

**BUY**

TP: Rs 2,277 | ▲ 39%

**IIFL WEALTH**

| Diversified Financials

| 26 July 2022

**Decent set of numbers considering headwinds; Maintain 'BUY'**

- Focus on expanding trail-based ARR model; recurring revenue constituted 68% share in Q1 and recurring AUM 57%
- Decline in C/I ratio to 45.4% vs. 50.3% in Q1FY22 and 52.3% in Q4FY22, in line with guidance
- Maintain BUY given strong clientele, favourable industry drivers and undervaluation; TP unchanged at Rs 2,277 (25x FY24E P/E)

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**In recurring mode:** IIFL Wealth is focused on building a larger share of recurring revenue streams (ARR), with 57% of AUM and 68% of revenue based on ARR at end-Q1FY23, which we expect will grow to 61% and 81% respectively by FY25.

**Volatility impacted Q1 but net flows encouraging:** The company's AUM grew 7% YoY (but declined 4% QoQ) to Rs 2.5tn in Q1FY23. Headwinds in financial markets have had a negative MTM impact on AUM. However, the company managed to garner net flows of ~Rs 60bn during the quarter which is positive. 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.

**C/I reduces as per guidance:** The cost-to-income (C/I) ratio stood at 45.4% in Q1 following a 30% QoQ reduction in employee costs as one-time costs completed in FY22 were absorbed. We have baked in a 45% C/I vs. official guidance 44% for FY23. ROAE increased from 11% in Q1FY21 to 21.4%, although it declined 165bps QoQ. We expect ~28% ROAE and ~7% ROAA by FY25 based on higher total income (14% CAGR over FY17-FY22) coupled with a decline in C/I ratio to 44% in FY25 vs. 51% in FY22. Similarly, we forecast a net profit CAGR of 18% over FY22-FY25 to Rs 9.6bn.

**Q1 yield at 59bps:** IIFL Wealth clocked yields of 59bps on a blended basis whereas it earned 71bps on recurring business. The company earned Rs 133mn as carry income in Q1FY23. Over FY23-FY25, we expect ARR yield to sustain at >70bps and overall yield at >50bps.

**Inorganic story continues:** The company acquired 91% in MAVM Angels Network Private Limited (MANPL), a private investment platform for early-stage ventures. This is in line with its strategy to grow inorganically, as seen over several years now.

**Maintain BUY:** IIFL Wealth is trading at 18x FY24E EPS and appears undervalued, in our view. We reiterate BUY with a TP of Rs 2,277 (39% upside) set at 25x FY24E EPS – a 10% premium to the 3Y average given a robust model, strong fundamentals and supportive macro (for details, see our report: [Juggernaut rolling; initiate with BUY](#)).

**Key changes**

Target	Rating
◀▶	◀▶

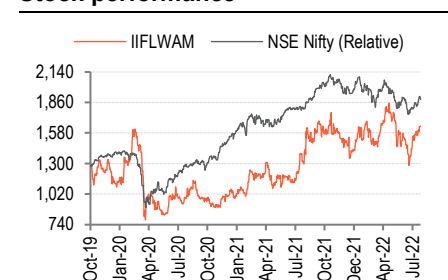
Ticker/Price	IIFLWAM IN/Rs 1,640
Market cap	US\$ 1.9bn
Free float	77%
3M ADV	US\$ 0.9mn
52wk high/low	Rs 1,908/Rs 1,236
Promoter/FPI/DII	23%/22%/3%

Source: NSE | Price as of 26 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	77.0	89.0
P/E (x)	25.6	21.3	18.0
MCap/AUM (%)	5.6	4.7	3.9
ROE (%)	20.0	22.7	25.5

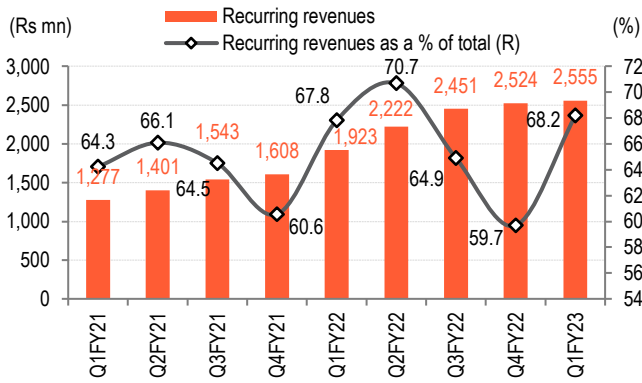
Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

