

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR1,099 TP: INR1,500 (+37%) Buy

Bloomberg	IIFLWAM IN
Equity Shares (m)	87
M.Cap.(INRb)/(USDb)	96.6 / 1.3
52-Week Range (INR)	1358 / 782
1, 6, 12 Rel. Per (%)	-4/-2/-30
12M Avg Val (INR M)	47

A mixed quarter

- PAT grew 7% QoQ to INR1.03b (8% beat) in 4QFY21. The beat was driven largely by higher-than-expected TBR income.
- Core revenue (excluding other income) was largely flat at INR9.2b and PAT was up ~87% YoY to INR3.7b in FY21. Excluding the impact of other income, core operating profit was also flat YoY at INR3.5b.

Financials & Valuations (INR b)

Y/E March	2021	2022E	2023E
Net Revenues	9.2	11.0	12.9
Opex	5.7	6.2	6.7
Core PBT	3.5	4.8	6.2
PAT	3.7	4.4	5.3

Ratios

PBT margin (bp)	22	25	28
PAT margin (bp)	23	23	24
RoE (%)	12.7	16.3	19.9
Div. Payout (%)	167	150	80.0

Valuations

P/E (x)	26.2	21.9	18.2
P/BV (x)	3.4	3.7	3.6
Div. Yield (%)	6.4	6.9	4.4

Shareholding pattern (%)

As On	Mar-21	Dec-20	Mar-20
Promoter	22.9	23.0	22.9
DII	2.0	1.9	1.3
FII	24.2	21.9	20.1
Others	50.8	53.3	55.7

FII Includes depository receipts

Flows rebound due to a large institutional mandate

- Following the sharp decline in 3QFY21, net new flows rebounded to INR58b. This was aided by one large portfolio management mandate of INR35b. Net flows in FY21 were INR142b. The company has guided at flows improving to INR200b/INR250b in FY22/FY23.
- Annual Recurring Revenue (ARR) assets have continued to drive AUM growth. AUM rose 3.3% QoQ/32% YoY to INR2.07t, of which ARR assets grew 13% QoQ/63% YoY to INR1.02t. Transactional/Brokerage Revenue (TBR) assets declined 4% QoQ, but grew 11% YoY to INR1.05t.
- IIFL-ONE continued to gain traction, with AUM up 8% QoQ/58% YoY to ~INR280b. However, the share of discretionary assets (which are high yielding) declined to 31% from 35% QoQ.

Strong transactional revenue; opex flat

- ARR revenue (up 4% QoQ/13% YoY) missed our estimate by 7%. This was due to a 100bp QoQ decline in NIM on loans as well as a 6bp QoQ decline in AMC yields. Yields in IIFL-ONE remains stable at 28bp.
- Strong transactional revenue (36% beat) aided overall operational revenue beat. The surprise on TBR revenue came from IB/syndication-related fees of INR600m v/s INR442m in 3QFY21.
- The management guided at a 5bp reduction in overall yields to 52bp over FY21-23E.
- Total opex remained flat QoQ and was down 6% YoY to INR1.5b.

Highlights from the management commentary

- The company is looking to increase ARR share to 70-75% over the next 12-18 months from ~50% currently. IIFL-ONE share will rise to 50-55% of ARR by the end of FY22.
- Third-party products of INR227b, wherein commissions were received upfront (under TBR), are likely to mature in the proportion of 50%/35%/15% in FY22/FY23/FY24.

Valuation and view

Over the past decade, IIFLWAM has evolved into one of the leading wealth management franchises in India. It has also become one of the largest alternate asset managers, with unique product offerings. The AMC business has been scaling up fast and now comprises 18% of total AUM. Traction in IIFL-ONE remains healthy. However, yields are still sub-par. In 4QFY21, net flows have been encouraging. We keep our estimates largely unchanged. Buy with a TP of INR1,500/share (25x FY23E EPS).

