IIFL Wealth Prime Limited (Revised)

September 23, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Market-linked debentures	100.00	CARE PP-MLD AA; Stable (Principal Protected-Market Linked Debentures Double A; Outlook: Stable)	Reaffirmed
Market-linked debentures	100.00	CARE PP-MLD AA; Stable (Principal Protected-Market Linked Debentures Double A; Outlook: Stable)	Reaffirmed
Total long-term instruments	**200.00 (₹ Two hundred crore only)**		
Commercial paper	5,000.00	CARE A1+ (A One Plus)	Reaffirmed
Total short-term instruments	**5,000.00 (₹ Five thousand crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation of the ratings to the debt instruments of IIFL Wealth Prime Limited (IWPL) continues to factor in the long-standing track record and strong market position of its parent, IIFL Wealth Management Limited (IWML), as a leading player in the wealth management, distribution, and advisory business in India; the experienced management team; strong institutional shareholding; and the ability to raise capital from marquee investors.

The ratings further factor in the synergies enjoyed by IWPL with the group companies and the support from the parent, the healthy capitalisation levels of IWPL, along with the comfortable liquidity profile, comfortable gearing of IWPL, improved profitability, and asset quality parameters.

These rating strengths are partially offset by the limited track record of IWPL in the lending business, the concentrated resource profile, and the product concentration with the majority of the loan portfolio being loan against securities (LAS) given largely to the group's wealth customers.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Gradual and sustainable improvement in the profitability parameters and return on total assets (ROTA) >4%.
- Diversification in the product portfolio.
- Improvement in the credit profile of the parent.

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

- Deterioration in the credit profile of the parent company.
- Any material changes in the synergies with the group companies along with the support of the parent company.
- Deterioration in the liquidity – negative cumulative mismatches in the asset and liability management (ALM) statement more than the Reserve Bank of India (RBI) prescribed limits.
- Deterioration in the asset quality – gross non-performing assets/gross stage 3 (GNPA/GS3) >3% for a sustained period.
- Gearing of the parent, IWML, exceeding 5x on a consolidated basis.

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

Detailed description of the key rating drivers

Key rating strengths

Long-standing track record and established franchise as a leading player in the wealth management, distribution, and advisory business in India:

IWPL is a 100% subsidiary of IWML and is a systemically important RBI-registered non-deposit-taking non-banking financial company (NBFC) operating as a lending vehicle for the wealth business of the IIFL group, with its key products being LAS, loan against property (LAP), margin funding, employee stock ownership plan (ESOP), and initial public offering (IPO) financing for the existing customers of the wealth business.

IWPL provides funding to high-net-worth individual (HNI) and ultra-high-net-worth individual (UHNI) clients against diversified portfolios as collaterals. As on June 30, 2022, IWPL had assets under management (AUM) (gross) of ₹3,807 crore (as on March 31, 2021: ₹3,862 crore and as on March 31, 2020: ₹3,620 crore), mainly consisting of the LAS portfolio, which contributed 89% of the total AUM.

IWML is one of the leaders in wealth management and asset management in India, managing a consolidated AUM of ₹314,662 crore with a presence in 27 locations across five geographies across major countries and Indian cities, as on June 2022. IWML offers a broad range of products and services to participate in a larger share of the client wallet, including financial products distribution, advisory, brokerage, asset management, credit solutions, and estate planning.

Experienced management team that has remained stable over a long period:

IWML has experienced professionals on its board and a key management team with strong experience in the respective business segments. 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 organisation's philosophy, mission, vision, and strategic goals and objectives. IWML has been able to retain most of its experienced key management. As a result, the company has had stable and experienced management for a long time, making it one of the largest players in the wealth management business. The board comprises qualified and experienced professionals with considerable experience in functional areas.

Strong institutional shareholding and the ability to raise capital from marquee investors:

Post reorganisation, IWML has a strong institutional shareholding with General Atlantic Singapore Fund Pte Ltd (General Atlantic), a leading global growth equity fund, having equity ownership of 20.98%, Fih Mauritius Investments Ltd (13.62%), Small cap World Fund, Inc (about 4.93%) as on June 30, 2022. The shareholding of the promoters, Nirmal Jain and the promoter group, stood at 23.21% as on June 30, 2022. The company is backed by these marquee investors, which further gives it the advantage to raise debt in the capital market.

Synergies with group companies along with the support of the parent company:

IWML is an operational company as well as a holding company, having 10 wholly owned domestic subsidiaries, and five wholly owned international subsidiaries for business optimisation. IWPL, a wholly owned subsidiary of IWML, contributed 57% to the total income of IWML (consolidated) and is also the largest revenue contributor of IWML (consolidated) and predominantly provides funding to the customers of IWML, as on June 30, 2022.

Healthy capitalisation with comfortable gearing levels:

IWPL's total borrowings decreased from ₹8,848 crore as on March 31, 2020, to ₹5,297 crore as on March 31, 2022. The tangible net worth (TNW) of IWPL (standalone) stood at ₹1,650 crore as on March 31, 2022, as against ₹1,439 crore as on March 31, 2021. The gearing (standalone) stood at 3.21x as on March 31, 2022 (as on March 31, 2021: 3.47x and March 31, 2020: 5.54x). IWPL has consistently been able to maintain a capital adequacy ratio (CAR) above 20%. It reported a capital to risk weighted assets ratio (CRAR) of 22.97% (March 31, 2022: 23.61%) with a Tier-I CAR of 22.64% (March 31, 2022: 23.18%) as on June 30, 2022.

IWML had a consolidated TNW of ₹2,474 crore (March 31, 2021: ₹2,302 crore) and a consolidated gearing of 2.35x as on March 31, 2022 (March 31, 2021: 2.05x). The majority of the consolidated debt is in the books of IWPL, which is a lending arm of IWML.