**Stock performance**

Source: NSE

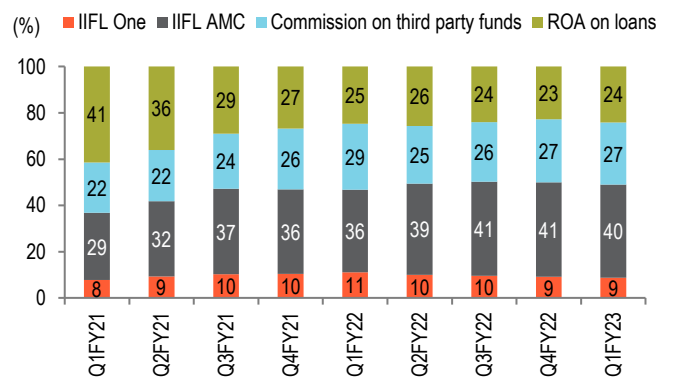


**Fig 1 – Recurring revenue gaining traction...**



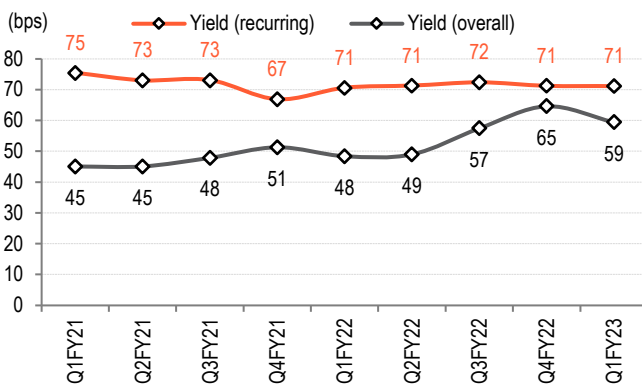
Source: Company, BOBCAPS Research

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



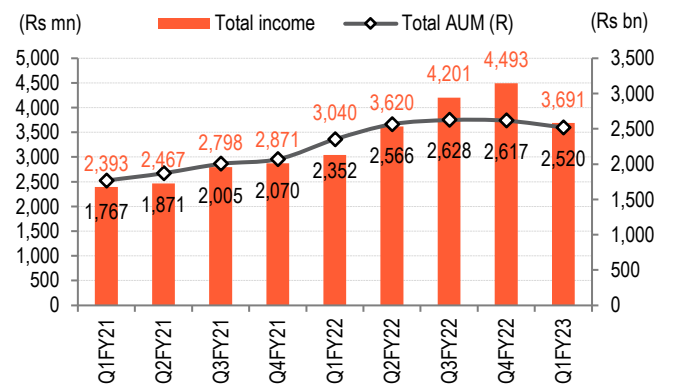
Source: Company, BOBCAPS Research

**Fig 3 – Blended yields at 59bps**



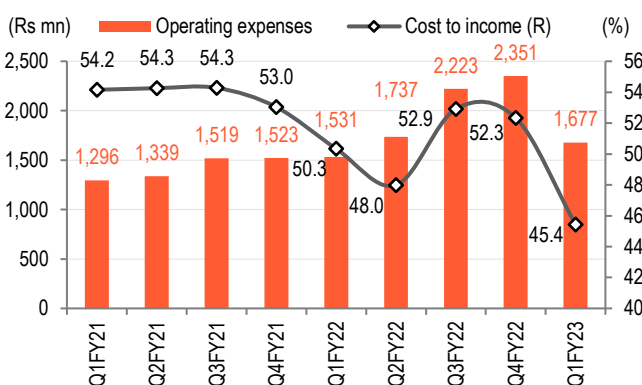
Source: Company, BOBCAPS Research

**Fig 4 – Income and AUM growth strong**



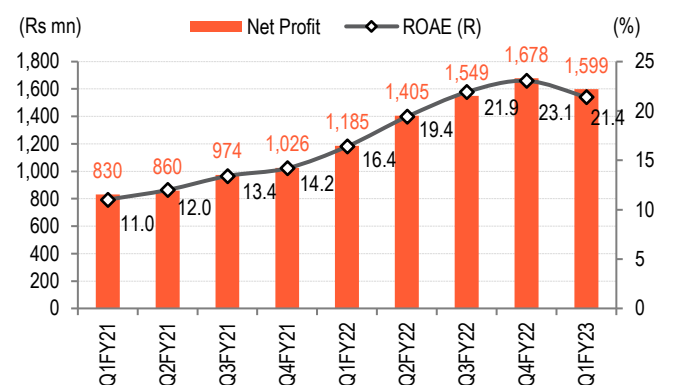
Source: Company, BOBCAPS Research

**Fig 5 – Operating leverage kicking in**



Source: Company, BOBCAPS Research

**Fig 6 – Return ratios expanding**



Source: Company, BOBCAPS Research

**Fig 7 – AUM breakup – Soft quarter on negative MTM movement**

(Rs mn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	FY22	FY21	YoY (%)
<b>Recurring AUM</b>	<b>14,28,798</b>	<b>11,74,632</b>	<b>21.6</b>	<b>14,44,315</b>	<b>(1.1)</b>	<b>14,44,315</b>	<b>10,19,694</b>	<b>41.6</b>
IIFL One Assets	3,22,817	3,05,099	5.8	3,27,242	(1.4)	3,27,242	2,79,397	17.1
Funds managed by IIFL AMC	5,31,950	4,43,043	20.1	5,55,742	(4.3)	5,55,742	3,73,718	48.7
Trail commissions managed by third party funds	5,32,402	3,93,170	35.4	5,18,151	2.8	5,18,151	3,30,376	56.8
Loans	41,630	33,320	24.9	43,180	(3.6)	43,180	36,203	19.3
<b>Non-Recurring AUM</b>	<b>10,91,587</b>	<b>11,77,503</b>	<b>(7.3)</b>	<b>11,73,131</b>	<b>(7.0)</b>	<b>11,73,131</b>	<b>10,50,741</b>	<b>11.6</b>
