BUY
TP: Rs 2,277 | ▲ 43%

IIFL WEALTH | Diversified Financials | 12 July 2022

Juggernaut rolling; initiate with BUY

- **Sustainable model with diverse product offerings in HNI/UHNI category and focus on expanding trail-based recurring revenue streams**
- **Expect strong fund flows to support 20% AUM CAGR and 18% earnings CAGR over FY22-FY25, aiding +6% ROAA and +28% ROAE**
- **Initiate with BUY given rising margins, strong clientele, favourable industry drivers and undervaluation; TP Rs 2,277 (25x FY24E P/E)**

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Sustainable business model: IIFL Wealth's model of offering wealth solutions to high- and ultra-high-net-worth individuals (HNI/UHNI) is based on driving a larger share of recurring revenue streams (ARR), with its commission structures migrating to trail vs. upfront earlier. Thus, recurring revenue is independent of transaction volumes. At end-FY22, 55% of AUM and 65% of revenue was based on ARR, which we expect will grow to 61% and 81% respectively by FY25. The company managed 6,833 relevant families at end-FY22 (17% CAGR, FY17-FY22) with low attrition levels.

Expect 20% AUM CAGR and 18% earnings CAGR by FY25: The company's AUM grew 22% over FY17-FY22 to Rs 2.6tn (excluding custody assets). We expect 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. Similarly, we forecast a net profit CAGR of 18% over FY22-FY25 to Rs 9.6bn based on strong AUM growth coupled with operating leverage.

Decent AMC yields; on track to cross Rs 1tn in AUM by FY25: The AMC business (PMS, AIF and MFs, albeit AIF-heavy) continues to be one of IIFL Wealth's strongest segments, where AUM grew at a 44% CAGR over FY17-FY22 to Rs 556bn. We believe aggressive growth plans coupled with senior hires should take AUM past the Rs 1tn mark by FY25 (25% CAGR, FY22-FY25). The company expects to earn carry income in FY23/FY24, and we model for steady average yields of 79bps over FY23-FY25.

Margins on the rise: ROAE, which declined to 7% in FY20, grew to 20% at end-FY22 and ROAA, which declined to 1.8% in FY20, grew to 6%. We expect ~28% ROAE and ~7% ROAA by FY25 based on higher total income (14% CAGR over FY17-FY22) coupled with a projected decline in cost-to-income ratio to 44% in FY25 vs. 51% in FY22.

Initiate with BUY: IIFL Wealth is trading at 18x FY24E EPS and appears undervalued, in our view. We assign the stock a BUY rating with a TP of Rs 2,277 (43% upside) based on 25x FY24E EPS – a 10% premium to the 3Y average given a robust model, strong fundamentals and supportive macro factors.

Ticker/Price	IIFLWAM IN/Rs 1,596
Market cap	US$ 1.8bn
Free float	77%
3M ADV	US$ 1.0mn
52wk high/low	Rs 1,908/Rs 1,216
Promoter/FPI/DII	23%/22%/4%

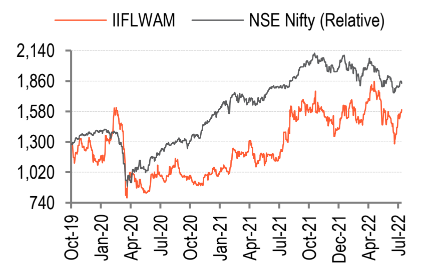
Source: NSE | Price as of 12 Jul 2022

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	76.8	91.7
P/E (x)	24.9	20.7	17.5
MCap/AUM (%)	5.5	4.6	3.8
ROE (%)	20.0	22.7	25.5

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

Stock performance



Source: NSE

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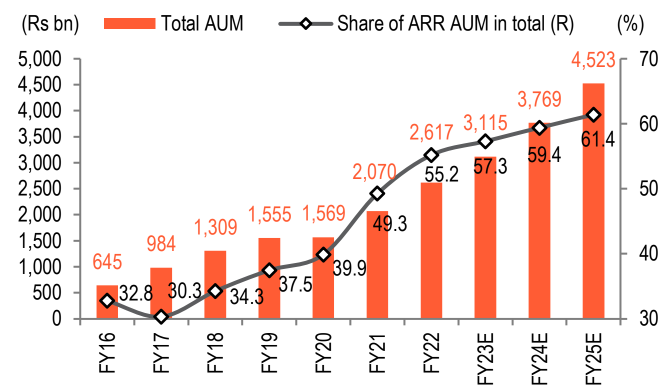
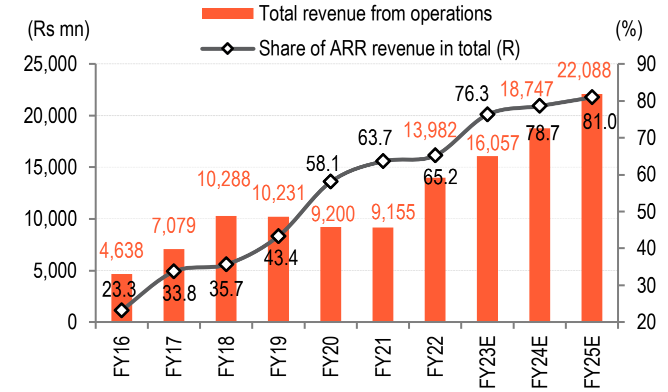


Source: Company, BOBCAPS Research

Fig 2 – …reflected in revenue growth and ARR share as well



Source: Company, BOBCAPS Research

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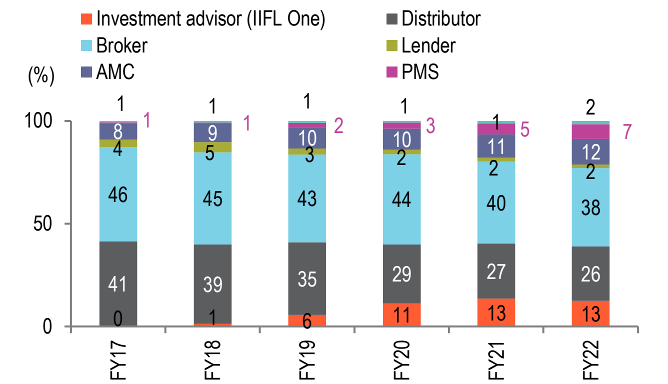

Source: Company, BOBCAPS Research

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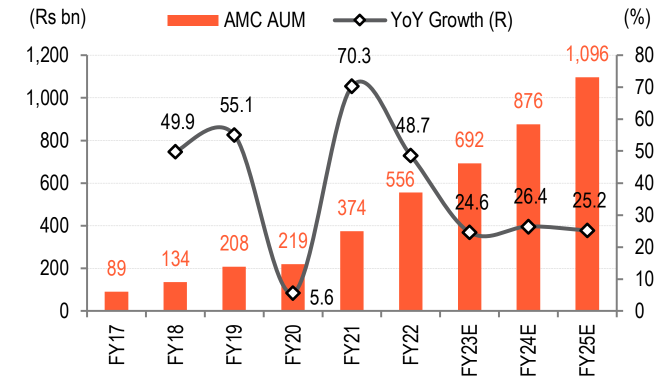

Source: Company, BOBCAPS Research

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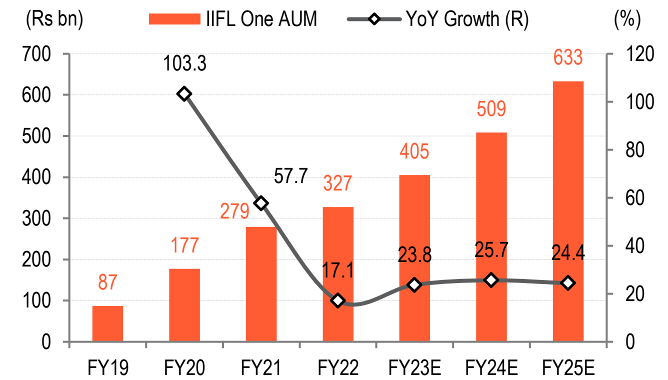

Source: Company, BOBCAPS Research

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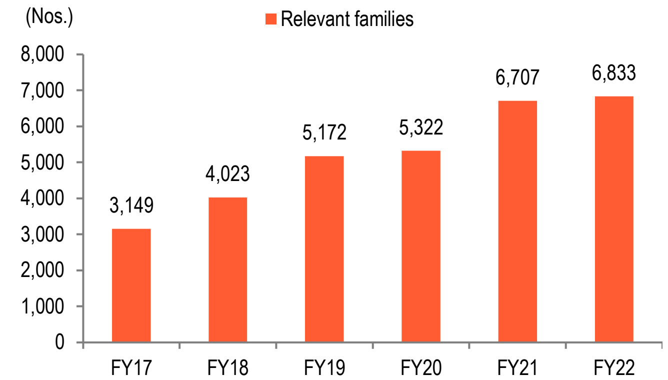

Source: Company, BOBCAPS Research

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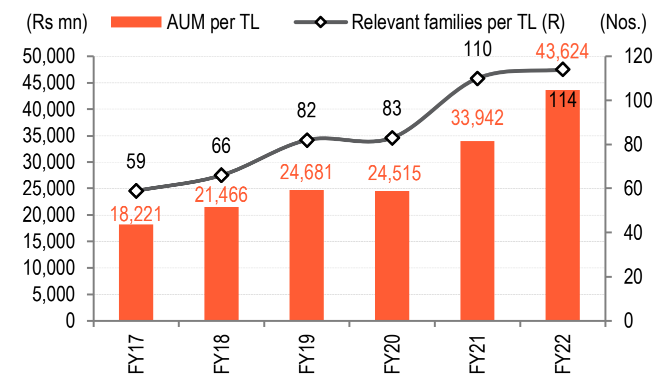

Source: Company, BOBCAPS Research

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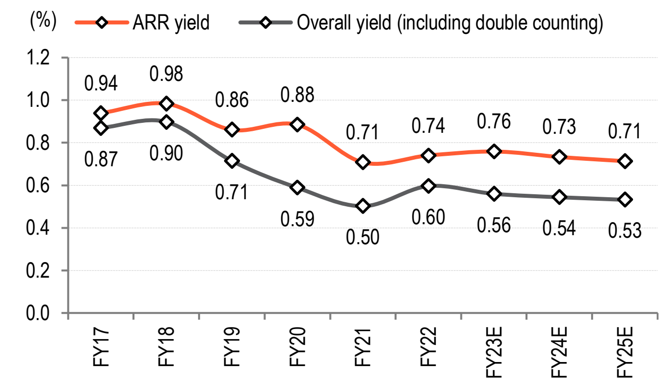

Source: Company, BOBCAPS Research

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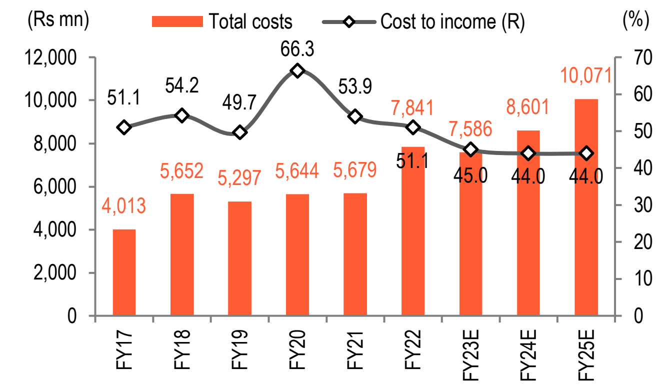
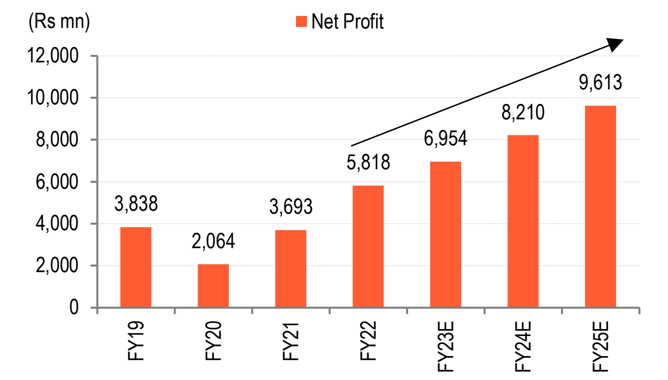


Source: Company, BOBCAPS Research

Fig 10 – Earnings to clock 18% CAGR over FY22-FY25E



Source: Company, BOBCAPS Research

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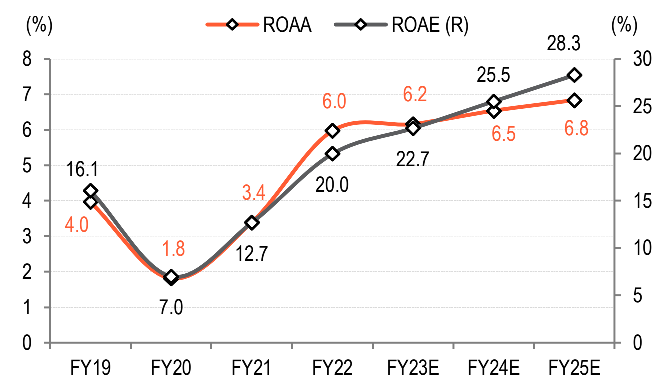
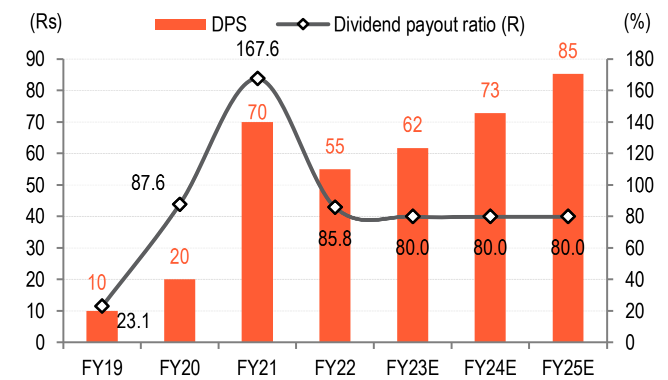


Source: Company, BOBCAPS Research

Fig 12 – Dividend payout attractive



Source: Company, BOBCAPS Research

IIFL Wealth – Growth story in a nutshell

Our BUY investment thesis on IIFL Wealth is premised on the following factors:

- **robust business model** focused on recurring income streams (55% of AUM and 65% of revenue in FY22)
- **consistent net flows** with overall net flows of Rs 340bn/Rs 405bn forecast by us for FY23/FY24 vs. Rs 241bn/Rs 314bn in FY21/FY22
- **strong AUM growth** at 20% CAGR expected over FY22-FY25 to Rs 4.52tn (FY17-FY22 CAGR at 22%), aiding a net profit CAGR of 18% to Rs 9.6bn
- **sustainable yields** of >70bps for ARR assets and >50bps overall
- **robust AMC business** with AUM CAGR of 44% posted over FY17-FY22 to Rs 556bn and AUM estimated to cross Rs 1tn by FY25 (25% CAGR, FY22-FY25)
- **traction in IIFL One** where share in ARR AUM has risen from 15% in FY19 to 23% in FY22 and we expect AUM to cross Rs 600bn by FY25 from Rs 327bn (FY22)
- **synergies from in-house NBFC** that provides ancillary services to existing clients for meeting liquidity requirements and had no credit losses since inception
- **product diversification via non-recurring business** which also provides the advantage of participation in syndication deals
- **margin expansion** with ~7% ROAA/28% ROAE by FY25 vs. 6%/20% in FY22
- **inorganic growth** following the acquisition of L&T Finance Holdings' wealth mgmt. business in Apr'20 (~Rs 100bn in AUM); Wealth Advisors India, added Rs 110bn
- **high, consistent dividend** backed by the company's well-defined policy of distributing 70-80% of net profit as dividends
- **high productivity** with each TL managing 114 relevant families at end-FY22 vs. 59 in FY17 and **low attrition** (78% of TLs employed with the company for over five years); **client attrition is also modest** (only 1% loss in AUM for FY22)
- **macro factors conducive to growth:**
    - significant under-penetration in wealth under professional management in India, even as the number of HNI individuals (>US$ 1mn) clocked a 10% CAGR over 2016-21 to ~0.8mn
    - rising share of financial assets in total assets to 63% by FY25 from 57% at FY20; further, long growth runway in smaller cities which account for <5% of the company's AUM but generate 25% of India's HNI financial assets
    - strong traction in mutual funds (industry QAAUM CAGR at 21% over FY12-FY22 to Rs 38.4tn), growing AIF business (total industry-level commitments of Rs 6.4tn, investments of Rs 2.8tn and funds raised of Rs 3.1tn as of FY22), and post-pandemic recovery in PMS AUM (ex-PF) after a 12% CAGR over FY15-FY22 to Rs 6.7tn

Investment rationale

Restructured model focuses on recurring income

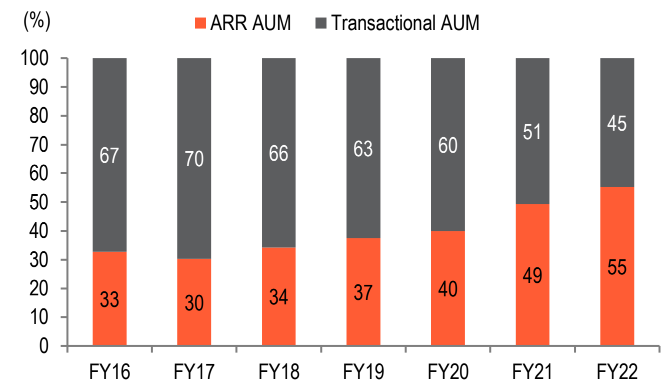
IIFL Wealth is one of India's premier wealth management companies with an AUM of over Rs 2.5tn. The company serves the wealth management needs of high net worth and ultra-high net worth individuals through customised solutions, managing ~6,800 relevant families (AUM of >=Rs 10mn) through 27 offices employing ~850 personnel. Its major clientele are senior executives, entrepreneurs/family-run businesses, and family offices and institutions. The company's business can be broadly classified into two verticals: wealth management and asset management.

