IIFL Wealth Finance Limited

January 24, 2019

Rating:

Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Principal Protected Market Linked Debenture Programme (PP-MLD)	100.00 (Rs. One Hundred crore only)	CARE PP-MLD AA; Stable (PP-MLD Double A; Outlook: Stable)	Assigned

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

Detailed Rationale and Key Rating drivers:

The rating assigned to debt instrument of IIFL Wealth Finance Limited (IWFL) factors in the long standing track record and established franchise 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 demonstrated ability to raise capital from marquee investors. The rating further factors in synergies enjoyed by IWFL with group companies and support from the parent, healthy capitalization levels of IWFL along with comfortable liquidity profile, comfortable gearing of IWFL and stable profitability parameters.

The rating also factors in limited track record of IWFL in lending business and product concentration with majority of the loan portfolio being Loan Against Securities (LAS), given largely to the group's wealth customers.

Continued parent support in form of business linkages, overall profitability parameters, seasoning of the portfolio in the lending book, capitalization and asset quality are the key rating sensitivities.

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

IWML is one of the leaders and fastest growing Wealth Management company in India managing AUM of Rs.144,864 crore with presence in 24 locations across 9 geographies across major countries and Indian cities. 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. IWML is also the largest fund manager of AIFs in India managing AUM of Rs.13,676 crore as on September 30, 2018. Including the above AIFs, IWML AMC has total AUM of Rs.22,989 crore. The company has proven history of retaining Relationship Managers (RM). The company has 358 RMs as on September 30, 2018.

IWFL 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 existing customers of the wealth business.

IWFL provides funding to High Net-worth Individuals (HNI) and Ultra High Net-worth Individuals (UHNI) clients against diversified portfolio as collateral. As on September 30, 2018, IWFL had AUM of Rs.6,190 crore majorly consisting of Loan against Shares (LAS) portfolio which contributed 92% of the total AUM.

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. Nirmal Jain, Executive Chairman of IIFL Holdings Limited has founded and led IIFL since 1995. Mr. R Venkatraman, Managing Director of IIFL Holdings is the co-promoter of IIFL since 1999. After the proposed reorganization, Mr. Nirmal Jain and Mr. R Venkatraman will continue to be part of the top common management. 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 Wealth Management business.

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 and Mr. Amit Shah is Co-Founder at IWML and CEO of IIFL Asset Management business. Mr. Himanshu Jain is the Whole Time Director and Chief Executive Officer (CEO) of IWFL. He is responsible for growing the existing Non-Banking Finance Company (NBFC) business backed by his domain experience and business development focus.

Strong institutional shareholding and demonstrated ability to raise capital from marquee investors

IWML (consolidated) has strong institutional shareholding with General Atlantic Singapore Fund Pte Ltd (General Atlantic), a leading global growth equity fund, having an equity ownership of 22.03%.

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

In June-August 2018, IWML raised additional equity capital of Rs.746 crore by issuing equity shares of Rs.2 each from General Atlantic, Ward Ferry, Rimco (Mauritius) Limited, Amansa Holdings Private Limited, Steadview,HDFC Standard Life Insurance Company Ltd and others bought approximately 4.64% of the diluted post-closing share capital of IIFL Wealth Management Limited.

As on December 31, 2018, IIFL Holdings holds 53.24% shareholding, General Atlantic holds 22.03%, Institutional holds 4.64% and others (employees, directors etc.) holds 20.09% stake in IWML.

Post the proposed reorganization, Fairfax as a group will hold 19.2% in IIFL Wealth while General Atlantic (Minority Shareholder) will hold 21.4% of shareholding on fully diluted basis. IIFL Wealth will continue to have 6 wholly owned domestic subsidiaries, 5 wholly owned international subsidiaries and an Associate Company with 2 Step-down subsidiaries.

Synergies with group companies along with support of parent company

IWML is a subsidiary of IIFL Holdings Limited (IIFL Holdings) which holds 53.24% shareholding. IWML (consolidated) is an operational company as well as a holding company having 6 wholly owned domestic subsidiaries, 5 wholly owned international subsidiaries and an associate company with 2 step-down subsidiaries. IWFL (a wholly-owned subsidiary of IWML) contributed 48% to the total income of IWML (consolidated) and is also the largest revenue contributor of IWML (consolidated) and predominantly provides funding to customers of IWML.