Brokerage	9,37,026	9,72,702	(3.7)	9,98,555	(6.2)	9,98,555	8,24,216	21.2
Direct Stocks	4,96,664	4,26,718	16.4	5,35,270	(7.2)	5,35,270	3,29,560	62.4
Debt Instruments & Bonds	2,82,577	2,80,086	0.9	2,91,976	(3.2)	2,91,976	2,73,036	6.9
Mutual Funds - Direct Code / Feeders	1,57,785	2,65,898	(40.7)	1,71,309	(7.9)	1,71,309	2,21,620	(22.7)
Distribution Assets Not Earning Trail Fees	1,54,560	2,04,801	(24.5)	1,74,576	(11.5)	1,74,576	2,26,525	(22.9)
Mutual Fund where upfront fees received earlier	-	22,070	(100.0)	-	NA	-	25,032	(100.0)
Managed Accounts where upfront fees received earlier	1,54,560	1,82,731	(15.4)	1,74,576	(11.5)	1,74,576	2,01,494	(13.4)
<b>Total AUM</b>	<b>25,20,384</b>	<b>23,52,134</b>	<b>7.2</b>	<b>26,17,447</b>	<b>(3.7)</b>	<b>26,17,447</b>	<b>20,70,436</b>	<b>26.4</b>

Source: Company, BOBCAPS Research

**Fig 8 – Recurring revenue gaining traction**

(Rs mn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	FY22	FY21	YoY (%)
Recurring Revenues	2,555	1,923	32.9	2,524	1.2	9,120	5,830	56.4
Fees on PMS- Discretionary/Non- Discretionary (IIFL One)	224	215	4.2	230	(2.9)	899	553	62.6
Management Fees on funds managed by IIFL AMC	1,026	683	50.2	1,031	(0.4)	3,588	1,977	81.5
Trail commission on third party funds	689	550	25.3	687	0.2	2,425	1,386	74.9
ROA on loans	617	476	29.7	576	7.1	2,208	1,914	15.4
Non-recurring revenues	1,192	912	30.7	1,704	(30.1)	4,862	3,325	46.2

