IIFL Wealth Management Limited

September 28, 2021

Rating

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Commercial Paper	500.00	CARE A1+ (A One Plus)	Reaffirmed
Total Short-term Instruments	**500.00 (Rs. Five hundred crore only)**		

*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) 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, 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 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 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.281,200 crore with presence in 27 locations across 5 geographies with employee strength of 850+ employees as on March 31, 2021. 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 marque investors

IWML is backed by strong institutional shareholders with ability to raise capital from time to time. As on June 30, 2021, 21.17% of the shareholding was held by General Atlantic, Fih Mauritius Investments Ltd (13.75%), Smallcap World Fund, Inc held about 4.95%, whereas 4.61% was held by Hwic Asia Fund. The shareholding of the promoters (Mr Nirmal Jain and promoter group) stood at 22.91% as on June 30, 2021. The company is 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.

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.

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.

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

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, 2021. On a consolidated basis, the company had liquidity of Rs.935 crore which consisted of cash of Rs.21 crore, liquid investments of Rs.769 crore and unutilised bank lines of Rs.145 crore as on August 31, 2021.

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
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.13,000 crore as of September 2021 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 – IIFL Wealth Management Limited (Consolidated)

(Rs. crore)

Particulars	FY20 (A)	FY21 (A)
Total Income	1,527	1,659
PAT	201	369
Interest Coverage (times)	1.57	2.17
Total Assets*	12,740	8,740
ROTA (%)	1.81	3.39

*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-1: Details of Instruments/Facilities

ISIN	Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
INE466L14932	Commercial Paper	07-Jul-21	4.80%	07-Oct-21	35.00	CARE A1+
INE466L14841	Commercial Paper	08-Apr-21	6.25%	12-Oct-21	5.00	CARE A1+
INE466L14890	Commercial Paper	23-Apr-21	6.60%	13-Apr-22	26.50	CARE A1+
INE466L14916	Commercial Paper	28-May-21	6.50%	25-Nov-21	10.00	CARE A1+
INE466L14AB3	Commercial Paper	04-Aug-21	5.05%	30-Sep-21	200.00	CARE A1+
INE466L14AD9	Commercial Paper	24-Aug-21	5.00%	24-Nov-21	25.25	CARE A1+
NA	Commercial Paper (Proposed)	-	-	-	198.25	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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Commercial Paper-Commercial Paper (Standalone)	ST	500.00	CARE A1+	-	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: Not applicable

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Commercial Paper-Commercial Paper (Standalone)	Simple

Note on complexity levels of the rated instrument: *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@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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