IIFL Wealth Finance Limited

November 15, 2019

Rating:

Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Principal Protected Market Linked Debenture	100 (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), extended 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.

Rating Sensitivities:

Positive Factors

- Gradual and sustainable improvement in profitability parameters and ROTA > 4%
- Diversification in product portfolio

Negative Factors

- 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%
- Deterioration in the credit profile of parent company

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 in Wealth Management and Asset Management in India managing a consolidated AUM of Rs.172,763 crore as on September 30, 2019 with presence in 33 locations across 9 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. IWML is also the largest fund manager of AIFs 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.

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, 2019, IWFL had AUM of Rs.3,851 crore majorly consisting of Loan against Shares (LAS) portfolio which contributed 85% 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. 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.

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

IWML has been able to retain most of its experienced key management as a result it has stable and experienced management team for a long time making it one of the largest players in Wealth Management business.

Strong institutional shareholding and demonstrated 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 21.87%, Fairfax group 18.96%, Other Institutional Shareholders 7.58% and others 26.90%. The shareholding of promoters (Mr. Nirmal Jain & promoter group) stood at 24.69% as on September 30, 2019.

In July 2018, the company 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 and HDFC Standard Life Insurance Company Ltd. who collectively bought approximately 4.64% of the diluted post-closing share capital of IIFL Wealth Management Limited.

Synergies with group companies along with support of parent company

IWML (consolidated) 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 55% to the total income of IWML (consolidated) as on September 30, 2019 and is also the largest revenue contributor of IWML (consolidated) and predominantly provides funding to customers of IWML.

Healthy capitalization with comfortable gearing levels

IWML had a consolidated tangible net worth of Rs.2,762 crore (March 31, 2019: Rs.2,618 crore) and consolidated gearing of 2.62x as on September 30, 2019 (March 31, 2019: 2.34x). Majority of the consolidated debt is in the books of IIFL Wealth Finance which is a lending arm of IWML.

IWFL's total borrowings increased from Rs.6,062 crore as on March 31, 2019 to Rs.7,230 crore as on September 30, 2019 of which 52.66% are hedged against its investments. Tangible net-worth of IWFL stood at Rs.1,893 crore as on March 31, 2019 and Rs.1,855 crore as on September 30, 2019. As a result, gearing stood at 3.90x as on September 30, 2019 compared to gearing of 3.20x as on March 31, 2019. However, if the borrowings which are hedged against investments are excluded, the gearing levels will decline to 2.24 times as on September 30, 2019.

IWFL has consistently been able to maintain Capital Adequacy Ratio (CAR) above 20%. It reported CAR of 32.78% (P.Y.: 21.92%) with Tier I CAR of 28.66% (P.Y.: 17.02%) as on March 31, 2019.

Comfortable liquidity profile of IWFL

IWFL has adequate liquidity with no cumulative negative mismatch as per the asset liability maturity (ALM) profile dated September 30, 2019. As per our estimates, for next 1 year, IWFL has cumulative debt servicing of Rs.4,046 crore, against repayment from loan portfolio of Rs.3,763 crore. As on October 31, 2019, IWFL had cash and liquid investments of Rs.3,734 crore and Rs.400 crore of sanctioned WCDL facility of which Rs.9 crore is utilized.

Stable profitability parameters

During FY19, IWML reported PAT of Rs.375 crore on total income of Rs.1,577 crore (PAT Margin: 23.75%) compared to PAT of Rs.380 crore on total income of Rs.1,715 crore during FY18 (PAT Margin: 22.17%). During H1FY20, IWML reported PAT of Rs.130 crore on total income of Rs.737 crore (PAT Margin: 17.64%). IWML's NIM, ROTA and RONW stood at 2.48%, 2.51% and 9.66% respectively as on September 30, 2019. IWML reported NIL NPA as on September 30, 2019.

During FY19, IWFL reported total income of Rs.710 crore compared to total income of Rs.770 crore during FY18. The decline of 7.87% y-o-y in total income was mainly on account of decline in distribution income (declined by 96.20% y-o-y) and fees and commission income (declined by 75.00% y-o-y). However, the interest income increased by 15.07% during FY19. During H1FY20, IWFL reported total income of Rs.408 crore compared to total income of Rs.355 crore during H1FY19. Finance cost decreased by 20.83% y-o-y and was Rs.422 crore during FY19 on account of decrease in total borrowings by 8.40% y-o-y. The decline in borrowings was due to reduction of short-term borrowings. IWFL reported finance cost of Rs.246 crore during H1FY20. Since IWFL caters only to clients of IWML and all loans are sourced by IWML, IWFL has low operational expense. Moreover, IWFL's loan book does not have any delinquencies resulting in lower provisioning expense. As a result, IWFL reported PAT of Rs.182 crore during FY19 compared to PAT of Rs.143 crore during FY18 (26.60% y-o-y growth). During H1FY20, IWFL reported PAT of Rs.116 crore compared to PAT of Rs.75 crore during H1FY19.