Source: Company, BOBCAPS Research

**Fig 9 – Yields declined QoQ but met expectations**

Yields (calculated) (bps)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	FY22	FY21	YoY (%)
Recurring	71	71	1bps	71	(0bps)	74	71	3bps
Fees on PMS- Discretionary/Non- Discretionary (IIFL One)	28	29	(2bps)	29	(1bps)	30	24	5bps
Management Fees on funds managed by IIFL AMC	75	67	9bps	74	1bps	77	67	11bps
Trail commission on third party funds	52	61	(8bps)	55	(3bps)	57	53	4bps
ROA on loans	582	547	34bps	544	38bps	556	535	22bps
Non-recurring	42	33	9bps	57	(14bps)	44	33	10bps
Yield on AUM (Overall excluding double counting)	59	53	6bps	72	(13bps)	66	56	10bps

Source: Company, BOBCAPS Research

## Earnings call highlights

- **Guidance maintained:** IIFL Wealth maintained its FY23 guidance (net flows: Rs 375bn) and remained optimistic about achieving it. However, if markets remain subdued for the remainder of the year, there could be misses. Also, the company could see a quarter or two of muted net flows. Any downturn in flows will have a limited impact on the current year but could have a consequential impact next year.
- **Wealth business:** Q1FY23 net flows stood at Rs 50bn in the wealth business, of which new clients contributed 60%.
- **AMC business:**
  - **Flows:** AMC flows of Rs 9.6bn were low even as the wealth business had net flows of over Rs 50bn. In AMC, the uptick in structured credit and multi-assets was encouraging, partially offset by soft private equity amid a volatile environment. On the positive side, the company had significant market share in deals and was the lead advisor in most of them. Equity purchases by clients remained muted in Q1FY23 and therefore flows were directed towards credit strategies. Management remains optimistic on PMS inflows for the balance of the year.
  - **Institutional mandate:** IIFL Wealth already has four large mandates and is keen on adding two more over the next 12 months. However, the company remains cautious about adding too many institutional mandates.
  - **Multi-asset class strategy:** IIFL Wealth helps build bespoke strategies for large clients where equity and fixed income can be easily navigated. The company intends to have an investment of Rs 750mn-1,000mn per family and end-FY23 with a commitment of 15-20 families. Thus, the figure of Rs 3.4bn at end-Q1FY23 is targeted to rise to Rs 20bn-25bn in terms of commitments (and Rs 10bn-12bn in terms of drawdowns).
  - **Launches:** The focus remains on fixed income. Management plans to launch a structured credit fund intended for 11-14% annual returns in Q2FY23 – all its three earlier funds following this strategy have done well.
- **Acquisition strategy:** IIFL Wealth acquired 91% of MANPL for an enterprise value (EV) of Rs 420mn plus any cash & cash equivalents. Despite it being relatively small in terms of financials (~Rs 100mn revenue, ~Rs 30mn net profit), the company views the platform as more valuable as it intends to build its mid-market segment over the next 12 months. MANPL has 1,000-1,500 active clients on the platform. This will help IIFL Wealth boost its Category-1 journey which is associated with early-stage investing and also help syndicate deals with clients. While no other acquisition is on the horizon, it remains interested in players that add value to the platform.
- **MLDs not preferred:** As a practice, the company doesn't book any income on market-linked debentures (MLD) because this gets consolidated within the subsidiaries and is set off. For a normal MLD, if raised at AA+ to AAA NBFCs, brokerage is expected to be 25-30bps p.a. For example, a Rs 5bn MLD would yield Rs 12.5mn-15mn p.a. In fact, on AAA products it would be just 5-10bps p.a. The company prefers strategies such as structured credit to MLDs.