In FY20, IIFL Wealth restructured its revenue recognition policy, moving primarily to a trail income-focused model from an upfront revenue model. This transition to a recurring revenue model enhances the firm's revenue predictability and insulates it against adverse market movements and/or future regulatory changes.

The company has a diversified recurring revenue profile consisting of (i) fees from IIFL One, (ii) management fees from the AMC business, (iii) trail commission earned on the distribution of third-party funds, viz. mutual funds and managed funds, and (iv) net interest income (NII) on short-term loans offered by its NBFC arm primarily to existing customers.

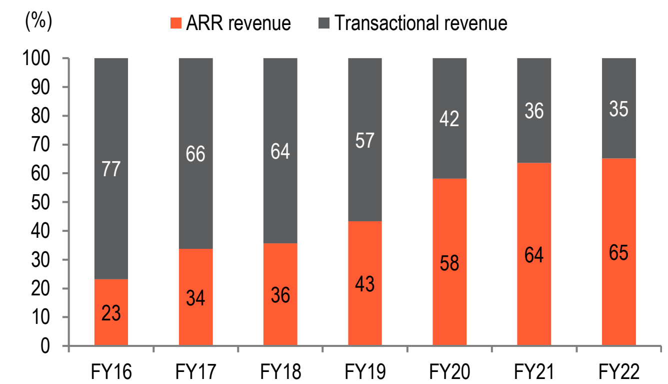
The success of this revamped business model is validated by the growing share of annual recurring revenue (ARR) assets in AUM – from 33% in FY16 to 55% at end-FY22. Similarly, the share of ARR in total revenue from operations has increased from 23% in FY16 to 65% at end-FY22.

Fig 13 – Share of ARR AUM is increasing…



Source: Company, BOBCAPS Research

Fig 14 – …also reflected in revenue



Source: Company, BOBCAPS Research

Fig 15 – Business snapshot: Earnings, AUM and yields

(Rs mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Recurring (%)	**0.86**	**0.88**	**0.71**	**0.74**	**0.76**	**0.73**	**0.71**
Revenues	4,437	5,345	5,830	9,120	12,257	14,747	17,888
AUM	5,82,698	6,25,949	10,19,694	14,44,315	17,84,145	22,37,961	27,76,006
IIFL One (%)	0.28	0.26	0.24	0.30	0.33	0.35	0.37
Revenues	145	349	553	899	1,195	1,583	2,092
AUM	87,144	1,77,203	2,79,397	3,27,242	4,04,992	5,08,884	6,33,274
IIFL AMC (%)	0.47	0.69	0.67	0.77	0.78	0.79	0.80
Revenues	803	1,465	1,977	3,588	5,280	6,409	7,906
AUM	2,07,726	2,19,395	3,73,718	5,55,742	6,92,481	8,75,590	10,95,935
Third-party managed funds commission (%)	0.54	0.55	0.53	0.57	0.58	0.58	0.58
MF (%)	0.51	0.50	0.44	0.43	0.43	0.43	0.43
Managed funds (%)	0.70	0.75	0.87	0.91	0.85	0.85	0.85
Revenues	1,267	1,195	1,386	2,425	3,368	4,176	5,189
MF	1,009	874	933	1,257	1,553	1,938	2,423
Managed funds	258	321	453	1,168	1,815	2,238	2,766
AUM	2,39,846	1,93,990	3,30,376	5,18,151	6,38,403	7,98,850	9,90,278
MF	1,92,490	1,55,760	2,64,351	3,26,014	4,03,531	5,07,116	6,31,153
Managed funds	47,360	38,230	66,025	1,92,137	2,34,872	2,91,733	3,59,125
NBFC - NII on Loans (%)	3.86	5.61	5.35	5.56	5.28	5.01	4.86
Revenues	2,222	2,337	1,914	2,208	2,414	2,579	2,701
AUM	47,983	35,360	36,203	43,180	48,269	54,637	56,519
Non-recurring (%)	**0.63**	**0.40**	**0.33**	**0.44**	**0.30**	**0.28**	**0.26**
Revenues	5,794	3,855	3,325	4,862	3,800	4,000	4,200
AUM	9,72,200	9,43,023	10,50,741	11,73,131	13,30,616	15,30,900	17,46,627

Source: Company, BOBCAPS Research | Note: Yield is calculated on average AUM

Rising net flows reflect client confidence

IIFL Wealth was successful in generating net new money of Rs 314bn in FY22 vs. Rs 241bn in FY21. Higher net flows reflect the trust and confidence of old customers in the wealth services offered by the company coupled with its ability to acquire new customers. These flows also insulate the business against adverse MTM movement.

Net inflows in the wealth management business formed 63%/62% of total flows in FY21/FY22. Within this: (i) recurring assets witnessed net flows of Rs 175bn/Rs 200bn in FY21/FY22 and (ii) transactional assets saw net outflows of Rs 23bn/Rs 6bn. In the AMC space, net inflows stood at ~Rs 90bn/~Rs 120bn for the two years.

Although quarterly variations were evident, the quarterly average of ~Rs 80bn was positive and looks sustainable, in our view. Management has formally guided for net flows of Rs 375bn/Rs 450bn for FY23/FY24 against our more conservative forecast of Rs 340bn/Rs 405bn.

Fig 16 – Wealth management net flows constitute ~60% of the total flows

Net flow (Rs mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	FY22
WM net flows	**95,691**	**51,715**	**(6,627)**	**10,604**	**1,51,383**	**96,813**	**16,914**	**28,289**	**52,628**	**1,94,644**
Recurring	**69,855**	**26,479**	**20,789**	**57,385**	**1,74,508**	**50,734**	**33,574**	**39,480**	**76,542**	**2,00,330**
IIFL One	12,501	12,617	20,713	21,900	67,731	14,392	4,226	818	15,417	34,853
Distribution Assets Earning Trail Fees	57,355	13,862	76	35,485	1,06,777	36,342	29,348	32,737	59,450	1,57,878
Net Interest Margin on Loans	NA	NA	NA	NA	NA	NA	NA	5,925	1,674	7,600
Transactional / Brokerage Income Earning Assets	**25,835**	**25,236**	**(27,416)**	**(46,781)**	**(23,125)**	**46,078**	**(16,660)**	**(11,191)**	**(23,914)**	**(5,686)**
Brokerage Income	43,145	36,788	(20,325)	(5,733)	53,875	74,825	(15,012)	(1,424)	4,575	62,964
Distribution Assets Not Earning Trail Fees	(17,310)	(11,552)	(7,091)	(41,048)	(77,000)	(28,747)	(1,647)	(9,767)	(28,489)	(68,650)
AMC AUM - Net flows										
Recurring	**3,369**	**11,771**	**26,949**	**47,484**	**89,572**	**46,131**	**20,090**	**35,619**	**17,736**	**1,19,575**
Alternative Investment Fund	1,215	10,860	18,696	6,002	36,772	25,082	12,212	5,710	12,545	55,548
Discretionary Portfolio Management Schemes	399	2,009	4,811	39,756	46,975	20,047	4,153	22,049	1,910	48,159
Mutual Fund	1,755	(1,098)	3,441	1,726	5,825	1,003	3,725	7,860	3,281	15,868

Source: Company, BOBCAPS Research

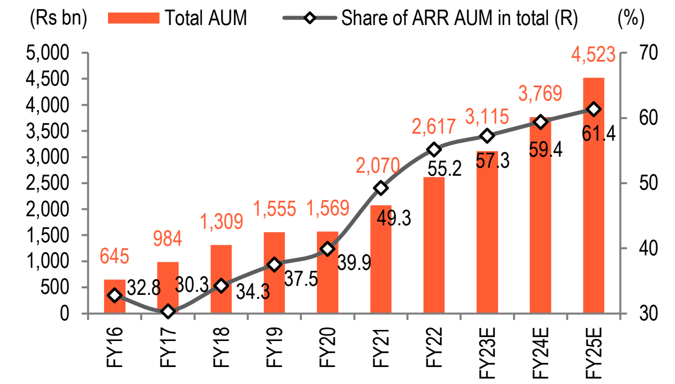
Expect robust AUM/earnings growth through FY25

Despite a higher base, we expect IIFL Wealth to deliver a strong 20% AUM CAGR over FY22-FY25 to Rs 4.5tn (following a 22% FY17-FY22 CAGR to Rs 2.6tn), supported by net flows (ex-custody) at 12-13% of opening balance, with both existing and new clients adding to the kitty. We estimate that ARR AUM would constitute 61% of total AUM at end-FY25 vs. 55% at end-FY22. Additionally, we have built in conservative 6-8% MTM gains in our forecast.

Total revenue from operations grew 15% over FY17-FY22 to Rs 14bn, with ARR streams constituting 65% of the total vs. 34% in FY17. We expect ARR to form 81% of revenue from operations by FY25 at Rs 18bn. Net profit grew 17% over FY17-FY22 to Rs 5.8bn. In our view, strong AUM growth coupled with operating leverage should support a net profit CAGR of 18% over FY22-FY25 to Rs 9.6bn.

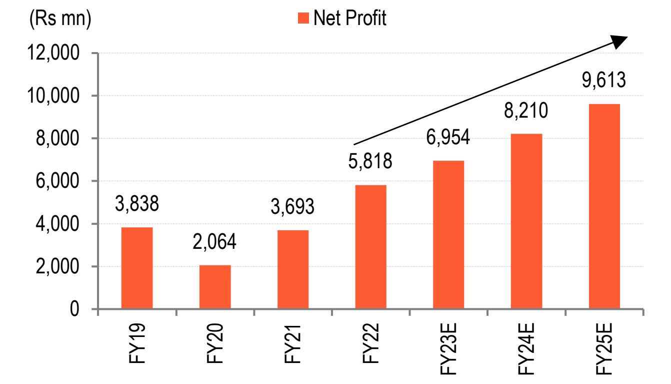
The company has guided for AUM at end-FY23/FY24 to reach Rs 3.25tn/Rs 3.84tn with net flows of Rs 375bn/Rs 450bn. We expect net flows/net new money of Rs 340bn/Rs 405bn/Rs 452bn at end-FY23/FY24/FY25 on the conservative side. Similarly, management has guided for net profit of Rs 7bn/Rs 8.4bn for FY23/FY24, but we have built in lower numbers of Rs 6.9bn/Rs 8.2bn.

Fig 17 – Expect 20% CAGR in AUM; higher share of ARR



Source: Company, BOBCAPS Research

Fig 18 – 18% CAGR in earnings over FY22-FY25E



Source: Company, BOBCAPS Research

Fig 19 – AMC business on rapid growth trajectory

AMC (Rs mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E
AUM	2,19,395	3,73,718	5,55,742	6,92,481	8,75,590	10,95,935
Revenue from operations	1,465	1,977	3,588	5,280	6,409	7,906
Other income	(100)	220	260	152	152	152
Cost	1,210	1,210	1,710	1,654	1,876	2,196
Profit before tax	150	990	2,150	3,778	4,685	5,861
PAT	108	754	1,665	2,833	3,514	4,396

Source: Company, BOBCAPS Research

Fig 20 – Wealth business expected to sustain momentum

Wealth (Rs mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E
AUM	13,49,580	16,96,718	20,61,704	24,22,280	28,93,271	34,26,698
Revenue from operations	7,735	7,178	10,380	10,777	12,338	14,182
Other income	-590	1,150	1,112	648	648	648
Cost	4,430	4,470	6,130	5,930	6,724	7,873
Profit before tax	2,720	3,860	5,370	5,495	6,262	6,958
PAT	1,961	2,940	4,158	4,121	4,697	5,218

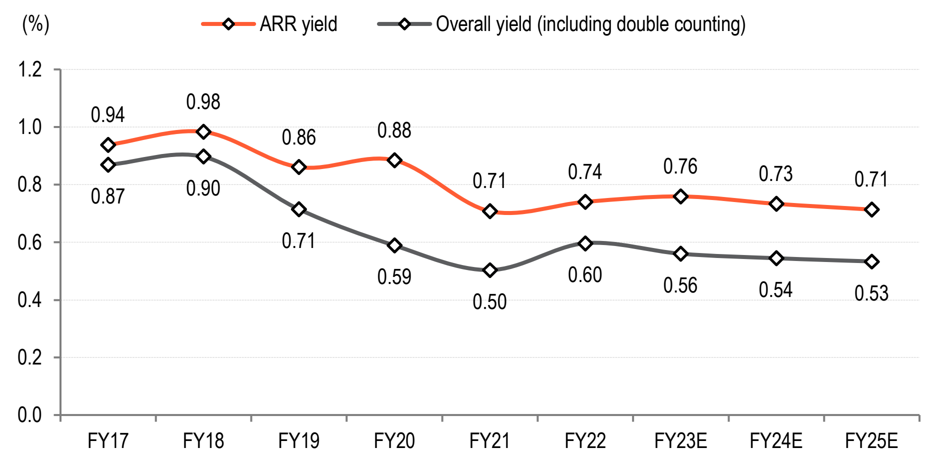
Source: Company, BOBCAPS Research

ARR yield to sustain at >70bps, overall yield >50bps

Upon transitioning from a transaction-based model to ARR, IIFL Wealth witnessed a decline in recurring yields from 98bps in FY18 to 74bps in FY22. We expect ARR yields to hold at the 70bps mark, closing FY25 at 71bps. Going forward, all the company's major businesses are likely to show expansion in yields, albeit offset by pressure on NIM. Non-recurring revenue surged to Rs 4.9bn at end-FY22, which is an aberration as some large transactions may not be repeated. Management expects steady non-recurring revenue of Rs 0.8bn-1bn per quarter and any increment to be a function of capital market performance.

We model for overall yields of 53bps, down from 60bps at end-FY22. However, this isn't a cause for concern because the ARR yield of 70bps looks sustainable and AUM growth in the high teens despite a strong base should drive revenue.

Fig 21 – ARR yield above 70bps looks sustainable



Source: Company, BOBCAPS Research

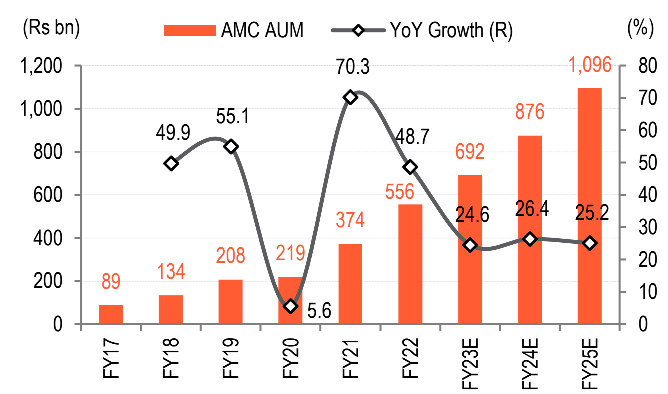
AMC AUM likely to cross Rs 1tn by FY25

The asset management business, which consists of portfolio management services (PMS), alternative investment funds (AIF) and mutual funds (MF), is one of the key focus areas for IIFL Wealth. Offshore institutions and family offices form the client base. This business, unlike a traditional AMC, is focused on enhancing its AIF portfolio rather than being MF-heavy. MF constitutes <10% of AMC AUM whereas AIF and PMS constitute ~60% and 30-35% respectively.

On the distribution front, the company added 43 new channel partners and undertook multiple sales and marketing-related activities in FY21. It also intends to strengthen its banking tie-ups for offering innovative asset management products.

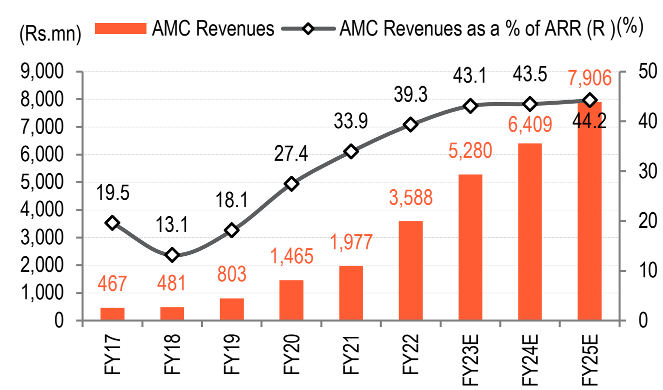
AMC AUM grew at a 44% CAGR over FY17-FY22 to Rs 556bn. We believe the company's aggressive growth plans coupled with senior hires over the last 2-3 years would enable this segment to cross Rs 1tn by FY25 (25% CAGR, FY22-FY25). AMC revenue grew from Rs 467mn at end-FY17 to Rs 3.6bn at end-FY22, a 50% CAGR over FY17-FY22, raising its share in ARR revenue from 20% in FY17 to 39% in FY22. We expect the company to maintain average yields of 79bps over FY23-FY25 and to register carry income of Rs 400mn in FY23 and Rs 200mn in FY24.

