

# Stock Update IIFL Wealth Management Ltd.

November 15, 2021





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
BFSI - NBFC	Rs 1579	Buy in Rs 1570-1590 band & add more on dips to Rs 1390-1410 band	Rs 1748	Rs 1860	2 quarters

HDFC Scrip Code	IIFLWEALTH
BSE Code	542772
NSE Code	IIFLWAM
Bloomberg	IIFLWAM IN
CMP Nov 12, 2021	1,579
Equity Capital (Rs cr)	17.7
Face Value (Rs)	2
Equity Share O/S (cr)	8.8
Market Cap (Rs cr)	13,969.5
Book Value (Rs)	322.7
Avg. 52 Wk Volumes	80,700
52 Week High (Rs)	1818.0
52 Week Low (Rs)	885.0

Share holding Pattern % (Sep, 2021)	
Promoters	22.8
Institutions	27.1
Non Institutions	50.2
Total	100.0



HDFCsec Retail research  
stock rating meter

for details about the ratings, refer at the end of the report

\* Refer at the end for explanation on Risk Ratings

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### Our Take:

IIFL Wealth Management (IIFLWAM) is one of the best wealth management franchises in India and has become one of the largest alternate asset managers. With its latest offering IIFL ONE, the company is looking to change the way wealth management is offered in India. It reported Q2FY22 results recently. Momentum in ARR assets continued, with strong growth in AMC and distribution assets. Yields in Q2FY22 were flat for most segments. Net inflows slowed a bit in Q2FY22, following a strong growth for two consecutive quarters.

On April 28, 2021, we had initiated coverage on the stock ([Link](#)) with a recommendation to 'Buy at LTP and add on dips to Rs 1220-1225 band' for base case fair value of Rs 1523 and bull case fair value of Rs 1642. The stock had achieved our base case target on August 4 and bull case target on August 6, 2021.

### Valuation & Recommendation:

Q2FY22 was another record setting quarter for IIFLWAM, as it reported another all-time highest revenue, operating profit before tax, profit before tax and PAT. In terms of its total assets under management, it was a quarter of key milestones. Its total AUM is now above Rs 315,000cr, its wealth management AUMs have surpassed Rs 200,000cr and its asset management AUMs have crossed Rs 50,000cr. In addition, its tangible RoE was at 23.7% for the quarter. Its total revenues have increased 19% qoq and by 45% yoy to Rs 362cr, while its revenue from operations was up 11% quarter on quarter, 48% yoy, to Rs 314cr. Its recurring revenues have increased 16% qoq and 59% over the last 12 months to Rs 222cr. It has achieved highest ever quarterly PAT at Rs 140cr, which is an increase of 19% QoQ and 64% YoY.

The Q2FY22 numbers have been good. Client and RM exits have been low. We like the wealth-management space and feel that IIFLWAM is one of the best placed to tap the potential of the sector due to its niche position in the fast growing wealth-management business, innovative products, strong RM team, low exits of clients and RMs and leadership in technology. We feel investors can buy the stock in the band of Rs 1570-1590 (20.4x Sep-23E EPS) and add on dips to Rs 1390-1410 band (18x Sep-23E EPS) for a base case fair value of Rs 1748 (22.5x Sep-23E EPS) and bull case fair value of Rs 1860 (24x Sep-23E EPS) in the next two quarters.



## Financial Summary

Particulars (Rs cr)	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	FY21	FY22E	FY23E	FY24E
Total Income	362	247	46.6	304	19.1	1053	1337	1613	1842
APAT	143	87	64.0	117	22.4	370	492	625	738
Diluted EPS (Rs)	16.2	10.0	62.0	13.3	21.8	42.0	55.9	71.1	84.0
P/E (x)						37.6	28.2	22.2	18.8
P/BV (x)						4.9	4.9	4.7	4.5
RoAA (%)						3.4	5.6	6.9	7.6

(Source: Company, HDFC sec)

## Changes in estimate

(Rs cr)	Old Estimate		New Estimate			Variation (%)	
	FY22E	FY23E	FY22E	FY23E	FY24E	FY22E	FY23E
AUM	242887	281544	279198	329296	373483	14.9	17.0
Total Income	1231	1386	1337	1613	1842	8.6	16.4
PAT	449	525	492	625	738	9.5	19.0
EPS	51.1	59.7	55.9	71.1	84.0	9.6	19.0

(Source: Company, HDFC sec)

### Strong growth in ARR assets

Annual recurring revenue (ARR) assets continued to post strong growth of 67% YoY and 12% sequentially to Rs 131,977cr in Q2FY22. Share of ARR assets in total AUM increased to 51.4% from 42.3% a year ago. Within ARR, IIFL One assets account for ~24% of AUM. AMC AUM has almost doubled in the past year from Rs 26,695cr to Rs 51,920cr at the end of Q2FY22 driven by Institutional PMS mandates and Private Equity. Share of ARR assets revenues to total revenue increased to 61.3% from 56.7% in Q2FY21 although it dipped from 63.2% in Q1FY22. We expect ARR assets AUM to increase to ~60% by FY24 and its revenue share to ~70%. Over the last 6 quarters more than 95% of the flows have been in ARR assets.