- **Dividend preferred vs. buyback:** Buyback and dividend are similar to an extent but the former attracts 24% tax and the latter 35%. Institutional clients remain indifferent to the two. However, dividend remains a preferred payout mode for the company (stable dividend policy), despite it being onerous for domestic shareholders, including the promoters. Also, the capital is not required for growth and hence the dividend policy. The company announced a second interim dividend of Rs15 per share with FY23 YTD total of Rs 35. Dividend payout is proposed to continue at 70-80% of PAT.
- **C/I ratio reduced; attrition low:** The company has guided for a C/I ratio in the range of 44-46% for FY23. Any improvement (2-3%) in the medium term would be on account of higher productivity and a greater span of control. Fixed plus variable employee expenses are expected to be in the range of 32-34% of net revenue. In terms of churn, attrition on the relationship manager side has been fairly low. At the principal level and above, it would be sub-2%.
- **IIFL One:** Management remains fairly positive on IIFL One. Q1 flows were decent but impacted by negative MTM at 8-11%. However, management has not altered its assumptions with respect to yield. The company expects yields of 30-40bps from non-discretionary PMS and 60-70bps from discretionary PMS. The size of the client can range from Rs 250mn-1,000mn (and not only Rs 500mn+), offering yields of 45-50bps. Thus, the split between services and client size will determine yield.
- **Measuring performance:** Performance of client portfolios is measured using a synthetic index. For instance, potential benchmarks would be (1) 100% debt, (2) 100% equity index, (3) balanced: 50% equity and 50% debt, and (4) what was guided in the investment portfolio statement vs. what was actually achieved.
- **New mid-market customer segment:** The company is in early-stage discussions on tapping the Rs 50mn-150mn or Rs 100mn-250mn client category, but would like to expand into an additional 7-8 geographies for UHNIs even without mid-market segmentation. From an NRI perspective, the company intends to tap the Dubai and Singapore markets. From the new customer segment perspective, the plan would be to have a smart and innovative distributor-led model rather than a broker platform. Thus, the company's policy of strengthening the platform along with products and people will hold true for this segment as well.
- **Investments in technology:** On the UHNI side, client behaviour has changed – clients do not want to transact online themselves but expect the company to be fully technology-enabled. Relationship managers need to be equipped with data and analysis to drive faster response times. Also, clients look for document repositories. On the asset management side, technology helps with due diligence. In the mid-market segment, these services will be more important as they help increase the company's span of control.
- **AUM maturity:** About 40% of the Rs 150bn-160bn in AUM that is not earning any fees would mature in H2FY23.

## Financial snapshot

### Fig 10 – P&L

(Rs mn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	FY22	FY21	YoY (%)
<b>P&amp;L</b>								
Total income	3,691	3,040	21.4	4,493	(17.9)	15,354	10,529	45.8
Recurring Revenues	2,555	1,923	32.9	2,524	1.2	9,120	5,830	56.4
Transactional / Brokerage Assets	1,192	912	30.7	1,704	(30.1)	4,862	3,325	46.2
Other income	(56)	206	NA	265	NA	1,372	1,374	(0.1)
Costs	1,677	1,531	9.5	2,351	(28.7)	7,841	5,679	38.1
Employee Costs	1,249	1,164	7.3	1,785	(30.0)	6,016	4,175	44.1
Admin and Other expenses	428	367	16.7	567	(24.4)	1,825	1,505	21.3
Profit before Taxes (PBT)	2,015	1,509	33.5	2,142	(6.0)	7,513	4,849	54.9
Taxes	415	324	28.1	464	(10.5)	1,696	1,156	46.7
Profit after Tax (PAT)	1,599	1,185	34.9	1,678	(4.7)	5,818	3,693	57.5