Fig 22 – AMC AUM likely to cross Rs 1tn mark by FY25E



Source: Company, BOBCAPS Research

Fig 23 – AMC expected to form ~45% of ARR revenue by FY25E vs. 39% at end-FY22



Source: Company, BOBCAPS Research

AIF

Over the years, the company has had success with its IIFL Special Opportunities Fund – a fund designed to invest in pre-IPO opportunities – with several series being launched after the initial version. It also has an IIFL Seed Ventures Fund – the only option available to HNIs to invest in fund of funds and direct deals. Due to high popularity, the AMC business launches multiple funds on a regular basis across five key strategies: private equity, listed equity, real estate, private credit and long-short. As an example, IIFL AMC, in Mar'22, received commitments of Rs 26bn for its pre-IPO Special Opportunities Fund Series 9 and 10.

Fig 24 – AIF-driven AMC business

Strategy	Description	AUM (Rs mn)		Revenue (Rs mn)	
		FY21	FY22	FY21	FY22
Private Equity	Early-stage investing through fund-of-fund structures	1,36,160	2,20,572	877	1,794
Listed Equity	Invests in companies across the market cap spectrum through a combination of concentrated (15-20 stocks) and diversified (30-35 stocks)	34,549	34,893	273	368
Real Estate	Debt-oriented real estate credit fund	39,547	34,254	158	181
Private Credit	Performs credit strategy, positioned to generate high cash yields and optimal returns from illiquid credit	11,214	20,249	113	121
Long-Short	Invests in opportunities in equities and FIC (Fixed Income and Currencies) across Asia	15,530	15,531	49	150
Others		0	0	18	0
AIF		**2,37,001**	**3,25,499**	**1,488**	**2,612**

Source: Company, BOBCAPS Research

PMS

The company's PMS business can be broadly classified into two segments: (i) Listed Equity – Discretionary Standardized Strategies, and (ii) Listed Equity – Discretionary – Institutional Mandates.

Fig 25 – PMS portfolios gaining traction

Strategy	Description	AUM (Rs mn)		Revenue (Rs mn)	
		FY21	FY22	FY21	FY22
Listed Equity – Discretionary Standardized Strategies	Standard PMS with the discretion of the portfolio manager	40,130	55,067	254	468
Listed Equity – Discretionary – Institutional Mandates	Typical institutional mandates	71,829	1,29,984	140	360
PMS		**1,11,959**	**1,85,051**	**394**	**829**

Source: Company, BOBCAPS Research

Mutual Fund

The company's MF bouquet is small as the focus is on AIF. Some of its large MF schemes are (i) IIFL Focussed Equity Fund, (ii) IIFL Quant Fund, (iii) IIFL Dynamic Bond Fund and (iv) IIFL Liquid Fund.

Fig 26 – MF portfolio

Strategy	AUM (Rs mn)		Revenue (Rs mn)	
	FY21	FY22	FY21	FY22
Listed Equity	16,231	29,299	73	131
Debt	7,314	6,894	20	11
Liquid Funds	1,215	8,999	3	4
Mutual Fund	**24,760**	**45,192**	**95**	**147**

Source: Company, BOBCAPS Research

Fig 27 – AMC strategy-wise split

Private Equity Rs 220bn	Seed Stage	Early Stage	Pre-IPO	
Listed Equity Rs 249bn	Diversified	Concentrated	Thematic	International
Credit & Real Estate Rs 70bn	Liquid	Structured Credit	Distressed Debit	Residential Debt
Other (Multi-asset) Rs 15bn	Long Short	Quant Fund	Solutions	

Source: Company, BOBCAPS Research

IIFL One – Headwinds abating

IIFL One is an industry-first institutional approach to managing customised portfolios for UHNIs. Transparent fee models ensure that the focus remains on optimising client portfolio needs while allocation based on a customised investment policy statement ensures appropriate financial goals and risk propensity.

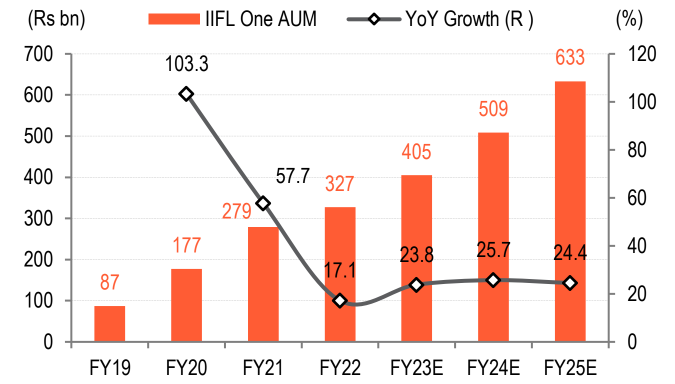
IIFL One's AUM grew from Rs 87bn at end-FY19 to Rs 327bn at end-FY22, a CAGR of 55% on a lower base, with its share in ARR AUM increasing from 15% to 23% (27% in FY21). Similarly, revenue grew from Rs 145mn at end-FY19 to Rs 899mn in FY22, an 83% CAGR, boosting its share in ARR revenue from 3% to 10%. Blended yields at 30bps in FY22 look low because of the inclusion of corporate treasuries where mandates are large but fixed fees are low.

While growth has been soft over the last few quarters, this was due to pandemic-led disruptions and we remain optimistic on future prospects of the business. We model for an AUM CAGR of 25% for IIFL One over FY22-FY25 to Rs 633bn and a revenue CAGR of 33% to Rs 2.1bn backed by a likely improvement in yields.

Management commentary upbeat

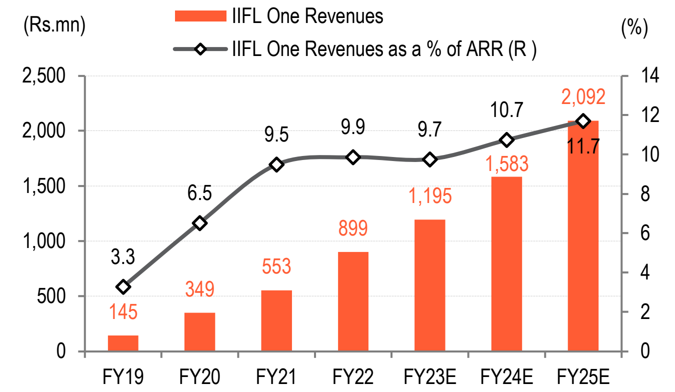
- IIFL One is expected to touch Rs 400bn in AUM by end-FY21. *(Q3FY20 concall)*
- The company saw fairly strong momentum towards some distribution-based products – annuity-driven but distribution-based. Momentum was extremely strong in the market though movement of the existing stock from distribution to IIFL One is taking some time. *(Q4FY21 concall)*
- AUM would grow by Rs 200bn-220bn by FY24. Net flows at end-Q3FY22 were short by Rs 40bn-50bn primarily due to heightened capital market activity and thus an uptick in the distribution of ARR assets as opposed to IIFL One assets. *(Q3FY22 concall)*
- The slightly tepid market environment is likely to further spur business growth. Thus, FY23 would be a very positive year with any moderation in transaction income being more than offset by an increase in IIFL One. *(Q4FY22 concall)*

Fig 28 – We expect IIFL One AUM to cross Rs 600bn by FY25E



Source: Company, BOBCAPS Research

Fig 29 – IIFL One revenue share in ARR to increase



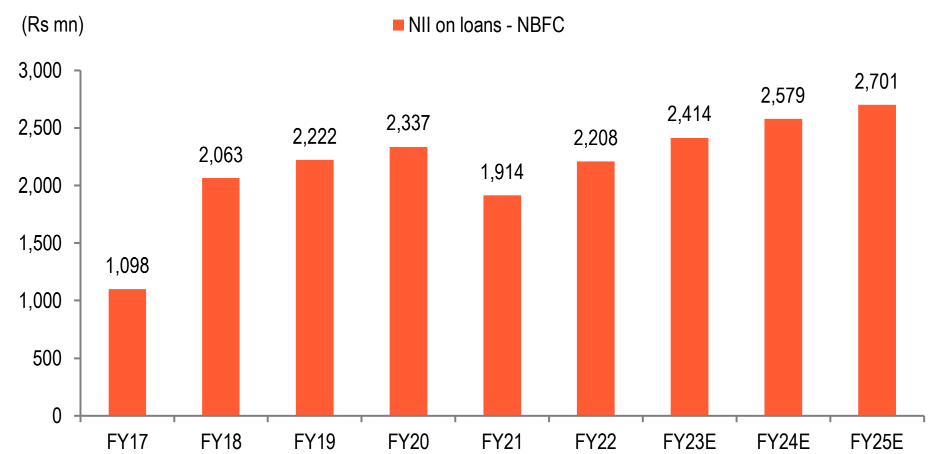
Source: Company, BOBCAPS Research

NBFC business integrated with wealth offering

IIFL Wealth's in-house NBFC subsidiary, IIFL Wealth Prime, lends to existing customers for their immediate liquidity/business requirements. Thus, though an ancillary service, it is an important part of the company's growth strategy. Most of the NBFC's short-term loan book is collateralised against clients' existing investments and it is generally available for 40-50% LTV. For lending purposes, debt is taken in the form of bonds, CPs, etc.

The company has not registered any credit losses since inception. Moreover, no sales/ distribution cost is incurred as all loans are sourced by existing relationship managers. Management is selective in providing loans and the NBFC loan book has grown at a meagre 4% over FY17-FY22 to Rs 43bn. We see no cause for concern as there is no correlation between this metric and overall AUM growth.

Fig 30 – NBFC loans integral to the main offering; expect consistent income



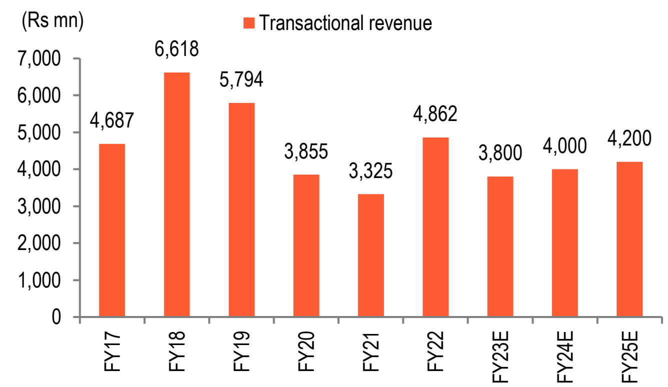
Source: Company, BOBCAPS Research

Non-recurring streams add to revenue

The company maintains that it will always have non-recurring (transactional) sources of income despite the focus on recurring avenues. This ensures a diversified product suite to clients and also offers IIFL Wealth the advantage of participation in syndication deals. Non-recurring revenue primarily comprises brokerage income and syndication income.

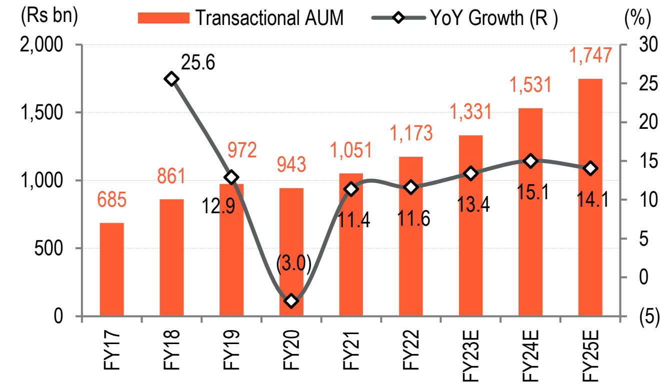
Transactional AUM grew at an 11% CAGR during FY17-FY22 to Rs 1.1tn. We expect it to further grow 14% compounded during FY22-FY25 to Rs 1.7tn. Transactional revenue remined flat over the last five years (Rs 4.9bn in FY22), and we expect the company to end FY25 at Rs 4.2bn. We believe both business strategies (ARR and non-ARR) will coexist and will have independent revenue streams.

Fig 31 – Transactional revenue to remain stable



Source: Company, BOBCAPS Research

Fig 32 – AUM forecast to log 14% CAGR over FY22-FY25E

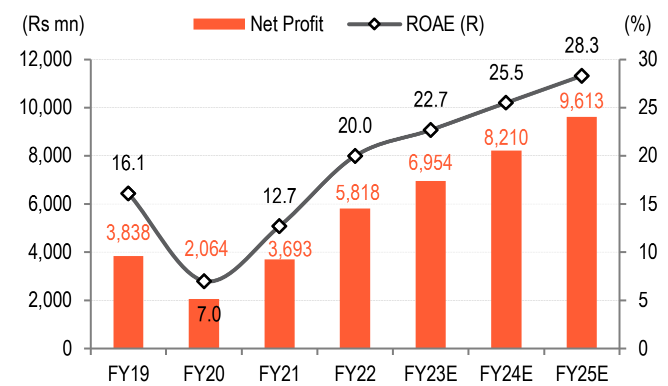


Source: Company, BOBCAPS Research

Return ratio accretion a major positive

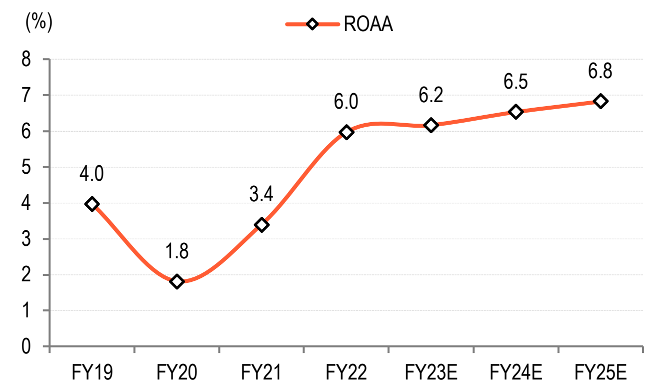
One of the major concerns after business model transition was the subdued return ratios, with ROAA dropping to 1.8% and ROAE to 7% at end-FY20. However, the company has seen a swift recovery wherein ROAE rose to 20% and ROAA to 6% by end-FY22. We expect margin expansion to continue over the medium term as the business benefits from operating leverage, spurring a PAT CAGR of 18% over FY22-FY25.

Fig 33 – Net profit forecast to log 18% CAGR, FY22-FY25E



Source: Company, BOBCAPS Research

Fig 34 – ROAA expanding

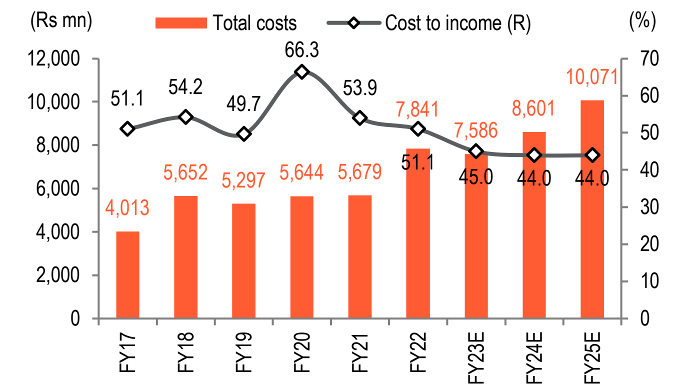


Source: Company, BOBCAPS Research

The increase in net profit would be supported by both an increase in revenue from operations and a lower cost-to-income ratio. Revenue from operations grew at a 15% CAGR over FY17-FY22 to ~Rs 14bn, led primarily by an increase in recurring revenue from Rs 2.4bn to Rs 9.1bn. Similarly, total income clocked a 14% CAGR over FY17-FY22 to Rs 15.3bn. We have added carry income of Rs 400mn and Rs 200mn for FY23 and FY24 respectively and forecast a 16% CAGR in revenue from operations over FY22-FY25.

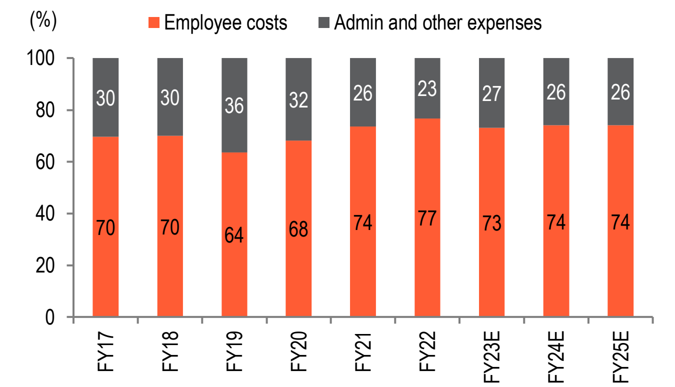
The cost-to-income ratio stood at 51% at end-FY22. Costs primarily consist of employee costs (fixed, variable and ESOP) and admin expenses. As per management guidance, ESOP costs will gradually come down whereas fixed costs would be rangebound. Thus, cost-to-income would reduce – we have modelled for levels of 45%/44%/44% over FY23/FY24/FY25.

