

Estimate change 

TP change 

Rating change 

CMP: INR1,751

TP: INR2,200 (+26%)

Buy

Revenue beat led by transaction-based income

Bloomberg	IIFLWAM IN
Equity Shares (m)	87
M.Cap.(INRb)/(USDb)	155.4 / 2
52-Week Range (INR)	1907 / 1064
1, 6, 12 Rel. Per (%)	12/17/34
12M Avg Val (INR M)	191

Financials & Valuations (INR b)

Y/E March	2022	2023E	2024E
Net Revenues	14.0	15.5	17.5
Opex	7.8	7.7	8.5
Core PBT	6.1	7.8	8.9
PAT	5.8	6.8	7.7
EPS	65.2	76.8	86.9
BV	337.9	353.3	370.6

Ratios

PBT margin (bp)	26.2	27.8	28.1
PAT margin (bp)	24.7	24.4	24.2
RoE (%)	19.8	22.2	24.0
Div. Payout (%)	84.0	80.0	80.0

Valuations

P/E (x)	27.1	23.0	20.3
P/BV (x)	5.2	5.0	4.8
Div. Yield (%)	3.1	3.5	3.9

Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	23.1	23.2	22.9
DII	3.6	3.2	2.0
FII	22.1	22.7	24.2
Others	51.2	51.0	50.8

FII Includes depository receipts

- PAT grew 8% QoQ and 64% YoY to INR1.7b (24% beat) in 4QFY22. The beat on profitability was driven by a 16% beat on net revenue, up 12% QoQ and 59% YoY to INR4.2b, owing to Transaction/Brokerage Revenue (TBR, 39% beat) and Annual Recurring Revenue (ARR, a 4% beat).
- OPEX stood at INR2.4b, up 54% YoY and 6% QoQ and 5% higher than our estimate. The increase was attributable to higher variable employee expenses (+5% QoQ) and administration costs (+11% QoQ).
- The cost-to-income ratio stood at 55.6% (est. 61.2%), down 310bp QoQ, and 180bp YoY.
- Sequentially, net inflows improved to INR70.4b in 4Q (excluding custody) from INR63.9b in 3QFY22.
- Gross closing AUM (excluding custody assets) was flat QoQ, but registered 26% YoY growth, with a continued shift in the mix towards ARR assets. ARR share stood at 55.2% (up 230bp QoQ and 593bp YoY). The share of ARR in overall revenue stood at 60% v/s 65% in 3QFY22 on account of a strong growth in TBR revenue. Within ARR assets, distribution AUM and IIFL-ONE AUM grew 8% and 5% QoQ, respectively.

Gross AUM flat QoQ at INR2.6t; shift in mix favors ARR assets

- On a closing AUM basis, ARR assets rose 4% QoQ and 42% YoY to INR1.4t. TBR assets declined by 5% QoQ, but grew 12% YoY to INR1.2t.
- AUM for IIFL-ONE rose 5% QoQ and 17% YoY, led by a strong 9%/6% QoQ growth in advisory/discretionary PMS assets.

Yields jump sequentially with a higher increase in TBR

- Net revenue beat our estimate by 16%, led by a 4%/39% beat in ARR/TBR revenue. ARR grew 3% QoQ and 57% YoY to INR2.5b. TBR grew 29% QoQ and 63% YoY.
- ARR yield was flat QoQ at 71bp, whereas TBR yield jumped 14bp QoQ to 57bp. Net operational yield improved 64bp QoQ. Within the ARR segment, the net yield for IIFL-ONE moderated QoQ to 33bp (from 34bp), while the yields for distribution assets rose to 55bp (+3bp QoQ).
- Total OPEX jumped 6% QoQ and 54% YoY to INR2.4b (5% higher than our estimate). In 4QFY22, the company saw higher variable costs on account of the business model transition (in line with its guidance of the transition being completed by Mar'22). In FY23, the management expects overall employee costs to stabilize at 32-33% of total revenue. Higher administration costs were attributable to an increase in technology, client engagement, and marketing spends.

