF
Turnaround Opportunities Fund – Category 3 AIF (Listed Equity)	Fund launch	Focussed on investing in companies on the cusp of turnaround
Income Opportunities Fund -3	Fund launch	Credit fund investing in a combination of fixed and equity investments

Source: Company, BOBCAPS Research

Per management, Q4FY22 saw strong traction in SOF10 and listed equity offerings in the AIF space (Turnaround Opportunities Fund). Offshore investments in the Turnaround Opportunities Fund also enabled the company to cater to global investors keen on accessing Indian equities.

### PMS sees business as usual

Portfolio management services (PMS) garnered net sales of Rs 5bn in FY22. Regular sales from the company's distributor platforms continued during the year on the listed equity front. Online distribution ensured business continuity during the second wave of the pandemic. New distribution partners were onboarded for existing products, viz. Multicap PMS and Phoenix PMS.

### MF gaining traction

Net sales across the company's mutual funds (MF) stood at Rs 16bn in FY22. IIFL AMC continued to focus on scaling up the Focussed Equity Fund which attracted flows of Rs 9bn during the year. The company introduced its first quant-based offering – IIFL Quant Fund, raising ~Rs 1bn in a new fund offer (NFO). The focus remains on systematic investment plans in equity schemes and, hence, the company reduced the minimum investment amount to ensure wider retail participation.

### New mandates for offshore business

IIFL Wealth added two offshore mandates with cumulative AUM of Rs 43bn, taking the total to four, and indicated rising engagement with offshore institutions and family offices.

## IIFL One – Solution-based approach paying off

IIFL One reported AUM of Rs 327bn (+17% YoY) and yield of 30bps in FY22. The platform takes a solution-based approach rather than a product approach to build client portfolios. Its offerings can be broadly classified into two types:

- **Signature offerings:** The portfolio manager has sole discretion in selecting investment ideas in accordance with the permissible instruments and chosen investment approach for the strategy. These include:
  - **Core AIF** – a bouquet of high-quality, liquid, direct equity stocks and direct bonds
  - **Managed solutions** – an array of mutual funds and exchange-traded funds (ETF) using multiple parameters
- **Bespoke offerings:** The portfolio manager creates customised portfolios adhering to permissible instruments and the selected investment approach. These include:
  - **Treasury solutions** – fixed income portfolios directed towards large corporate treasuries, offered through both discretionary and non-discretionary platforms
  - **Mandate** – a customised selection of high-quality investment instruments from a diverse universe. Clients define the portfolio guidelines and entrust the entire investment management process to a team of experts
  - **Consult** – a customised investment framework using the portfolio guidelines defined by clients
  - **Select Alpha PMS** – a concentrated direct equity portfolio for the short-to-medium term using a bottom-up approach, provided on the non-discretionary platform

**Fig 8 – IIFL One – Discretionary PMS showing traction**

(Rs mn)	AUM		Revenue	
	FY21	FY22	FY21	FY22
Discretionary PMS	87,531	1,06,770	265	496
Non-discretionary PMS	1,33,914	1,51,464	264	355
Advisory	57,952	69,009	23	48
<b>Total</b>	<b>2,79,397</b>	<b>3,27,242</b>	<b>553</b>	<b>899</b>

Source: Company, BOBCAPS Research

## Expanding in tier-2 and 3 cities

IIFL Wealth's strategy is to provide wealth solutions to high net worth (HNI) and ultra HNI (UHNI) customers. According to the company, the market size has burgeoned as wealth in the UHNI and HNI categories continues to rise at an unprecedented pace. Although a significant chunk of its business comes from the top tier cities, the company has observed that a sizeable portion of new wealth creation is taking place in tier-2/3 cities where access to high-quality advice is limited.

IIFL Wealth has a strong platform, expert team and vast experience that 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.

## Financial review

### ARR model bearing fruit

In FY20, IIFL Wealth transitioned its business model from being transaction-driven to a more sustainable annuity distribution-commission model. The company wanted to offer unbiased client solutions that were not contingent upon direct commercial benefits.

Although financials initially took a hit, the new 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. This clearly reflects management's conscious shift in focus towards building an ARR-driven asset base.

