

BSE SENSEX
58,411

S&P CNX
17,312

CMP: INR1,881 TP: INR2,300 (+22%)

Buy

Getting the strategy right to meet customer needs



Stock Info

Bloomberg	IIFLWAM IN
Equity Shares (m)	87
M.Cap.(INRb)/(USD\$b)	167.1 / 2
52-Week Range (INR)	1945 / 1226
1, 6, 12 Rel. Per (%)	4/5/19
12M Avg Val (INR M)	155

Financials Snapshot (INR b)

Y/E March	2023E	2024E	2025E
Net Revenues	15.8	17.3	19.4
Opex	7.0	7.8	8.5
Core PBT	8.7	9.6	10.9
PAT	7.2	8.0	9.0
EPS	81.0	90.7	101.8
EPS Grw (%)	24.2	12.0	12.3
BV	354.1	372.2	392.6

Ratios

PBT margin (bp)	32.1	32.0	32.3
PAT margin (bp)	26.4	26.8	26.8
RoE (%)	23.4	25.0	26.6
Div. Payout (%)	80.0	80.0	80.0

Valuations

P/E (x)	23.2	20.7	18.5
P/BV (x)	5.3	5.1	4.8
Div. Yield (%)	3.4	3.9	4.3

Shareholding pattern (%)

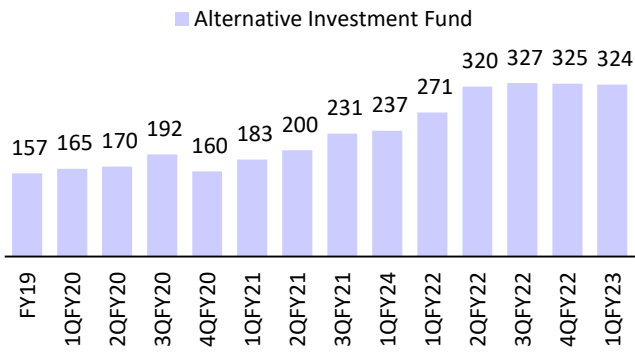
As On	Jun-22	Mar-22	Jun-21
Promoter	23.2	23.1	22.9
DII	3.2	3.6	1.4
FII	22.4	22.1	24.9
Others	51.3	51.2	50.8

FII Includes depository receipts

- In its FY22 Annual Report, IIFLWAM outlined the emerging growth opportunities in the Wealth Management industry in India. The growth in the number of HNIs along with increasing wealth of existing HNIs unfolds a huge potential for growth ahead. The ensuing wealth transfer between generations will provide ample scope for existing players having preparedness to adopt technology at a fast pace.
- IIFLWAM will focus on expanding its customer base by adding INR50-250m networth customers. Currently majority of its customers have networth in excess of INR250m. The company has roped in BCG to take advise on the expansion strategy and is expected to launch an offering by the end of FY23 or early FY24.
- Also, IIFLWAM is looking to diversify its geographic presence from the top cities and metros to lower tier cities. For which, the company has identified 8-9 new cities and is looking for a low-cost expansion.
- In FY22, the company strengthened its leadership position in the AIF segment through the launch of several new products spread out during the entire fiscal. Also, in the MF space, the company decided to scale its IIFL-focused Equity Fund, wherein, strong performance attracted robust inflows.
- The core to IIFLWAM's growth has been its ardent focus on the five Ps of wealth management: People, Proposition, Platform, Process, and Pricing. Within each of these elements, the management has brought in best industry practices with customer centricity.
- Keeping customer interest at the core, IIFL One has devised customized strategies. Also, the company does not earn from the manufacturer and earns from a fixed fee charged to the customer. Within this, the company has signature and bespoke offerings. In FY22, IIFL One saw strong inflows of INR35b in spite of a volatile environment for investments.
- Valuation and view:** The revenue growth in the ARR segment is likely to moderate, led by a decline in retentions on AUM under its AMC. AUM under IIFL-ONE is expected to trend higher on rising share of discretionary PMS. TBR yields are likely to see a significant fall as transaction volumes normalize from its elevated levels of FY22. We expect a significant improvement in profitability on the back of a marked reduction in employee costs, due to: 1) completion of the soft landing needed to retain RMs during this business transition, and 2) one-time payments in FY22 to attract new talent. Scale benefits will also help improve PBT margin to 56.1% in FY25E from 43.9% in FY22. The stock currently trades at an attractive FY25E P/E of 18.5x, given its strong earnings CAGR of 16% over FY22-25E. We reiterate our **Buy** rating with a one-year TP of INR2,300/share.

