

IIFL Wealth Management Limited

September 25, 2020

Rating

Instrument	Amount (Rs. crore)	Rating ¹	Rating Action
Proposed Commercial Paper	300 (Rs. Three Hundred Crore only)	CARE A1+ [A One Plus]	Assigned

*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 ability to raise capital from marquee investors, comfortable liquidity profile, moderate profitability with comfort 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 Finance Ltd (IWFL) 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 6x 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 of Rs. 1,38,792 (excluding custody assets) crore having presence in 7 countries with 29 offices across the globe with employee strength of 900+ employees as on March 31, 2020. 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
Wealth Management	59,049	85,839	110,833	129,919	1,31,422	1,49,166
Asset Management	5,455	8,939	13,395	20,773	21,940	24,702
Custody Assets	2,892	9,017	18,564	31,145	21,243	27,589
AMC Assets Distributed by Wealth	(5,233)	(8,875)	(11,811)	(14,091)	(14,570)	(15,595)
Total	62,163	94,920	130,981	167,746	160,034	1,85,862

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 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 June 30, 2020, 21.35% of the shareholding was held by General Atlantic, 18.51% was held by Fairfax, Rimco held about 4.35% whereas 1.25% was held by Amansa. The company is backed by these marquee investors which further gives it an advantage to raise debt in the capital market.

IWML had strong liquidity mainly in the form of investments of Rs. 1,984 crores as on March 31, 2020 (Standalone basis) along with cash & cash equivalents of Rs. 23 crores. On a consolidated basis, investments were around Rs. 6,512 crores as on FY20 with cash & cash equivalents of Rs. 1,179 crores as on FY20.

Healthy capitalization with comfortable gearing levels

IWML had a consolidated tangible net worth of Rs. 2,711 crores (March 31, 2019: Rs. 2,618 crore) and consolidated gearing of 3.26 x as on March 31, 2020 (March 31, 2019: 2.33 x). Majority of the consolidated debt is in the books of IIFL Wealth Finance which is a lending arm of IWML. IWML had a Standalone tangible net worth of Rs. 2,322 crores (March 31, 2019: Rs. 2,210 crore). The company had NIL borrowings on a standalone basis as on March 31, 2020.

Moderate profitability parameters, however comfortable at the standalone level.

On a consolidated basis, during FY20, IWML reported PAT of Rs. 201 crores on total income of Rs. 1,528 crores as compared to FY19 where IWML reported PAT of Rs. 375 crores on total income of Rs. 1,579 crores. The decline in PAT in FY20 as compared to FY19 was because the company implemented a structural change in revenue recognition

model to ensure transparency and changed it from upfront to trail basis, which led to decrease in fees and commission income, ultimately affecting the profit reported in FY20 as compared to the previous year i.e. FY19. On a standalone basis, During FY20, IWML reported increase of 27.45% y-o-y to Rs. 193 crores in FY20 as compared to Rs. 152 crores in FY19 in total income. During FY20, Company reported improved ROTA of 7.46% as compared to 6.15% in FY19 on a standalone basis.

Key Rating Weaknesses

Limited track record in lending business

In 2016, IIFL Wealth Management Limited acquired Chephis Capital Markets Limited by infusing Rs.900 crores as equity capital. It was later renamed as IIFL Wealth Finance Limited (IWFL) on March 12, 2016 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 Finance Ltd (IWFL) 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, 2020, IWFL had AUM of Rs. 3,536 crores majorly 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 crucial 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 204 relationship managers with team leader attrition being 6.3% as on FY20.

The wealth and asset management business is still in its nascent stages in the country and thus susceptible to many 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 Finance 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 Finance Ltd:

IWFL is a systemically important RBI registered non deposit taking NBFC and 100% subsidiary of IWML. The business profile of IWFL is such that it only caters to the financial needs of IWML where all loans are sourced by Relationship

Managers' of IWML. IWFL is also the only lending arm of IWML and acts as an enabler for IWML. The products offered by IWFL are such that they can be utilized by clients to meet immediate funding needs without having to sell investments. IWFL 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 IWFL 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, IWFL 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 Finance Ltd as per the asset liability maturity profile of the company dated June 30, 2020. In addition, on a consolidated basis, the company had cash and cash equivalents of Rs. 1,179 crores along with liquid investments of Rs. 6,512 crores as on March 31, 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, the lockdown had led to fewer IPO's in H1FY20 which is expected to impact the transactional revenues of the company. 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 cash and cash equivalents of Rs. 1,179 crores along with liquid investments of Rs. 6,512 crores as on March 31, 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

IIFL Wealth Management Limited (IWML) is one of the fastest growing non-bank promoted wealth manager firms in India with consolidated AUM (including custody assets) of Rs. 1,38,792 crores as on FY20 having presence in 7 countries with 29 offices across the globe with employee strength of 900+ employees as on March 31, 2020. The company has a market capitalization of Rs. 8000+ crores as on September 2020 on both 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	1579	1527
PAT	374	201
Total Assets*	9165	12253
ROTA (%)	4.00	1.88

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
Proposed Commercial Paper	-	-	-	300	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	300.00	CARE A1+	-	-	-

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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