**Fig 9 – ARR traction in FY22 justifies management's strategic decisions**

(Rs mn)	AUM		Revenue	
	FY21	FY22	FY21	FY22
<b>ARR</b>	<b>10,19,694</b>	<b>14,44,315</b>	<b>5,830</b>	<b>9,120</b>
IIFL One	2,79,397	3,27,242	553	899
Funds managed by IIFL AMC	3,73,718	5,55,742	1,977	3,588
Distribution assets earning trail fees	3,30,376	5,18,151	1,386	2,425
Loans (NBFC)	36,203	43,180	1,914	2,208
<b>Transactional</b>	<b>10,50,741</b>	<b>11,73,131</b>	<b>3,325</b>	<b>4,862</b>
Brokerage	8,24,216	9,98,555	NA	NA
Distribution assets not earning trail fees	2,26,525	1,74,576	NA	NA
<b>Total (excluding custody)</b>	<b>20,70,436</b>	<b>26,17,447</b>	<b>9,155</b>	<b>13,982</b>
Add: Custody assets	3,90,391	6,54,926	NA	NA
<b>Total (including custody)</b>	<b>24,60,827</b>	<b>32,72,373</b>	<b>9,155</b>	<b>13,982</b>

Source: Company, BOBCAPS Research

**Fig 10 – AMC business growing at a rapid pace**

(Rs mn)	AUM		Revenue	
	FY21	FY22	FY21	FY22
Wealth Management	16,96,718	20,61,704	7,178	10,394
AMC	3,73,718	5,55,742	1,977	3,588
<b>Total</b>	<b>20,70,436</b>	<b>26,17,446</b>	<b>9,155</b>	<b>13,982</b>

Source: Company, BOBCAPS Research

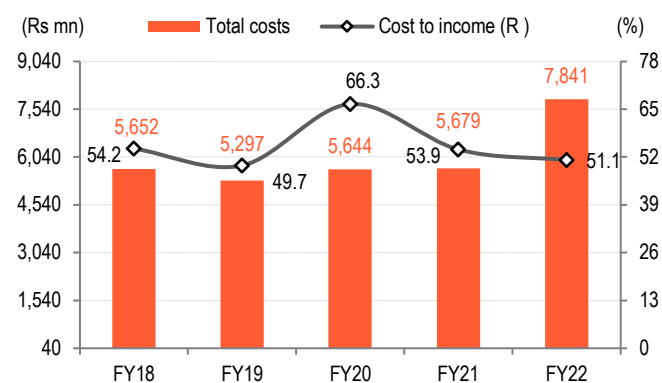
### Recurring yield >70bps, blended yield at 60bps

Upon the business model transition in FY20, the company expectedly witnessed a decline in yields. It generated a blended yield of 60bps on operating revenue in FY22 with recurring businesses generating 74bps.

## C/I decline reflects higher operating leverage

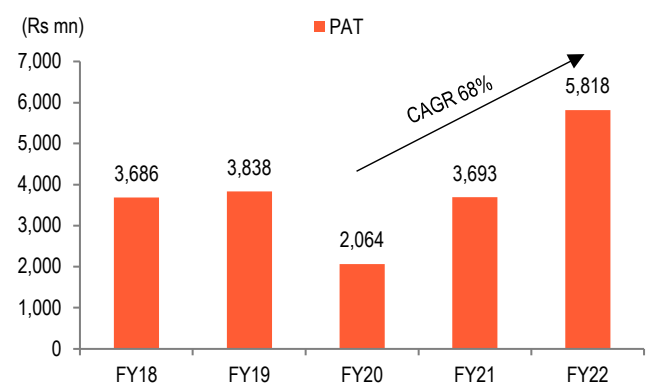
Although total costs increased from Rs 5.7bn in FY21 to Rs 7.8bn in FY22, IIFL Wealth's cost-to-income (C/I) ratio declined from 54% to 51%, reflecting higher operating leverage. Of the total cost of Rs 7.8bn, employee cost comprised Rs 6bn which increased 44% YoY. Administration and other expenses grew 21% to Rs 1.8bn. Management continues to guide for a reduction in C/I ratio.

**Fig 11 – C/I ratio on a downward trend**



Source: Company, BOBCAPS Research

**Fig 12 – Net profit has increased over the last three years**



Source: Company, BOBCAPS Research

## Return ratios expanding

The increase in revenue, particularly recurring streams, coupled with higher operating leverage supported expansion in ROAE from 7% in FY20 to 20% in FY22 and in ROAA from 1.8% to 6%.

**Fig 13 – Recurring revenue growth helping build a profitable business**

(%)	FY20	FY21	FY22
Recurring Revenue/Average Assets	4.7	5.4	9.4
Non-recurring Revenue/Average Assets	3.4	3.1	5.0
Other Income/Average Assets	(0.6)	1.3	1.4
Operating Expense/Average Assets	4.9	5.2	8.1
<b>ROAA</b>	<b>1.8</b>	<b>3.4</b>	<b>6.0</b>
Average Assets/Average Equity	3.9	3.7	3.3
<b>ROAE</b>	<b>7.0</b>	<b>12.7</b>	<b>20.0</b>