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Quarterly performance

Y/E March	FY20				FY21				FY20	FY21	4QFY21E	Act. v/s est. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Net Revenues	2,108	2,316	2,211	2,565	1,988	2,120	2,392	2,656	9,200	9,154	2,493	7
Change (%)	-27.5	-13.7	1.0	4.8	-5.7	-8.5	8.2	3.6	-10.1	-0.5	-3.0	
Income from ARR Assets	1,286	1,249	1,392	1,419	1,277	1,401	1,543	1,608	5,345	5,828	1,721	-7
Income from TBR Assets	823	1,067	819	1,146	711	719	849	1,047	3,855	3,325	772	36
Operating Expenses	1,269	1,304	1,444	1,628	1,299	1,339	1,519	1,523	5,645	5,679	1,479	3
Change (%)	-11.0	-7.2	11.9	38.5	2.4	2.7	5.2	-6.5	6.6	0.6	-9.3	
Cost-to-Income Ratio (%)	60.2	56.3	65.3	63.5	65.4	63.2	63.5	57.3	61.4	62.0	59.3	
Operating Profit	839	1,012	767	936	689	781	873	1,133	3,555	3,474	1,014	12
Change (%)	-43.4	-20.9	-14.6	-26.4	-18.0	-22.8	13.8	21.0	-28.0	-2.3	7.9	
Other Income	62	-191	233	-795	405	347	406	215	-691	1,375	240	
Profit Before Tax	901	821	1,000	142	1,093	1,128	1,279	1,348	2,864	4,849	1,254	8
Change (%)	-40.3	-47.0	-3.1	-88.9	21.3	37.5	27.9	851.5	-46.8	69.3	736.0	
Tax	287	136	258	171	271	257	314	315	853	1,157	299	5
Tax Rate (%)	31.8	16.6	25.8	120.9	24.8	22.8	24.6	23.4	29.8	23.9	23.8	
PAT	615	685	742	-30	823	871	965	1,033	2,011	3,692	955	8
Change (%)	-43.8	-31.8	-7.3	-103.5	33.8	27.3	30.1	NM	-46.3	83.5	NM	
PAT Margin (%)	29.2	29.6	33.6	-1.2	41.4	41.1	40.3	38.9	21.9	40.3	38.3	
Key operating parameters (%)												
AUM (INR b)	1,423	1,439	1,508	1,388	1,583	1,671	1,775	1,801	1,388	1,583	1,832	-2
Change (%)	24.3	19.7	15.9	1.6	11.2	16.2	17.7	29.7	1.6	14.0	32.0	
ARR Assets	635	640	704	626	732	791	905	1,020	626	732	980	4
TBR Assets	979	993	1,017	943	1,036	1,080	1,100	1,051	943	1,036	1,105	-5
Less: Double Counting	191	194	214	181	185	200	230	270	181	185	254	6
Yields on AUM – Calculated %*	0.60	0.65	0.60	0.71	0.54	0.52	0.56	0.59				
ARR Assets	0.84	0.78	0.83	0.85	0.75	0.74	0.73	0.67				
TBR Assets	0.34	0.43	0.33	0.47	0.29	0.27	0.31	0.39				



Highlights from the management commentary

AUM related

- The company is looking to increase ARR share to 70-75% over the next 12-18 months from ~50% currently.
- Given the lower return on fixed income, appetite for differentiated investments and equities has increased.
- Strong growth in distribution-based products faced some cannibalization due to IIFL-ONE.
- Growth triggers for IIFL-ONE are: a) onboarding a large part of the flow of new clients to this segment, and b) movement from existing TBR AUM. IIFL-ONE share will rise to 50-55% of ARR by the end of FY22.
- Most corporate clients are happy to move to the advisory platform and don't see any impact of a change in regulation.
- Third-party products of INR227b, wherein commissions were received upfront (under TBR), are likely to mature in the proportion of 50%/35%/15% in FY22/FY23/FY24. Part of it will move to ARR (55-60%) and the rest will remain in TBR.

HR and admin related

- Mr. Aman Mirani joined the team and will head the RE segment.
- It is extensively adding digital capabilities.

