IIFL Wealth Finance Limited

September 29, 2020

Rating

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

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

Detailed Rationale and Key Rating drivers

The ratings assigned to debt instruments of IIFL Wealth Finance Limited (IWFL) 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 IWFL with group companies and support from the parent, healthy capitalization levels of IWFL along with comfortable liquidity profile and comfortable gearing of IWFL.

The ratings also take into consideration moderate profitability parameters, 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, overall profitability parameters, seasoning of the portfolio in the lending book, capitalization and asset quality are the key rating sensitivities.

Rating Sensitivities:

Positive factors - Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Gradual and sustainable improvement in profitability parameters and 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 parent company
- Any material change in synergies with group companies along with support of 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 (GNPA) > 2%

Key Developments

During FY20, IWFL acquired the Distribution Business which was a separate entity under IWML through a business transfer arrangement with IWML with effect from January 1, 2020. In terms of the said agreement, IWML has transferred, inter-alia, Employees, Assets, Liabilities, Contracts, Intangible Assets, relating to distribution business for a lump sum consideration. This being a common control business combination within the meaning of Ind AS 103, the financial statements of previous reported periods (2018-19) are restated. The net assets have been acquired by IWFL at a net excess consideration of Rs. 0.498 crore.

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

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.

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

IWFL 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, 2020, IWFL had AUM(gross) of Rs. 3,536 crores (as on June 2020: 2,855 crores) majorly consisting of Loan against Shares (LAS) portfolio which contributed 84.17% of the total AUM.

IWML is one of the leaders in Wealth Management and Asset Management in India managing a consolidated AUM (excluding custody assets) of Rs.1,38,792 crores with presence in 29 locations across 7 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. 21,940 crores as on March 31, 2020.

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 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 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 21.35%, Fairfax group 18.51%, Rimco held about 4.35% whereas 1.25% was held by Amansa. The shareholding of promoters (Mr. Nirmal Jain & promoter group) stood at 22.92% as on June 30, 2020.

IWML holds 100% stake in IWFL, it is also backed by strong institutional shareholders with demonstrated 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.

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, 8 wholly owned international subsidiaries for business optimization. IWFL (a wholly-owned subsidiary of IWML) contributed 45% 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 as on FY20.

Healthy capitalization levels with comfortable gearing levels

IWFL's total borrowings increased to Rs. 8,848 crores as on March 31, 2020 (as on June 30, 2020: Rs. 7,932 crores) as compared to Rs. 6,051 crores as on March 31, 2019. Tangible net-worth of IWFL stood at Rs. 1,610 crores as on March 31, 2019 as against Rs. 1,597 crores as on March 31, 2020 (as on June 30, 2020: Rs. 1,632 crores) whereas the gearing stood at 5.54x as on March 31, 2020 (as on June 30, 2020: 4.86x) compared to gearing of 3.76x as on March 31, 2019. IWFL has consistently been able to maintain Capital Adequacy Ratio (CAR) above 20%. It reported CAR of 27.55 % with Tier I CAR of 24.56% as on March 31, 2020 as compared to CAR of 32.78% with Tier I CAR of 28.66% as on March 31, 2019.

IWML had a consolidated tangible net worth of Rs. 2,711 crores and the consolidated gearing of IWML stood at 3.26x as on March 31, 2020 (P.Y.: 2.33x). Majority of the consolidated debt is in the books of IIFL Wealth Finance which is a lending arm of IWML.

Comfortable liquidity profile of IWFL

The company has strong liquidity with no cumulative negative mismatch as per the asset liability maturity (ALM) profile of the company dated June 30, 2020. As per the ALM profile as on June 30, 2020, the company had cumulative debt servicing (including interest payments) of Rs. 3,058 crores. In addition, IWFL had cash and liquid investments of Rs. 4,448 crore and unutilized bank lines of Rs. 200 crores which provide comfort as on June 30, 2020.

As on March 31, 2020, total loan portfolio (gross) of the IWFL de-grew from Rs. 4,615 crores to Rs. 3,536 crores (as on June 30, 2020: Rs. 2,855 crores). Investment book of the company increased by 113% from Rs. 2,939 crores as on March 31, 2019 to Rs. 6,263 crores as on March 31, 2020 due to investments in government securities. The company reported NIL Gross NPA as on March 31, 2020 (P.Y.: NIL).

