

IIFL Wealth Management Limited

April 12, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Commercial Paper	1,000.00 (Enhanced from 500.00)	CARE A1+ (A One Plus)	Reaffirmed
Total Short Term Instruments	1,000.00 (Rs. One Thousand Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the commercial paper issue of IIFL Wealth Management Limited (IWML) continues to factor in its strong market position and established business franchise in the wealth management, distribution, and advisory business in India. The rating continues to factor in its long-standing track record, experienced stable management team, strong institutional shareholding and demonstrated ability to raise capital from marquee investors, comfortable liquidity profile, improved profitability, and healthy capitalization with comfortable gearing ratios.

These rating strengths are, however, partially offset by the limited track record of IWML in the lending business through its subsidiary, i.e., IIFL Wealth Prime Ltd (IWPL) along with IWML's exposure to regulatory risks and attrition risks inherent in the wealth management business.

Rating Sensitivities

Negative Factors- Factors that could lead to negative rating action/downgrade:

- High client and employee attrition rates on a sustained basis
- Deterioration in asset quality of the non-banking finance company (NBFC) book on a sustained basis
- Significant decline in income and profits of the company
- Overall gearing exceeding 5x times on a consolidated basis

Detailed description of the key rating drivers

Key Rating Strengths

Long-standing track record and established franchise in the wealth management, distribution and advisory business in India

IWML is one of the leaders in private wealth management firms in India with consolidated AUM of Rs.2,81,200 crore with presence in 27 locations across 5 geographies with employee strength of 850+ employees as on March 31, 2021. As on December 31, 2021, total AUM stood at Rs.2,62,780 crore. The company serves highly specialized and sophisticated needs of high net worth and ultra-high net worth individuals, affluent families, family offices and institutional clients through a comprehensive range of tailored wealth and asset management solutions. Wealth management business mainly comprises distribution of financial products, advisory, equity and debt broking, estate planning and managing financial products essentially in the nature of advisory. Asset management business mainly comprises management of pooled funds under various products and structures such as mutual funds, alternative asset funds, portfolio management and related activities.

Experienced management team which has remained stable over a long period

IWML has experienced professionals on its Board and key management team with strong experience in respective business segment. Mr Karan Bhagat is the Founder, Managing Director (MD) and Chief Executive Officer (CEO) of IWML and is responsible for providing direction and leadership towards the achievement of the organization's philosophy, mission, vision and its strategic goals and objectives. Mr Yatin Shah is the Co-founder and Executive Director. Mr Anirudha Taparia is also the Executive Director having over 20 years of experience in the financial services industry across consumer, commercial and private banking. Mr Anshuman Maheshwary is the Chief Operating Officer (COO) of IWML. Mr Anshuman is an expert on strategy and business planning, which helps reinforcing the firm's capabilities to drive performance and deliver growth ambitions. IWML has been able to retain most of its experienced key management; as a result, the company has had a stable and experienced management for a long time making it one of the largest players in the Wealth Management business.

Strong institutional shareholding and ability to raise capital from marquee investors

IWML is backed by strong institutional shareholders with the ability to raise capital from time to time. As on December 31, 2021, 21.00% of the shareholding was held by General Atlantic, FIH Mauritius Investments Ltd (13.64%), Smallcap World Fund, Inc, held about 4.94%, whereas 4.51% was held by WF Asian Reconnaissance Fund Limited. The shareholding of the promoters (Mr Nirmal Jain and promoter group) stood at 22.34% as on December 31, 2021. Recently, IWML notified stock exchange that Bain Capital, a leading global private multi-asset alternative investment firm has agreed to acquire 24.98% equity stake in IWML for the consideration of Rs.3,679 crore. This stake will be acquired from General Atlantic Singapore Fund Pte Ltd and FIH Mauritius Investments Ltd, a wholly owned subsidiary of Fairfax India Holdings Corporation. The transaction is

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

subject to regulatory and other customary approvals. Despite given change in the institutional shareholding, IWML will continue to be backed by these marquee investors which further gives it an advantage to raise debt in the capital market.

Healthy capitalization with comfortable gearing levels

IWML had a consolidated tangible net worth of Rs.2,302 crore (March 31, 2020: Rs.2,711 crore) and consolidated gearing of 2.05x as on March 31, 2021 (March 31, 2020: 3.26x). The company reported majority of the consolidated debt in the books of IIFL Wealth Prime Limited which is the lending arm of IWML. The company continues to be comfortably capitalised since it is mainly present in fee-based businesses where capital requirements are relatively low. Also, the capital requirement mainly stems from the NBFC business which currently has moderate growth plans as well as any additional sponsor commitments in AIF's. As of December 31, 2021, consolidated gearing remains comfortable at 2.37 times.

Improved profitability parameters

On a consolidated basis, during FY21 (refers to the period April 1 to March 31), IWML reported a PAT of Rs.369 crore on total income of Rs.1,659 crore as compared with FY20 when it reported a PAT of Rs.201 crore on total income of Rs. 1,528 crore. Profitability sharply improved in FY21 on account of decrease in the total expenses from Rs.1,241 crore in FY20 to Rs.1,174 crore in FY21. ROTA of the company improved on account of higher PAT and stood at 3.39% as on March 31, 2021, as against 1.88% as on March 31, 2020. Overall, with regard to profitability, the company has been able to maintain sustained growth and has seen healthy momentum across their wealth and asset management businesses. During 9MFY22, IWML reported consolidated PAT of Rs.412 crore on the total income of Rs.1,499 crore as against PAT of Rs.266 crore on the total income of Rs.1,223 crore during 9MFY21. As a result, ROTA for 9MFY22 stood at 5.90% as compared to 3.48% in 9MFY21.

