

Estimate change 

 TP change 

 Rating change 

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Bloomberg	IIFLWAM IN
Equity Shares (m)	87
M.Cap.(INRb)/(USD\$b)	145.5 / 1.8
52-Week Range (INR)	1907 / 1226
1, 6, 12 Rel. Per (%)	15/13/20
12M Avg Val (INR M)	188

Financials & Valuations (INR b)

Y/E March	2022	2023E	2024E
Net Revenues	14.0	15.8	17.3
Opex	7.8	7.2	7.9
Core PBT	6.1	8.5	9.4
PAT	5.8	7.0	7.9
EPS	65.2	79.4	89.0
EPS Grw (%)	55.1	21.9	12.0
BV	337.9	353.8	371.6

Ratios

PBT margin (bp)	26.2	31.4	31.3
PAT margin (bp)	24.7	25.9	26.3
RoE (%)	19.8	23.0	24.5
Div. Payout (%)	84.0	80.0	80.0

Valuations

P/E (x)	24.9	20.4	18.2
P/BV (x)	4.8	4.6	4.4
Div. Yield (%)	3.4	3.9	4.4

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	23.2	23.1	22.9
DII	3.2	3.6	1.4
FII	22.4	22.1	24.9
Others	51.3	51.2	50.8

FII Includes depository receipts

CMP: INR1,640
TP: INR2,200 (+34%)
Buy

Strong operational performance

- IIFLWAM's PAT declined 5% QoQ, but grew 34% YoY to INR1.6b (4% beat) in 1QFY23. The beat on profitability was driven by a 5% beat on net revenue (down 11% QoQ but up 32% YoY to INR3.8b) owing to a 34% beat on Transaction/Brokerage Revenue (TBR), whereas Annual Recurring Revenue (ARR) was 4% lower than our estimate.
- Opex stood at INR1.7b, a decline of 29% QoQ / 9% YoY growth and 7% below our estimate. The sequential decline was mainly attributable to a sharp fall of 68% in variable employee expenses. Admin costs also declined 24% QoQ.
- The cost/income ratio came in at 44.5% (est. 50.4%), down 1,100bp QoQ, and 950bp YoY.
- Sequentially, net inflows moderated slightly to INR60.8b in 1QFY23 (excluding custody) from INR70.4b in 4QFY22.
- Gross closing AUM (excluding custody assets) dropped QoQ but posted 7% YoY growth, with a continued shift in the mix towards ARR assets. ARR's share stood at 57% v/s 55% in 4QFY22. The share of ARR in overall revenue stood at 68% v/s 60% last quarter, with normalization of TBR revenue. Within ARR assets, IIFL One AUM saw a marginal dip of 1% QoQ.

Gross AUM declines QoQ to INR2.5t; shift in mix favors ARR assets

- On a closing AUM basis, ARR assets dipped 1% QoQ but grew 22% YoY to INR1.4t. TBR assets declined 7% both YoY/QoQ to INR1.1t.
- AUM for IIFL ONE was down 1% QoQ but rose 6% YoY. The sequential decline was led by a 5% drop in non-discretionary PMS assets, whereas advisory assets grew 4%. MTM hit on ARR assets was INR60b, while in TBR assets the hit was INR98b.

Marginal contraction in yields with normalization of TBR yields

- ARR grew 32% YoY and 1% QoQ to INR2.6b, while TBR declined 30% QoQ but jumped 32% YoY to INR1.2b.
- ARR yield remained flat QoQ at 71bp, whereas TBR yield contracted to 42bp QoQ (-15bp). Resultantly, net operational yield declined QoQ to 58bp. Within the ARR segment, the net yield for IIFL ONE saw slight moderation QoQ to 32bp (from 33bp).

Sharp decline in opex led by variable employee and admin costs

- As guided by the management, employee costs reduced by 30% QoQ on the back of one offs in the previous year pertaining to 1) one time costs to acquire L&T Wealth Management team and 2) costs related to soft landing for RM incentives relating to transitioning from TBR to ARR model.
- Admin cost also decreased 25% QoQ to INR430m.