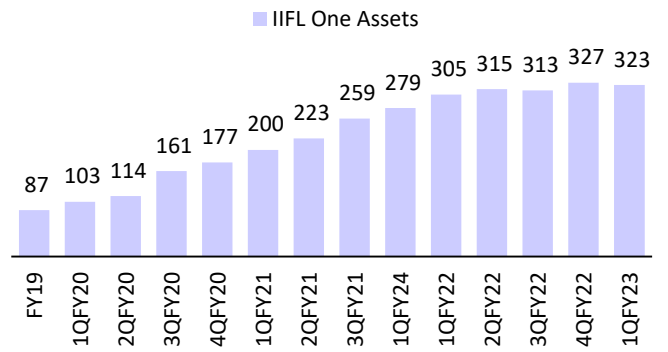
Story in charts

Exhibit 1: AIF Assets growing at a healthy pace



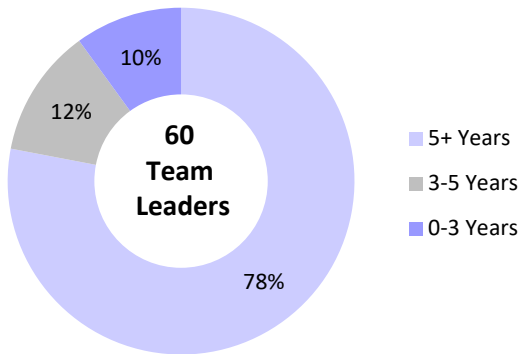
Sources: MOFSL, GIC

Exhibit 2: IIFL One Assets too seeing steady trends



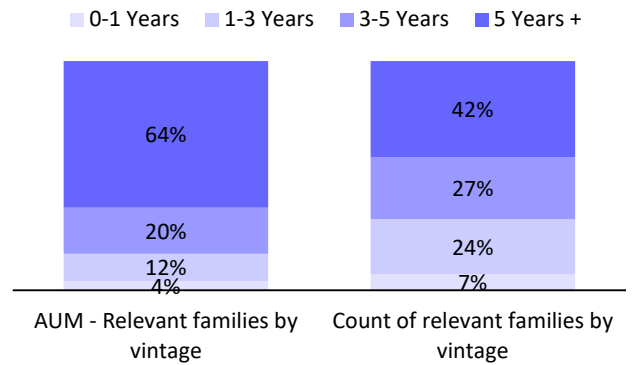
Sources: MOFSL, GIC

Exhibit 3: Team leaders have high vintage in the system



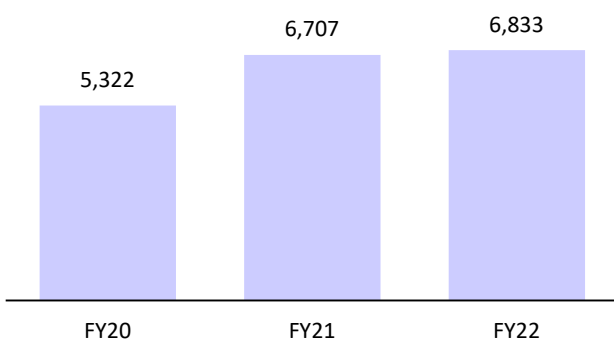
Sources: MOFSL, GIC

Exhibit 4: Leading to increase in client vintage as well



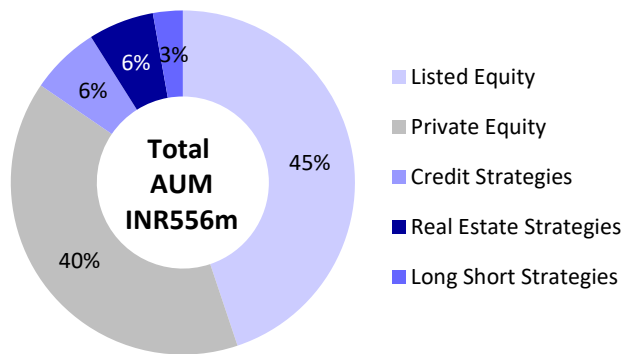
Sources: MOFSL, GIC

Exhibit 5: Count of relevant families increasing



Sources: MOFSL, Company

Exhibit 6: Diversified AUM in Asset Management segment



Sources: MOFSL, Company

Wealth transfer is the next big growth driver

- The industry is witnessing the greatest wealth transfer ever seen as wealth passes on from baby boomers to the next generation. Inevitably, this has widespread ramifications for the industry as the new generation of clients are shaped by a wholly different set of experiences, and thus, have a unique and new set of demands and expectations.
- Also, the pervasiveness of technology is impacting the way businesses interact with their customers and enabling a higher degree of personalization and value creation.

Exhibit 7: Strategies to win among the emerging new generation

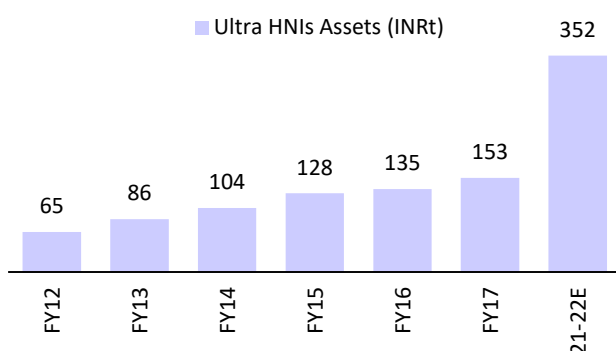


Sources: Capgemini, MOFSL

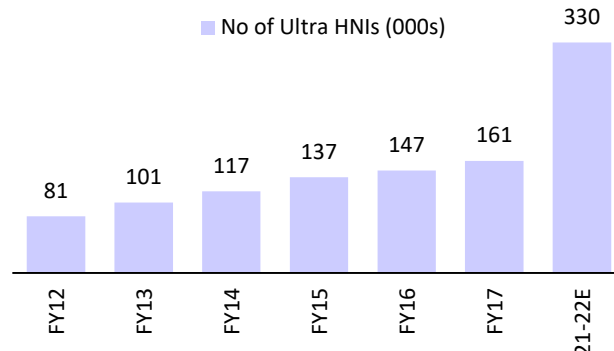
