IIFL Wealth Prime Limited

September 28, 2021

Ratings

Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Principal Protected Market Linked Debentures	200	CARE PP-MLD AA; Stable [PP-MLD Double A; Outlook: Stable]	Reaffirmed
Commercial Paper (IPO Financing)	5,000	CARE A1+ [A One Plus]	Reaffirmed
Total	**5,200 (Rs. Five thousand two hundred crore only)**		

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

Detailed Rationale and Key Rating drivers

The ratings assigned to the debt instruments of IIFL Wealth Prime Limited (IWPL) continue 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, experienced management team, strong institutional shareholding and ability to raise capital from marquee investors. The ratings further factor in synergies enjoyed by IWPL with group companies and support from the parent, healthy capitalization levels of IWPL along with comfortable liquidity profile, comfortable gearing of IWPL and improved profitability parameters.

These rating strengths are partially offset by the limited track record of IWPL in lending business, moderation in asset quality and product concentration with 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, individually or collectively, lead to positive rating action/upgrade:

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

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

- Deterioration in the credit profile of the parent company
- Any material change in synergies with group companies along with support of the parent company
- Deterioration in liquidity – negative cumulative mismatches in ALM statement more than the RBI prescribed limits
- Deterioration in asset quality – Gross Net-Performing Assets/ Gross Stage 3 (GNPA/GS3) > 3% for sustained period

Detailed description of 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 NBFC operating as lending vehicle for the wealth business of IIFL group, with the key products being Loan against securities (LAS), Loan against property (LAP) and Margin funding for the existing customers of the wealth business.

IWPL provides funding to High Net-worth Individuals (HNI) and Ultra High Net-worth Individuals (UHNI) clients against diversified portfolio as collateral. As on March 31, 2021, IWPL had AUM (gross) of Rs.3,620 crore (as on March 31, 2020: Rs.3,536 crore) majorly consisting of Loan against Shares (LAS) portfolio which contributed 83% of the total AUM.

IWML is one of the leaders in Wealth Management and Asset Management in India managing a consolidated AUM of Rs.281,200 crore with presence in 27 locations across 5 geographies across major countries and Indian cities. IIFL Wealth 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. The company is also the largest fund manager of AIFs in India, managing AUM of Rs.37,372 crore as on March 31, 2021.

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

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

and its strategic goals and objectives. Mr Yatin Shah is the Co-founder and Executive Director. Mr Anirudha Taparia is also 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

Post reorganization, IIFL Wealth Management Limited has strong institutional shareholding with General Atlantic Singapore Fund Pte Ltd (General Atlantic), a leading global growth equity fund, having an equity ownership of 21.17%, 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 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.

Synergies with group companies along with support of parent company

IWML is an operational company as well as a holding company having 10 wholly-owned domestic subsidiaries, and 8 wholly-owned international subsidiaries for business optimization. IWPL (a wholly-owned subsidiary of IWML) contributed 59% 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 FY21 (refers to the period April 1 to March 31).

Healthy capitalization levels with comfortable gearing levels

IWPL's total borrowings decreased from Rs.8,848 crore as on March 31, 2020 to Rs.4,635 crore as on March 31, 2021. Tangible net worth of IWPL stood at Rs.1,439 crore as on March 31, 2021 as compared with Rs.1,597 crore as on March 31, 2020; reducing mainly due to dividend of Rs.164 crore paid to parent. The gearing stood at 3.22x as on March 31, 2021 (as on March 31, 2020: 5.54x). IWPL has consistently been able to maintain capital adequacy ratio (CAR) above 20%. It reported CRAR of 23.11% (March 31, 2020: 27.55%) with Tier I CAR of 22.06% (March 31, 2020: 24.56%) as on March 31, 2021.

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). Majority of the consolidated debt is in the books of IIFL Wealth Prime which is a lending arm of IWML.

Improved profitability parameters

During FY21, PAT increased to Rs.156 crore from Rs.51 crore in FY20 due to lower operating and finance costs. The company's NIM was 2.46% as on March 31, 2021, compared with 2.70% as on March 31, 2020, mainly on account of fall in yield on advances. ROTA of the company improved on account of higher PAT and stood at 3.42% as on March 31, 2021, as against 0.50% as on March 31, 2020. During Q1FY22, IIFL Wealth Prime Limited reported a PAT of Rs.48 crore on a total income of Rs.241 crore.

Key Rating Weaknesses

Limited track record of IWPL in lending business and moderation in asset quality

IIFL Wealth Prime Limited (erstwhile 'Chephis Capital Markets Limited') started its lending operations in FY16. The company operates as a lending vehicle for Wealth business of IIFL Group, with the key products being Loan against securities (LAS), Loan against property (LAP) and Margin funding for existing customers of the IIFL Wealth clients. The gross non-performing assets (GNPA) increased to 2.17% as on March 31, 2021, from nil in FY20, primarily due to slippage in one account.