Source: Company, BOBCAPS Research

### Fig 11 – Balance sheet

(Rs mn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	FY22	FY21	YoY (%)
<b>Financial assets</b>	<b>85,751</b>	<b>76,604</b>	<b>11.9</b>	<b>97,133</b>	<b>(11.7)</b>	<b>97,133</b>	<b>76,829</b>	<b>26.4</b>
Cash and cash equivalents	5,179	9,602	(46.1)	4,886	6.0	4,886	3,867	26.3
Bank Balance	3,435	3,250	5.7	5,336	(35.6)	5,336	4,014	32.9
Derivative financial instruments	1	1,059	(99.9)	1	(33.7)	1	1,665	(99.9)
Receivables	4,842	3,845	25.9	5,132	(5.7)	5,132	3,418	50.1
Loans	42,409	33,479	26.7	39,169	8.3	39,169	37,206	5.3
Investment	26,078	21,867	19.3	40,724	(36.0)	40,724	25,129	62.1
Other financial assets	3,807	3,502	8.7	1,885	102.0	1,885	1,530	23.2
<b>Non- Financial assets</b>	<b>10,749</b>	<b>10,500</b>	<b>2.4</b>	<b>10,262</b>	<b>4.7</b>	<b>10,262</b>	<b>10,570</b>	<b>(2.9)</b>
Current tax assets	1,698	848	100.2	1,368	24.1	1,368	747	83.1
Deferred tax assets	19	52	(63.9)	2	957.9	2	11	(84.2)
Property plant and equipment	2,756	2,854	(3.4)	2,778	(0.8)	2,778	2,879	(3.5)
Capital work in progress	35	18	95.7	3	1,206.8	3	24	(88.9)
Goodwill	3,734	3,734	(0.0)	3,734	0.0	3,734	3,734	0.0
Other Intangible assets	1,469	1,499	(2.0)	1,499	(2.0)	1,499	1,516	(1.1)
Right-of-use Assets	236	196	20.6	149	58.5	149	243	(38.7)
Other non-financial assets	802	1,299	(38.3)	730	9.9	730	1,416	(48.5)
<b>Total Assets</b>	<b>96,501</b>	<b>87,104</b>	<b>10.8</b>	<b>1,07,395</b>	<b>(10.1)</b>	<b>1,07,395</b>	<b>87,399</b>	<b>22.9</b>
<b>Financial liabilities</b>	<b>64,122</b>	<b>55,841</b>	<b>14.8</b>	<b>75,623</b>	<b>(15.2)</b>	<b>75,623</b>	<b>57,585</b>	<b>31.3</b>
Derivative financial instruments	413	2,545	(83.8)	1,406	(70.6)	1,406	2,207	(36.3)
Payables	6,477	4,224	53.3	6,741	(3.9)	6,741	3,916	72.1
Debt Securities	50,746	41,694	21.7	54,533	(6.9)	54,533	44,079	23.7
Borrowings	502	500	0.5	1,001	(49.8)	1,001	1,042	(3.9)
Subordinated Liabilities	957	1,850	(48.3)	2,542	(62.3)	2,542	1,996	27.4
Finance Lease obligation	263	223	17.8	174	51.0	174	269	(35.2)
Other financial liabilities	4,764	4,805	(0.9)	9,227	(48.4)	9,227	4,077	126.3
<b>Non-Financial liabilities</b>	<b>2,481</b>	<b>1,679</b>	<b>47.8</b>	<b>1,797</b>	<b>38.1</b>	<b>1,797</b>	<b>1,537</b>	<b>16.9</b>
Current Tax liabilities	1,103	748	47.4	286	286.0	286	588	(51.4)
Provisions	72	124	(42.0)	75	(3.8)	75	118	(36.6)
Deferred Tax liabilities	678	358	89.2	955	(29.0)	955	341	180.0
Other non-financial liabilities	628	447	40.3	481	30.6	481	490	(1.8)
<b>Total Liabilities</b>	<b>66,604</b>	<b>57,520</b>	<b>15.8</b>	<b>77,419</b>	<b>(14.0)</b>	<b>77,419</b>	<b>59,122</b>	<b>30.9</b>