Other highlights

- Other income was lower than our expectations at INR265m, down 37% QoQ.
- The NBFC loan book saw modest growth at INR43b (v/s INR42b in 3QFY22).

Highlights from the management commentary

- Some part of the TBR income in FY22 was one-off in nature and is not expected to reoccur. Normalized TBR income stood at INR0.8-1b per quarter, and the management has factored the same in its FY23 and FY24 guidance.
- Normalized employee cost, as a percentage of revenue, is 33-34%. It has incurred a one-time cost for the last two years on the back of a business model transition to ARR from TBR assets.
- Due to the COVID-19 pandemic, there was a backlog in marketing spends. As a result, FY22 saw 5% incremental cost, which is non-repetitive in nature. The normalized run-rate for administration expense will be INR450-500m.

Healthy performance in 4QFY22; maintain Buy

- Over the past decade, IIFLWAM has evolved into one of the best Wealth Management franchises in India. It has emerged as one of the largest alternate asset managers, with unique product offerings. With IIFL-ONE, the company is looking to change the way Wealth Management is offered in India by focusing on recurring revenue rather than the traditional approach of transaction-based revenue. The momentum in ARR assets continued in 4QFY22, with strong growth in IIFL-ONE and distribution assets. While yields were flat for ARR, TBR yields saw a sharp jump in 4QFY22. The company continued to see strength in its net inflows in 4QFY22. We maintain our **Buy** rating with a TP of INR2,200/share (premised on 25x FY24E EPS).

Quarterly performance

Y/E March	FY21				FY22				(INR m)		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	FY21	FY22	FY22E 4QE
Net Revenue	1,988	2,120	2,392	2,656	2,834	3,143	3,781	4,228	9,154	13,987	3,644
Change (%)	-5.7	-8.5	8.2	3.6	42.6	48.3	58.1	59.2	-0.5	52.8	37.2
ARR Assets Income	1,277	1,401	1,543	1,608	1,936	2,222	2,451	2,524	5,828	9,133	2,420
TBR Assets Income	711	719	849	1,047	898	921	1,330	1,704	3,325	4,854	1,224
Operating Expenses	1,299	1,339	1,519	1,523	1,531	1,730	2,220	2,350	5,679	7,831	2,230
Change (%)	2.4	2.7	5.2	-6.5	17.8	29.2	46.2	54.3	0.6	37.9	46.4
Cost-to-Income Ratio (%)	65.4	63.2	63.5	57.3	54.0	55.0	58.7	55.6	62.0	56.0	61.2
Operating Profit	689	781	873	1,133	1,304	1,413	1,561	1,878	3,474	6,156	1,414
Change (%)	-18.0	-22.8	13.8	21.0	89.3	80.9	78.8	65.8	-2.3	77.2	24.8
Other Income	405	347	406	215	206	480	420	265	1,375	1,371	394
Profit Before Tax	1,093	1,128	1,279	1,348	1,510	1,893	1,981	2,143	4,849	7,527	1,808
Change (%)	21.3	37.5	27.9	851.5	38.1	67.8	54.9	59.0	69.3	55.2	34.1
Tax	271	257	314	315	341	458	449	487	1,157	1,735	478
Tax Rate (%)	24.8	22.8	24.6	23.4	22.6	24.2	22.7	22.7	23.9	23.1	26.4
PAT	823	871	965	1,033	1,169	1,435	1,532	1,657	3,692	5,792	1,331
Change (%)	33.8	27.3	30.1	NM	42.0	64.6	58.8	60.3	83.5	56.9	28.8
PAT Margin (%)	41.4	41.1	40.3	38.9	41.2	45.6	40.5	39.2	40.3	41.4	36.5
Key Operating Parameters (%)											
AUM (INR b)	1,767	1,871	2,005	2,070	2,352	2,566	2,628	2,617	2,070	2,617	2,806
Change (%)	9.5	14.6	16.5	32.0	33.1	37.1	31.1	26.4	32.0	26.4	35.5
ARR Assets	732	791	905	1,020	1,175	1,320	1,389	1,444	1,020	1,444	1,497
TBR Assets	1,036	1,080	1,100	1,051	1,178	1,246	1,238	1,173	1,051	1,173	1,309
Yield on AUM - Calculated (%)*	0.48	0.47	0.49	0.52	0.51	0.51	0.58	0.64			
ARR Assets	0.75	0.74	0.73	0.67	0.71	0.71	0.72	0.71			
TBR Assets	0.29	0.27	0.31	0.39	0.32	0.30	0.43	0.57			