Key Rating Weaknesses

Limited track record in lending business

IWML acquired Chephis Capital Markets Limited by infusing Rs.900 crore as equity. It was later renamed as IIFL Wealth Finance Limited (IWFL) on March 12, 2016 (renamed as 'IIFL Wealth Prime Limited' (IWPL) with effect from December 07, 2020) and started its lending operations. The arm of IWML which forms a critical part of the lending business has only few years of vintage.

IIFL Wealth Prime Ltd (IWPL) is a systemically important RBI registered non-deposit taking NBFC which acts as an enabler for IWML catering to the financial needs of corporate and High Net-worth customers. As on March 31, 2021, IWPL had AUM of Rs.3,620 crore majorly consisting of Loan against Shares (LAS) portfolio, which contributed 83% of the total AUM.

Regulatory and attrition risks in wealth management business

Risk and regulation are the two main pillars influencing the business environment in the wealth management business. The increased regulation, volatile markets and behaviour of the clients remains key monitorable. The ability to retain key personnel is important in the wealth management business as change in relationship personnel may bring a change in relationship with the client as well. The company had a total of 61 team leaders and 188 relationship managers as on FY21 and over 80% of the team leads have more than 5 years vintage.

The wealth and asset management business is still in its nascent stages in the country and thus susceptible to changes and the time taken to adapt to these changes by the company is also critical while eventually balancing the earning profile, profitability and stability of the company as a whole.

Liquidity: Strong

IIFL Wealth Management (IWML), on a consolidated basis, has enough liquidity to adequately cover its debt obligations including interest up to around 3 months. IWML (consolidated) had liquidity of Rs.1,233 crore which consisted of cash of Rs.152 crore, liquid investments of Rs.936 crore and unutilised bank lines of Rs.145 crore as on December 31, 2021. Furthermore, the company has strong liquidity with no negative cumulative mismatch in its lending arm, i.e., IIFL Wealth Prime Ltd, as per the asset liability maturity profile of the company dated September 30, 2021.

Analytical approach:

CARE Ratings has assessed the credit profile of IIFL Wealth Management Limited by keeping in view the consolidated financials.

Subsidiaries considered as a part of consolidated financials of IIFL Wealth Management Limited:

IIFL Wealth Prime Limited
 IIFL Wealth Distribution Services Limited
 IIFL Asset Management Limited
 IIFL Investment Adviser and Trustee Services Limited
 IIFL Wealth Portfolio Managers Limited
 IIFL Trustee Limited
 IIFL Wealth Securities IFSC Limited
 IIFL Altiore Advisors Limited (formerly known as IIFL Altiore Advisors Private Limited)
 IIFL Wealth Capital Markets Limited (Formerly known as L&T Capital Markets Limited)
 IIFLW CSR Foundation
 IIFL Asset Management (Mauritius) Limited
 IIFL Private Wealth Management (Dubai) Limited
 IIFL (Asia) Pte. Limited
 IIFL Private Wealth Hong Kong Limited
 IIFL Inc
 IIFL Capital (Canada) Limited
 IIFL Capital Pte. Limited
 IIFL Securities Pte. Limited

Applicable Criteria
[Consolidation](#)
[Factoring Linkages Parent Sub JV Group](#)
[Financial Ratios - Financial Sector](#)
[Short Term Instruments](#)
[Rating Methodology- Non Banking Finance Companies](#)
[Policy on default recognition](#)
About the Company

IIFL Wealth group started its wealth management services in 2009 under the 'IIFL Wealth' brand. IIFL Wealth Management, along with its wholly-owned subsidiaries, is primarily engaged in the distribution, advisory, asset management, broking, and lending solutions for clients in the wealth management segment. The company is one of the leaders in private wealth management firms in India. The company has a market capitalization of more than Rs.15,000 crore as of March 2022 on both the stock exchanges in India. The company serves highly specialized and sophisticated needs of high net worth and ultra-high net worth individuals, affluent families, family offices and institutional clients through a comprehensive range of tailored wealth management solutions.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
Total Income	1,527	1,659	1,499
PAT	201	369	412
Interest Coverage (times)	1.57	2.17	2.96
Total Assets*	12,740	8,740	9,782
ROTA (%)	1.81	3.39	5.90

A: Audited; UA: Unaudited*; Net of Intangibles, Deferred Tax Assets (DTA) and Intangible assets

All ratios are as per CARE's calculation

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Commercial Paper	INE466L14890	23-Apr-21	6.60%	13-Apr-22	26.5	CARE A1+
Commercial Paper	INE466L14890	13-Jan-22	4.95%	13-Apr-22	5	CARE A1+
Commercial Paper	INE466L14AV1	28-Feb-22	5.65%	05-Sep-22	25	CARE A1+
Commercial Paper	INE466L14AV1	02-Mar-22	5.65%	05-Sep-22	90	CARE A1+
Commercial Paper	INE466L14AW9	04-Mar-22	5.65%	01-Sep-22	50	CARE A1+
Commercial Paper	INE466L14AX7	10-Mar-22	5.15%	09-Jun-22	150	CARE A1+
Commercial Paper	INE466L14AX7	25-Mar-22	4.95%	09-Jun-22	25	CARE A1+
Commercial Paper	INE466L14AY5	16-Mar-22	5.10%	14-Jun-22	125	CARE A1+
Commercial Paper (Proposed)	-	-	-	-	503.5	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Commercial Paper-Commercial Paper (Standalone)	ST	1000.00	CARE A1+	-	1)CARE A1+ (28-Sep-21)	1)CARE A1+ (16-Feb-21) 2)CARE A1+ (25-Sep-20)	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	Not Applicable
B. Non-financial covenants	Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Commercial Paper-Commercial Paper (Standalone)	Simple

Annexure 5: Bank Lender Details for this CompanyTo view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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