Improved profitability parameters:

During FY22, the profit-after-tax (PAT) (standalone) increased to ₹233 crore from ₹156 crore in FY21 and ₹51 crore in FY20 due to an increase in the fee income and reversal of impairment allowances. The return on capital employed (ROTA) (standalone) of the company improved on account of higher PAT and stood at 3.19% as on March 31, 2022, as against 1.69% as on March 31, 2021. During Q1FY23, IWPL reported a PAT of ₹45 crore on a total income of ₹221 crore.

Key rating weaknesses

Product concentration in IWPL with single line of business, with the majority of the loan portfolio being LAS largely for captive customers:

IWPL has a diversified loan portfolio; however, LAS forms the major share of the loan portfolio, contributing about 89% of the total loan book. The company also provides LAP. In LAS capital, which contributes 80.73% of the loan portfolio, the collateral is usually taken in the form of equity, alternative investment funds (AIFs), investments in PMS, etc, whereas in the LAS non-capital, which contributes 8.09% of the loan portfolio, the collateral is usually debt securities such as bonds, government securities, etc.

Concentrated resource profile:

The resource profile remains concentrated, with the company's borrowings largely being from its own client base through non-convertible debentures (NCDs) and market-linked debentures (MLDs) (68%), commercial paper (23%); sub debt and perpetual debt (7%), collateralised borrowing and lending obligation (CBLO) (1%), and bank borrowings (1%). With ease in interest rates, the proportion of commercial papers has increased during FY22.

Liquidity: Strong

IWPL has strong liquidity, with no cumulative negative mismatches as per the ALM profile dated July 31, 2022. In addition, the company had cash, liquid investments, and unutilised bank lines of ₹955 crore in August 2022. Furthermore, IWPL continues to tap debt capital markets in the form of MLDs to raise fresh funds.

Analytical approach

CARE Ratings Limited (CARE Ratings) has taken a consolidated approach for the rating of IWPL. CARE Ratings has also factored it's the linkages with the parent, i.e, IWML, owing to its operational, business linkages and demonstrated capital support and shared brand name, being a 100% subsidiary of IWML. The business of IWPL compliments the core business of IWML, which includes wealth and asset management by offering products like LAS to wealth clients of IWML.

Applicable criteria

Policy on Default Recognition
Rating Methodology- Non-banking financial companies
Consolidation
Factoring linkages-Parent subsidiary
Financial ratios – Financial sector
Rating outlook and credit watch
Short-term instruments
Market Linked Notes
Policy on Withdrawal of Ratings

About the company

IIFL Wealth Prime Ltd is a 100% subsidiary of IIFL Wealth Management Limited (IWML) and is a systemically important RBI registered non deposit taking NBFC operating as lending vehicle for Wealth business of IIFL Group, with the key products being Loan against securities (LAS), Loan against property (LAP) and Margin funding catering to the financial needs of corporates and High Net-worth customers of the Wealth business. As on March 31, 2022, IWPL's AUM stood at Rs. 3,862 crores mainly consisting of Loan against securities (LAS) portfolio which contributed 87% of the total AUM.

Standalone- IWPL

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total income	971	1,159	221
PAT	156	233	45
Overall gearing (times)	3.47	3.21	-
Total assets	7,057	7,548	-
Net stage 3 (%)	1.74	0.00	0.00
ROTA (%)	1.69	3.19	-

A: Audited; UA: Unaudited.

***Consolidated – IWPL**

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total income	999	1191	NA
PAT	158	231	NA
Overall gearing (times)	4.17	3.75	NA
Total assets	7078	7566	NA
Net stage 3 (%)	1.74	0.00	NA
ROTA (%)	1.71	3.15	NA

A: Audited; UA: Unaudited
*IIFL Wealth Capital Markets Ltd (erstwhile L&T Capital Markets Ltd) was acquired in April 2020.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

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

Complexity level of the 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 (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Market linked debentures (Proposed)	NA	NA	NA	NA	100.00	CARE PP-MLD AA; Stable
Debentures-Market-linked debentures (Proposed)	NA	NA	NA	NA	100.00	CARE PP-MLD AA; Stable
Commercial paper-IPO financing (Proposed)	NA	NA	NA	NA	5,000.00	CARE A1+

(ISIN INE248U07BJ1-matured as on August 02, 2022)

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1.	Debentures-Market-linked debentures	LT	100.00	CARE PP-MLD AA; Stable	-	1)CARE PP-MLD AA; Stable (September 28, 2021)	1)CARE PP-MLD AA; Stable (September 29, 2020)	1)CARE PP-MLD AA; Stable (December 27, 2019)
2.	Commercial paper-Commercial paper-(IPO financing)	ST	5,000.00	CARE A1+	-	1)CARE A1+ (September 28, 2021)	1)CARE A1+ (September 29, 2020)	1)CARE A1+ (December 27, 2019) 2)CARE A1+ (October 17, 2019)
3.	Debentures-Market-linked debentures	LT	100.00	CARE PP-MLD AA; Stable	-	1)CARE PP-MLD AA; Stable (September 28, 2021)	1)CARE PP-MLD AA; Stable (September 29, 2020)	1)CARE PP-MLD AA; Stable (December 27, 2019) 2)CARE PP-MLD AA; Stable (November 15, 2019)

*Long term/Short term.

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

Not applicable

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

Sr. No.	Name of Instrument	Complexity Level
1.	Commercial paper-Commercial paper-IPO financing	Simple
2.	Debentures-Market-linked debentures	Highly complex

Annexure-5: Bank lender details for this company

To view the lender-wise details of the bank facilities, please click here.

Note on the complexity levels of the rated instruments: CARE Ratings 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 us:
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