(Rs mn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	FY22	FY21	YoY (%)
<b>Equity</b>	<b>29,897</b>	<b>29,584</b>	<b>1.1</b>	<b>29,976</b>	<b>(0.3)</b>	<b>29,976</b>	<b>28,278</b>	<b>6.0</b>
Equity share capital	178	176	0.9	177	0.1	177	176	0.9
Other equity	29,720	29,408	1.1	29,798	(0.3)	29,798	28,102	6.0
<b>Total Liabilities and Equity</b>	<b>96,501</b>	<b>87,104</b>	<b>10.8</b>	<b>1,07,395</b>	<b>(10.1)</b>	<b>1,07,395</b>	<b>87,400</b>	<b>22.9</b>

Source: Company, BOBCAPS Research

**Fig 12 – Ratio analysis**

(%)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	FY22	FY21	YoY (%)
Recurring Revenues as a % of total revenue from operations	68.2	67.8	36bps	59.7	850bps	59.4	55.4	403bps
Non -Recurring Revenues as a % of total revenue from operations	31.8	32.2	(36bps)	40.3	(850bps)	40.6	44.6	(403bps)
Other income as a % of total revenue	(1.5)	6.8	NA	5.9	NA	8.9	13.0	(411bps)
Recurring AUM as a % of total AUM	56.7	49.9	675bps	55.2	151bps	55.2	49.3	593bps
Non-Recurring AUM as a % of total AUM	43.3	50.1	(675bps)	44.8	(151bps)	44.8	42.7	210bps
Cost to Income Ratio (%)	45.4	50.3	(492bps)	52.3	(691bps)	51.1	53.9	(287bps)
ROE	21.4	16.4	501bps	23.1	(165bps)	20.0	12.7	728bps

Source: Company, BOBCAPS Research

## Valuation methodology

IIFL Wealth is trading at 18x FY24E EPS and appears undervalued, in our view. We reiterate our BUY rating with a TP of Rs 2,277 (39% 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 TL-driven team that boasts of low attrition at both, the client and team leader level.

**Fig 13 – Global peer comparison – Wealth business**

Company	Country	P/B (x)		P/E (x)		ROE (%)
		FY22	FY23	FY22	FY23	FY21
Raymond James	USA	2.2	2.0	13.1	10.2	18.3
Charles Schwab	USA	2.5	2.3	16.5	13.3	11.4
<b>Median</b>		<b>2.3</b>	<b>2.1</b>	<b>14.8</b>	<b>11.8</b>	<b>14.8</b>
IIFL Wealth*	India	4.7	4.5	21.3	18.0	20.0

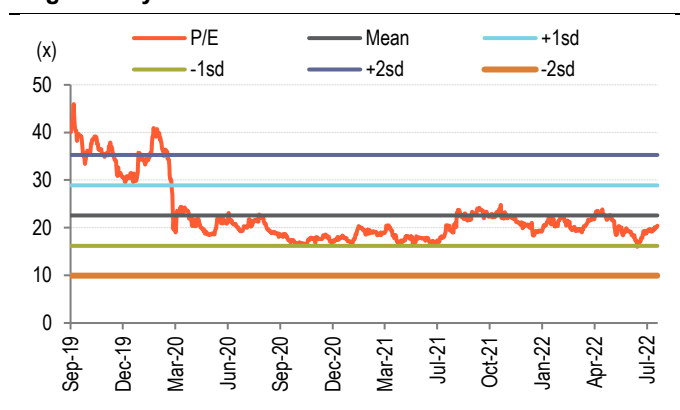
Source: Company, Bloomberg, BOBCAPS Research | Note: Global player data sourced from Bloomberg; IIFL Wealth data based on in-house estimates. \*For IIFL Wealth, FY22 should be seen as FY23, and FY23 as FY24

**Fig 14 – 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	173	4.8	4.7	20.8	17.7	22.6	20.5	30.3	25.8
ABSL AMC	120	4.6	3.9	17.4	15.0	34.5	41.5	23.6	20.5
HDFC AMC	397	6.6	6.0	27.4	24.2	27.0	33.1	32.1	28.3
UTI AMC	87	2.3	2.1	15.1	12.7	15.6	8.1	21.6	18.1
<b>Median</b>		<b>4.7</b>	<b>4.3</b>	<b>19.1</b>	<b>16.4</b>	<b>24.8</b>	<b>26.8</b>	<b>27.0</b>	<b>23.1</b>
IIFL Wealth	145	4.7	4.5	21.3	18.0	20.0	16.1	29.5	25.0