Fig 35 – Cost-to-income expected to moderate further



Source: Company, BOBCAPS Research

Fig 36 – Bifurcation of costs



Source: Company, BOBCAPS Research

Fig 37 – DuPont analysis

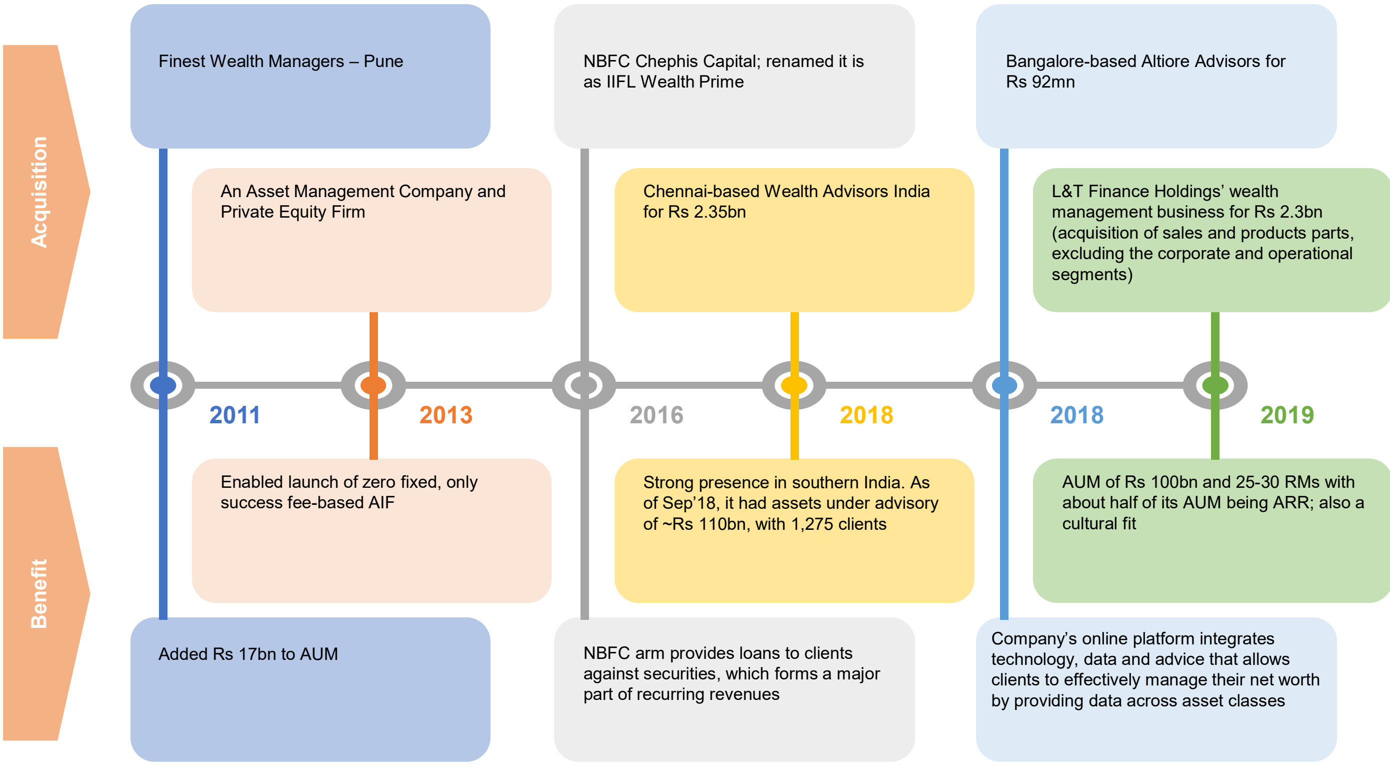
(%)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Recurring Revenue/Average Assets	4.6	4.7	5.4	9.4	10.9	11.7	12.7
Non-recurring Revenue/Average Assets	6.0	3.4	3.1	5.0	3.4	3.2	3.0
Other Income/Average Assets	0.4	(0.6)	1.3	1.4	0.7	0.6	0.6
Operating Expense/Average Assets	5.5	4.9	5.2	8.1	6.7	6.8	7.2
ROAA	4.0	1.8	3.4	6.0	6.2	6.5	6.8
Average Assets/Average Equity (x times)	4.1	3.9	3.7	3.3	3.7	3.9	4.1
ROAE	16.1	7.0	12.7	20.0	22.7	25.5	28.3

Source: BOBCAPS Research

Inorganic growth a swift way to add AUM

IIFL Wealth believes in acquisitions to grow faster. It acquired L&T Finance Holdings' wealth management business in Apr'20 that added ~Rs 100bn in AUM, including Rs 60bn in recurring assets. In 2018, it bought over Wealth Advisors India which also had assets of Rs 110bn. Management has indicated that it will continue to look at acquisitions selectively based on the fit and synergies provided.

Fig 38 – Inorganic growth summary

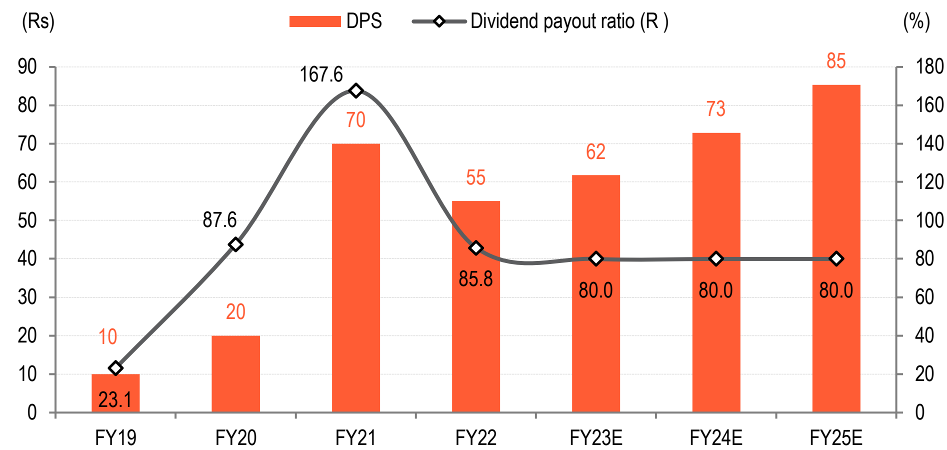


Source: Company, BOBCAPS Research

High dividend payout policy

The company has a well-defined policy to distribute 70-80% of net profit as dividends to its 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 policy logical. We expect a dividend payout ratio of 80% each in FY23, FY24 and FY25.

Fig 39 – High dividend payout ratio positive



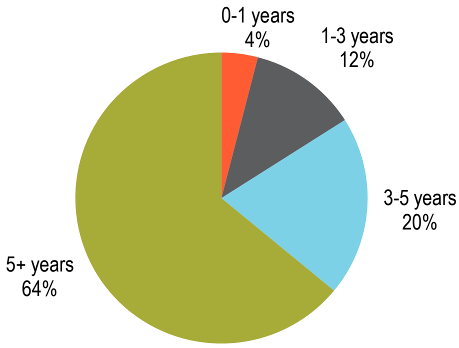
Source: Company, BOBCAPS Research

Low attrition reflects confidence in management

Wealth management is a people-oriented business and is primarily dependent on the performance of senior bankers/team leaders (TL). IIFL Wealth's TL attrition rate over FY17-FY20 averaged just 3.7%. About 78% of the TLs have been with the company for over five years at end-FY22. (See **Appendix** for details on attrition at the partner level and above).

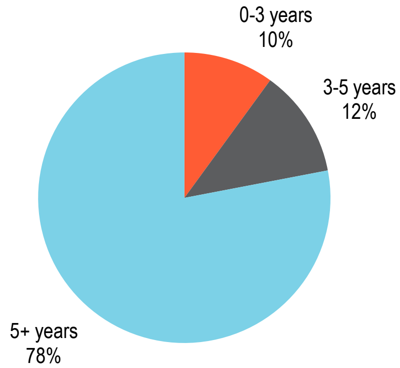
Client attrition is also an important metric to gauge client satisfaction. During FY17-FY21, the company lost fewer than 2.5% of its relevant client families (AUM excluding custody assets greater than Rs 10mn) on average per annum. Moreover, these lost clients contributed to less than 1% of AUM, which means the impact was minimal. At end-FY22, the loss of AUM due to client attrition was less than 1% (based on clients having AUM of Rs 50mn and above).

Fig 40 – Long tenured client base (FY22 – Vintage)



Source: Company, BOBCAPS Research | Note: This is based on AUM relevant families by vintage

Fig 41 – TL split by tenure (FY22)

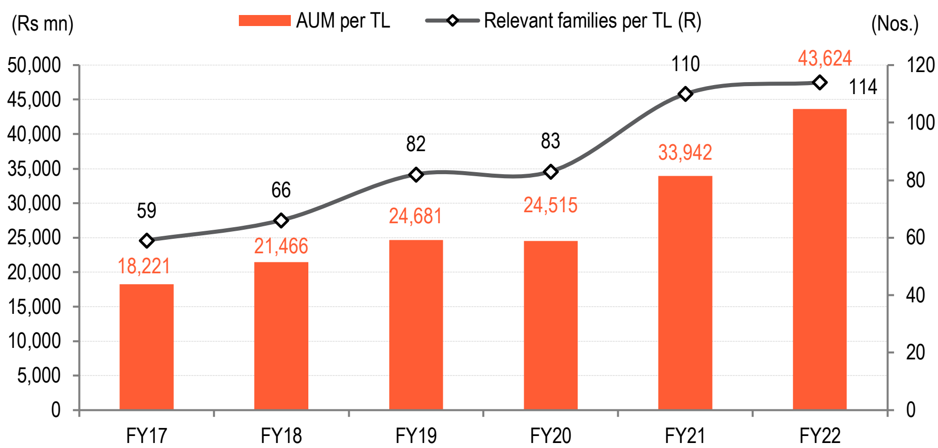


Source: Company, BOBCAPS Research

TL productivity improvement shows efficient use of technology

Not only is the TL attrition rate modest, but the company is also making good use of technology to improve productivity. The number of relevant families managed per TL improved from 59 at end-FY17 to 114 at end-FY22. Subsequently, AUM managed per TL increased from Rs 18bn to ~Rs 44bn.

Fig 42 – Sharp productivity improvement



Source: Company, BOBCAPS Research

Senior hires provide fillip to the business

IIFL Wealth has further strengthened its business through top-tier recruitments over the last 2-3 years. For instance, it hired Anup Maheshwari – erstwhile CIO of DSP Investment Managers for over 20 years – as CIO of the AMC business in Aug'18. Separately, Amar Mirani – ex-MD & CEO of Xander Finance with ~27 years of experience – was recruited as Head of Real Estate Strategy in Apr'21. We see the hires as a sign of the large business opportunity waiting to be tapped.

The company is also strengthening its functional teams. It brought on Anshuman Maheshwary (over two decades of experience) as Chief Operating Officer in Jul'19, Navin Upadhyaya as Chief Human Resource Officer in Mar'22, and Santoshi Kittur (over two decades of experience and has worked with major consulting firms) as Chief Technology Officer in Jun'22.

Ranks among the top-3 wealth players; first among non-banks

IIFL Wealth has consistently ranked among the top three players in the wealth management industry and is the biggest player among non-bank wealth managers, per Asian Private Banker (APB). Although client acquisition for bank-based wealth management companies becomes relatively easy due to the banking relationship, it may not necessarily be a competitive advantage over non-bank outfits as success boils down to the portfolio performance, platform and client service.

Fig 43 – IIFL Wealth in Top 3

AUM (US$ bn)	2016	2017	2018	2019	2020
Kotak Wealth Management	15.3	29.6	33.6	42.8	51.3
ICICI Bank Private Banking	8.5	11.2	24.4	30.9	47.1
IIFL Wealth	14.8	17.7	22.2	23.7	27.5
Top 3	**38.6**	**58.5**	**80.2**	**97.4**	**125.9**
Top 20	**103.7**	**169.3**	**191.7**	**233.2**	**295.6**

Source: APB, BOBCAPS Research | Note: This data is as of December close

We note that foreign-based wealth managers have ceded market share to domestic players, moving from 34% share at end-CY16 to 16% at end-CY20. Among the top 20, only 4 foreign-based companies were left standing as at end-CY20.

Fig 44 – Top 20 wealth managers in India

Private Bank/Wealth Manager	Type	AUM (US$ bn)	
		2020	2019
Kotak Wealth Management	Domestic	51.3	42.8
ICICI Bank Private Banking	Domestic	47.1	30.9
IIFL Wealth	Domestic	27.5	23.7
Axis Bank Burgundy	Domestic	26.6	21.9
ICICI Securities Private Wealth Management	Domestic	20	13.7
Edelweiss Private Wealth Management	Domestic	19.9	15.6
Julius Baer India	Foreign	17.5	12
Standard Chartered Private Bank	Foreign	12.7	10.4
HDFC Private Bank	Domestic	12	10.5

Private Bank/Wealth Manager	Type	AUM (US$ bn)	
		2020	2019
Barclays Private Clients, India	Foreign	12	9.2
ASK Asset & Wealth Management	Domestic	9.2	8.1
JM Financial Wealth Management	Domestic	7.8	6.6
Credit Suisse Private Banking	Foreign	5.3	4
Client Associates	Domestic	4.5	3.8
Karvy Private Wealth	Domestic	4.2	3.6
Ambit Global Private Client	Domestic	4.2	3.2
Waterfield Advisors	Domestic	3.6	3.1
Centrum Wealth Management	Domestic	3.5	3.5
Anand Rathi Wealth	Domestic	3.4	3
Avendus Wealth Management	Domestic	3.3	3.9
Top 20 – Total		**295.6**	**233.2**

Source: APB, BOBCAPS Research | Note: This data is as of December close

Differentiated proposition

IIFL Wealth's major clientele are senior executives, entrepreneurs/family-run businesses, and family offices and institutions. Every client identifies its own objectives (wealth preservation, alpha generation, etc.), and the company's strategy thereafter revolves around client satisfaction through innovative propositions and an effective platform and processes. Its strategy is based on five pillars: People, Proposition, Platform, Process and Pricing, as illustrated below.

Fig 45 – Five strategic pillars

People	Proposition	Platform	Process	Pricing
▪ High engagement levels with clients ▪ Learning Management System (LMS) for RMs ▪ Talent retention	▪ Open architecture with multi-manager platform ▪ Rigorous manufacturer selection process ▪ Diversification across asset classes ▪ Focus on least volatility and risk ▪ Segregation of client portfolios through various modes of engagement simultaneously	▪ One of the largest product and investment teams ▪ Well developed technology ▪ Other offerings (NBFC, strong estate planning)	▪ Portfolio management approach ensures client portfolios are managed in line with defined investment policy statements ▪ Automation	▪ Transparency and alignment of interest with clients' objectives ▪ Fee-based model with the launch of IIFL One ▪ Attractive pricing

Source: Company, BOBCAPS Research

Fig 46 – Differentiated customer proposition

	Customer Profile	Customer Goals	Proposition
Wealth	▪ HNIs and UHNIs with net worth >Rs 250mn ▪ Typically, can be divided into: ▪ First-generation entrepreneurs ▪ Owners of large family-run business ▪ Senior professionals (CXO) ▪ Family offices and institutions	▪ Wealth preservation and optimisation ▪ Consistent returns above inflation ▪ Minimum volatility in returns ▪ Access to curated, innovative bespoke offerings	▪ Standardised portfolio management approach and unwavering focus on process ▪ Multiple engagement levels and diversification across asset classes ▪ Preferential access for sourcing and customising investments ▪ Open architecture model
AMC	▪ HNIs and UHNIs ▪ Global institutional investors, including endowment and pension funds ▪ Family offices	▪ Long-term stable returns with alpha ▪ Access to niche market opportunities ▪ Curated, innovative strategies/ solutions	▪ Diversified suite of bespoke offerings across AIF, PMS and MFs ▪ Differentiated strategies across asset classes to access unique growth opportunities – listed equity, private equity, private credit, real estate, long-short ▪ Pool risk with client (co-invest)

Source: Company, BOBCAPS Research

Fig 47 – Use of technology to meet client objectives

Key Objectives	Well-defined Output
▪ Modern and differentiated experience for clients ▪ Enabling personalisation of experience and deeper portfolio analysis ▪ Fulfilment of new-age requirements: networking, net worth consolidation, DIY and assisted journeys ▪ Enabling RMs with insights to improve span of control and better consistency in client experience ▪ Simplifying interactions, improving processes and enhancing customer experience for all touch points	▪ Data-led analytics / insights for personalisation at scale ▪ Digital-led interventions in key areas including leads, account opening, transactions, client query mgmt. ▪ Integrated one-stop solution for RM journey ▪ Centralised data platform, embedding intelligence across key processes ▪ New-age website, apps and reporting platforms

Source: Company, BOBCAPS Research

Immense scope for expansion in tier-2/3 cities

IIFL Wealth has a majority of its clients and assets in India's top-10 cities. We believe the opportunity to garner new assets in tier-2/3 cities is immense given that the monetisation of businesses by new-age entrepreneurs has resulted in tremendous wealth creation in smaller cities.

At end-FY20, 71.2% of the company's AUM came from the top-4 cities and 24.4% from the next 6 cities. Thus, only ~4.4% of AUM comes from smaller cities. However, if we look at India's overall HNI financial assets, ~25% are generated outside the top-10 cities. Even if we consider the next 11-20 cities, this figure is high at ~11%. The company intends to tap the top 50-100 families in each of the targeted cities and will determine branch opening based on asset monetisation.