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

IIFL Wealth Prime Limited has a diversified loan portfolio; however, LAS forms the major share of loan portfolio contributing about 83% of the total loan book. The company also provides loans against property (LAP); however, LAP is usually used as additional collateral and no loans are disbursed with LAP as sole collateral as indicated by the management. In LAS capital (which contributes 83% of the loan portfolio), the collateral is usually taken in the form of equity, AIFs, Investment in PMS, etc., whereas, in LAS Non-Capital (which contributes 11% of loan portfolio), the collateral is usually debt securities such as bonds, government securities, etc.

Analytical Approach: Standalone along with factoring in linkages with the parent.

The approach adopted is standalone along with factoring in its linkage with parent, i.e., IIFL Wealth Management Ltd owing to its operational and business linkages, being a 100% subsidiary of IIFL Wealth Management Limited. The business of IIFL Wealth Prime Limited compliments the core business of IIFL Wealth Management Limited which includes wealth and asset management by offering products like LAS to existing clients of IIFL Wealth Management Limited.

Liquidity Profile: Strong

IWPL has comfortable liquidity with no cumulative negative mismatch as per the asset liability maturity (ALM) profile dated June 30, 2021. As per ALM statement dated June 30, 2021, IWPL has cumulative debt servicing of Rs.1,503 crore in upto one-year time bucket. In addition, the company had cash, liquid investments, and unutilised bank lines of Rs.908 crore on June 30, 2021. Furthermore, IWPL continues to tap debt capital markets in the form of MLDs to raise fresh funds.

Applicable Criteria:

Criteria on assigning outlook to Credit Ratings
CARE's policy on default recognition
Rating Methodology- Non Banking Finance Companies
Financial Ratios-Financial Sector
Consolidation and factoring linkages in rating
Rating of Short term instruments

About the Company

In 2016, IIFL Wealth Management Limited acquired Chephis Capital Markets Limited by infusing Rs.900 crore as equity capital. The company was later renamed as IIFL Wealth Prime Limited.

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 for existing customers of the Wealth business.

Brief Financials – IIFL Wealth Prime Limited (Standalone)

(Rs. crore)

Particulars	FY20 (A)	FY21 (A)
Total Income	989	971
PAT	51	156
Total Assets*	11,420	7,057
Interest coverage (times)	1.14	1.46
ROTA (%)	0.50	1.69

*A: Audited; *: Net of Intangibles, Deferred Tax Assets (DTA) and Intangible assets*
All ratios are as per CARE Ratings' 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: Instrument Details

ISIN	Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Rating assigned along with Rating Outlook
INE248U07BJ1	Long Term Principal Protected Market Linked Debentures	24-Oct-19	NA	02-Aug-22	1.43	CARE PP-MLD AA; Stable
INE248U07BJ1	Long Term Principal Protected Market Linked Debentures	31-Oct-19	NA	02-Aug-22	1.00	CARE PP-MLD AA; Stable
INE248U07BJ1	Long Term Principal Protected Market Linked Debentures	04-Nov-19	NA	02-Aug-22	7.00	CARE PP-MLD AA; Stable
NA	Long Term Principal Protected Market Linked Debentures (Proposed)	-	-	-	190.57	CARE PP-MLD AA; Stable
NA	Commercial Paper (IPO Financing) (Proposed)	-	-	Upto One Month	5,000	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.	Debentures-Market Linked Debentures	LT	100.00	CARE PP-MLD AA; Stable	-	1) CARE PP-MLD AA; Stable (29-Sep-21)	1) CARE PP-MLD AA; Stable (27-Dec-19)	1) CARE PP-MLD AA; Stable (24-Jan-19)
2.	Debentures-Market Linked Debentures	LT	100.00	CARE PP-MLD AA; Stable	-	1) CARE PP-MLD AA; Stable (29-Sep-21)	1) CARE PP-MLD AA; Stable (27-Dec-19) 2) CARE PP-MLD AA; Stable (15-Nov-19)	-
3.	Short Term Instruments – Commercial Paper – Commercial Paper (IPO Financing)	ST	5,000.00	CARE A1+	-	1) CARE A1+ (29-Sep-21)	1) CARE A1+ (27-Dec-19) 2) CARE A1+ (17-Oct-19)	-

- **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 Instrument*	*Complexity Level*
1	Commercial Paper	Simple
2	Market Linked Non-Convertible Debenture (PP-MLD)	Highly Complex

Note on complexity levels of the rated instrument: *CARE Ratings 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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