- Senior level attrition in the Wealth and AMC business stood at five from over 80 people. Of this, three moved to start their own venture and two personnel were lost to competition.
- It promoted 6-7 principals to the partner level.
- Senior level attrition at the investment level is one out of 10 professionals.
- It lost 3-3.5% of clients and 1.3-1.4% of AUM.

P&L related

- Employee cost is likely to be 33-37% of income. It is ideally looking to maintain the same at 35% of income. ESOP cost will come down in FY22.
- In FY21, there was an additional one-off variable/employee cost of INR100-150m/INR200m.
- It clocked an INR850-900m MTM gain on AIF from a total other income of INR1.37b in FY21.
- It invested INR7-8b of equity at 7%. The INR10b AIF investment also leads to MTM gains/losses.

Capital and dividend

- It will require an optimal capital (excluding goodwill) of INR20b. The same at the NBFC/WM/AMC/holding company level is INR10b/INR5b/INR4b/INR1b.
- Another special dividend of INR35-40/share is likely in FY22. The management is looking to maintain its regular dividend payout ratio in the 60-80% range.
- Capital allocation in the Wealth and AMC business: INR2.2-2.3b of WC requirement, INR1-1.2b exchange requirement, and INR4-5b of investments.
- Incremental investments going into AIF stands at 1.5-2% of the funds mobilized.

Others

- Out of a total debt of INR47b, INR14-15b MLD is maturing by Jun-Jul'21, 97-98% are MLD, and the rest is CPs.
- **Wealth unit economics in the long term** – Fees: 40-45bp + TBR: 10-15bp + NIM: 8-10bp; CIR: 50-52%; and PAT: 27-28bp.
- **Team level unit economics:** A senior banker, with a fixed salary of INR8-12.5m, is in turn supported by 3-4 juniors, with a fixed salary aggregating to INR12.5-15m. The total fixed compensation of the team is INR20-22.5m. Other associated direct cost are: a) advisory council, b) product team, c) execution team, and d) other opex. These costs together work out to INR22.5-25m. Total cost at the team level is INR45m. To break even at a yield of 60-70bp, AUM of INR7-7.5b are required. It sees operating leverage in fixed cost and variable cost. A new team takes 2-3 years to break even. On a steady state basis, fixed cost-to-salary ratio fell to 0.7x v/s 1x.
- Steady state cost-to-income ratio in Wealth/AMC is 56-57%/50%. This can reduce by a maximum of 5%.

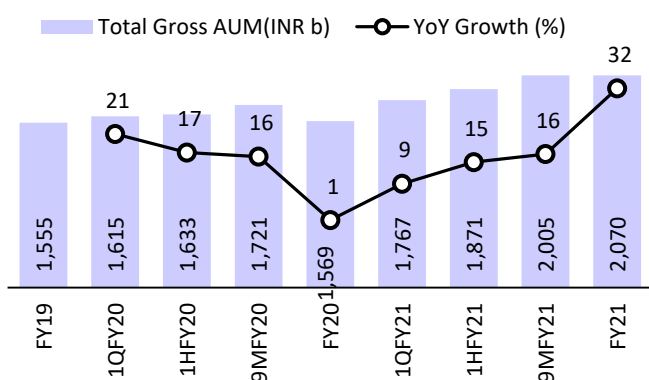
Exhibit 1: Largely maintain our FY22E/FY23E estimate

INR b	Old Estimate		New Estimate		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
ARR Revenue	7.9	10.0	7.7	9.8	-1.8	-2.2
TBR Revenue	3.3	3.4	3.2	3.1	-1.8	-8.1
Total Income	11.2	13.4	11.0	12.9	-1.8	-3.7
Operating Expenses	6.5	7.4	6.2	6.7	-4.2	-9.3
Operating Profit	4.7	6.0	4.8	6.2	1.5	3.3
Other Revenue	1.0	1.2	1.0	0.8	0.0	-33.3
PBT	5.7	7.2	5.8	7.0	1.3	-2.9
Tax	1.4	1.8	1.4	1.7		
PAT	4.3	5.4	4.4	5.3	2.6	-1.6
Total AUM	2,165	2,561	2,062	2,371	-4.8	-7.4
Cost-to-core income	57.7	55.4	56.2	52.2		
RoE	19.1	25.6	16.3	19.9		
Dividend payout ratio	206.5	70.0	150.0	80.0		