IWFL's loans declined from Rs.7,244 crore as on March 31, 2018 to Rs.5,016 crore as on March 31, 2019 mainly due to weak market environment. Loans continued to decline and stood at Rs.4,012 crore as on September 30, 2019. IWFL's investments increased from Rs.2,939 crore as on March 31, 2019 and stood at Rs.4,993 crore as on September 30, 2019 of which 74.85% are hedged against its borrowings and price movements in these investments are passed to the customers.

IWFL's NIM stood at 3.19% as on September 30, 2019 compared to 2.82% as on March 31, 2019 whereas opex./Avg. Assets stood at 0.23% as on September 30, 2019 compared to 0.27% as on March 31, 2019 due to lower operational

expense. ROTA and RONW stood at 2.55% and 12.38% respectively as on September 30, 2019 compared to ROTA and RONW of 2.19% and 11.70% respectively as on March 31, 2019. IWFL did not report any Gross NPA since inception.

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. It 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 contributing about 85% of the total loan book as on September 30, 2019. It also provides loans against property (LAP); however, LAP is usually used as additional collateral. In LAS capital, the collateral is usually taken in the form of equity, AIFs, Investment in PMS, etc. whereas, in LAS Non-Capital, the collateral is usually debt securities such as bonds, government securities etc.

Analytical Approach:

CARE Ratings 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 compliments the core business of IIFL Wealth 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 IIFL Wealth has with other IIFL group companies in terms of shared brand name and common promoters.

Subsidiaries considered as a part of consolidated financials:

- IIFL Trustee Limited
- IIFL Distribution Services Limited
- IIFL Asset management Limited
- IIFL Alternate Asset Advisors Limited
- IIFL Investment Advisor & Trustee Services Limited
- IIFL Wealth Advisors (India) Limited
- IIFL Altiore Advisors Limited
- IIFL Wealth Securities IFSC Limited
- IIFL Wealth Employee Welfare Benefit Trust
- IIFL (Asia) Pte. Limited
- IIFL Securities Pte. Limited
- IIFL Capital Pte. Limited
- IIFL Inc.
- IIFL Private Wealth Management (Dubai) Limited
- IIFL Private Wealth Management (Hong Kong) Limited
- IIFL Asset Management (Mauritius) Limited
- IIFL Capital (Canada) Limited

Liquidity Profile: Adequate

IWFL has adequate liquidity with no cumulative negative mismatch as per the asset liability maturity (ALM) profile dated September 30, 2019. As per our estimates, for next 1 year, IWFL has cumulative debt servicing of Rs.4,046 crore, against repayment from loan portfolio of Rs.3,763 crore. As on October 31, 2019, IWFL had cash and liquid investments of Rs.3,734 crore and Rs.400 crore of sanctioned WCDL facility of which Rs.9 crore is utilized.

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
Factor Linkages in Ratings
CARE's Criteria for Market Linked Notes/Debentures

About the Company

IWML is one of the leaders and in Wealth Management and Asset Management in India managing a consolidated AUM of Rs.172,763 crore as on September 30, 2019 with presence in 33 locations across 9 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. IWML is also the largest fund manager of AIFs in India. In 2016, IIFL Wealth Management Limited acquired Chephis Capital Markets Limited by infusing Rs.900 crore as equity capital. It was later renamed as IIFL Wealth Finance Limited. 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.

Brief Financials – IIFL Wealth Management Limited (Consolidated)

(Rs. crore)

Particulars	FY18 (A)	FY19 (A)
Total Income	1,715	1,577
PAT	380	375
Total Assets*	9,546	9,488
ROTA (%)	4.44	3.94

*A: Audited; *: Net of Intangibles, Deferred Tax Assets (DTA) and Goodwill on Consolidation*
All ratios are as per CARE's calculation

Brief Financials – IIFL Wealth Finance Limited (Standalone)

(Rs. crore)

Particulars	FY18 (A)	FY19 (A)
Total Income	770	710
PAT	143	182
Total Assets*	8,061	8,501
Net NPA (%)	-	-
ROTA (%)	1.98	2.19

*A: Audited; *: Net of Intangibles and Deferred Tax Assets (DTA)*
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
Long Term Principal Protected Market Linked Debentures	-	-	-	100	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Debentures-Market Linked Debentures	LT	100.00	CARE PP-MLD AA; Stable	-	CARE PP-MLD AA; Stable (24-Jan-19)	-
2.	Short Term Instruments – Commercial Paper – Commercial Paper (IPO Financing)	ST	5,000.00	CARE A1+	CARE A1+ (17-Oct-19)	-	-
3.	Debentures-Market Linked Debentures	LT	100.00	CARE PP-MLD AA; Stable	-	-	-

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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