### AUM remains sticky

Loss of AUM has consistently been below 2% annually and is at a low of 0.5% for H1FY22. In addition, 95% of net flows have been in ARR assets over the last 6 quarters, depicting significant confidence its clients are showing, as well as its bankers are showing in the adoption of this transparent structure.



### **Operating efficiencies continue to play out**

Operating expenses of the company increased 13% sequentially and 29% on an annual basis in Q2 driven mainly by increase in employee costs. However cost-income ratio continued to trend down and stood at 48% vs 54% in Q2FY21. The constant focus of the management on cost rationalisation across the organisation has led to operating leverage playing out over the last 2 years, and we believe this will continue with growth in the top line.

Employee expenses are expected to remain high till Q1FY23 as the company moves from a transaction to an ARR model. Post Q2FY23, overall employee expenses (~37% of total revenue) could slide to 35% and further to 32-33% over the long term.

### **IIFL One yields to remain between 35-45bps**

Overall the IIFL One yield was 29bps in Q2FY22. This was mainly on account of corporate treasuries mandate which are sometimes large mandates with very low fixed fees. Outside of corporate treasuries mandates it should be between 35-45bps according to the management.

### **FY22 guidance achieved on some of the parameters**

IIFLWAM has surpassed its FY22 guidance on some of the parameters in H1FY22 itself, which is a positive sign for the company's growth. Business growth was on account of faster transition to ARR assets, improvement in net flows and a little bit of contribution from MTM gains. Management would provide fresh guidance in Q3FY22 concall.

### **NBFC book to remain steady**

Lending book grew marginally sequentially mainly due to IPO funding. The management expects the NBFC book to remain steady between Rs 3500-4500cr. The new SEBI rule on IPO financing is not going to have any significant impact as revenue generation in IPO financing is negligible but has to be done to maintain good relationships with clients. The loan book has no delinquency.

### **Risk & Concern**

#### **Regulatory risk in wealth management business**

The wealth management business is exposed to regulatory risks in terms of types and capping of fees it can charge to its clients. Any sudden regulatory change could impact its profitability like it did in FY20 when SEBI banned upfront commission in distribution of MF products.

#### **Volatility in equity markets**

A part of the returns generated by the company for its clients is dependent on stock price movements. Continued volatility in equity markets would lead to a slowdown in inflows as investors would take a 'wait and watch' approach.



### **IIFL-One not taking off as planned**

IIFLWAM is looking to transition its asset management business to fee-based model under its IIFL-One brand over the next 3-5 years. However, if this transition were to not go as planned, it could impact derisking process, growth and profitability of the company.

### **Modest scale of lending operations with concentration of top 20 exposures**

NBFC lending operations remain modest with a loan book of ~Rs 3,500cr as of H1FY22. Further, the portfolio is entirely concentrated on a single product, i.e. loans against securities to HNI clients with top 20 clients account for 45-50% of total loans.

### **Increasing competition from new Fintech players**

The improvement in accessibility has resulted in many new players entering the wealth management field claiming to be technologically advanced and at lower fees. This could result in higher competition, impact the fees charged by the company and reduce profitability going forward.

### **Rise in attrition of RMs and TLs could impact growth in AUM**

In wealth management business RMs and TLs play a big role in building and maintaining relationships with clients. In case there is a sharp rise in attrition of these, then it could impact the growth in AUM.

### **About the company**

IIFL Wealth Management is one of the fastest growing private wealth management firms in India with an AUM greater than USD 27 billion. It serves the 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.

IIFL Wealth pioneered the concept of charging an advisory fee instead of commissions bringing transparency to all their dealings and inspiring clients' trust. The company offers wealth management and asset management services through its 31 offices across 6 countries.

Major business lines include:

- Discretionary and non-discretionary multi-asset-class PMS. "Discretionary" is managing investments where decisions to buy or sell are made at the portfolio manager's discretion. "Non-discretionary" is where clients instruct portfolio manager regarding which trades to execute
- Distribution of financial products across asset classes
- Solutions for debt, equity, real estate, commodities and currency
- Credit solutions



- Estate and succession planning

#### Wealth Management

IIFL Wealth Management is one of the leading wealth management companies in India and is the investment and financial advisor to more than 5,300 influential families in the High Net Worth Individuals (HNI) and Ultra HNI segments in India and abroad.