Other highlights

- Other income came in at negative INR60m v/s our estimate of positive INR225m.
- The NBFC loan book too contracted to INR42b (from INR43b in 4QFY22).
- The management has approved an interim dividend of INR15/share.

Highlights from the management commentary

- IIFLWAM has entered into an agreement to acquire 91% stake in MAVM Angels at a valuation of INR420m + cash & cash equivalents. This is a platform-based company with a revenue of INR100m and PAT of INR30m. This acquisition will help IIFLWAM commence its journey towards CAT 1 AIF and it will also help in engaging customers towards private equity side.
- Management remains confident of achieving all the guidance including that of inflows of INR350-400b on a steady-state basis. However, the guidance on inflows might get negatively impacted in case market continues to remain subdued, which shall adversely affect its FY24 performance.

Healthy performance in 1QFY23; maintain BUY

Over the past decade, IIFLWAM has evolved into one of the best wealth management franchises in India. It has become 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 1QFY23. While ARR yields were flat, TBR yields normalized in 1QFY23, as previously guided by the management. **We maintain our BUY rating with a TP of INR2,200/share (premised on 25x FY24E EPS).**

Quarterly performance

Y/E March	FY22				FY23				FY22	FY23	INR m
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QFY23E
Net Revenues	2,834	3,143	3,781	4,228	3,750	3,848	3,971	4,207	13,987	15,776	3,561
Change (%)	42.6	48.3	58.1	59.2	32.3	22.4	5.0	-0.5	52.8	12.8	25.7
ARR Assets Income	1,936	2,222	2,451	2,524	2,560	2,765	2,986	3,242	9,133	11,552	2,675
TBR Assets Income	898	921	1,330	1,704	1,190	1,083	985	965	4,854	4,223	886
Operating Expenses	1,531	1,730	2,220	2,350	1,670	1,735	1,860	1,961	7,831	7,227	1,795
Change (%)	17.8	29.2	46.2	54.3	9.1	0.3	-16.2	-16.5	37.9	-7.7	17.2
Cost to Income Ratio (%)	54.0	55.0	58.7	55.6	44.5	45.1	46.8	46.6	56.0	45.8	50.4
Operating Profits	1,304	1,413	1,561	1,878	2,080	2,112	2,111	2,245	6,156	8,549	1,767
Change (%)	89.3	80.9	78.8	65.8	59.5	49.5	35.2	19.5	77.2	38.9	35.5
Other Income	206	480	420	265	-60	200	225	235	1,371	600	225
Profit Before Tax	1,510	1,893	1,981	2,143	2,020	2,312	2,336	2,480	7,527	9,149	1,992
Change (%)	38.1	67.8	54.9	59.0	33.8	22.2	17.9	15.7	55.2	21.5	31.9
Tax	341	458	449	487	449	532	537	586	1,735	2,104	478
Tax Rate (%)	22.6	24.2	22.7	22.7	22.2	23.0	23.0	23.6	23.1	23.0	24.0
PAT	1,169	1,435	1,532	1,657	1,571	1,780	1,799	1,894	5,792	7,045	1,514
Change (%)	42.0	64.6	58.8	60.3	34.5	24.1	17.4	14.3	56.9	21.6	29.5
PAT Margins (%)	41.2	45.6	40.5	39.2	41.9	46.3	45.3	45.0	41.4	44.7	42.5
Key Operating Parameters (%)											
AUM (INR B)	2,352	2,566	2,628	2,617	2,520	2,603	2,689	2,819	2,617	2,819	2,666
Change (%)	33.1	37.1	31.1	26.4	7.2	1.4	2.3	7.7	26.4	7.7	13.4
ARR Assets	1,175	1,320	1,389	1,444	1,429	1,500	1,575	1,646	1,444	1,646	1,517
TBR Assets	1,178	1,246	1,238	1,173	1,092	1,103	1,114	1,173	1,173	1,173	1,150
Yield on AUM - Calculated (%)*	0.51	0.51	0.58	0.64	0.58						0.57
ARR Assets	0.71	0.71	0.72	0.71	0.71						0.72
TBR Assets	0.32	0.30	0.43	0.57	0.42						0.31