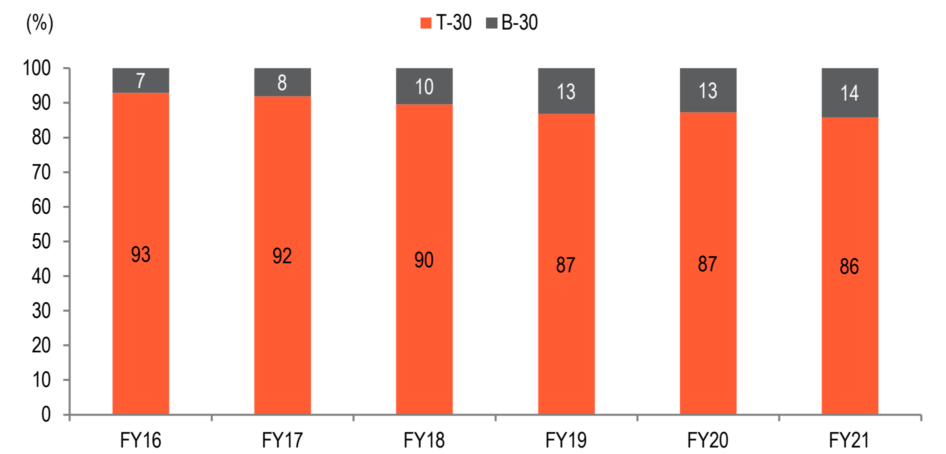
Fig 48 – Scope for expansion in smaller cities/towns, 2020

Particulars	Top 4	Next 6 Cities	Next 11-20	Others	Total
Total HNI Count	1,54,275	56,100	30,855	39,270	2,80,500
HNI Financial Assets (Rs tn)	67	25	13	17	122
IIFLW AUM as % of HNI Financial Assets	1.12	0.38	0.04	0.03	1.57
IIFLW Relevant Client Count as % of total HNI Count	1.31	0.48	0.26	0.33	2.39
IIFLW AUM % Split by City	71.20	24.43	2.39	1.98	100

Source: Company, BOBCAPS Research | Note: Cities - Top 4: Mumbai, Delhi, Chennai, Kolkata. Next 6 Cities: Bengaluru, Ahmedabad, Pune, Hyderabad, Nagpur, Ludhiana. Next 11-20 Cities: Chandigarh, Surat, Jaipur, Lucknow, Kanpur, Jamshedpur, Amritsar, Raipur, Indore, Aurangabad.

Another factor supporting the small-town growth thesis has been the rapid expansion in B-30 (Beyond-30) cities in the MF industry's AUM over the last five years. Based on monthly average assets under management (MAAUM), the share of T-30 (Top-30) cities in aggregate industry AUM decreased to 85.8% in FY21 from 92.9% in FY16. Conversely, the share of B-30 AUM increased to 14.2% from 7.1% over the same period, indicating the rising importance of B-30 cities.

Fig 49 – B-30 cities have increased market share in the MF industry



Source: CAMS, BOBCAPS Research

Targeting underserved Rs 50mn-250mn client category

IIFL Wealth has been evaluating entry into the mid-market segment (Rs 50mn-200mn) outside of the top 3-4 cities. This also coincides with the US$ 2mn-3mn client category which the company believes holds ample scope for growth and remains underserved.

From a product perspective, this segment offers a match with UHNI clients as customer behaviour is similar. From a delivery perspective, RM productivity would rise further owing to the client size. With this initiative, the company will not only expand into the mid-market space but also develop a sharper platform/proposition for UHNIs (defined as Rs 250mn+). Management doesn't intend to venture into the Rs 1mn-10mn client category (mass).

Trail method analysis

Positive for distributors in long run

In 2018, SEBI banned upfront commissions paid to MF distributors in order to bring in more transparency and stop the high churn in client portfolios. The upfront commission was ~1-1.5% higher than the trail fee and comprised a one-time payment that the AMC paid a distributor on selling a mutual fund scheme to an investor. Trail commission is a recurring fee paid to a distributor until the investment is withdrawn. It is calculated on a yearly basis and paid monthly. Although this regulation had a negative impact on distributor payouts, we believe it better aligns client and distributor interests in the long term.

In 2020, following the same logic, SEBI banned upfront commissions paid to PMS distributors by manufacturers. In addition, as with MFs, a direct plan was introduced carrying a graded exit load structure where PMSs can charge an exit load of 3% of the amount redeemed in the first year, 2% in the second year and 1% in the third year, with no load thereafter. Ancillary charges for broking and demat services (associate arms of PMS providers) would be capped at 20% by value. However, SEBI clarified that annual fees could be charged to customers.

Our calculations indicate that the trail method delivers higher commissions to distributors over the longer term. We have assumed upfront commission of 2.5% (with a churn rate of 15%) and other fees (transaction) flat at 8bps for our analysis.

Fig 50 – Fee income higher than upfront commission in long run

Model portfolio	(Rs)
Mutual funds (Broker plus Direct)	30
Bonds and structured products	20
Managed accounts (PMS + AIF)	35
Direct Stocks	15
Total	**100**

Particulars	Upfront commission					Particulars	Advisory fee				
	Year 1	Year 2	Year 3	Year 4	Year 5		Year 1	Year 2	Year 3	Year 4	Year 5
Total upfront income	**0.40**	**0.56**	**0.63**	**0.71**	**0.80**	**Total earnings**	**0.58**	**0.65**	**0.73**	**0.82**	**0.92**
Upfront commission @ 2.5%	0.32	0.48	0.55	0.63	0.72	Fee income @ 0.50%	0.50	0.57	0.65	0.74	0.84
Other fees (transaction)	0.08	0.08	0.08	0.08	0.08	Other fees (transaction)	0.08	0.08	0.08	0.08	0.08
As a % of portfolio value	0.47	0.58	0.57	0.56	0.55	As a % of portfolio value	0.58	0.61	0.60	0.60	0.59

Source: BOBCAPS Research

Key industry regulations

Instilling customer confidence

SEBI has introduced regulations for the financial services industry (focusing on AMC, PMS, etc.) from time to time to ensure transparency and protection for customers – we outline the key guidelines below:

Fig 51 – Key regulations

Date	Regulation
Oct'18	▪ Upfront commissions paid by AMCs for MF schemes banned and full trail fee model introduced (SIPs excluded) ▪ All fees and expenses charged on a direct plan cannot exceed those of a regular plan
Mar'19	▪ Rules tightened regarding upfronting trail commissions paid to distributors on registering SIPs only to first-time investors ○ Upfront trail commission would be up to 1% payable yearly in advance for a maximum of three years, and would be restricted to SIPs of up to Rs 3,000 a month per scheme for someone investing in mutual funds for the first time ○ Upfront trail commission would be paid from the AMC's books and amortised daily to the scheme over the period for which the payment was made ▪ SEBI had earlier allowed an additional total expense ratio (TER) of 30bps to attract retail investments from beyond the top-30 cities. It now defined the term 'retail investor' from beyond the top-30 cities as one who invests Rs 0.2mn per transaction.
Apr'19	▪ TER lowered and slabs changed
Nov'19	▪ Minimum investment limit for PMS clients raised 2x to Rs 5mn and base net-worth requirement increased to Rs 50mn (from Rs 20mn), with portfolio managers given three years to meet the enhanced requirement ▪ Portfolio managers not permitted to invest more than 25% of their AUM in unlisted securities
Feb'20 (effective Oct'20)	▪ PMS providers not allowed to pay upfront commissions to distributors; only trail commissions permitted ▪ A 'direct' option introduced to PMS investors who did not wish to invest through distributors, which would exclude distribution fees ▪ PMS providers could continue to charge annual fees, as a percent of an investor's corpus
Sep'20	▪ Investment advisers must ensure segregation of advisory and distribution activities at the client level ▪ An individual shall have the option to register as an Investment Adviser or provide distribution services as a Distributor ▪ Under the assets under advice (AUA) mode, maximum fees to be charged would not exceed 2.5% of AUA p.a. per client across all services offered by the investing agent ▪ In the fixed-fee mode, maximum fees to be charged would not exceed Rs 125,000 p.a. per client across all services

Source: SEBI, Newspaper articles, BOBCAPS Research

Fig 52 – New TER reduced in equity-oriented schemes

	Equity-oriented schemes		Equity-oriented schemes
AUM slab (Rs bn)	Old (%)	AUM slab (Rs bn)	New (%)
0-1	2.50	0 - 5	2.25
1-4	2.25	5 - 7.5	2.00
4-7	2.00	7.5 - 20	1.75
>7	1.75	20-50	1.60
		50 - 100	1.50
		100 - 500	TER reduction of 0.05% for every increase of Rs 50bn AUM or part thereof
		>500	1.05

Source: SEBI, BOBCAPS Research

Fig 53 – TER for other schemes also lowered

	Debt-oriented schemes	Exchange-traded funds (ETFs, incl. gold ETFs) / Index funds %	Fund of Funds (FoF) domestic and foreign		TER except equity-oriented schemes
AUM slab (Rs bn)	Old (%)	Old (%)	Old (%)	AUM slab (Rs bn)	New (%)
0-1	2.25	1.50	Maximum 2.5% including the TER of underlying schemes	0 - 5	2.00
1-4	2.00	1.50		5 - 7.5	1.75
4-7	1.75	1.50		7.5 - 20	1.50
>7	1.50	1.50		20-50	1.35
				50 - 100	1.25
				100 - 500	TER reduction of 0.05% for every increase of Rs 50bn AUM or part thereof
				>500	0.80

Source: SEBI, BOBCAPS Research

Impact of business segregation on IIFL Wealth

The new rule requiring segregation of advisory and distribution activities at the client level has had minimal impact on IIFL Wealth. At end-FY21, it had ~Rs 300bn of assets to be classified either under advisory or distribution – a bulk of which was subsequently placed under advisory. Management indicated that there was no loss due this classification. Most of the important corporate treasuries were content to be part of the advisory programme.

Valuation

Initiate with BUY

IIFL Wealth is trading at 18x FY24E EPS and appears undervalued, in our view. We assign the stock a BUY rating with a TP of Rs 2,277 (43% upside) based on 25x FY24E EPS – a 10% premium to the 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 TL-led team that boasts of low attrition at both, the client and TL level.

Although there are two other wealth management companies – Anand Rathi Wealth (ANANDRAT) and Prudent Advisory Services (PRUDENT) – listed on the bourse, we believe their size and business models differ from IIFL Wealth and thus there is no like-to-like comparison. Globally, Raymond James and Charles Schwab are in the wealth management business. On the asset management side, the closest comparable players HDFC AMC, UTI AMC, ABSL AMC and Reliance Nippon AMC.

Fig 54 – Global peer comparison – Wealth business

Company	Country	P/B (x)		P/E (x)		ROE (%)
		FY22	FY23	FY22	FY23	FY21
Raymond James	USA	2.1	1.8	12.1	9.4	18.3
Charles Schwab	USA	2.5	2.2	16.4	12.9	11.4
Median		**2.3**	**2.0**	**14.3**	**11.1**	**14.8**
IIFL Wealth*	India	4.6	4.4	20.7	17.5	20.0

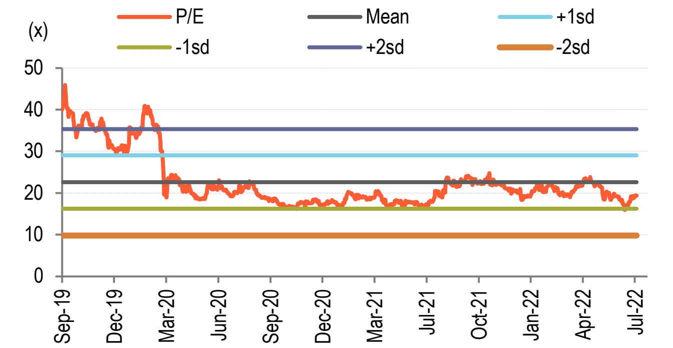
Source: Company, Bloomberg, BOBCAPS Research | Note: Global player data sourced from Bloomberg; IIFL Wealth data based on in-house estimates. *For IIFL Wealth, FY22 should be seen as FY23, and FY23 as FY24

Fig 55 – Peer comparison – AMC business

Company	Mcap (Rs bn)	P/B (x)		P/E (x)		ROE (%)	ROE – last 5Y (%)	Implied P/E (x)	
		FY23	FY24	FY23	FY24	FY22	FY18-FY22	FY23	FY24
Nippon AMC	181	5.0	4.9	22.5	19.4	22.6	20.8	31.2	26.9
ABSL AMC	122	5.0	4.4	17.9	15.8	34.5	35.2	24.0	21.3
HDFC AMC	408	6.8	6.1	27.9	24.1	27.0	33.3	33.5	29.0
UTI AMC	85	2.2	2.0	15.3	12.8	15.6	14.1	22.4	18.8
Median		**5.0**	**4.6**	**20.2**	**17.6**	**24.8**	**27.2**	**27.6**	**24.1**
IIFL Wealth	141	4.6	4.4	20.7	17.5	20.0	15.5	29.5	25.0

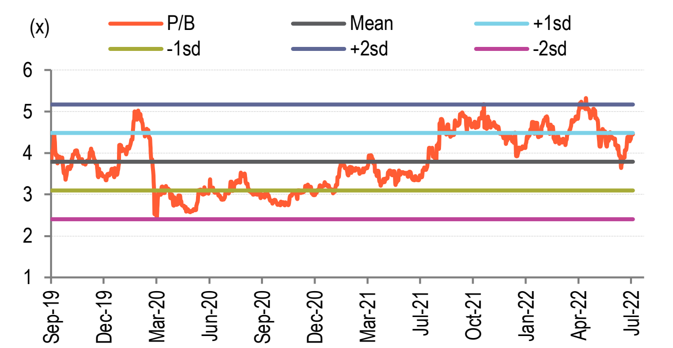
Source: Company, Bloomberg, BOBCAPS Research Note: For UTI AMC, the data is taken from FY19-FY22. IIFL Wealth data based on in-house estimates

Fig 56 – 1-year fwd P/E band



Source: BOBCAPS Research

Fig 57 – 1-year fwd P/B band



Source: BOBCAPS Research

Scenario analysis

Fig 58 – AUM growth: Scenario analysis

FY22-FY25E	Bear	Base	Bull
AUM CAGR	10% to Rs 3.4tn (Rs 3.2tn at end-FY24)	20% to Rs 4.5tn (Rs 3.8tn at end-FY24)	30% to Rs 5.7tn (Rs 4.4tn at end-FY24)
Total income CAGR	6% to Rs 18.5bn	14% to Rs 23bn	22% to Rs 28bn
PAT CAGR	10% to Rs 7.8bn	18% to Rs 22bn	26% to Rs 11.7bn
Valuation			
- P/E	22x FY24E	25x FY24E	27x FY24E
- TP	Rs 1,770	Rs 2,277	Rs 2,773
- Upside	11%	43%	74%

Source: BOBCAPS Research | Note: Other metrics such as yields and cost ratios are the same as our base case for all scenarios.

SWOT analysis

Fig 59 – Strengths, weaknesses, opportunities, threats

SWOT

Strengths

- Focus on a stable, non-cyclical recurring business model
- Strong market position in wealth management (among top 3)
- Low RM and client attrition
- Varied product base with inhouse NBFC for short-term loans
- Experienced and stable management
- Addition of senior staff in last 3Y especially in AMC business
- Inorganic growth over the years helps boost AUM growth
- Return ratios improving
- Consistent dividend policy
- Marquee set of investors

Weaknesses

- Key man risk given high dependence on founders for business growth
- Soft growth in IIFL One

Opportunities

- Under-penetration of wealth management services in India
- Demand in smaller towns and cities, especially tier-2/3
- Investor preference for AIF

Threats

- Competition from bank-managed wealth managers (e.g. Kotak)
- Unanticipated changes in regulatory framework
- Volatility in stock markets (can impact fund performance, AUM growth and hence client net flows)
- Unexpected increase in senior TL attrition

Source: BOBCAPS Research

Key risks

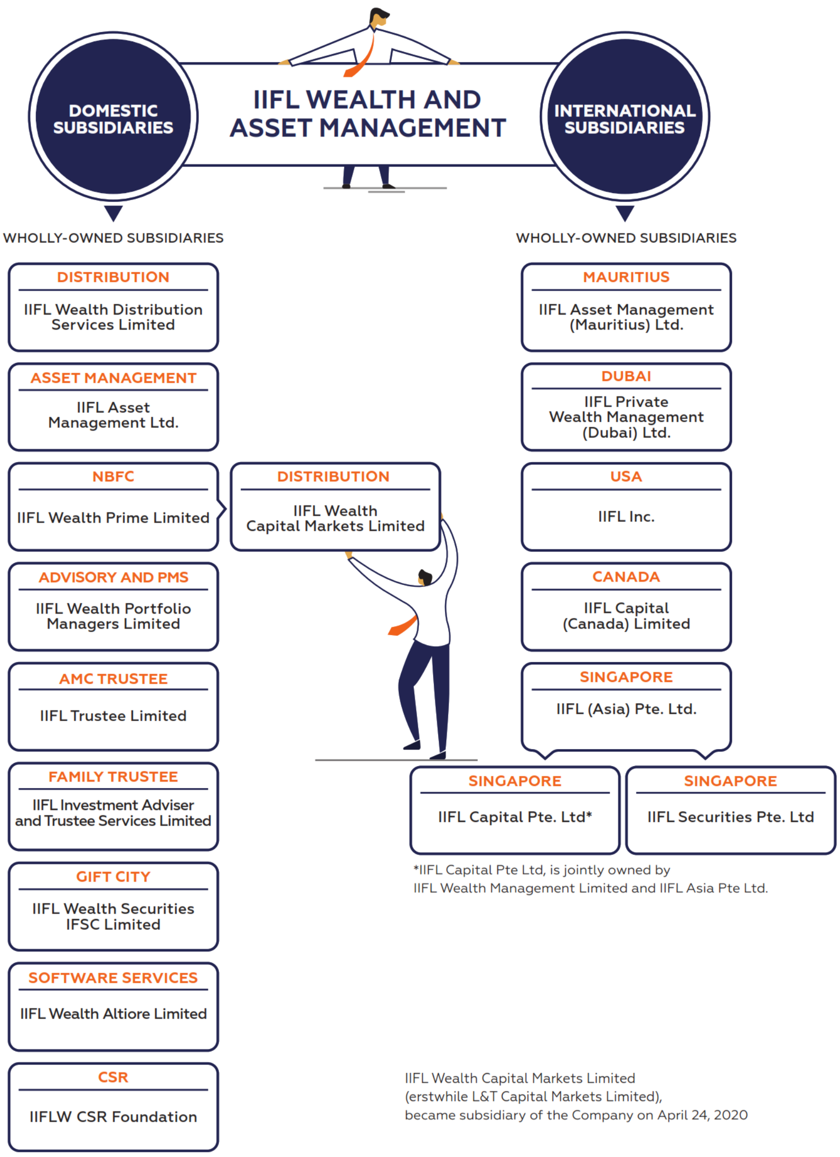
- **Goodwill risk:** IIFL Wealth's business is built on the goodwill of existing clients with new clients being acquired by word of mouth. Any change in the company's reputation due to a customer's bad experience can result in loss of goodwill, thereby hampering its ability to acquire new customers or even leading to existing client attrition.
- **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 overall 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 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:** Many 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 income earned by the company.