Ultra HNIs (with a wealth of over INR250m) remains its core category

- India is one of the fastest-growing Asian countries in terms of its Ultra HNI population. However, only 14% of India's HNI wealth are under formal advice and management as compared to almost 68% for China. The rapidly growing pie and low penetration thus offer a huge growth potential for India's Wealth Management industry.
- The overall industry size in terms of revenue stands at INR80-110b, of which, IIFLWAM has ~10% market share.
- Going forward, the company expects to grow faster than the industry by expanding its geographic reach. At present, IIFLWAM predominantly derives its clients and assets (71.2% of its AUM) from the top 10 cities.
- Increasing wealth in Tier II and III cities provide a huge headroom for growth. IIFLWAM intends to garner incremental market share by increasing its presence in these cities. It has already identified nine cities with great potential – Indore, Nagpur, Rajkot, Surat, Aurangabad, Bhavnagar, Jaipur, Baroda, and Coimbatore.
- These are expected to be satellite offices as the company currently remains wary of raising costs.
- Although the cost of acquisition will be relatively higher in these newer geographies, it is not expected to have any material cost impact.

- It aspires to tap the wealth of the new-age promoter group by leveraging its huge ecosystem.

Exhibit 8: Rapid growth in ultra HNIs assets (over INR500m)...