Highlights from the management commentary

Business highlights

- IIFLWAM has entered into an agreement to acquire 91% stake in MAVM Angels at a valuation of INR420m + cash & cash equivalents. This is a platform-based company with a revenue of INR100m and PAT of INR30m. This acquisition will help IIFLWAM commence its journey towards CAT 1 AIF and it will also help in engaging customers towards private equity side.
- The company is open to more acquisitions if they are value accretive and are something that the company cannot build in-house.
- Management remains confident of achieving all the guidance including that of inflows of INR350-400b on a steady-state basis. However, the guidance on inflows might get negatively impacted in case market continues to remain subdued, which shall adversely affect its FY24 performance.
- The company wants to focus on expanding the geographical reach of HNI customer base to 7-8 cities and later to offshore regions like Singapore as well.
- In case of Ultra HNI customers, they does not want to transact online; however, their expectations are evolving as they want: a) the firm to be technologically advanced, b) RMs to have quick data availability wherein they can do data analysis, c) customers to fetch online data without having to rely on RMs and perform their own data analysis.
- Attrition at Principal and above level is less than 2%.
- By improving the productivity, a lot of RM capacity can be added. This alone can add 30-40% to the overall client base without any further need for RM additions.
- **Product launches:** For 2QFY23E, the management's focus will be on launching fixed income products, within the asset management business. IIFLWAM is also raising investments in structured credit fund, REITS and InvITs funds.

Financials

- Employee cost will remain around 32-34%.
- CI ratio can reduce to 2-3% over the longer term led by improving productivity.
- Yields shall be maintained at 45-50bp.
- There is no income booked on MLDs raised on consolidated basis as it is done for the company's own NBFC.

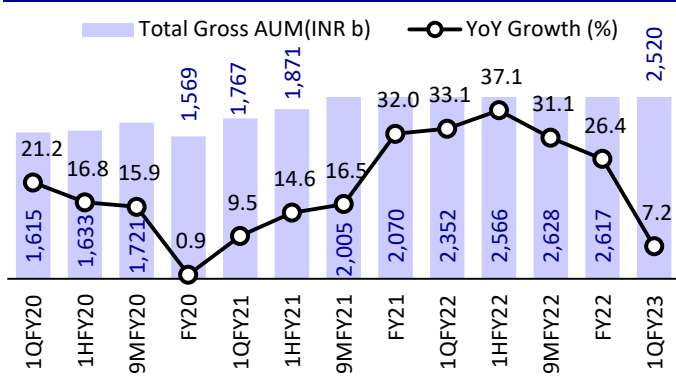
Exhibit 1: Marginally upgrade our FY23/FY24 estimates to factor in higher TBR revenue and lower expenses

INR b	Old Est.		New Est.		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
ARR Revenue	11.7	13.5	11.6	13.1	-1.1	-2.6
TBR Revenue	3.8	3.8	4.2	4.2	12.5	12.5
Total Income	15.4	17.2	15.8	17.3	2.2	0.7
Operating Expenses	7.4	8.2	7.2	7.9	-2.9	-2.9
Operating Profits	8.0	9.0	8.5	9.4	7.0	4.0
Other Revenue	1.1	1.2	0.6	0.9	-45.5	-29.2
PBT	9.1	10.2	9.1	10.2	0.6	0.1
Tax	2.2	2.5	2.1	2.4	-3.5	-4.1
PAT	6.9	7.8	7.0	7.9	2.0	1.4
Total AUM	2,870	3,252	2,819	3,180	-1.8	-2.2
Cost-to-core income	48.2	47.5	45.8	45.8	-5.0	-3.6
RoE	22.5	24.2	23.0	24.5	1.9	1.3