Company profile and Management

Business overview

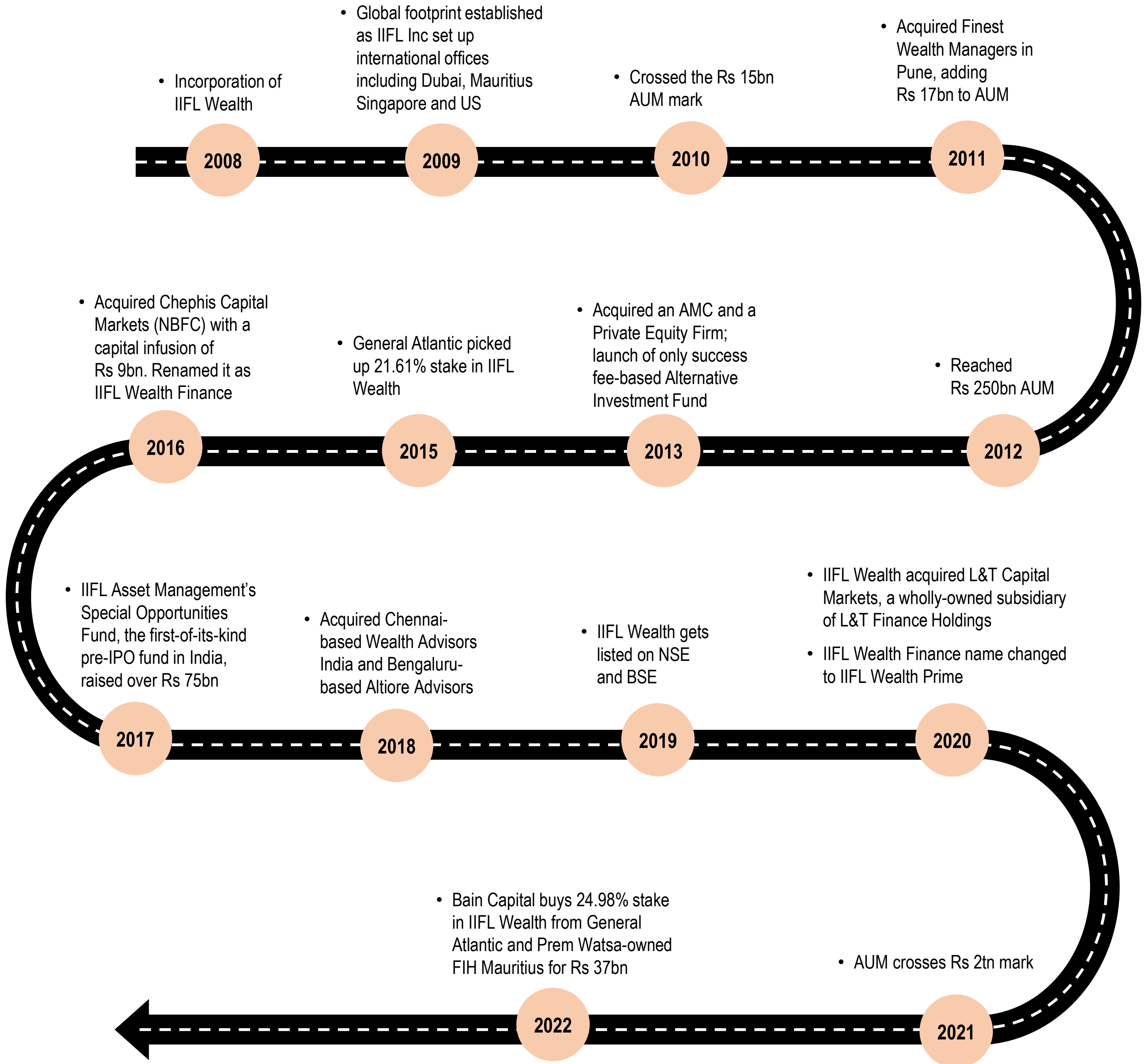
IIFL Wealth was incorporated in 2008 and operated as a subsidiary of IIFL Holdings until demerger of the group in 2019. It is one of India's premier wealth management companies with an AUM of over Rs 2.5tn. The company serves the wealth management needs of high-net-worth individuals (HNI) and ultra-high-net-worth individuals (UHNI) through customised solutions. Its business can be broadly classified into two verticals – wealth management and asset management – and it operates out of 27 offices, employing ~850 staff and managing ~6,800 relevant families.

Fig 60 – Corporate structure



Source: Company, BOBCAPS Research

Fig 61 – Key milestones



Source: Company, BOBCAPS Research

Key management personnel

- **Karan Bhagat** is the Founder, MD & CEO. He is responsible for providing direction and leadership towards achievement of the organisation's philosophy, mission, vision, and its strategic goals and objectives. He has over two decades of experience in the financial services industry and previously worked with Kotak Bank, becoming the Mumbai head of the bank's wealth management division. He holds an MBA in Finance from the Indian Institute of Management, Bangalore, and acquired his Bachelor's degree in Commerce from St. Xavier's College, Kolkata.
- **Yatin Shah** is the Co-founder and Joint-CEO of the Wealth Management business. He focuses on the wealth advisory practice besides client services, marketing and client experiences. He has ~25 years' experience in the financial services industry, across equity research and private wealth management. He previously worked with Kotak Mahindra Bank. He holds a post-graduate qualification in London at the University Cass Business School.
- **Anirudha Taparia** is the Joint-CEO of the Wealth Management business. He is responsible for the wealth advisory practice across business verticals and geographies. He has ~25 years of experience in the financial services industry, across consumer, commercial and private banking. Previous to joining IIFL Wealth in 2012, he worked with Citi and ICICI Bank. He has done his PGDM Finance from Symbiosis Institute, Pune.
- **Manoj Shenoy** is the CEO of IIFL AMC with effect from Apr'20 following IIFL Wealth's acquisition of L&T Capital Markets (LTCM). He is responsible for scaling up growth and developing robust processes keeping in line with customer centricity. He has about three decades of experience in the financial services industry, including private banking, investment banking, stock broking, estate and succession planning. Prior to joining IIFL Wealth, he was CEO at L&T Wealth Management. Besides a successful stint as CEO of EFG Wealth Management India, a subsidiary of ETG Bank, he was also the Executive Director at Anand Rathi Financial Services. He holds a Bachelor's degree in Engineering from Bangalore University.
- **Anup Maheshwari** is the CIO of IIFL AMC. He is responsible for the investment and strategy for IIFL AMC's business, including mutual funds and AIFs. Prior to joining IIFL AMC, he has been associated with DSP Investment Managers for over two decades as Executive VP & CIO. He was also associated with HSBC Asset Management (India) Private Limited and Merrill Lynch India Equities Fund (Mauritius) Limited. He is an alumnus of Indian Institute of Management, Lucknow.
- **Anshuman Maheshwary** has been COO of the company since 2019. He has expertise in strategy and business planning, which helps deliver growth. Prior to IIFL Wealth, he was with AT Kearney since Jun'01, and was last designated as Partner and Lead, Energy & Process Industries. He is a graduate of IIM Bangalore, where he completed an MBA in Strategy & Finance.

Key board members

- **Nilesh Vikamsey** is an Independent Director and Chairman of the Board of Directors. He is a senior partner at Khimji Kunverji & Co LLP. He is presently a member of the Advisory Committee on Mutual Funds of SEBI, Risk Management Committee of CDSL, and International Auditing and Assurance Standards Board's (IAASB) Reference Group for Audits of Less Complex Entities. He is on the board of many listed and unlisted companies. A Chartered Accountant by qualification, he also holds a diploma in Information System Audit from the ICAI.

- **Nirmal Jain** is a Non-Executive Director on the Board. He holds a Bachelor's degree in Commerce from the University of Mumbai, a Post Graduate Diploma in Management from IIM, Ahmedabad, and is a qualified Chartered Accountant. He is also a qualified Cost Accountant. He has experience in the financial services sector and the fast-moving consumer goods sector. He founded IIFL Finance Limited in 1995 and is the current chairman of its board. Prior to this, he worked with Hindustan Unilever, where he was responsible for, among others, export and trading in agro-commodities.

- **Venkataraman Rajamani** is a Non-Executive Director on the Board. He holds a Bachelor's degree in Electronics and Electrical Communications Engineering from the Indian Institute of Technology, Kharagpur, and a Post Graduate Diploma in Management from the Indian Institute of Management, Bangalore. He joined IIFL Securities in 1999 and is currently a promoter and managing director of IIFL Finance. He has significant experience in the financial services sector. Prior to this, he worked with ICICI, ICICI Securities, and Taib Capital Corporation. He has also served as the assistant vice president of GE Capital Services India in their private equity division. He has been accredited as 'Best CEO' by BW Businessworld in the 'large corporate' category in 2018.

Appendix

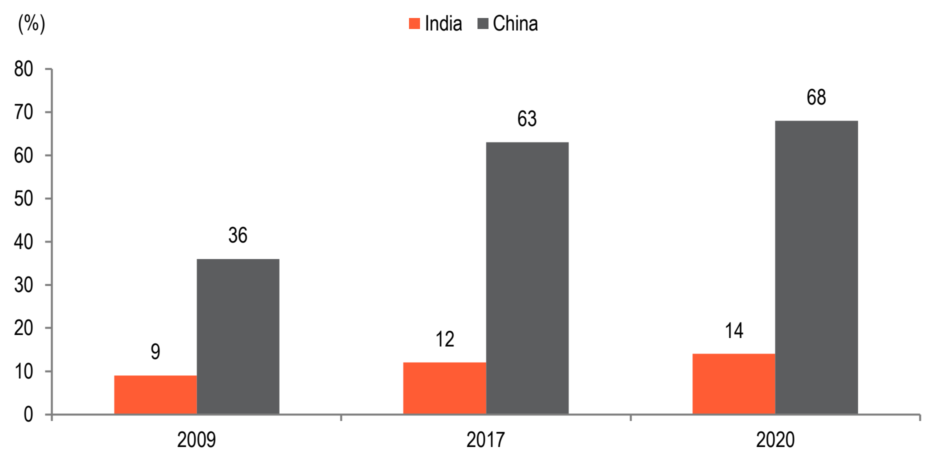
Industry overview

Under-penetration in wealth under professional management

As per a 2020 Karvy Wealth report, the total individual wealth in India stood at Rs 465tn at end-FY20 vs. Rs 280tn in FY15 (11% CAGR), which is expected to rise at a 12% CAGR over FY20-FY25 to Rs 811tn. Within the same timeframe, nominal GDP is expected to grow from Rs 226tn to Rs 340tn.

- Of the Rs 465tn in wealth at end-FY20, Rs 262tn (57%) is in financial assets and the balance in physical assets. Of the estimated Rs 811tn, 63% would be in financial assets.
- HNIs accounted for Rs 218tn (47%) of the wealth in FY20 with Rs 122tn in financial assets, of which only 14% or Rs 17tn is managed professionally. In comparison, ~68% of HNI wealth in China is under formal management advice. Over the next five years, this ratio is expected to increase in India as the penetration of wealth management services improves across the country.

Fig 62 – Wealth under professional management is expected to increase



Source: Company, BOBCAPS Research

HNI/UHNI growth bodes well for industry

The number of HNIs (>US$ 1mn) in India clocked a 10% CAGR over 2016-21 to ~0.8mn. Over 2021-26, HNIs in India and globally are expected to log CAGRs of 12% and 8.8% respectively. Similarly, the number of UHNIs (>US$ 30mn) in India grew 13% over 2016-21 to 13,637. Indian UHNIs are estimated to clock a 6.9% CAGR over 2021-2026 to 19,006. India accounted for 2.2% of UHNIs worldwide in 2021 (up from 2.1% in 2016), which is expected to rise to 2.4% in 2026. (Source: Global Data Wealth Insight 2022, Knight Frank)

The growing base of affluent individuals bodes well for the wealth industry, especially as asset management becomes crucial in a volatile macro and capital market environment.

Fig 63 – HNI population country-wise – India well placed

Region/Country	HNI populations (US$ 1mn+)				CAGR (%)		UHNI populations (US$ 30mn+)				CAGR (%)	
	2016	2020	2021	2026	2016-2021	2021-2026	2016	2020	2021	2026	2016-2021	2021-2026
World	4,31,37,511	6,47,03,169	6,97,50,472	10,62,63,114	10.1	8.8	3,48,355	5,58,828	6,10,569	7,83,671	11.9	5.1
Africa	1,13,412	1,24,811	1,35,068	1,65,485	3.6	4.1	2,146	2,257	2,240	2,489	0.9	2.1
Asia	1,05,47,192	1,60,74,153	1,75,45,940	2,82,33,662	10.7	10.0	85,172	1,58,455	1,69,889	2,25,391	14.8	5.8
Australasia	15,25,594	28,39,034	30,33,213	46,43,820	14.7	8.9	10,696	22,077	24,245	32,271	17.8	5.9
Europe	1,17,85,873	1,80,66,763	1,99,35,567	2,90,88,397	11.1	7.8	93,502	1,43,437	1,54,008	1,92,426	10.5	4.6
Latin America	8,04,568	6,79,504	7,43,205	10,78,287	(1.6)	7.7	9,769	9,611	10,337	13,004	1.1	4.7
Middle East	5,74,973	9,80,897	10,68,538	15,94,805	13.2	8.3	4,452	8,927	9,717	12,028	16.9	4.4
North America	1,75,68,294	2,56,23,401	2,69,55,051	4,10,70,555	8.9	8.8	1,38,739	2,08,177	2,33,590	2,99,220	11.0	5.1
Russia & CIS	2,17,604	3,14,607	3,33,890	3,88,101	8.9	3.1	3,878	5,885	6,542	6,843	11.0	0.9
Argentina	1,07,643	52,773	56,481	90,161	(12.1)	9.8	1,329	778	829	1,143	(9.0)	6.6
Australia	13,27,701	24,38,709	26,12,249	39,33,489	14.5	8.5	9,306	18,958	20,874	27,330	17.5	5.5
Brazil	3,31,363	2,94,010	3,24,236	4,20,521	(0.4)	5.3	4,092	4,334	4,759	5,333	3.1	2.3
Canada	15,38,914	26,19,301	26,81,511	41,92,285	11.7	9.3	12,153	21,281	23,238	30,543	13.8	5.6
Chinese mainland	44,99,709	82,00,731	92,56,622	1,71,38,050	15.5	13.1	37,527	88,358	93,854	1,33,471	20.1	7.3
Czech Republic	35,273	69,905	78,450	1,39,302	17.3	12.2	276	546	597	906	16.7	8.7
Denmark	2,01,461	3,49,319	3,84,092	5,38,740	13.8	7.0	1,578	2,730	2,921	3,505	13.1	3.7
Egypt	12,808	14,437	15,740	18,278	4.2	3.0	235	240	253	264	1.5	0.9
Finland	99,324	1,45,894	1,53,665	2,01,052	9.1	5.5	778	1,140	1,168	1,308	8.5	2.3
France	20,66,703	35,77,080	40,40,555	55,01,048	14.3	6.4	16,191	27,958	30,724	35,790	13.7	3.1
Germany	21,26,500	35,13,730	37,28,349	53,09,808	11.9	7.3	16,660	27,463	28,350	34,545	11.2	4.0
Greece	48,647	57,988	63,637	94,780	5.5	8.3	381	453	484	617	4.9	5.0
Hong Kong SAR	4,59,407	7,01,780	7,57,086	9,40,866	10.5	4.4	3,220	5,455	6,050	7,593	13.4	4.6
Hungary	16,754	27,469	30,948	47,741	13.1	9.1	131	215	235	311	12.4	5.8
India	4,86,519	7,65,929	7,96,961	14,07,287	10.4	12.0	7,401	12,287	13,637	19,006	13.0	6.9
Indonesia	54,719	86,651	82,012	1,34,015	8.4	10.3	832	1,390	1,403	1,810	11.0	5.2
Ireland	1,46,505	2,84,733	3,26,050	5,45,474	17.4	10.8	1,148	2,225	2,479	3,549	16.6	7.4
Israel	97,085	1,83,620	1,97,542	2,83,041	15.3	7.5	680	1,427	1,579	1,967	18.4	4.5
Italy	17,09,171	21,79,960	22,82,937	30,32,538	6.0	5.8	13,390	17,038	17,359	19,730	5.3	2.6
Japan	35,77,670	37,40,562	39,44,073	46,51,963	2.0	3.4	25,075	29,078	31,516	32,322	4.7	0.5
Kenya	2,605	3,323	3,362	4,274	5.2	4.9	78	90	88	100	2.4	2.6
Malaysia	43,091	66,350	70,238	1,30,750	10.3	13.2	359	715	712	1,018	14.7	7.4