Source: Company, BOBCAPS Research

**Fig 14 – Wealth business a major profit centre but AMC business growth significant – FY22**

(Rs mn)	Net Assets		Share of Profit or Loss		Share in Other Comprehensive Income		Share in Total Comprehensive Income	
	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount
<b>Parent</b>								
IIFL Wealth Management	80.9	24,260	70.8	4,088	(16.4)	(7)	70.2	4,082
<b>Subsidiaries</b>								
<b>Indian</b>								
IIFL Wealth Prime (Formerly IIFL Wealth Finance) *	63.3	18,982	40.0	2,308	20.5	8	39.8	2,316
IIFL Asset Management	4.6	1,376	28.6	1,649	(4.4)	(2)	28.3	1,648
IIFL Wealth Distribution Services (Formerly IIFL Distribution Services)	2.7	816	1.9	108	(2.9)	(1)	1.8	107
IIFL Wealth Portfolio Managers (Formerly IIFL Alternate Asset Advisors)	7.1	2,137	2.4	138	2.9	1	2.4	139
IIFL Investment Adviser and Trustee Services	1.3	395	0.0	1	(0.3)	0	0.0	1
IIFL Trustee	0.2	64	0.6	33	(0.1)	0	0.6	33
IIFL Wealth Securities IFSC	0.0	(4)	0.0	(1)	0.0	-	0.0	(1)
IIFL Wealth Altiore	0.0	13	0.0	0	0.0	-	0.0	0
<b>Foreign</b>								
IIFL Asset Management (Mauritius)	0.5	161	0.3	15	13.9	6	0.4	20
IIFL Inc	0.1	21	(0.2)	(12)	2.3	1	(0.2)	(11)
IIFL Private Wealth Management (Dubai)	0.3	99	0.0	3	8.9	4	0.1	6
IIFL Capital Pte Ltd	3.3	982	(2.6)	(148)	71.3	28	(2.1)	(120)
IIFL Capital (Canada)	0.1	15	0.0	1	1.6	1	0.0	2
<b>Eliminations on Consolidation</b>	<b>(64.5)</b>	<b>(19,342)</b>	<b>(41.6)</b>	<b>(2,405)</b>	<b>2.8</b>	<b>1</b>	<b>(41.3)</b>	<b>(2,404)</b>
<b>Total</b>	<b>100.0</b>	<b>29,976</b>	<b>100.0</b>	<b>5,777</b>	<b>100.0</b>	<b>40</b>	<b>100.0</b>	<b>5,817</b>

Source: Company, BOBCAPS Research | \*Including stepdown subsidiary IIFL Wealth Capital Markets (w.e.f. 24 Apr 2020) (formerly L&T Capital Markets)

## High and stable dividend payout policy

The company has a well-defined policy to distribute 70-80% of net profit as dividends to shareholders. In addition, it had declared special dividend in both FY20 and FY21. Wealth is a capital-light business with minimal capex requirements, which makes this a logical policy. In FY22, the company paid out a total of Rs 55/sh, declaring first interim dividend of Rs 35 in Aug'21 and second interim dividend of Rs 20 in Oct'21.

## ESOPs at 5% of employee cost

Total ESOP costs declined from Rs 454mn in FY21 to Rs 304mn in FY22, constituting 5% of total employee cost. For details on the ESOP policy, please refer to the [Annexure](#) on Page 15.

## Other key metrics healthy

### Healthy ALM

The company has maintained a strong asset-liability management (ALM) profile with assets that mature within a year outstripping short-term liabilities.



**Fig 15 – ALM profile**

Particulars (Rs mn)	Within 12M	After 12M	Total
<b>ASSETS</b>			
<b>Financial Assets</b>			
Cash and cash equivalents	653	0	653
Bank balance other than (a) above	0	19	19
Derivative financial instruments	0	0	0
Receivables			
(I) Trade receivables	117	0	117
(II) Other receivables	0	0	0
Loans	5,715	0	5,715
Investments	12,106	19,422	31,527
Other financial assets	65	2	66
<b>Non-Financial Assets</b>			
Inventories	0	0	0
Current tax assets (net)	0	412	412
Deferred tax assets (net)	0	0	0
Property, plant and equipment	0	2,684	2,684
Capital work-in-progress	2	0	2
Other intangible assets	0	34	34
Right to use assets	0	3	3
Other non-financial assets	44	6	51
<b>Total Assets</b>	<b>18,701</b>	<b>22,582</b>	<b>41,284</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
<b>Financial Liabilities</b>			
Derivative financial instruments	-	-	0
Payables			
(I) Trade payables	-	-	-
(i) total outstanding dues of micro enterprises and small enterprises	-	-	0
(ii) total outstanding dues of creditors other than micro enterprises and small enterprises	165	-	165
(II) Other payables	-	-	0
(i) total outstanding dues of micro enterprises and small enterprises	-	-	0
(ii) total outstanding dues of creditors other than micro enterprises and small enterprises	-	-	0
Finance Lease Obligation	1	2	3
Debt securities	4,896	2,543	7,439
Borrowings (other than debt securities)	-	-	0
Other financial liabilities	9,035	-	9,035
<b>Non-Financial Liabilities</b>			
Current tax liabilities (net)	-	-	0
Provisions	4	-	4
Deferred tax liabilities (net)	311	20	331
Other non-financial liabilities	47	-	47
<b>EQUITY</b>			
Equity share capital	-	177	177
Incremental shares pending issuance	-	24,082	24,082
Other equity	-	-	-
<b>Total Liabilities and Equity</b>	<b>14,458</b>	<b>26,825</b>	<b>41,284</b>
<b>Bucket wise Gap</b>	<b>4,243</b>	<b>(4,243)</b>	<b>-</b>