Highlights from the management commentary

Business highlights

- IIFLWAM is well positioned to gain from a large part of the wealth creation occurring in Tier II and III cities.
- The business model transition towards ARR assets is coming to an end.
- Around 78% of team leaders have been with the company for more than five years, thus improving productivity and client stickiness for the business.
- The company is constantly upgrading its digital platforms to deliver a better client experience.
- Although a custody asset does not generate any revenue, they are useful over a longer horizon as they can be monetized by way of dividend or sale.
- Credit is expected to fuel growth for the company over the next few months.

INR50-200m category

- This Wealth segment is growing disproportionately and most wealth managers have a presence here. The company is currently adding the right technology to cater to this business segment, which is expected to go live by 1QFY24.
- The company is continuously in touch with new-age millennials. In the case of monetization of younger tech, it has changed its behavior towards the profile of the client and innovation of the product and platform. It is currently not targeting individuals in their late 30s, who work for tech companies and have a wealth of INR50-150m, but intends to be ready for this segment over the next four-to-five months. The wealth group of INR0-50m is not a focus area for the company at present.
- **Client segment:** The management expects all the three client categories: 1) DIY clients, 2) clients who are knowledgeable and wants to arrive at their own investment decisions, and 3) clients who are looking at investment solutions. In the last two years, there was a disproportionate growth in the first category of clients. However, with increased market volatility, eventually clients will be spread across in all three categories.

Tie-ups

- **AMC:** The management is open to tie-ups with Banks in its Asset Management business. Currently, it has tie-ups for 65% of its products.
- **Wealth Management:** Within the Wealth Management business, the focus will continue to remain on the B2C segment.
- **Flows:** Quarterly flows remain in the INR35-150b range.

Financials

- **TBR revenue:** Some part of TBR income in FY22 was one-off in nature and is not expected to reoccur. Normalized TBR income is INR0.8-1b per quarter, and the management has factored in the same in its FY23 and FY24 guidance.
- **Performance fees:** There were no performance fees booked in 4QFY22. Carry income in the first fund launched will start to accrue from FY23. Performance fees across all funds range between INR3.5b and INR4b.
- **Carry income:** The management has not factored in carry income in the guidance provided.

- **Employee cost:** Normalized employee cost, as a percentage of revenue, is 33-34%. It has incurred a one-time cost for the last two years on the back of a business model transition to ARR from TBR assets.
- **Administration cost:** Due to the COVID-19 pandemic, there was a backlog in marketing spends. As a result, FY22 saw 5% incremental cost, which is non-repetitive in nature. The normalized run-rate for administration expense will be INR450-500m.
- **Technology expense:** The Accenture platform is in the implementation phase and will cost INR70-80m per quarter.