#### Asset Management

IIFL Asset Management is an India focused, global asset management firm providing products like mutual funds, portfolio management schemes and alternative investment funds that span across public and private equities as well as fixed income securities.



## Financials

### Income Statement

(Rs cr)	FY20	FY21	FY22E	FY23E	FY24E
Recurring Revenues	535	583	837	1081	1281
Non-Recurring Revenue	316	470	500	532	561
<b>Total Income</b>	<b>851</b>	<b>1053</b>	<b>1337</b>	<b>1613</b>	<b>1842</b>
Employee exp	373	409	507	583	642
Depreciation	41	43	47	48	50
Other exp	149	116	127	149	166
Total operating exp	563	568	681	780	857
<b>PBT</b>	<b>288</b>	<b>485</b>	<b>656</b>	<b>833</b>	<b>984</b>
Tax	85	116	164	208	246
<b>PAT</b>	<b>202</b>	<b>370</b>	<b>492</b>	<b>625</b>	<b>738</b>

### Balance Sheet

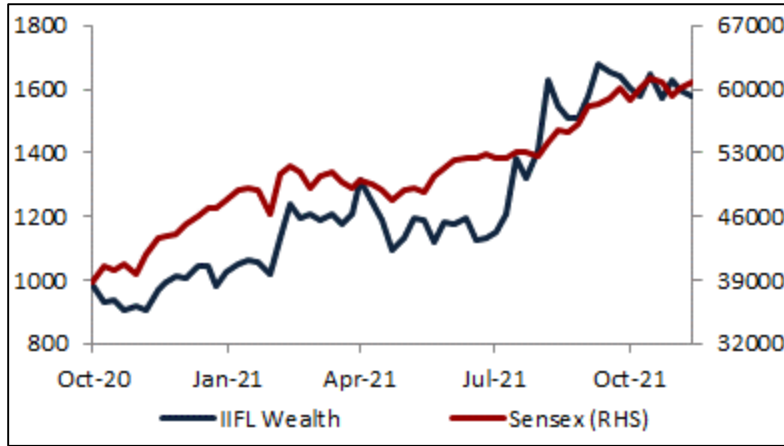
(Rs cr)	FY20	FY21	FY22E	FY23E	FY24E
Share Capital	17	18	18	18	18
Reserves & Surplus	2974	2810	2819	2916	3039
<b>Shareholder funds</b>	<b>2992</b>	<b>2828</b>	<b>2836</b>	<b>2934</b>	<b>3057</b>
Borrowings	8838	4712	4707	5177	5791
Other Liab & Prov.	1191	1201	1173	1215	1359
<b>SOURCES OF FUNDS</b>	<b>13021</b>	<b>8740</b>	<b>8716</b>	<b>9326</b>	<b>10207</b>
Fixed Assets	421	466	485	504	524
Investment	6512	2513	2251	2118	2165
Cash & Bank Balance	1179	788	655	659	650
Advances	3632	3721	4093	4707	5413
Other Assets	1088	879	859	965	1083
<b>TOTAL ASSETS</b>	<b>13021</b>	<b>8740</b>	<b>8716</b>	<b>9326</b>	<b>10207</b>

### Ratio Analysis

As at March (Rs cr)	FY20	FY21	FY22E	FY23E	FY24E
<b>Return Ratios (%)</b>					
Calc. Yield on ARR assets (%)	0.89	0.71	0.67	0.65	0.63
Calc. Yield on TBR assets	0.40	0.33	0.30	0.27	0.26
RoAE (excl. Goodwill)	7.3	14.1	20.0	24.9	28.2
RoAA	1.8	3.4	5.6	6.9	7.6
<b>Growth Ratios (%)</b>					
AUM	1.6	49.2	34.9	17.9	13.4
Total Income	-20.2	23.7	26.9	20.7	14.1
PAT	-45.7	82.6	33.1	27.1	18.2
<b>Per Share Data (Rs)</b>					
EPS	23.2	42.0	55.9	71.1	84.0
Adj. BVPS	343.3	321.8	322.7	333.8	347.8
Dividend per share	20.0	70.0	55.0	60.0	70.0
<b>Valuation Ratios (x)</b>					
P/E	68.0	37.6	28.2	22.2	18.8
P/ABV	4.6	4.9	4.9	4.7	4.5
Dividend Yield (%)	1.3	4.4	3.5	3.8	4.4
<b>Other Ratios (%)</b>					
Cost-Income	66.2	53.9	51.0	48.4	46.5
Cost-Avg AUM	0.4	0.3	0.3	0.3	0.2



## Price Chart







## HDFC Sec Retail Research Rating description

### Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

### Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

### Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicity of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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