Sources: MOFSL, DRHP Anand Rathi Wealth

Exhibit 9: ... as well as the number of ultra HNIs

Sources: MOFSL, DRHP Anand Rathi Wealth

Exhibit 10: Immense potential to garner new assets in Tier II and III cities

HNI FINANCIAL ASSETS BY CITIES – 2020					
	TOP 4	Next 6 Cities	Next 11-20 Cities	Others	Total
Total HNI Count	1,54,275	56,100	30,855	39,270	2,80,500
HNI Financial Assets (₹ trillion)	67	25	13	17	122
IIFLW AUM as % of HNI Financial Assets	1.12%	0.38%	0.04%	0.03%	1.57%
IIFLW Relevant Client Count as % of Total HNI Count	1.31%	0.48%	0.26%	0.33%	2.39%
IIFLW AUM % Split by City	71.20%	24.43%	2.39%	1.98%	100%

Source: MOFSL, Company

Expanding in the new INR50-250m HNI segment

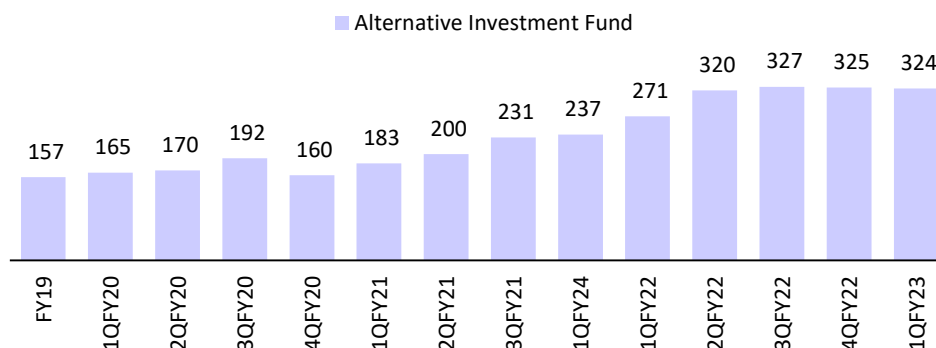
- Clients in the INR50-250m segment have been with IIFLWAM on a transactional basis, but it has not been able to onboard them to the IIFL-ONE platform.
- BCG has been roped in as a consulting partner to formulate a strategy to cater to this segment as the customer behavior, product requirements, and marketing strategies can be meaningfully different from its existing target customers. The management expects to roll out this strategy by FY24.
- IIFL-ONE discretionary PMS and IIFL Consult will have a key role in this strategy. The other strategies to be adopted include building tailor-made products, asset allocation strategies, and brokerage services.
- A higher cost-to-income ratio is a challenge in this segment, but with scale and right products, the management aims to counter these pressures.
- It expects to launch this segment under a different vertical, rather than disturb its existing business structure.

New product launches in the AIF space to widen the product suite

IIFLWAM, the leading player in the AIF space, has demonstrated superior return performance and has been able to gain significant market share. In FY22 too, the company continued with its efforts to launch more products.

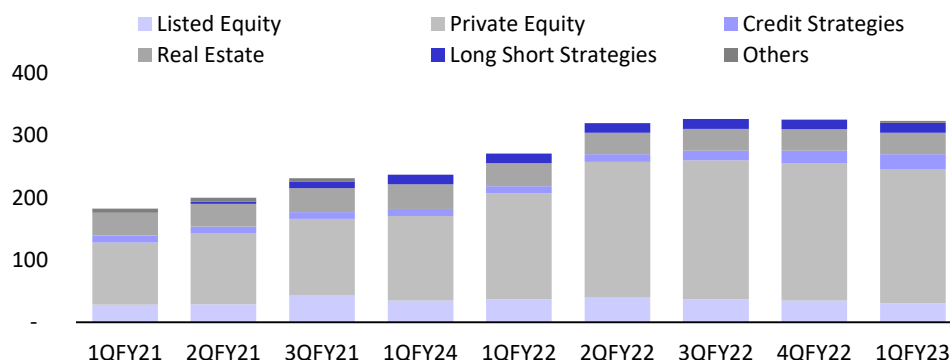
- Accordingly, in 1QFY22, IIFLWAM raised commitments in IIFL Special Opportunities Fund - Series 8 (SOF 8), which focused on opportunities in the consumer-tech space.
- In 2QFY22, it launched the Monopolistic Market Intermediaries Fund (MMIF), which had the same underlying objective as SOF 8. It also launched Turnaround Opportunities Fund - category 3 AIF-listed equity to focus on investing in companies, which are on the cusp of a turnaround.
- In 3QFY22, it launched the Multi Strategy Fund - Series 2 (a fund of funds) investing in SOF 8 and MMIF. It also launched Income Opportunities Fund - 3, a credit fund investing in a combination of fixed return instruments and instruments having the potential of benefitting from equity upside. In addition, SOF 9 and SOF 10 - late stage pre-IPO funds were launched to capture the opportunity of investing in companies that are likely to do a public listing in the next three to four years.
- In 4QFY22, strong traction was seen in its late stage pre-IPO fund (SOF 10) and listed equity offering in the AIF space (Turnaround Opportunities Fund). It also enabled offshore investments in Turnaround Opportunities Fund to cater to global investors keen on investing in Indian equities