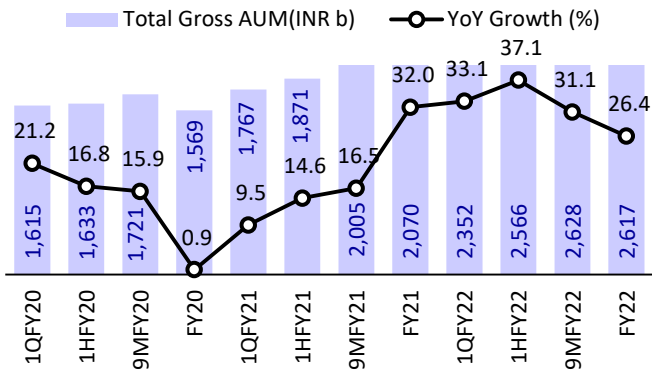
Exhibit 1: Marginally downgrade our FY23/FY24 estimate to factor in normalization of TBR revenue and management guidance on expenses

INR b	Old estimate		New estimate		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
ARR Revenue	11.8	13.8	11.7	13.7	-0.5	-0.9
TBR Revenue	3.9	3.9	3.8	3.8	-4.7	-4.7
Total Income	15.7	17.8	15.5	17.5	-1.6	-1.8
Operating Expenses	8.2	9.0	7.7	8.5	-5.5	-5.5
Operating Profit	7.6	8.8	7.8	8.9	2.7	2.0
Other Revenue	1.2	1.2	1.2	1.2	0.0	0.0
PBT	8.8	10.0	9.0	10.1	2.3	1.8
Tax	2.1	2.4	2.2	2.4		
PAT	6.7	7.6	6.8	7.7	2.3	1.8
Total AUM	3,097	3,501	2,968	3,406	-4.2	-2.7
Cost-to-core income	52.0	50.7	49.9	48.8		
RoE	23.0	24.9	22.2	24.0		
Dividend payout ratio	80.0	80.0	80.0	80.0		

Source: MOFSL, Company

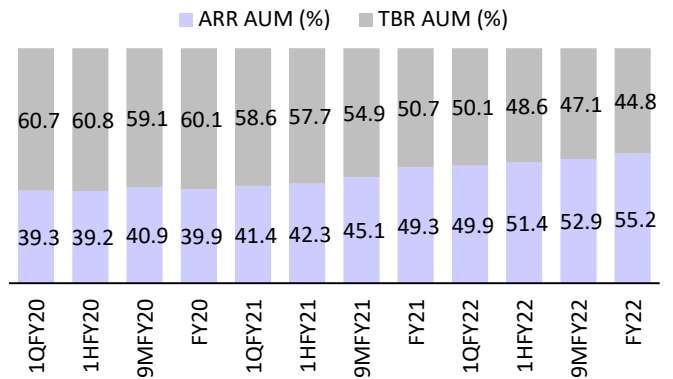
Key exhibits

Exhibit 2: Total AUM up 26% YoY



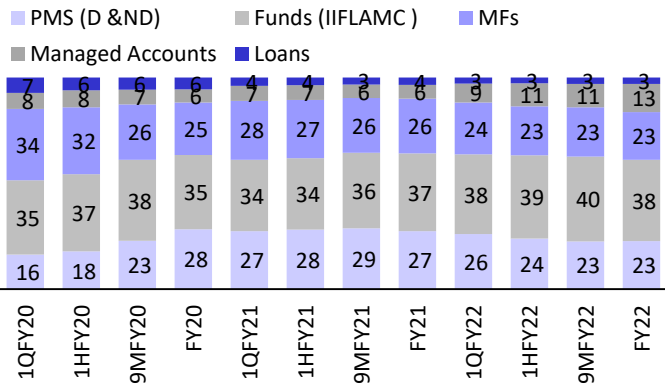
Source: MOFSL, Company

Exhibit 3: ARR share now ~55% (%)



