

IIFL Wealth Management Limited

February 16, 2021

Rating

Instrument	Amount (Rs. crore)	Rating ¹	Rating Action
Commercial Paper	500 (increased from Rs. 300 crore) (Rs. Five Hundred Crore only)	CARE A1+ [A One Plus]	Reaffirmed

*Details of instruments/facilities given in **Annexure I***

Detailed Rationale and Key Rating drivers:

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

The rating also considers the limited track record of IWML in 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.

Overall profitability parameters, seasoning of the portfolio in the lending book, capitalization, and asset quality are the key rating sensitivities.

Rating Sensitivities:

Negative factors- Factors that could, individually or collectively, lead to negative rating action/downgrade:

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

Detailed description of Key Rating drivers:

Key Rating Strengths:

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

IIFL Wealth Management Limited (IWML) is one of the leader in private wealth management firms in India with consolidated AUM (gross) of Rs. 1,78,140 crore having presence in 7 countries with 29 offices across the globe with employee strength of 900+ employees as on March 31, 2020. As on December 31, 2020, the AUM (gross) increased to Rs. 2,33,354 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.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Table 1: - AUM break-up of IWML (consolidated) in terms of business segment:

Asset Under Management (Rs. in crs)	Mar'16	Mar'17	Mar'18	Mar'19	Mar'20	June '20	Sep'20	Dec'20
Wealth Management	59,049	85,839	110,833	129,919	1,34,958	1,52,021	1,60,402	1,68,199
Asset Management	5,455	8,939	13,395	20,773	21,940	24,702	26,695	32,295
Custody Assets	2,892	9,017	18,564	31,145	21,243	27,589	35,287	32,859
AMC Assets Distributed by Wealth	(5,233)	(8,875)	(11,811)	(14,091)	*-	*-	*-	*-
Total	62,163	94,920	130,981	167,746	1,78,140	2,01,311	2,22,383	2,33,354

*AUM distributed by IIFL Wealth for AMC no longer reduced as Double count, assets are now shown at gross value

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 Taparria is also an 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.

Mr. Mihir Nanavati is a Chief Financial Officer of IWML and is responsible for entire Finance Function and related areas for Wealth Group of Companies both Domestic and International.

IWML has been able to retain most of its experienced key management resulting into stable management team helping IWML to become one of the largest players in Wealth Management business.

Strong institutional shareholding and ability to raise capital from marquee investors & Comfortable Liquidity profile.

IWML is backed by strong institutional shareholders with ability to raise capital from time to time. As on December 31, 2020, 21.3% of the shareholding was held by General Atlantic, 18.4% was held by Fairfax, promoters held 22.9%, public shareholding was 15.8% whereas other institutions held 21.6%. The company is backed by these marquee investors which further gives it an advantage to raise debt in the capital market.

On a consolidated basis, the company had liquidity of Rs. 1,543 crore which comprised of cash of Rs. 144 crore, Liquid investments of Rs. 1,254 crore & unutilised bank lines of Rs. 145 crores as on December 25, 2020.

Healthy capitalization with comfortable gearing levels

IWML had a consolidated tangible net worth of Rs. 2,438 crores (March 31, 2020: Rs. 2,711 crore) and consolidated gearing of 1.90x as on December 31, 2020 (March 31, 2020: 3.26x). The company reported majority of the consolidated debt is in the books of IIFL Wealth Prime Limited which is a lending arm of IWML. The company seems 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.

Moderate profitability parameters

On a consolidated basis, during 9MFY21, IWML reported PAT of Rs. 266 crores on total income of Rs. 1,223 crores as compared to PAT of Rs. 204 crore on total income of Rs. 1,137 crore as on 9MFY20 mainly on account of increase in Net gain on fair value changes of investments which increased from Rs. 43 crore in 9MFY20 to Rs. 137 crore in 9MFY21. Also, as on FY20, PAT stood at Rs. 201 crores on total income of Rs. 1,528 crores as compared to PAT of Rs. 375 crores on total income of Rs. 1,579 crores on FY19. Overall, in regards to profitability, the company has been able to maintain sustained growth and has seen healthy momentum across their wealth and asset management businesses.

Key Rating Weaknesses***Limited track record in lending business***

IWML acquired Chephis Capital Markets Limited by infusing Rs. 900 crores as equity. It was later renamed as IIFL Wealth Finance Limited (IWPL) on March 12, 2016 where its name was changed to 'IIFL Wealth Prime Limited' as on 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 December 31, 2020, IWPL had AUM of Rs. 3,021 crores majorly (~80%) consisting of Loan against Shares (LAS) portfolio.