Healthy capitalization levels with comfortable gearing levels

IWML had a consolidated tangible net worth of Rs.1,839 crore and the consolidated gearing of IWML stood at 3.82x as on March 31, 2018 (P.Y.: 3.82x) and standalone gearing of 0.62x as on March 31, 2018 (P.Y.: 0.54x). Majority of the consolidated debt is in the books of IIFL Wealth Finance which is an NBFC.

During H1FY19 (refers to period from April 01 to September 30), due to equity capital infusion from General Atlantic, Ward Ferry, Rimco (Mauritius) Limited, Amansa Holdings Private Limited, Steadview and HDFC Standard Life Insurance Company Ltd, the gearing levels declined to 2.07 times as on September 30, 2018.

IWFL has consistently been able to maintain Capital Adequacy Ratio (CAR) above 20% and reported CAR of 21.92% (P.Y.: 30.52%) and Tier I CAR of 17.02% (P.Y.: 24.04%) on March 31, 2018 with overall gearing of 5.48 times (P.Y.: 4.78 times). Out of the Rs.746 crore capital raised by IWML, Rs.500 crore of equity capital was infused in IWFL which helped the overall gearing to reduce to 3.02 times as on September 30, 2018.

Comfortable liquidity profile of IWFL

IWFL has a comfortable liquidity profile as on December 31, 2018. The company had no negative cumulative mismatch in any buckets. Borrowings are done via short term instruments [e.g. Commercial Paper (CP)] as well as medium term borrowings (through NCDs). CPs are issued mainly to match the short term nature of its assets. The proportion of CP to total borrowings stood at 63% as on March 31, 2018. As on December 31, 2018, the company had CP outstanding of Rs.1,299 crore against liquid mutual fund investments of Rs.1170 crore and other investments of Rs.484 crore as the company saw improvement in its Loan against Shares (LAS) business segment which is usually of shorter tenure.

Stable profitability parameters

IWML, on consolidated basis, reported Profit after Tax (PAT) of Rs.385 crore on total income of Rs.1,738 crore during FY18 as against PAT of Rs.250 crore on total income of Rs.1,083 crore during FY17 (PAT growth: 54%). Overall gearing of the company remained stable at 3.82 times (P.Y.: 3.82 times) as on March 31, 2018 whereas Return on Total Average Assets (ROTA) declined from 5.58% during FY17 to 4.50% during FY18 and Return on Net-worth (RONW) increased from 16.95% during FY17 to 20.95% during FY18.

During H1FY19 (refers to period from April 01 to September 30), the company reported PAT of Rs.210 crore on total income of Rs.862 crore as against PAT of 189 crore on total income of Rs.798 crore during H1FY18. Total gearing of the company stood at 2.07 times whereas, NIM stood at 2.34% and ROTA stood at 4.6% during H1FY19. The company, on consolidated basis reported NIL Gross NPA as on September 30, 2018 (P.Y.: NIL).

IWFL, on standalone basis, reported PAT of Rs.156 crore on total income of Rs.783 crore during FY18 as against PAT of Rs.100 crore on total income of Rs.461 crore during FY17. Net Interest Margin (NIM) of the company stood at 1.81% during FY18 as against 2.76% during FY17. Overall standalone gearing of IWFL remained stable at 5.48 times (P.Y.: 4.97 times)as on March 31, 2018 whereas ROTA for IWFL declined from 2.15% during FY17 to 2.74% during FY18 and RONW increased from 9.51% during FY17 to 12.79% during FY18.

During H1FY19, IWFL reported PAT of Rs.75 crore on total income of Rs.355 crore as against PAT of 75 crore on total income of Rs.351 crore during H1FY18. Total gearing of the company stood at 3.02 times whereas NIM declined to 1.96% from 2.21% during H1FY18 and ROTA stood at 1.94% during H1FY19. The company reported NIL Gross NPA as on September 30, 2018 (P.Y.: NIL).

Key Rating Weaknesses

Limited track record of IWFL in lending business

IIFL Wealth Finance 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.

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

IWFL has a diversified loan portfolio; however, LAS forms the major share of loan portfolio. As on December 31, 2018, about 92% of the total loans disbursed were against securities (Equity or Debt).

Around 83% of the LAS portfolio the collateral is usually taken in the form of equity, AIFs, Investment in PMS, etc. whereas, 17% of the LAS portfolio has collateral in the form of debt securities such as bonds, government securities etc.