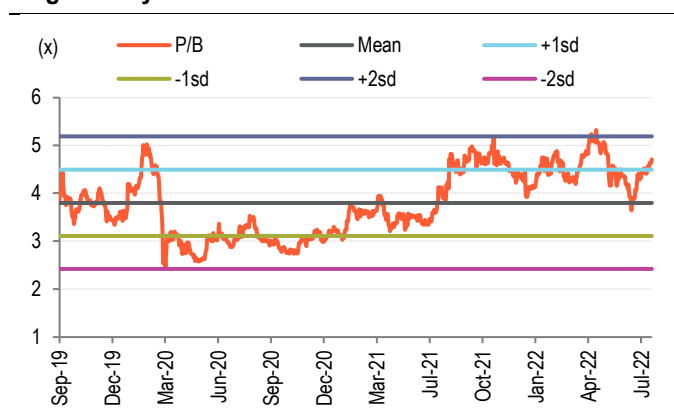
Source: Company, Bloomberg, BOBCAPS Research

**Fig 15 – 1-year fwd P/E band**



Source: Bloomberg, BOBCAPS Research

**Fig 16 – 1-year fwd P/B band**



Source: Bloomberg, BOBCAPS Research



## 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 customers or even leading to attrition among existing clients.
- **Volatile capital markets:** Volatility in capital markets persists, especially after the uncertainty due to Covid-19 and recent geopolitical tensions. This could lead to abnormal losses/profits in client portfolios. Coupled with a drop in new wealth creation, this may slow the pace of estimated growth in the wealth industry, which may result in slower AUM growth for 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 the income earned by the company.

## 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	39.3	25.6	21.3	18.0	15.4
P/BV	5.1	4.9	4.7	4.5	4.2
Dividend yield (%)	4.3	3.4	3.8	4.4	5.2

### DuPont Analysis

Y/E 31 Mar (bps of)	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
<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%

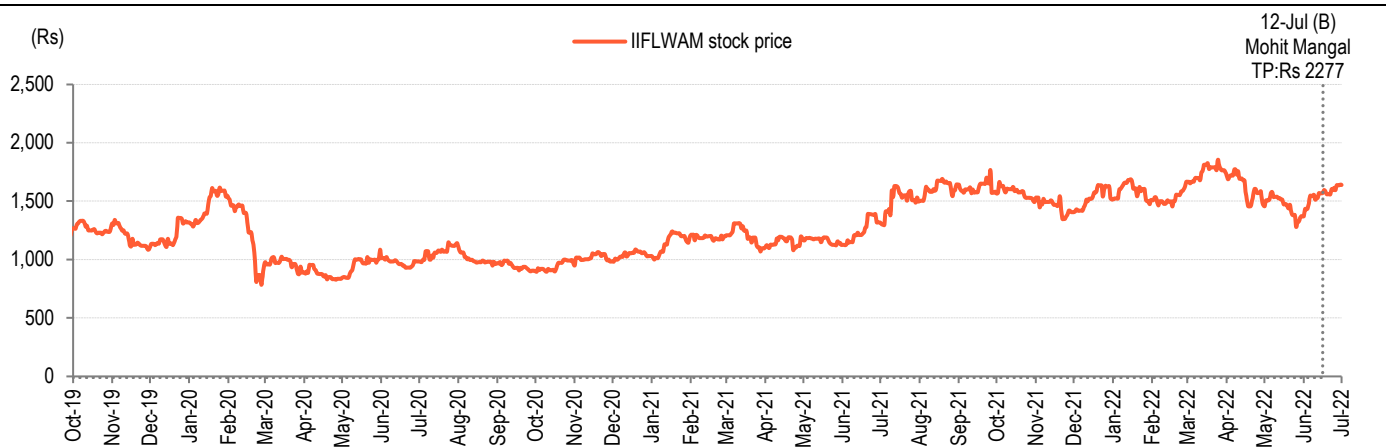
**HOLD** – Expected return from -6% to +15%

**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

### Rating distribution

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