Source: MOFSL, Company

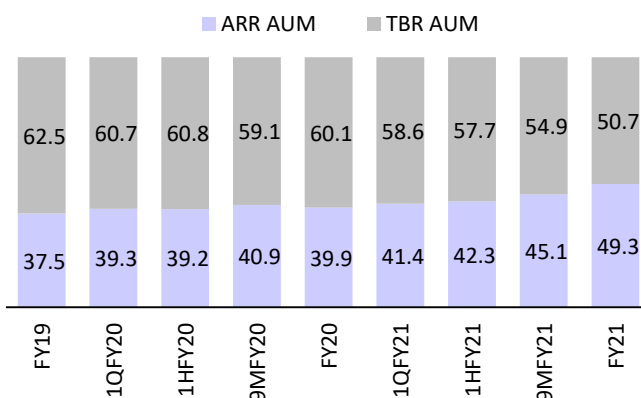
Key exhibits

Exhibit 2: Total AUM up 32% off a low base



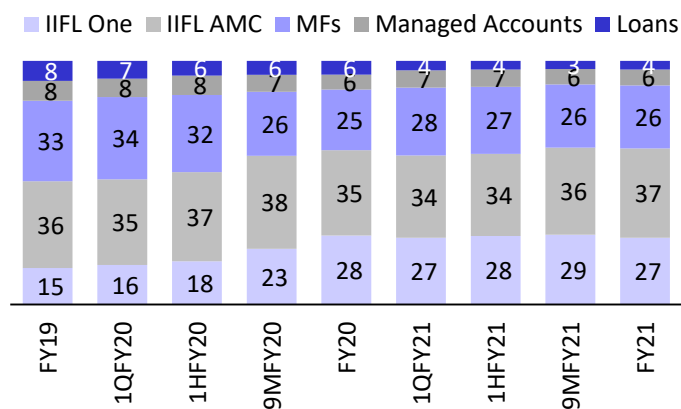
Source: MOFSL, Company

Exhibit 3: ARR share now ~50% (%)



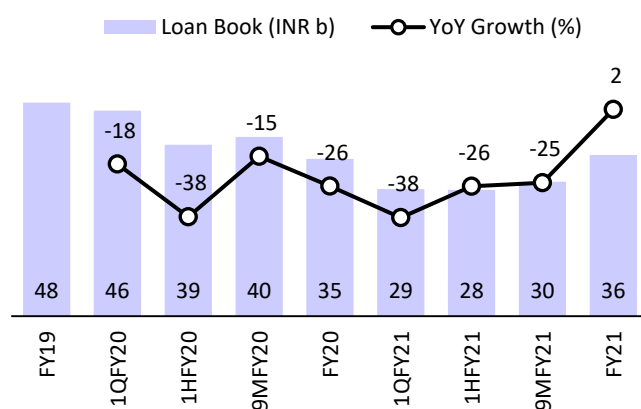
Source: MOFSL, Company; Note: Share in gross AUM

Exhibit 4: ARR AUM mix (%)