Source: Company, BOBCAPS Research

About 27% of the company's financial liabilities mature after a year. Within the one-year bracket, 62% of liabilities mature between 1-6 months.

**Fig 16 – Financial liabilities – maturity analysis**

Particulars (Rs mn)	Less than 1M	1M to 6M	6M to 1Y	1Y to 5Y	5Y & above	Total
Derivative financial instruments	-	1,027	170	-	209	1,406
Trade Payables	1,370	393	0	0	-	1,763
Other Payables	-	4,978	-	-	-	4,978
Debt Securities	563	29,186	5,063	17,588	2,133	54,533
Borrowings (Other than Debt Securities)	500	501	-	-	-	1,001
Subordinated Liabilities	-	1,741	-	801	-	2,542
Other financial liabilities	45	9,016	3	-0	163	9,227
<b>Total</b>	<b>2,478</b>	<b>46,841</b>	<b>5,237</b>	<b>18,389</b>	<b>2,504</b>	<b>75,449</b>
% of Total	3	62	7	24	3	-

Source: Company, BOBCAPS Research

### Strong growth in investments

Total investments stood at Rs 41bn at end-FY22 as compared to Rs 25bn in FY21. Within this, AIF grew 46% YoY and constituted 30% share. AIF includes some sponsor investments which signifies that the company itself invests in funds sold to customers. Debt securities, which constituted 28% of the total, fell 12% YoY.

**Fig 17 – Investments grew 62% YoY in FY22**

Particulars (Rs mn)	FY21	FY22
Mutual funds	2,326	7,136
Debt securities	13,077	11,527
Govt securities	649	637
Equity	253	9,049
AIF	8,443	12,341
Others	381	34
<b>Total</b>	<b>25,129</b>	<b>40,724</b>
Debt securities as a % of total	52	28
AIF as a % of total	34	30
Equity as a % of total	1	22

Source: Company, BOBCAPS Research

### Contingent liabilities in check

Contingent liabilities remained low at ~Rs 3bn or ~3% of assets, in line with the proportion over the last three years. Management does not expect these liabilities to have a material adverse impact on its financial position and cash flows.

**Fig 18 – Contingent liabilities <3% of assets**

Particulars (Rs mn)	FY20	FY21	FY22
Bank guarantees (1)	1,687	2,499	2,369
Corporate guarantee	2,100	0	0
Disputed income tax demand (2)	324	437	451
Legal matters (3)	-	-	167
<b>Total contingent liabilities</b>	<b>4,111</b>	<b>2,936</b>	<b>2,987</b>
Total Assets	1,30,263	87,401	1,07,395
Contingent liabilities / Total assets (%)	3.2	3.4	2.8

Source: Company, BOBCAPS Research | Note: (1) Fixed Deposits (excluding accrued interest) amounting to Rs 1.3bn (P.Y. Rs 1.5bn) are pledged against bank guarantees. (2) Amount paid under protest with respect to income tax demand is Rs 144.7mn (P.Y Rs 64.1mn). (3) The parent company has received a demand for a sum of Rs 750mn towards stamp duty on account of the Composite Scheme of Arrangement. As per the scheme document, any incidental expenses will be borne equally by the resulting companies, i.e. IIFL Finance, IIFL Securities and IIFL Wealth Management. The parent company has appealed against the same and paid Rs 83.3mn under protest towards its share of the liability and shown Rs 166.7mn as contingent liability.

### ECL in lending operations has reduced

The amount of expected credit loss (ECL) has reduced to Rs 194mn from Rs 338mn at the beginning of the year. We think this is a small number and thus not a matter of concern.

**Fig 19 – Reconciliation of ECL allowance of lending operations**

Particulars (Rs mn)	FY21	FY22
Opening balance	167.2	338.2
Provision on loans originated during the year	79.6	42.6
Net change in provision on continuing loans	245.3	(161.7)
Provision on loans derecognized during the year	(153.9)	(25.1)
Closing balance	338.2	193.9

Source: Company, BOBCAPS Research

### Loans to key personnel/related parties repaid

As a policy, all loans given to key personnel or related parties are recovered during the same year. Should any minor amount remain unpaid, it is received in the next financial year. We note that the impact of related party transactions on revenue and expenses is insignificant.