Source: MOFSL, Company

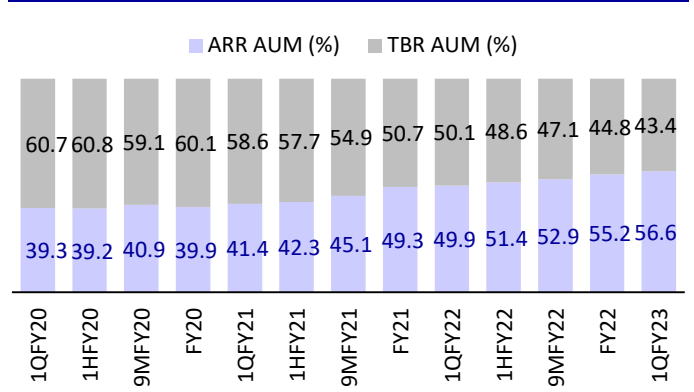
Key exhibits

Exhibit 2: Total AUM declines sequentially



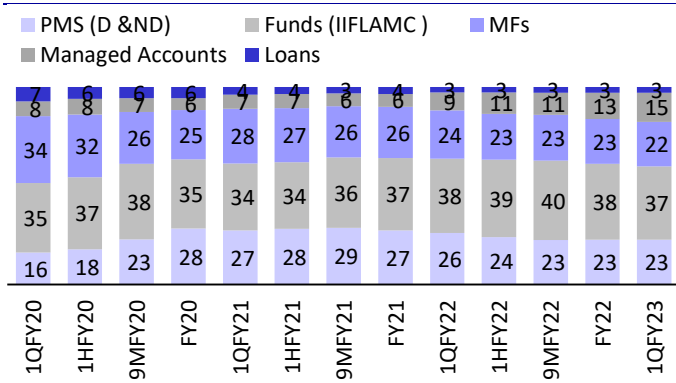
Source: MOFSL, Company

Exhibit 3: ARR's share now ~57% (%)



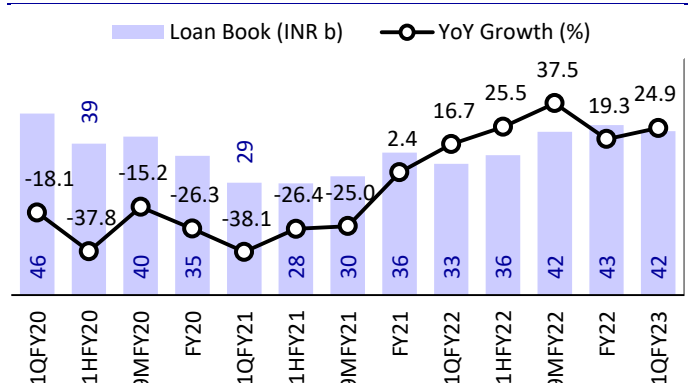
Source: MOFSL, Company

Exhibit 4: ARR AUM mix (%)



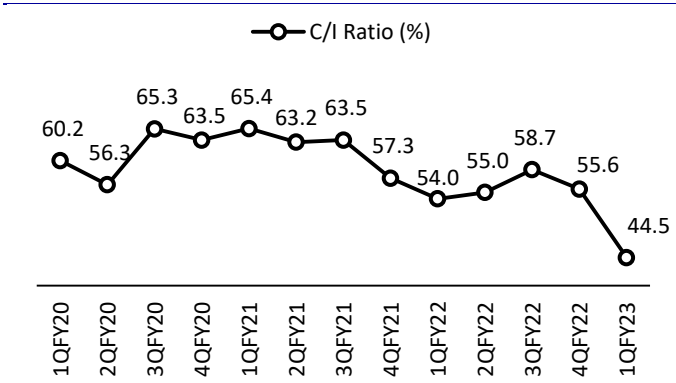
Source: MOFSL, Company

Exhibit 5: Loan book remains stable



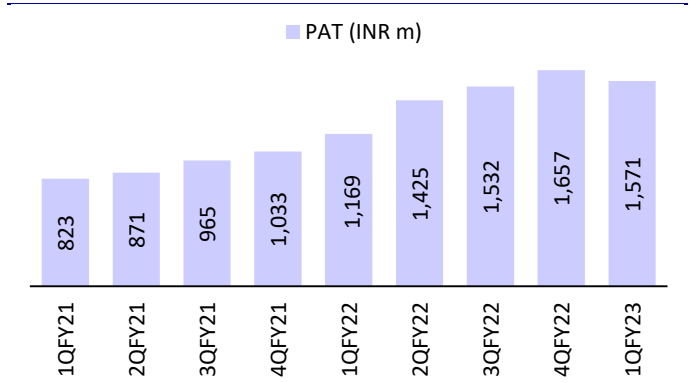
Source: MOFSL, Company

Exhibit 6: Sharp improvement in C/I ratio



Source: MOFSL, Company

Exhibit 7: Trend in consolidated PAT (INR m)