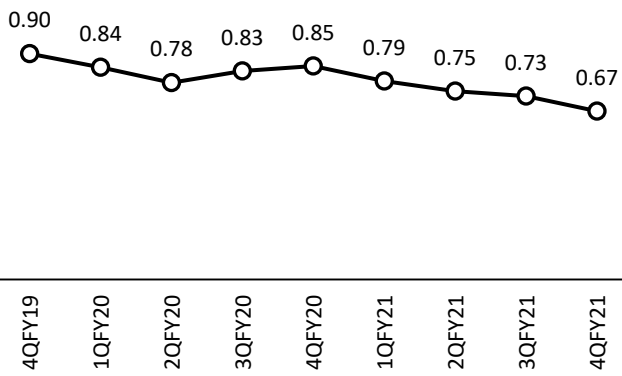
Source: MOFSL, Company

Exhibit 5: Sequential uptick in the loan book



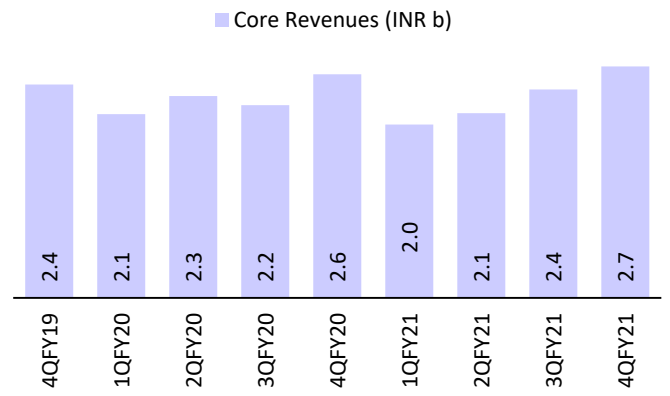
Source: MOFSL, Company

Exhibit 6: ARR yields decline (%)



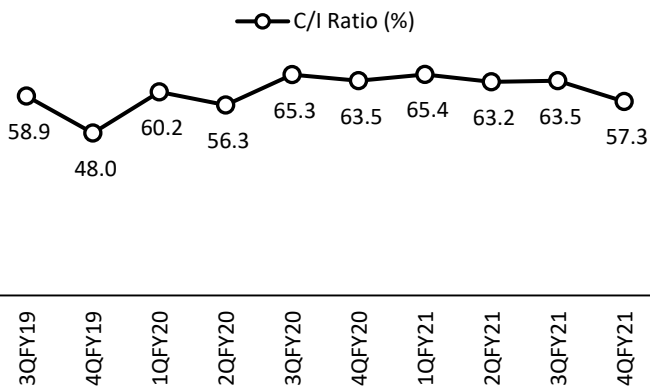
Source: MOFSL, Company

Exhibit 7: Trend in core revenue



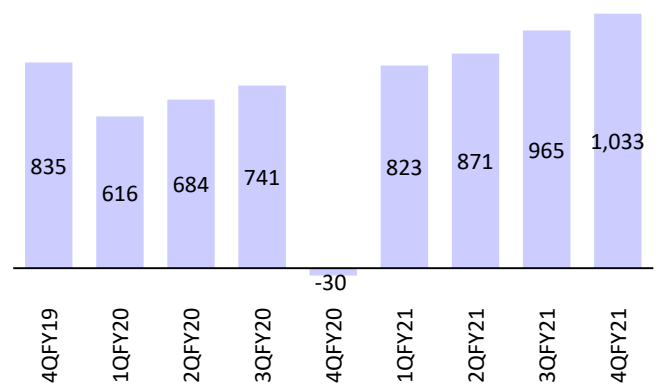
Source: MOFSL, Company; Defined as ARR+TBR revenues

Exhibit 8: C/I ratio moderates



Source: MOFSL, Company

Exhibit 9: Trend in consolidated PAT (INR m)



Source: MOFSL, Company

Financials and valuations

Income Statement						(INR m)		
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Annual Recurring Revenues Assets	2,392	3,670	4,437	5,345	5,828	7,750	9,813	12,075
Transactional/Broking Revenues Assets	4,687	6,618	5,794	3,855	3,325	3,245	3,092	3,027
Net Revenue	7,079	10,288	10,231	9,200	9,154	10,995	12,905	15,102
Change (%)	52.6	45.3	-0.5	-10.1	-0.5	20.1	17.4	17.0
Operating Expenses	4,013	5,652	5,297	5,645	5,679	6,185	6,738	7,344
Core Profit Before Tax	3,066	4,636	4,934	3,555	3,474	4,810	6,167	7,758
Change (%)	69.4	51.2	6.4	-28.0	-2.3	38.5	28.2	25.8
Other Income	779	140	445	-691	1,375	1,000	800	800
Profit Before Tax	3,845	4,775	5,380	2,864	4,849	5,810	6,967	8,558
Change (%)	69.8	24.2	12.7	-46.8	69.3	19.8	19.9	22.8
Tax	1,161	1,099	1,634	853	1,157	1,394	1,672	2,054
Tax Rate (%)	30.2	23.0	30.4	29.8	23.9	24.0	24.0	24.0
PAT	2,684	3,676	3,746	2,011	3,692	4,416	5,295	6,504
Change (%)	58.4	37.0	1.9	-46.3	83.5	19.6	19.9	22.8
Proposed Dividend	534	785	848	2,018	6,150	6,624	4,236	5,203