**Fig 20 – Loans to key personnel/related parties repaid in the same financial year**

Particulars (Rs mn)	FY21		FY22	
	Loan Given	Loan Received Back	Loan Given	Loan Received Back
Yatin Shah	500.0	500.0	33.0	15.6
Nirmal Jain	1,500.0	1,500.0	5,895.0	5,895.0
Madhu Jain	3,896.8	3,896.8	1,000.0	1,000.0
Yatin Investments	-	-	1,350.0	1,350.0
Kyrush Investments	327.2	284.8	184.0	226.4

Source: Company, BOBCAPS Research

## Valuation methodology

IIFL Wealth is trading at 19x FY24E EPS and appears undervalued, in our view. We reiterate our BUY rating with an unchanged TP of Rs 2,277 (33% upside) based on 25x FY24E EPS – a 10% premium to the stock's three-year average given a robust model, strong fundamentals and supportive macro factors. The company has maintained a niche position in the under-penetrated wealth management business, enjoys a track record of innovative wealth products and has a strong team leader-driven model that boasts of low attrition at both, the client and team level.

## Key risks

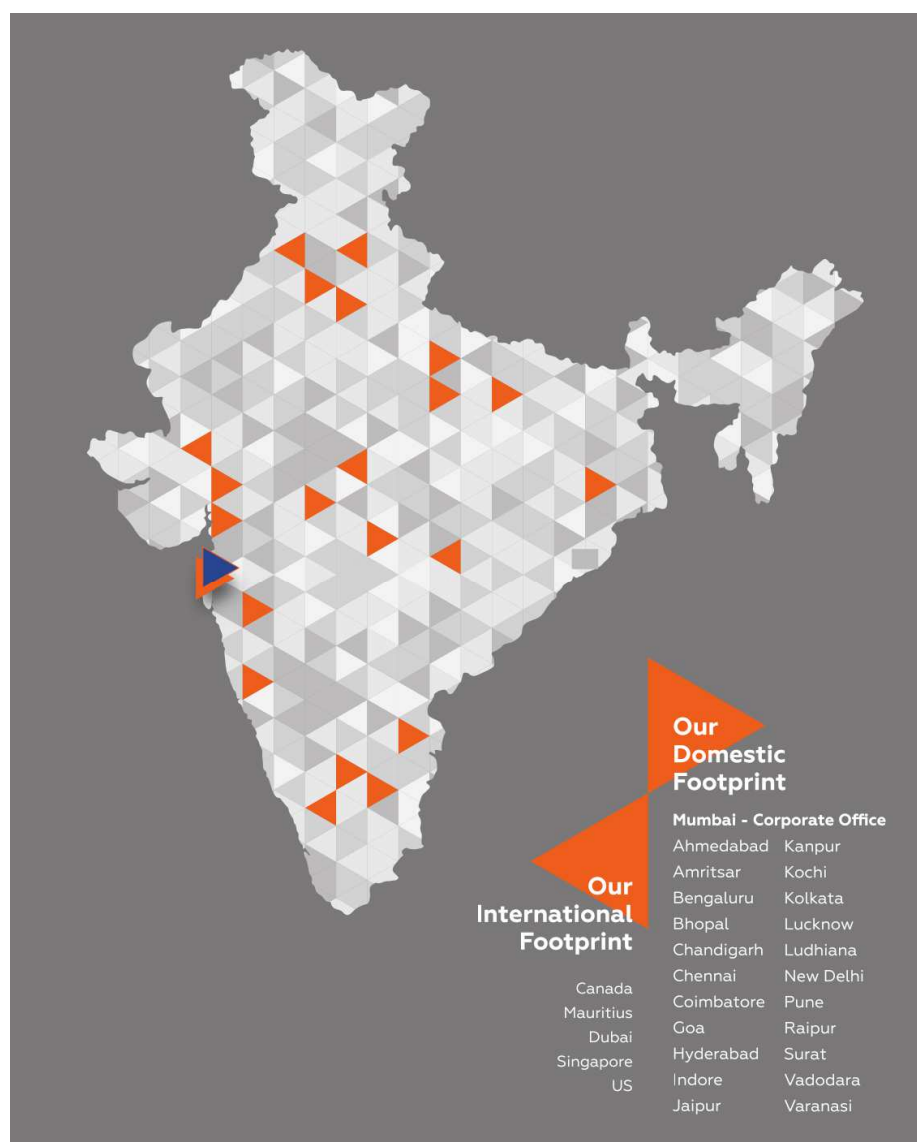
Key downside risks to our estimates are:

- **Goodwill risk:** IIFL Wealth'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 clients or even leading to attrition among existing ones.
- **Volatile capital markets:** Volatility in capital markets persists, especially after the uncertainty due to Covid-19 and ongoing 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 IIFL Wealth. 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:** IIFL Wealth 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:** IIFL Wealth is dependent on senior team leaders, bankers and relationship managers to retain and expand the client base over the long term. Any substantial team leader 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.