Analytical Approach

CARE has assessed the credit profile of IIFL Wealth Finance Limited by considering the consolidated financials of IIFL Wealth Management Limited owing to its operational and business linkages, being a 100% subsidiary of IIFL Wealth Management Limited. The business of IIFL Wealth Finance Limited complements the overall wealth management, distribution and asset advisory segments of the IIFL group being the only lending entity under IIFL Wealth. CARE Ratings has also assessed the synergies IIFL Wealth will have with other IIFL group companies in terms of shared brand name and common promoters.

CARE Ratings has taken note of the announcement of reorganization of IIFL group's finance, wealth and capital business into three separate entities viz. IIFL Finance, IIFL Wealth and IIFL Securities. The reorganization is subject to regulatory and shareholders' approval. CARE will continue to monitor the development on the demerger process and take an appropriate rating action, if required, subsequent to the assessment of the revised business and operational plans of the independent demerged entities, post the completion of the demerger process.

Subsidiaries considered as a part of consolidated financials:

- IIFL Alternate Asset Advisors Limited
- IIFL Asset Management Limited
- IIFL Distribution Services Limited
- IIFL Investment Advisors & Trustee Services Limited
- IIFL Trustee Limited
- IIFL Wealth Finance Limited

Liquidity Profile

IWFL has a comfortable liquidity profile as on December 31, 2018. The company had no negative cumulative mismatch in any buckets. As on January 15, 2019, IWML has total sanctioned limits of Rs.200 crore of which Rs.50 crore is unutilized whereas, IWFL has total sanctioned limits of Rs.400 crore of which Rs.100 crore is unutilized. Moreover, IWFL has in-principal approvals for ICDs amounting to Rs.2,500 crore from IWML and Rs.400 crore from other IIFL group companies.

Applicable Criteria:

Criteria on assigning Outlook to Credit Ratings
CARE Policy on Default Recognition
Rating Methodology: Factoring Linkages in Ratings
Rating Methodology- Housing Finance Companies
Financial ratios - Financial Sector

About the Company

IIFL Wealth Management Limited is a subsidiary of IIFL Holdings Limited (IIFL Holdings) which holds 53.24% shareholding. The company is one of the largest wealth management and asset advisory companies in India offering a broad range of product 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 has presence in 7 countries with 23 offices across the globe with employee strength of 939 employees as on September 30, 2018. As on September 30, 2018, the company had Assets Under Management of Rs.1,44,864 crore.

IIFL Wealth Finance Ltd (IIFL Wealth Finance) is a 100% subsidiary of IIFL Wealth 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.

In January 2018, the board of directors of IIFL Holdings Limited (IIHL) approved the draft scheme of reorganization of its finance, wealth and capital business into three separate entities which is IIFL Finance, IIFL Wealth and IIFL Securities

respectively. As per the draft scheme of demerger, IIFL Holdings and India Infoline Limited will be renamed as "IIFL Finance Ltd" and "IIFL Securities Ltd" respectively. As per the company's disclosures, owner of 7 shares of "IIFL Holdings" (the listed company) will have 7 shares of IIFL Finance, 7 shares of IIFL Securities and 1 shares of IIFL Wealth post reorganization. Fairfax will be the "most significant" non-promoter shareholder in all the three companies. These new entities will be listed in a year.

Brief Financials – IIFL Wealth Management Limited (Consolidated)

(Rs. crore)

Particulars	FY17 (A)	FY18 (A)
Total Income	1,083	1,738
PAT	250	385
Total Assets*	7,554	9,552
Asset Under Management (AUM)	94,919	131,762
ROTA (%)	5.58	4.50

*A: Audited; *: Net of Intangibles, Deferred Tax Assets (DTA) and Goodwill on Consolidation*

Brief Financials – IIFL Wealth Finance Limited (Standalone)

(Rs. crore)

Particulars	FY17 (A)	FY18 (A)
Total Income	461	783
PAT	100	156
Total Assets*	6,414	8,089
Net NPA (%)	-	-
ROTA (%)	2.74	2.15

*A: Audited; *: Net of Intangibles and Deferred Tax Assets (DTA)*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer **Annexure II**

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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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
Debentures-Market Linked Debentures	-	MLD	-	100.00	CARE PP-MLD AA; Stable

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Debentures-Market Linked Debentures	LT	-	CARE PP-MLD AA; Stable	-	-	-

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