Key Rating Weaknesses

Moderate profitability parameters

During FY20, PAT declined to Rs.51 crores (PAT margin: 5.11%) from Rs.292 crores (PAT margin: 24.43%) in FY19 due to higher employee costs, resulting from transfer of distribution business from IWML coupled with lower interest income being booked, with y-o-y de-growth of 24% in overall loan book ensuing Covid related disruption in the market. The company's NIM was 2.70% as on March 31, 2019 compared to 3.03% as on March 31, 2020 on account of growth in NII from Rs. 230 crores on FY19 to Rs. 309 crores in FY20. ROTA of the company declined on account of lower PAT and stood at 3.42% as on March 31, 2019 as against 0.50% as on March 31, 2020 (as on June 30, 2020: 1.21%). During Q1FY21, IIFL Wealth Finance Limited reported a PAT of Rs. 33 crores on a total income of Rs. 226 crores along with ROTA of 1.21%.

IIFL Wealth Management Limited, during FY20, reported PAT of Rs. 201 crores on total income of Rs. 1,527 crores as compared to FY19, where PAT was of Rs. 375 crores on total income of Rs. 1,579 crores mainly on account of decline in fees and commission income due to structural change in revenue recognition model. The gearing levels of the company stood at 2.33 times as on March 31, 2019 as against 3.26 times as on March 31, 2020. The company's NIM was 2.38% as on March 31, 2019 compared to 2.60% as on March 31, 2020 on account of growth in NII from Rs. 222.7 crores on FY19 to Rs. 278.3 crores in FY20. ROTA of the company declined on account of lower PAT and stood at 4.00% as on March 31, 2019 as against 1.88% as on March 31, 2020.

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

IIFL Wealth Finance Limited has a diversified loan portfolio; however, LAS forms the major share of loan portfolio contributing about 84% 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 84% 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 Finance 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. CARE has also assessed the synergies IWML has with other IIFL group companies in terms of shared brand name and common promoters.

Liquidity Profile: Strong

The company has strong liquidity with no negative cumulative mismatch as per the asset liability maturity profile of the company dated June 30, 2020. As per the ALM profile as on June 30, 2020, the company had cumulative debt

servicing of Rs.3058 crores. In addition, the company had cash and liquid investments of Rs. 5,495 crores and unutilized bank lines of Rs 200 crores which provide comfort as on August 07, 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. IWFL generates its revenues majorly from the LAS segment which is dependent on the capital markets. Due to the Covid related disruption, some of the HNI/UHNI clients were cautious while investing with a leaning towards holding more liquidity. Also, the lockdown had led to fewer IPO's in H1FY20 which is expected to impact the transactional revenues of the company.

The Company has granted moratorium to all eligible customers for a period up to 3 months with regards to the payment falling due between March 01, 2020 and May 31, 2020. Also, in regards to its own liquidity parameters, the company had sufficient liquidity as mentioned above and did not take any moratorium from its lenders. As on August 31, 2020 no customers have been provided moratorium. Based on an assessment of the circumstances, using both internal and external information, the security available and the ability to realize such security, the Company does not envisage the need for any additional Expected Credit Loss (ECL) provision on the loans on account of the Pandemic.

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 crores as equity capital. The company was later renamed as IIFL Wealth Finance Limited.
IIFL Wealth Finance Ltd (IIFL Wealth Finance) 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.
IWML is one of the leaders in Wealth Management and Asset Management in India managing a consolidated AUM (excluding custody assets) of Rs.1,38,792 crores with presence in 29 locations across 7 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. 21,940 crores as on March 31, 2020.

Brief Financials – IIFL Wealth Finance Limited (Standalone)

(Rs. crore)

Particulars	FY19 (Re-instated) (A)	FY20 (A)
Total Income	1,194	989
PAT	292	51
Total Assets*	8,986	11,420
Interest coverage (times)	2.04	1.14
ROTA (%)	3.42	0.50

Note: The FY19 figures have been reinstated after IIFL Wealth Finance Ltd acquired the Distribution business with IIFL Wealth Management Ltd w.e.f 1st January 2020 to make the figures comparable.
*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: 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
Long Term Principal Protected Market Linked Debentures	-	-	-	200	CARE PP-MLD AA; Stable
Commercial Paper (IPO Financing)	-	-	-	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 2021-2020	Date(s) & Rating(s) assigned in 2020-2019	Date(s) & Rating(s) assigned in 2019-2018
1.	Debentures-Market Linked Debentures	LT	100.00	CARE PP-MLD AA; Stable	-	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 (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+ (27-Dec-19) 2) CARE A1+ (17-Oct-19)	-

Annexure-3: 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 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.*

Contact us

Media Contact
Mradul Mishra
Contact no. –+91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact 1
Mr. Abhijit Urankar
Contact no.- 022-6754 3669
Email ID- abhijit.urankar@careratings.com

Analyst Contact 2
Mr. Sanjay Kumar Agarwal
Contact no.: (022) 6754 3500 / 582
Email ID- sanjay.agarwal@careratings.com

Business Development Contact
Name: Ankur Sachdeva
Contact no.: 91 98196 98985
Email ID : ankur.sachdeva@careratings.com

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