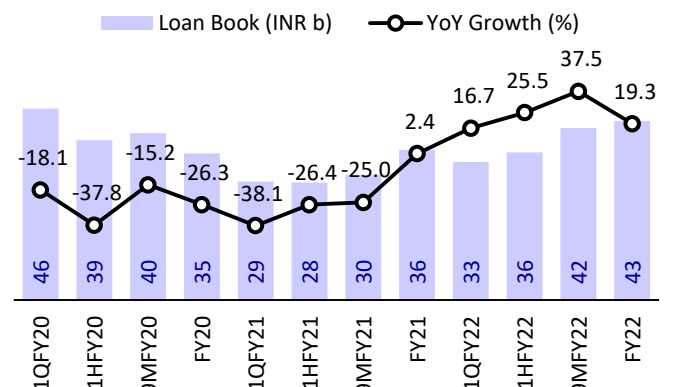
Source: MOFSL, Company

Exhibit 4: ARR AUM mix (%)



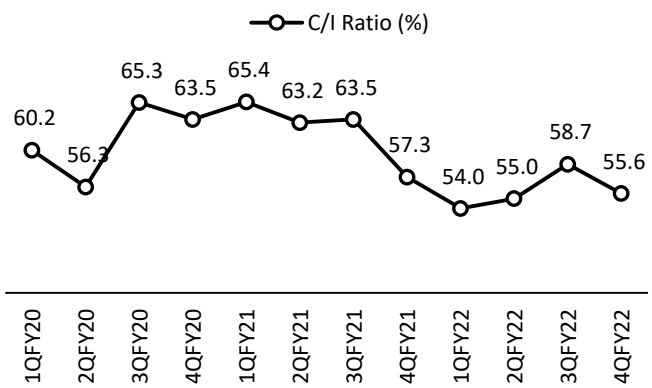
Source: MOFSL, Company

Exhibit 5: Loan book remains flat sequentially



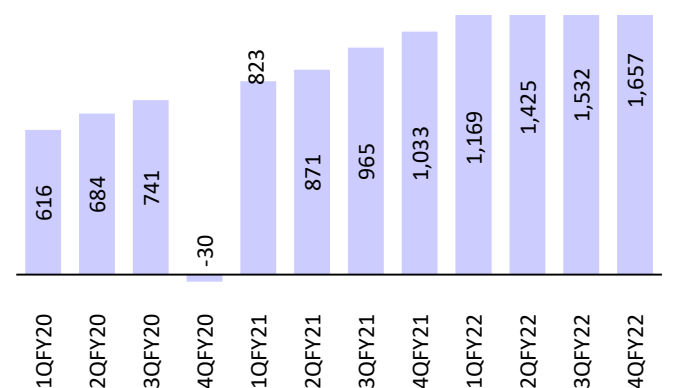
Source: MOFSL, Company

Exhibit 6: C/I ratio declines sequentially



Source: MOFSL, Company

Exhibit 7: Trend in consolidated PAT (INR m)



Source: MOFSL, Company

Financials and valuations

						(INR m)	
Income Statement							
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Annual Recurring Revenue Assets	3,670	4,437	5,345	5,828	9,120	11,742	13,701
Transactional/Broking Revenue Assets	6,618	5,794	3,855	3,325	4,862	3,754	3,754
Net Revenue	10,288	10,231	9,200	9,154	13,982	15,496	17,455
Change (%)	45.3	-0.5	-10.1	-0.5	52.8	10.8	12.6
Operating Expenses	5,652	5,297	5,645	5,679	7,838	7,737	8,510
Core Profit Before Tax	4,636	4,934	3,555	3,474	6,144	7,759	8,944
Change (%)	51.2	6.4	-28.0	-2.3	76.8	26.3	15.3
Other Income	140	445	-691	1,375	1,372	1,200	1,200
Profit Before Tax	4,775	5,380	2,864	4,849	7,516	8,959	10,144
Change (%)	24.2	12.7	-46.8	69.3	55.0	19.2	13.2
Tax	1,099	1,634	853	1,157	1,736	2,150	2,435
Tax Rate (%)	23.0	30.4	29.8	23.9	23.1	24.0	24.0
PAT	3,676	3,746	2,011	3,692	5,780	6,809	7,710
Change (%)	37.0	1.9	-46.3	83.5	56.6	17.8	13.2
Proposed Dividend	785	848	2,018	6,150	4,858	5,447	6,168