Region/Country	HNI populations (US$ 1mn+)				CAGR (%)		UHNI populations (US$ 30mn+)				CAGR (%)	
	2016	2020	2021	2026	2016-2021	2021-2026	2016	2020	2021	2026	2016-2021	2021-2026
Mexico	1,64,110	1,57,935	1,61,354	2,50,932	(0.3)	9.2	2,027	2,328	2,368	3,182	3.2	6.1
Monaco	19,269	25,405	27,303	39,168	7.2	7.5	151	199	208	255	6.6	4.2
New Zealand	1,78,194	3,71,172	3,90,258	6,64,722	17.0	11.2	1,249	2,885	3,118	4,618	20.1	8.2
Nigeria	21,312	27,928	28,996	34,895	6.4	3.8	391	465	467	505	3.6	1.6
Norway	1,32,040	1,39,024	1,64,569	2,90,719	4.5	12.1	1,034	1,087	1,251	1,891	3.9	8.6
Philippines	10,826	19,154	18,273	32,685	11.0	12.3	165	307	313	441	13.7	7.1
Poland	77,991	1,25,589	1,40,275	2,72,116	12.5	14.2	611	982	1,067	1,770	11.8	10.7
Portugal	74,259	1,01,794	1,06,486	1,60,061	7.5	8.5	582	796	810	1,041	6.8	5.1
Qatar	62,378	1,04,597	1,04,491	1,68,219	10.9	10.0	437	813	835	1,169	13.8	7.0
Romania	49,643	92,918	91,426	1,36,514	13.0	8.3	904	1,772	1,828	2,501	15.1	6.5
Russia	2,03,735	2,93,155	3,11,904	3,53,490	8.9	2.5	3,712	5,591	6,238	6,477	10.9	0.8
Saudi Arabia	76,525	1,35,865	1,33,003	1,63,843	11.7	4.3	536	1,056	1,063	1,138	14.7	1.4
Singapore	2,32,846	4,98,396	5,26,370	5,92,104	17.7	2.4	1,632	3,874	4,206	6,007	20.8	7.4
South Africa	26,649	28,043	31,852	34,064	3.6	1.4	541	603	561	559	0.7	(0.1)
South Korea	4,81,030	8,12,064	8,30,284	13,53,197	11.5	10.3	3,371	6,313	6,635	9,402	14.5	7.2
Spain	8,96,165	13,37,307	15,36,785	28,64,336	11.4	13.3	7,021	10,452	11,685	18,635	10.7	9.8
Sweden	2,87,780	4,95,219	5,73,210	9,83,457	14.8	11.4	2,255	3,871	4,359	6,398	14.1	8.0
Switzerland	1,51,655	2,26,302	2,34,716	2,78,501	9.1	3.5	1,188	1,769	1,785	1,812	8.5	0.3
Taiwan	5,44,442	9,11,620	9,83,325	14,29,828	12.6	7.8	3,816	7,087	7,857	9,934	15.5	4.8
Tanzania	2,049	2,554	2,599	3,770	4.9	7.7	38	43	42	55	2.0	5.5
Thailand	57,717	1,15,284	1,25,406	1,62,497	16.8	5.3	481	1,242	1,272	1,266	21.5	(0.1)
Turkey	1,03,293	1,12,329	1,35,350	2,03,776	5.6	8.5	861	1,210	1,372	1,587	9.8	3.0
Uganda	1,291	1,571	1,704	1,947	5.7	2.7	24	26	27	28	2.4	0.7
UAE	1,18,972	1,46,986	1,63,837	2,28,369	6.6	6.9	834	1,143	1,309	1,587	9.4	3.9
UK	21,97,264	29,62,458	33,89,253	49,39,827	9.1	7.8	17,214	23,154	25,771	32,138	8.4	4.5
US	1,60,29,380	2,30,04,100	2,42,73,540	3,68,78,270	8.7	8.7	1,26,586	1,86,897	2,10,353	2,68,678	10.7	5.0
Vietnam	38,703	77,738	72,135	1,14,807	13.3	9.7	589	1,247	1,234	1,551	15.9	4.7
Zambia	346	266	285	260	(3.8)	(1.8)	6	4	5	4	(3.6)	(4.4)

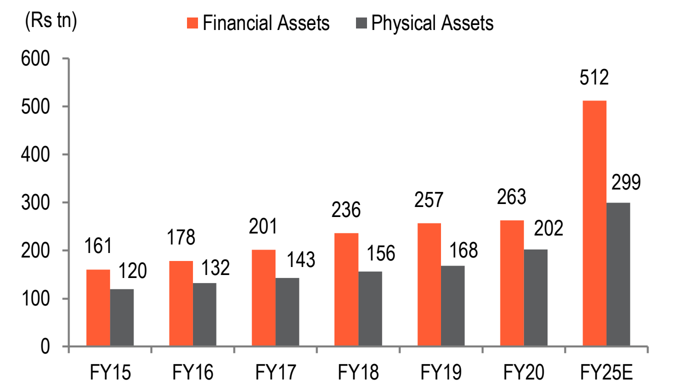
Source: Knight Frank, BOBCAPS Research

Financial assets gaining traction

Wealth allocation in India was historically geared toward physical assets (such as real estate) but has undergone a marked shift towards financial assets over the past few years. As per a 2020 Karvy Wealth report, financial assets constituted 57.2% of total assets in FY15, which grew to 60.4% in FY19, before declining to 56.5% in FY20 due to the unusual drop in stock markets amid the pandemic. Individual wealth grew from Rs 280tn in FY15 to Rs 465tn in FY20.

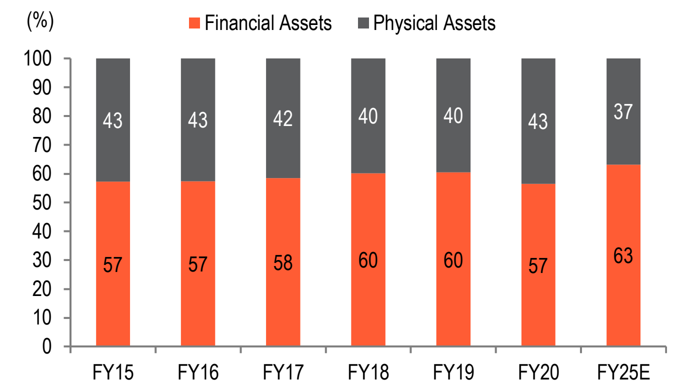
Going forward, it is expected that individual wealth will clock a 13.7% CAGR over FY20-FY25 to Rs 811tn, with the share of financial assets set to increase to 63% by FY25 (CAGR of 14.3% for financial assets vs. 8.1% for physical assets).

Fig 64 – Financial assets gaining traction…



Source: Karvy, Company, BOBCAPS Research

Fig 65 – …and outpacing physical assets



Source: Karvy, Company, BOBCAPS Research

Due to the uncertainty surrounding the pandemic, savings in deposits increased in FY20 as individuals preferred to have cash in hand. At the same time, current deposits and direct equity saw a decline. During FY20-FY25, Karvy expects direct and unlisted equity to grow higher than the financial asset average, at 21.9% and 35.7% CAGR respectively, to become one of the preferred assets by FY25.

Fig 66 – Financial asset classification

Financial Assets (Rs bn)	FY20	FY19	FY18
Direct Equity	36,115	52,104	48,976
Fixed Deposits & Deposits	48,691	45,821	42,097
Insurance	38,020	36,907	33,357
Saving Bank Deposits	37,455	25,787	30,968
Cash	23,497	20,522	17,597
Provident Fund	20,438	16,629	14,464
Mutual Fund	11,909	13,770	11,680
Unlisted Equity	13,032	10,543	9,559
NRI Deposits	9,836	9,021	8,197
Small Savings	10,326	8,610	7,571
Pension Funds	9,017	7,329	5,946
Current Deposits	2,118	7,767	4,309
Alternate Investments	2,000	1,491	1,241
International Assets	458	341	260
Total	**2,62,912**	**2,56,643**	**2,36,222**

Source: Karvy, BOBCAPS Research

Fig 67 – Direct equity expected to gain traction

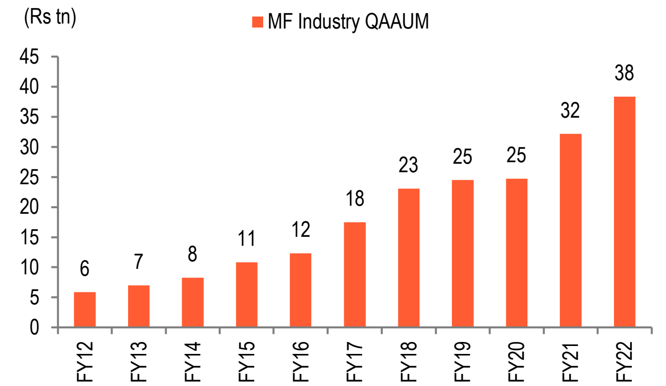
Financial Assets (Rs bn)	FY20	FY25	CAGR (FY20-25)
Direct Equity	36,115	97,319	21.9
Fixed Deposits & Deposits	48,691	78,357	10.0
Insurance	38,020	68,895	12.6
Saving Bank Deposits	37,455	53,762	7.5
Cash	23,497	33,933	7.6
PF	20,438	36,720	12.4
Mutual Fund	11,909	27,151	17.9
Unlisted Equity	13,032	60,035	35.7
NRI deposits	9,836	17,164	11.8
Small Savings	10,326	15,070	7.9
Pension Funds	9,017	15,289	11.1
Current Deposits	2,118	3,036	7.5
Alternate Investments	2,000	4,247	16.2
International Assets	458	1,181	20.9
Total	**2,62,912**	**5,12,157**	**14.3**

Source: Karvy, Company, BOBCAPS Research

Mutual fund sector: Strong growth, higher retail participation

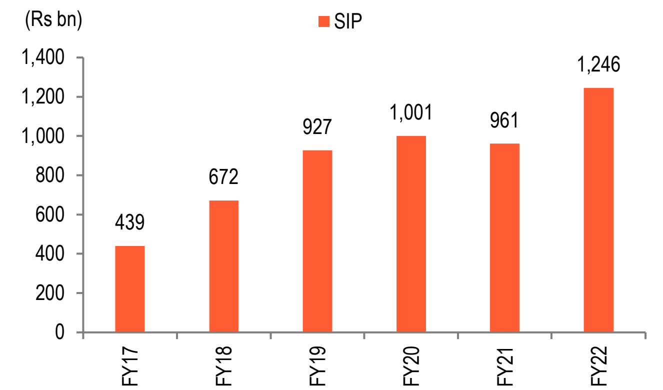
The MF industry's QAAUM recorded a 21% CAGR over FY12-FY22 to Rs 38.4tn. Moreover, individuals prefer monthly systematic investment plans (SIP), which has aided growth in MF AUM. This can be validated by the increase in SIPs from Rs 439bn at end-FY17 to Rs 961bn in FY21 and further to Rs 1.2tn in FY22.

Fig 68 – MF industry QAAUM clocked a 21% CAGR over FY12-FY22



Source: AMFI, BOBCAPS Research

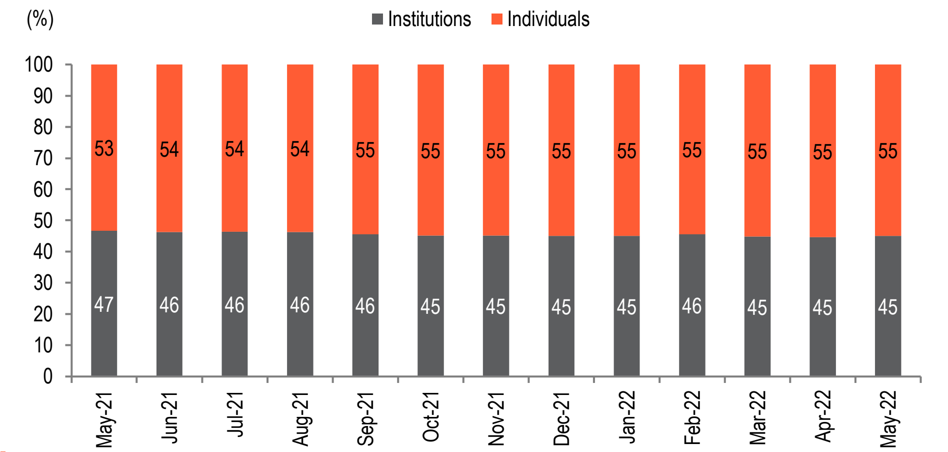
Fig 69 – SIPs play an important role in the growth of MF AUM



Source: AMFI, BOBCAPS Research

The proportion of individual investors in total MF assets has risen to 55%, with the balance 45% comprising institutional investors at end-May'22. The former has increased by ~170bps over the last one year.

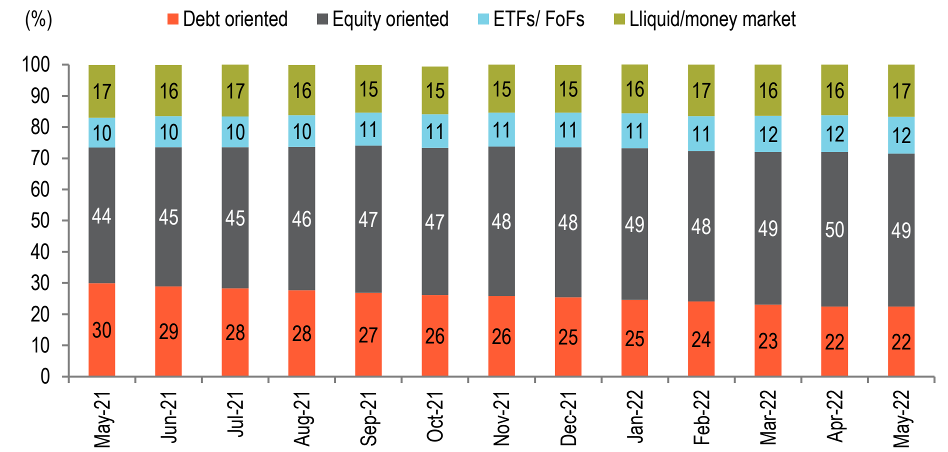
Fig 70 – Share of individual investment in MF assets on the rise



Source: AMFI, BOBCAPS Research

At end-May'22, the share of equity-oriented schemes stood at 49.1%, up from 43.5% in May'21. ETF market share jumped from 9.6% to 11.8% whereas debt-oriented schemes declined from 30% to 22% over this period.

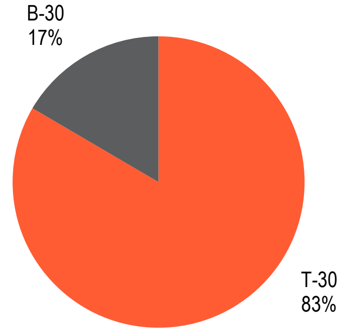
Fig 71 – Equity-oriented schemes gaining traction



Source: AMFI, BOBCAPS Research

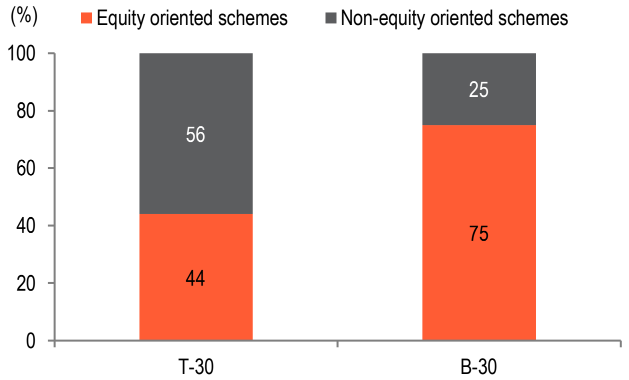
About 83% of assets (totaling Rs 31tn) are located in the T-30 region at end-May'22, which means that the top regions/cities are easy client targets. However, this also highlights the ample opportunities in B-30 and other regions. About 44% of T-30 assets are invested in equity schemes and 56% in non-equity which contrasts with the 75% and 25% figures for the B-30 region respectively.

Fig 72 – MF industry dominated by T-30 locations



Source: AMFI, BOBCAPS Research

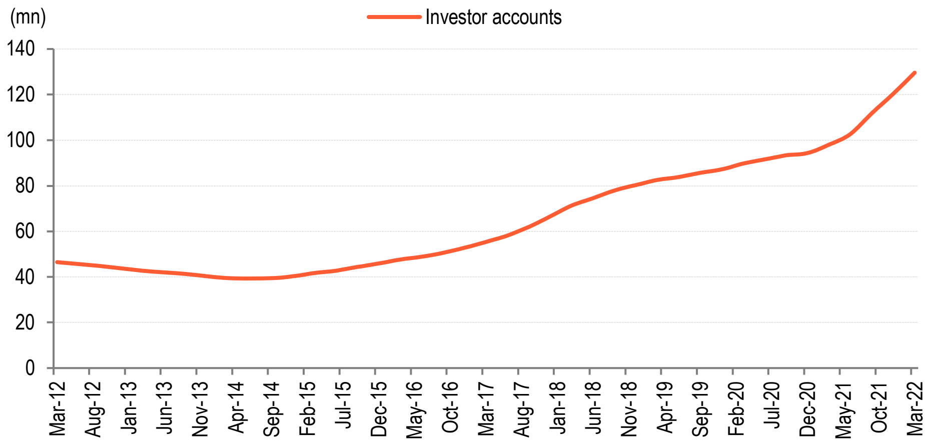
Fig 73 – Contrasting investing patterns (T-30 vs. B-30)



Source: AMFI, BOBCAPS Research

The number of investor accounts in India registered a 16% CAGR over FY14-FY22 to 129.5mn. In FY21 and FY22, this figure rose by 8mn and 32mn respectively, reflecting the growing interest in MF investment.