Source: MOFSL, Company

Financials and valuations

Income Statement							(INR m)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	
Annual Recurring Revenue Assets	3,670	4,437	5,345	5,828	9,120	11,552	13,125	
Transactional/Broking Revenue Assets	6,618	5,794	3,855	3,325	4,862	4,223	4,223	
Net Revenue	10,288	10,231	9,200	9,154	13,982	15,776	17,348	
Change (%)	45.3	-0.5	-10.1	-0.5	52.8	12.8	10.0	
Operating Expenses	5,652	5,297	5,645	5,679	7,838	7,227	7,949	
Core Profit Before Tax	4,636	4,934	3,555	3,474	6,144	8,549	9,399	
Change (%)	51.2	6.4	-28.0	-2.3	76.8	39.2	9.9	
Other Income	140	445	-691	1,375	1,372	600	850	
Profit Before Tax	4,775	5,380	2,864	4,849	7,516	9,149	10,249	
Change (%)	24.2	12.7	-46.8	69.3	55.0	21.7	12.0	
Tax	1,099	1,634	853	1,157	1,736	2,104	2,357	
Tax Rate (%)	23.0	30.4	29.8	23.9	23.1	23.0	23.0	
PAT	3,676	3,746	2,011	3,692	5,780	7,045	7,892	
Change (%)	37.0	1.9	-46.3	83.5	56.6	21.9	12.0	
Proposed Dividend	785	848	2,018	6,150	4,858	5,636	6,313	

Balance Sheet							(INR m)	
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	31,207	32,786	
Net Worth	18,629	29,104	29,915	28,278	29,976	31,385	32,963	
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	1,14,506	1,18,212	
Cash and Investments	18,564	33,300	76,911	33,010	49,566	52,314	54,115	
Change (%)	-43.6	79.4	131.0	-57.1	50.2	5.5	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	1,14,506	1,18,212	

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	2,819	3,180
Change (%)	33.1	18.7	0.9	32.0	26.4	7.7	12.8
Annual Recurring Revenue Assets	449	583	626	1,020	1,444	1,646	2,006
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	73.2	75.7
TRB Income	64.3	56.6	41.9	36.3	34.8	26.8	24.3
Total Cost (Cost-to-Income Ratio)	54.9	51.8	61.4	62.0	56.1	45.8	45.8
Employee Cost	37.9	32.4	40.5	44.7	42.2	32.9	32.9
PBT	45.1	48.2	38.6	38.0	43.9	54.2	54.2
Profitability Ratios (%)							
RoE	21.7	15.7	6.8	12.7	19.8	23.0	24.5
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	58.0	57.8
Operating Expenses	49.3	37.0	36.1	31.2	33.4	26.6	26.5
Core Profit Before Tax	40.4	34.5	22.8	19.1	26.2	31.4	31.3
Other Income	1.2	3.1	-4.4	7.6	5.9	2.2	2.8
Profit Before Tax	41.6	37.6	18.3	26.6	32.1	33.7	34.2
Tax	9.6	11.4	5.5	6.4	7.4	7.7	7.9
ROAAAUM	32.1	26.2	12.9	20.3	24.7	25.9	26.3

Valuations	2018	2019	2020	2021	2022	2023E	2024E
BVPS (INR)	234	344	343	322	338	354	372
Change (%)	19.8	47.5	-0.4	-6.3	5.0	4.7	5.0
Price-to-BV (x)	6.9	4.7	4.7	5.0	4.8	4.6	4.4
EPS (INR)	46	44	23	42	65	79	89
Change (%)	33.9	-3.8	-47.9	82.0	55.1	21.9	12.0
Price-to-Earnings (x)	35.1	36.5	70.2	38.6	24.9	20.4	18.2
DPS (INR)	9	10	20	70	55	64	71
Dividend Yield (%)		0.6	1.2	4.3	3.4	3.9	4.4

E: MOFSL estimates

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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