## Annexures

### Client markets and segments

Fig 21 – Key geographies



Source: Company, BOBCAPS Research

Fig 22 – Key client segments

Target segment	Category
Entrepreneurs	Sold their business partly or wholly
Senior executives	Exercised their stock options or sold equity in their firms
Professionals	Includes doctors, corporate lawyers, actors
Medium-to-large industrialists	Marquee families with substantial liquidity in their personal books
Corporate treasuries	Based on IIFL Wealth's expertise in fixed income & debt and its ability to synthetically structure products
Funds, endowments and family offices	Account for a significant portion of international assets under FII sub-accounts
Large traders	Utilisation of platform (funding limits, speed of execution and services levels)

Source: Company, BOBCAPS Research

## Subsidiaries and Restructuring

**Fig 23 – Subsidiary details**

Subsidiary	Shares held by the company (%)	Does the subsidiary participate in Business Responsibility initiatives of listed entity
IIFL Asset Management Ltd	100	Yes
IIFL Wealth Capital Markets Ltd (Wholly owned subsidiary of IIFL Wealth Prime Ltd)	100	Yes
IIFL Wealth Portfolio Managers Ltd	100	Yes
IIFLW CSR Foundation	100	Yes
IIFL Wealth Prime Ltd (Formerly IIFL Wealth Finance Ltd)	100	Yes
IIFL Trustee Ltd	100	Yes
IIFL Wealth Distribution Services Ltd	100	Yes
IIFL Investment Adviser and Trustee Services Ltd	100	Yes
IIFL Wealth Altiore Ltd	100	Yes
IIFL Wealth Securities IFSC Ltd	100	Yes
IIFL Asset Management (Mauritius)	100	Yes
IIFL Private Wealth Management (Dubai) Ltd	100	Yes
IIFL Inc	100	Yes
IIFL Capital (Canada) Ltd	100	Yes
IIFL Capital Pte Ltd	100	Yes

Source: Company, BOBCAPS Research

### Simplifying the business structure

- With effect from 27 Oct 2021, subsidiary IIFL Asia Pte Ltd and step-down subsidiary IIFL Securities Pte Ltd have merged with IIFL Capital Pte Ltd. Pursuant to the merger, the shares held by IIFL Asia in IIFL Capital have been cancelled and an equivalent number of shares have been issued by IIFL Capital to IIFL Wealth. Consequently, the company now holds the entire share capital of IIFL Capital.
- With a view to consolidating the distribution businesses of the company under a single wholly owned subsidiary, it plans to merge IIFL Wealth Capital Market (IWCML) with IIFL Wealth Prime (IWPL) and then demerge the distribution business from IWPL to IIFL Wealth Distribution Services (IWDSL). In this regard, the boards of IWCML, IWPL and IWDSL have approved the demerger and consolidation of distribution business through a composite scheme of arrangement. The appointed date for the scheme is 1 Apr 2021 subject to necessary statutory and regulatory approvals.
- IIFL Wealth Altiore, a wholly owned subsidiary of IIFL Wealth Management, is proposed to be amalgamated with the holding company. The proposed scheme has been approved by the board of directors of both companies and is currently under the National Company Law Tribunal (NCLT) approval process.

## ESOP policy – Finer details

IIFL Wealth has implemented equity settled Employee Stock Options Scheme 2012 (IIFLW ESOP 2012), Employee Stock Options Scheme 2015 (IIFLW ESOP 2015), Employee Stock Options Scheme 2019 (IIFLW ESOP 2019) and Employee Stock Options Scheme 2021 (IIFLW ESOP 2021) and has outstanding options granted under the said schemes. The options vest in a graded manner and must be exercised within the stipulated period.