Balance Sheet						(INR m)		
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	156	160	169	174	176	176	176	176
Reserves and Surplus	15,043	18,469	28,935	29,741	28,102	25,894	26,953	28,254
Net Worth	15,198	18,629	29,104	29,915	28,278	26,070	27,129	28,430
Borrowings	56,261	69,663	61,145	88,381	47,116	56,477	67,772	81,326
Other Liabilities	4,505	7,374	7,553	11,967	12,006	13,206	14,527	15,979
Total Liabilities	75,964	95,666	97,802	1,30,263	87,400	95,752	1,09,427	1,25,735
Cash and Investments	32,887	18,564	33,300	76,911	33,010	33,403	36,496	40,294
Change (%)		-43.6	79.4	131.0	-57.1	1.2	9.3	10.4
Loans	36,520	70,561	49,665	36,319	37,206	43,443	52,132	62,559
Net Fixed Assets	291	523	5,100	5,754	8,153	8,968	9,865	10,852
Net Current Assets	6,267	6,017	9,737	11,278	9,030	9,937	10,934	12,030
Total Assets	75,964	95,666	97,802	1,30,263	87,400	95,752	1,09,427	1,25,735

E: MOSL estimates

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
AUM (excluding custody assets) (INR b)	859	1,124	1,366	1,388	1,801	2,062	2,371	2,683
Change (%)	44.9	30.9	21.5	1.6	29.7	14.5	15.0	13.1
Annual Recurring Revenue Assets	299	449	583	626	1,020	1,343	1,727	2,131
Transactional/Brokerage Assets	685	861	972	943	1,051	1,043	1,018	1,000
Double counted assets	-125	-185	-189	-181	-270	-324	-373	-448

E: MOFSL estimates

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
As a percentage of Net Revenue								
ARR Income	33.8	35.7	43.4	58.1	63.7	70.5	76.0	80.0
TRB Income	66.2	64.3	56.6	41.9	36.3	29.5	24.0	20.0
Total Cost (Cost-to-Income Ratio)	56.7	54.9	51.8	61.4	62.0	56.2	52.2	48.6
Employee Cost	37.8	37.9	32.4	40.5	44.7	40.0	36.6	33.6
PBT	43.3	45.1	48.2	38.6	38.0	43.8	47.8	51.4
Profitability Ratios (%)								
RoE	17.7	21.7	15.7	6.8	12.7	16.3	19.9	23.4
Dividend Payout Ratio	19.9	21.4	22.6	100.3	166.6	150.0	80.0	80.0

DuPont Analysis (Bp of AAAUM)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Operating Income	98	104	82	67	57	57	58	60
Operating Expenses	55	57	43	41	36	32	30	29
Core Profit Before Tax	42	47	40	26	22	25	28	31
Other Income	11	1	4	-5	9	5	4	3
Profit Before Tax	53	48	43	21	30	30	31	34
Tax	16	11	13	6	7	7	8	8
ROAAAUM	37	37	30	15	23	23	24	26

Valuations	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
BVPS (INR)	195	234	344	343	322	297	309	323
Change (%)		19.8	47.5	-0.4	-6.3	-7.8	4.1	4.8
Price-to-BV (x)					3.4	3.7	3.6	3.4
EPS (INR)	34	46	44	23	42	50	60	74
Change (%)		33.9	-3.8	-47.9	82.0	19.6	19.9	22.8
Price-to-Earnings (x)					26.2	21.9	18.2	14.8
DPS (INR)	6	9	10	20	70	75	48	59
Dividend Yield (%)					6.4	6.9	4.4	5.4

E: MOFSL estimates

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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