Fig 74 – Number of accounts opened has increased significantly



Source: AMFI, BOBCAPS Research

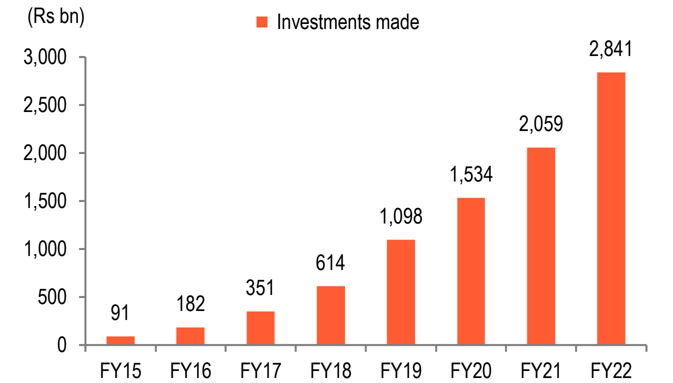
AIF – strong trend in flows, investments; expected to log 17% CAGR

Alternative Investment Funds (AIF) consist of investment funds that are privately pooled and invest in private equity, venture capital, hedge funds, managed funds, etc. AIF is an investment that differs from conventional investments such as debt securities and stocks. It has three categories:

- Category I: Includes SME funds, venture capital funds, infrastructure funds, social venture funds and other such specified AIFs.
- Category 2: Includes real estate funds, private equity funds (PE funds), funds for distressed assets, etc.
- Category 3: Includes hedge funds, private investment in public equity (PIPE) funds, etc.

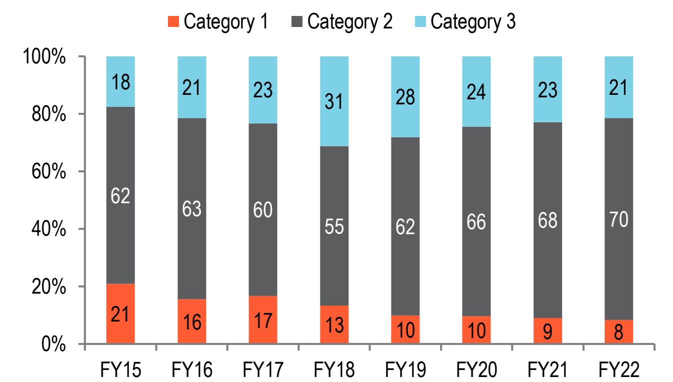
At end-FY22, total commitments were Rs 6.4tn (cumulative) and Rs 2.8tn was invested. Funds raised stood at Rs 3.1tn, a CAGR of 52% over FY17-FY22, indicating the AIF industry is experiencing rapid growth and attracting investor interest. Many investors are using AIF to diversify considering the uncertainty and volatility in domestic markets. As per company and market projections, the AIF market (by funds invested) is expected to clock a 17% CAGR over FY21-FY25 from Rs 2.3tn to Rs 4.3tn.

Fig 75 – Investment made in AIF grew over 50% CAGR over FY17-FY22



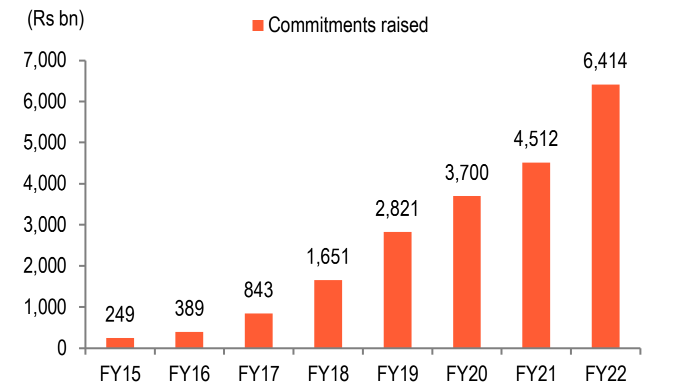
Source: SEBI, BOBCAPS Research

Fig 76 – Category 2 constitutes ~70% of total investment made



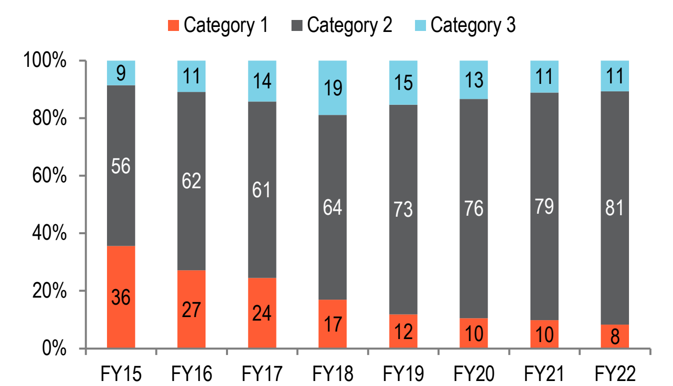
Source: SEBI, BOBCAPS Research

Fig 77 – Huge commitments towards AIF



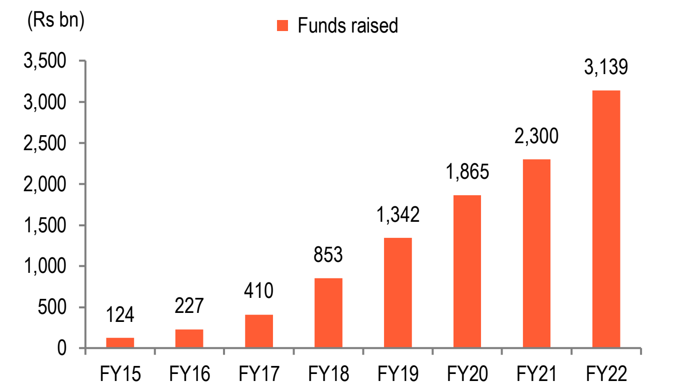
Source: SEBI, BOBCAPS Research

Fig 78 – Category 2 constitutes ~80% of total commitment



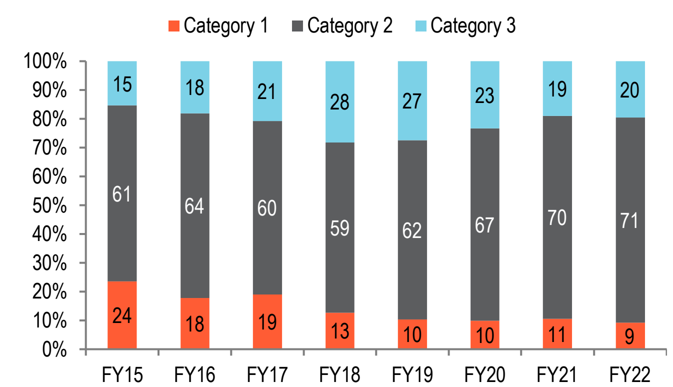
Source: SEBI, BOBCAPS Research

Fig 79 – Funds raised in AIF



Source: SEBI, BOBCAPS Research

Fig 80 – Category 2 constitutes ~70% of funds raised

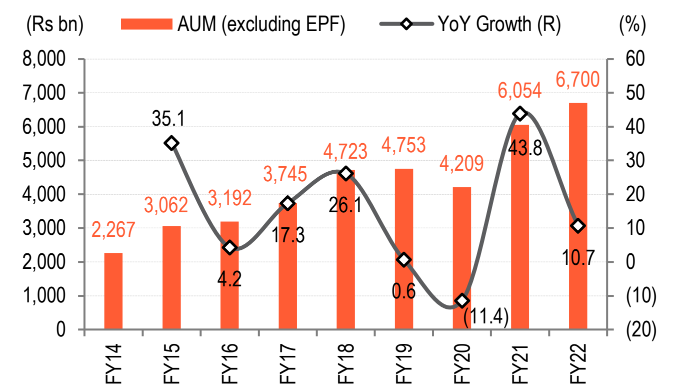


Source: SEBI, BOBCAPS Research

India's PMS AUM growth in early double digits

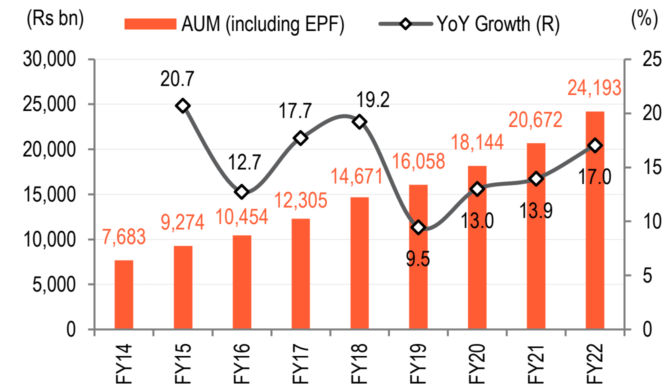
PMS AUM (excluding PFs) registered a 12% CAGR over FY15-FY22 to Rs 6.7tn. Although growth stalled on account of the pandemic, the segment is now seeing a rebound. Non-discretionary products recorded a 15% CAGR over FY15-FY22. However, advisory fees saw a meagre 2% CAGR.

Fig 81 – PMS AUM excluding PF remains volatile



Source: SEBI, BOBCAPS Research

Fig 82 – Decent growth in PMS AUM including EPF



Source: SEBI, BOBCAPS Research

Additional company data

Fig 83 – IIFL Wealth: Partner level-and-above attrition level remains low

Senior Management (classified as partner level and above)	FY20	FY21	H1FY22
Closing count	**63**	**97**	**125**
Wealth management	47	75	97
Asset management	4	10	15
Corporate functions	12	12	13
Exits during the year	**5**	**8**	**2**
Wealth management	2	5	2
Asset management	1	1	0
Corporate functions	2	2	0
Total employee count	**887**	**861**	**894**

Source: Company, BOBCAPS Research

Fig 84 – Majority of relevant clients in Rs 10mn-50mn category

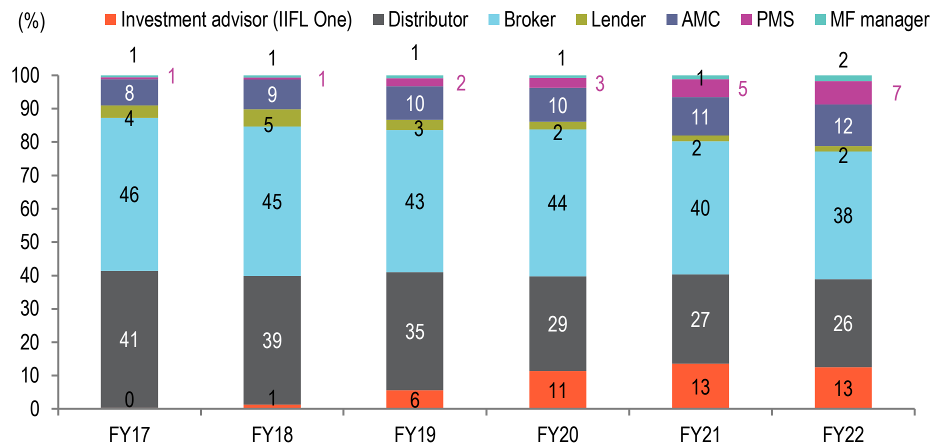
Relevant client category (%)	FY20	FY21
Rs 10mn-50mn	61.6	62.1
Rs 50mn-100mn	15.8	16.1
Rs 100mn-250mn	12.3	11.9
> Rs 250mn	10.2	9.8

Source: Company, BOBCAPS Research

Business classification

IIFL Wealth can still be classified as a distributor broker and lender (~65% combined revenue share at end-FY22), but the company's dependence on these two businesses has steadily reduced. The AMC business has grown ~460bps over the last five years and IIFL One now constitutes 12.5% of total AUM.

Fig 85 – Focus on IIFL One and AMC businesses



Source: Company, BOBCAPS Research

Fig 86 – Decoding IIFL Wealth's revenue avenues

Wealth Management	Description	Earning mode
IIFL One	Portfolio Management Service (PMS)	Manufacturer
Discretionary PMS	Individually managed by the portfolio manager under the ambit of IPS (investment portfolio statement). As long as the portfolio manager is within the mandate and there is no change in mandate, there is no need to go back to the client for every change in instrument selection	Manufacturer
Non-Discretionary PMS	Non-discretionary means the portfolio manager must go back to the client every time for any decision making	Manufacturer
Advisory	Client-oriented advisory services. Corporate treasuries form a major component of the clientele. The company has expertise in Fixed Income and Debt and it synthetically structures products	Manufacturer
Distribution Assets Earning Trail Fees		Distribution
Mutual Funds	Distribution of MF	Distribution
Managed Accounts	Distribution of third-party PMS and AIF	Distribution
Net Interest Margin on Loans	Short-term credit lending exclusively for clients. This is to facilitate investments in the markets, meet short-term working capital requirements, early-stage debt and even to undertake large acquisitions	Lender
Brokerage Income		Brokerage
Direct Stocks	Vanilla buying and selling of stocks	Brokerage
Debt Instruments & Bonds	Investments in debt/bonds	Brokerage
IB/Syndication Income/Carry Income as a Distributor	Syndicating block deals for clients/institutions. For instance, block of NSE shares (unlisted) sold to clients and block of Indigrid (Crisil AAA) debentures	Brokerage
Distribution Assets Not Earning Trail Fees		NA
Mutual Fund Where Upfront Fees Received Earlier		NA
Managed Accounts Where Upfront Fees Received Earlier	The company does not recognise the revenue on these items as the upfront income is received earlier	NA
Mutual Funds Direct		NA
Asset Management		
Portfolio Manager		Manufacturer
Discretionary Standardized Strategies	Regular PMS	Manufacturer
Discretionary-Institutional Mandates	These are institutional mandates received for equity investments in India	Manufacturer
Alternate Investment Manager		Manufacturer
Listed Equity	Diversified, concentrated, thematic and international	Manufacturer
Private Equity	Seed stage, early stage, pre-IPO	Manufacturer
Credit & Real Estate Strategies	Liquid funds, structured credit, distressed debt and residential debt	Manufacturer
Long Short Strategies	Investing in stocks with a long position in underpriced stocks while selling short overpriced equity shares	Manufacturer
Mutual Fund Manager		Manufacturer
Listed Equity		Manufacturer
Debt	Manufacturer/ Distributor of MFs which include equity, debt and liquid funds	Manufacturer
Liquid Funds		Manufacturer

Source: Company, BOBCAPS Research

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22P	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	FY22P	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	47,385	58,250	69,317	80,105	91,604
Other liab. & provisions	40,014	49,145	48,874	52,928	56,676
Total liabilities & equities	87,399	1,07,395	1,18,191	1,33,033	1,48,279
Cash & bank balance	7,882	10,222	13,208	15,474	16,333
Fixed & Other assets	79,518	97,173	1,04,983	1,17,559	1,31,946
Total assets	87,399	1,07,395	1,18,191	1,33,033	1,48,279

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22P	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	FY22P	FY23E	FY24E	FY25E
P/E	38.2	24.9	20.7	17.5	15.0
P/BV	5.0	4.8	4.6	4.4	4.1
Dividend yield (%)	4.4	3.4	3.9	4.6	5.3

DuPont Analysis

Y/E 31 Mar (bps of AAAUM)	FY21A	FY22P	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	FY22P	FY23E	FY24E	FY25E
YoY growth (%)					
PBT	69.3	54.9	23.4	18.1	17.1
EPS	82.9	53.5	20.4	18.1	17.1
Profitability & Return ratios (%)					
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%

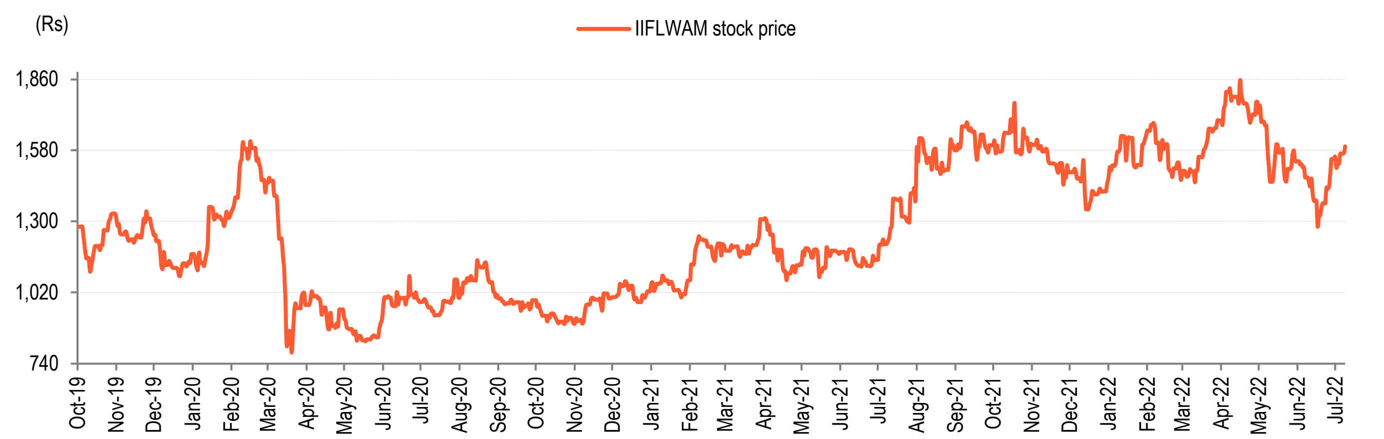
HOLD – Expected return from -6% to +15%

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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As of 30 June 2022, out of 118 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 73 have BUY ratings, 23 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.)

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