Regulatory & 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 64 team leaders and 205 relationship managers as on 9MFY21.

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.

Analytical Approach: Consolidated

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

Key Subsidiaries:**IIFL Wealth Prime Ltd:**

IWPL is a systemically important RBI registered non-deposit taking NBFC and 100% subsidiary of IWML. The business profile of IWPL is such that it only caters to the financial needs of IWML clients having no sales/distribution teams and all loans being sourced by Relationship Managers' of IWML. IWPL is also the only lending arm of IWML and acts as an enabler for IWML. The products offered by IWPL are such that they can be utilized by clients to meet immediate funding needs without having to sell investments. IWPL offers an opportunity to monetize investments (listed equity shares, mutual fund units, structured notes, bonds, debentures and more) to raise capital for personal/business financing needs. The client does not have to provide any additional security or collateral except the securities which are being pledged. The products offered by IWPL are mainly used by clients for instant liquidity to meet personal exigency or to seize an attractive business opportunity. This enables the clients to acquire funds while still maintaining carefully built portfolio. As on March 31, 2020, IWPL had AUM of Rs. 3,536 crores majorly consisting of Loan against Shares (LAS) portfolio which contributed 84.17% of the total AUM.

IIFL Asset Management Ltd:

IIFL Asset Management is an India-focused, global asset management firm and 100% subsidiary of IWML. It offers differentiated products like AIFs, MFs, PMS services to various HNI/UHNI clients of IWML. The distributors here include both IWML's own distributors as well as it is sourced to 3rd party distributors too. As on date, it has 133 distribution partners for PMS and AIF products. The company is the largest AIF asset manager in India. IIFL AMC offers capabilities in onshore and offshore asset management through its subsidiaries based in Singapore, India and Mauritius. As on FY20, the company had a total turnover of Rs. 201.81 crores and PAT of Rs. 80.23 crores.

Liquidity Profile: Strong

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 June 30, 2020. On a consolidated basis, the company had liquidity of Rs. 1,543 crore which comprised of cash of Rs. 144 crore, Liquid investments of Rs. 1,254 crore & unutilised bank lines of Rs. 145 crores as on December 25, 2020.

Covid Impact on the business of the company:

The spread of the COVID-19 pandemic across the globe and India contributed to significant volatility in global and Indian financial markets and a significant decrease in global and local economic activities. Due to the Covid related disruption, some of the HNI/UHNI clients were cautious while investing with a leaning towards holding more liquidity. IWML adapted themselves to the Covid situation by organizing Engagements with clients through multiple outreach channels established with dedicated solution and servicing desks, supported by Relationship Managers and Research teams. Advisors interact with clients over extensive video conference calls simulating face-to-face meetings allowing them to share client portfolios and analytics apps in a secured environment. Also, in regards to its own liquidity parameters, the company had sufficient liquidity and did not take any moratorium from its lenders. On a consolidated basis, the company had liquidity of Rs. 1,543 crore which comprised of cash of Rs. 144 crore, Liquid investments of Rs. 1,254 crore & unutilised bank lines of Rs. 145 crores as on December 25, 2020.

Applicable Criteria:

[Criteria on assigning outlook to Credit Ratings](#)

[CARE's policy on default recognition](#)

[Financial Ratios-Financial Sector](#)

[Consolidation and factoring linkages in rating](#)

[Rating of Short term instruments](#)

[Rating Methodology- Non Banking Finance Companies](#)

About the Company

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the stock exchanges in India. IWML has a market share of 12.7% of the wealth managed by Indian wealth managers. 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 – IIFL Wealth Management Limited (Consolidated)

(Rs. crore)

Particulars	FY19 (A)	FY20 (A)
Total Income	1,579	1,527
PAT	375	201
Interest Coverage (times)	2.25	1.57
Total Assets*	9,488	12,740
ROTA (%)	3.94	1.81

A: Audited; *: 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 II

Annexure I: Instrument Details

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Rating assigned along with Rating Outlook
Commercial Paper	-	-	-	500 (increased from Rs. 300 crore)	CARE A1+

Annexure II: 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 2021-2020	Date(s) & Rating(s) assigned in 2020-2019	Date(s) & Rating(s) assigned in 2019-2018
1.	Commercial Paper	ST	500.00 (increased from Rs. 300 crore)	CARE A1+	1) CARE A1+ (25-Sep-20)	-	-

Annexure 3: Complexity level of various instruments rated for this company

Sr. No	Name of Instrument	Complexity Level
1	Commercial Paper	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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