						(INR m)	
Balance Sheet							
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	160	169	174	176	177	177	177
Reserves and Surplus	18,469	28,935	29,741	28,102	29,798	31,160	32,702
Net Worth	18,629	29,104	29,915	28,278	29,976	31,337	32,879
Borrowings	69,663	61,145	88,381	47,116	58,075	61,842	61,842
Other Liabilities	7,374	7,553	11,967	12,006	19,345	21,279	23,407
Total Liabilities	95,666	97,802	1,30,263	87,400	1,07,396	1,14,459	1,18,129
Cash and Investments	18,564	33,300	76,911	33,010	49,566	52,267	54,031
Change (%)	-43.6	79.4	131.0	-57.1	50.2	5.4	3.4
Loans	70,561	49,665	36,319	37,206	40,549	43,180	43,180
Net Fixed Assets	523	5,100	5,754	8,153	8,163	8,979	9,877
Net Current Assets	6,017	9,737	11,278	9,030	9,117	10,034	11,041
Total Assets	95,666	97,802	1,30,263	87,400	1,07,396	1,14,459	1,18,129

E: MOFSL estimates

Financials and valuations

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
AUM (excl. Custody assets) (INR b)	1,309	1,555	1,569	2,070	2,617	2,968	3,406
Change (%)	33.1	18.7	0.9	32.0	26.4	13.4	14.8
Annual Recurring Revenue Assets	449	583	626	1,020	1,444	1,795	2,232
Transactional/Brokerage Assets	861	972	943	1,051	1,173	1,173	1,173

E: MOFSL estimates

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
As a percentage of Net Revenue							
ARR Income	35.7	43.4	58.1	63.7	65.2	75.8	78.5
TRB Income	64.3	56.6	41.9	36.3	34.8	24.2	21.5
Total Cost (Cost-to-Income Ratio)	54.9	51.8	61.4	62.0	56.1	49.9	48.8
Employee Cost	37.9	32.4	40.5	44.7	42.2	36.2	35.3
PBT	45.1	48.2	38.6	38.0	43.9	50.1	51.2
Profitability Ratios (%)							
RoE	21.7	15.7	6.8	12.7	19.8	22.2	24.0
Dividend Payout Ratio	21.4	22.6	100.3	166.6	84.0	80.0	80.0

DuPont Analysis (Bp of AAAUM)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Operating Income	89.7	71.4	58.9	50.3	59.7	55.5	54.8
Operating Expenses	49.3	37.0	36.1	31.2	33.4	27.7	26.7
Core Profit Before Tax	40.4	34.5	22.8	19.1	26.2	27.8	28.1
Other Income	1.2	3.1	-4.4	7.6	5.9	4.3	3.8
Profit Before Tax	41.6	37.6	18.3	26.6	32.1	32.1	31.8
Tax	9.6	11.4	5.5	6.4	7.4	7.7	7.6
ROAAAUM	32.1	26.2	12.9	20.3	24.7	24.4	24.2

Valuations	2018	2019	2020	2021	2022	2023E	2024E
BVPS (INR)	234	344	343	322	338	353	371
Change (%)	19.8	47.5	-0.4	-6.3	5.0	4.5	4.9
Price-to-BV (x)	7.5	5.1	5.1	5.5	5.2	5.0	4.8
EPS (INR)	46	44	23	42	65	76.8	87
Change (%)	33.9	-3.8	-47.9	82.0	55.1	17.8	13.2
Price-to-Earnings (x)	38.2	39.8	76.4	42.0	27.1	23.0	20.3
DPS (INR)	9	10	20	70	55	61	70
Dividend Yield (%)		0.6	1.1	4.0	3.1	3.5	3.9

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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