**Fig 24 – ESOP details**

Particulars	IIFLW ESOP 2012	IIFLW ESOP 2015	IIFLW ESOP 2019	IIFLW ESOP 2021
No. of options granted up to 31 Mar 2022	27,31,935	92,42,941	32,31,106	25,16,224
	A - 1,240,900	A - 4,200,000	A - 1,242,909	A - 2,004,000
	B - 752,550	B - 2,765,945	B - 1,096,000	B - 346,724
	C - 607,500	C - 900,000	C - 61,530	C - 82,000
	D - 117,100	D - 950,000	D - 20,000	D - 56,500
	E - 13,885	E - 121,141	E - 36,000	E - 27,000
	-	F - 135,827	F - 671,000	-
	-	G - 170,028	G - 52,167	-
	-	-	H - 25,000	-
	-	-	I - 26,500	-
Grant dates	A – 28 Mar 2012	A - 02 Jul 2015	A - 15 Nov 2019	A - 23 Apr 2021
	B – 29 Aug 2013	B - 02 Jul 2015	B - 15 Nov 2019	B - 28 Jul 2021
	C – 26 Mar 2014	C - 10 Nov 2016	C - 23 Oct 2020	C - 27 Oct 2021
	D – 03 Jun 2014	D - 21 Jul 2017	D - 23 Oct 2020	D - 27 Jan 2022
	E – 28 Jan 2018	E - 13 Jan 2018	E - 25 Feb 2021	E - 04 Mar 2022
	-	F - 28 Jan 2018	F - 23 Apr 2021	-
	-	G - 29 Jan 2019	G - 28 Jul 2021	-
	-	-	H - 27 Oct 2021	-
	-	-	I - 27 Jan 2022	-
Method of accounting	Fair value	Fair value	Fair value	Fair value
Exercise period	7 years from date of grant	7 years from date of grant	7 years from date of grant	7 years from date of grant
Grant price (Rs/sh)	A - 10	A, B - 282	A - 861	A - 1060
	B - 16	C - 339	B – 861	B - 1316
	C - 19	D, E, F - 417	C - 900	C - 1565
	D - 19	G - 1661	D - 900	D - 1515
	E - 417	-	E - 1147	E - 1464.25
	-	-	F - 1060	-
	-	-	G - 1316	-
	-	-	H - 1565	-
	-	-	I - 1515	-
Fair value on the date of grant of option (Rs/sh)	11.8 - 409.0	274.0 - 1297.0	899.45 - 1564.50	1069.55 - 1564.50

Source: Company, BOBCAPS Research

**Fig 25 – Movement of options granted**

	IIFLW ESOP 2012	IIFLW ESOP 2015	IIFLW ESOP 2019	IIFLW ESOP 2021
Options outstanding at the beginning of 1 Apr 2021	2,114	7,41,693	22,07,703	-
Granted during the year	0	-	7,74,667	25,16,224
Exercised during the year	554	4,06,888	4,10,901	-
Lapsed during the year	1,560	19,158	1,29,937	3,11,440
Options outstanding as at 31 Mar 2022	0	3,15,647	24,41,532	22,04,784
Exercisable at the end of the year 31 Mar 2022	0	3,15,647	8,51,698	-
Weighted average exercise price for the options exercised in FY22 (Rs)	417.00	399.73	862.83	NA
Range of exercise price for the options outstanding at the end of FY22 (Rs)	NA	282 - 1661	861 - 1565	1060 - 1565

Source: Company, BOBCAPS Research

**Fig 26 – Key assumptions for calculating fair value of options as on the date of grant**

Parameter	IIFLW ESOP 2012	IIFLW ESOP 2015	IIFLW ESOP 2019	IIFLW ESOP 2021
Risk-free interest rate (%)	6.67-9.09	6.19-7.86	4.20-5.99	4.90-5.82
Expected average life	2-5 years	2-5 years	2-6 years	2-5 years
Expected volatility of share price (%)	10.00	10.00	12.24 - 25.16	18.39 - 25.44
Dividend yield (%)	3 - 23.19	1.5 - 3	1.95 - 5.70	5.65 - 5.70
Fair value on the date of the grant (Rs)	11.8 - 409.0	274.0 - 1297.0	899.45 - 1564.50	1069.55 - 1564.50

Source: Company, BOBCAPS Research

## Focus on risk management

IIFL Wealth has a central risk management department with a well-defined policy to mitigate risks, as well as a dedicated compliance team, as outlined below.

- The company has a central risk management department that reports to the COO and audit committee of the boards of IIFL Wealth Management and its subsidiaries. There are also separate risk management heads for IIFL Wealth Prime and IIFL AMC to focus on the risks in respective businesses. From FY23, the internal audit for IIFL Wealth Prime will be conducted by a Head – Internal Audit who is part of the central risk management team, as per RBI guidelines, assisted by KPMG.
- IIFL Wealth has strengthened the whistle-blower mechanism through which complaints can be recorded by employees anonymously.
- The company has a conflict-of-interest policy under which a Conflict Resolution Advisory Board (CRAB) comprising senior executives has been formed. The policy provides guidance on the types of transactions that are covered above certain thresholds (e.g. transactions between an employee and a group entity, or an employee and client). A summary of cases brought before the CRAB, beyond certain thresholds, is also submitted to the risk management committee of the board.
- Apart from the above, the company has a dedicated compliance team to interpret regulations, submit regulatory returns and interface with regulators. It also has Anti-Money Laundering (AML) policies and AML committees.



## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Recurring revenue	5,830	9,120	12,257	14,747	17,888
Non-recurring revenue	3,325	4,862	3,800	4,000	4,200
Other income	1,374	1,372	800	800	800
Total income	10,529	15,354	16,857	19,547	22,888
Operating expenses	5,679	7,841	7,586	8,601	10,071
PBT	4,849	7,513	9,271	10,947	12,817
PBT growth (%)	69.3	54.9	23.4	18.1	17.1
Tax	1,156	1,696	2,318	2,737	3,204
Tax rate (%)	23.8	22.6	25.0	25.0	25.0
Reported PAT	3,693	5,818	6,954	8,210	9,613

### 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	31,189	32,831	34,754
Net worth	28,278	29,976	31,366	33,008	34,931
Total debt	51,036	58,250	69,317	80,105	91,604
Other liab. & provisions	36,365	49,145	48,874	52,928	56,676
Total liabilities & equities	87,401	1,07,395	1,18,191	1,33,033	1,48,279
Cash & bank balance	8,383	10,222	13,193	15,445	16,290
Fixed & Other assets	79,018	97,173	1,04,998	1,17,588	1,31,989
Total assets	87,401	1,07,395	1,18,191	1,33,033	1,48,279

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
EPS	41.8	64.1	77.1	91.1	106.7
Dividend per share	70.0	55.0	61.7	72.9	85.3
Book value per share	319.9	332.6	348.0	366.2	387.6

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
P/E	40.9	26.6	22.1	18.7	16.0
P/BV	5.3	5.1	4.9	4.7	4.4
Dividend yield (%)	4.1	3.2	3.6	4.3	5.0

### DuPont Analysis

Y/E 31 Mar (bps of AAAUM)	FY21A	FY22A	FY23E	FY24E	FY25E
Operating income	50.3	59.7	56.0	54.5	53.3
Operating expenses	31.2	33.5	26.5	25.0	24.3
Other income	7.5	5.9	2.8	2.3	1.9
PBT	26.6	32.1	32.3	31.8	30.9
Tax	6.4	7.2	8.1	8.0	7.7

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
<b>YoY growth (%)</b>					
PBT	69.3	54.9	23.4	18.1	17.1
EPS	82.9	53.5	20.4	18.1	17.1
<b>Profitability &amp; Return ratios (%)</b>					
Operating to Total income	87.0	91.1	95.3	95.9	96.5
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	22.7	25.5	28.3
Dividend payout ratio	167.6	85.8	80.0	80.0	80.0

Source: Company, BOBCAPS Research

## Disclaimer

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

**BUY** – Expected return >+15%

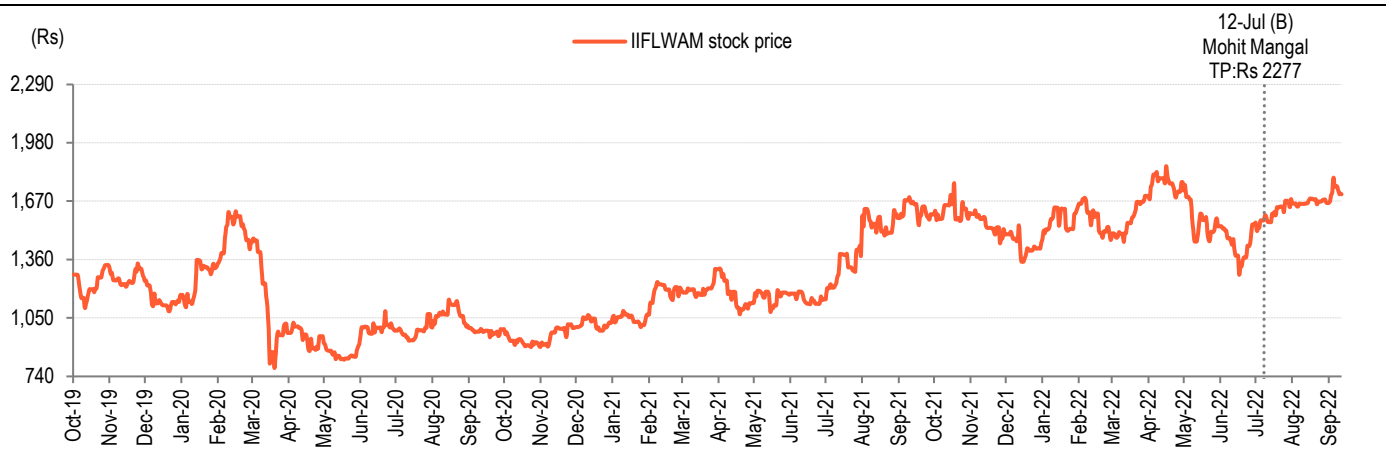
**HOLD** – Expected return from -6% to +15%

**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): IIFL WEALTH (IIFLWAM IN)



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

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