Exhibit 11: Growing AIF AUM (INR b, closing AUM)



Sources: MOFSL, Company

Exhibit 12: Mix of AIF assets (INR b, closing AUM)

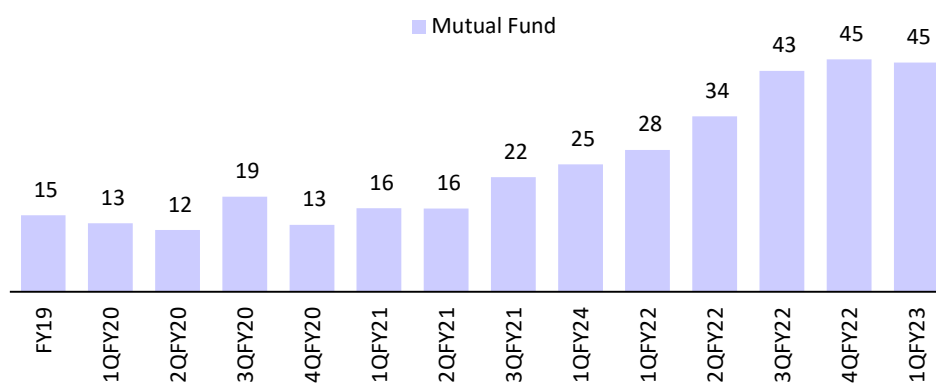


Sources: MOFSL, Company

Healthy fund performance drove Mutual Fund segment flows

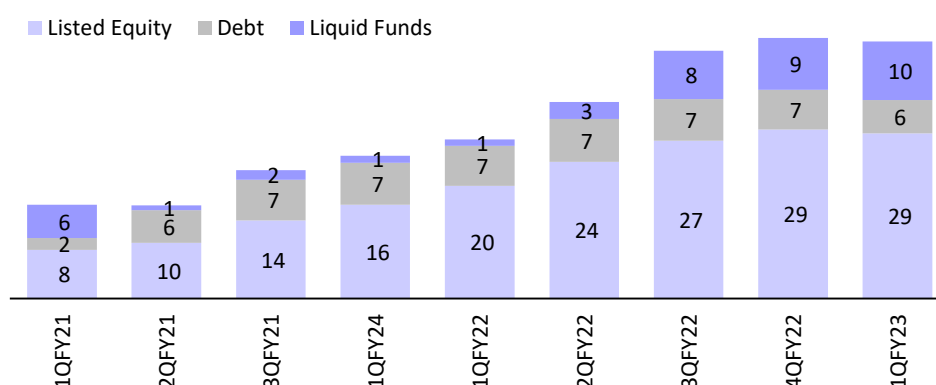
- Owing to its belief that the scope for differentiation is quite limited in the overcrowded MF segment, IIFLWAM has not been paying much heed to it.
- Nevertheless, in FY22, the total net sales across mutual fund schemes for IIFLWAM AMC segment stood at INR16b.
- The AMC continued to focus on scaling IIFL-focused Equity Fund during the year. For most part of the year, the fund was among the best-performing funds in its category, leading to INR9b flows in the IIFL-focused Equity Fund.
- It launched its first quant-based offering – IFL Quant Fund and raised over INR1b in the New Fund Offer (NFO).
- It focused on increasing SIPs in the equity schemes and reduced the minimum investment amount, which is likely to ensure wider participation from retail investors.

Exhibit 13: Growing MFAUM (INR b, closing AUM)



Sources: MOFSL, Company

Exhibit 14: Mix of MF assets (INR b, Closing AUM)



Sources: MOFSL, Company

Gaining traction amid Offshore market/Institutions

In terms of client coverage, the AMC constantly engaged with a wide range of offshore institutions and family offices over the past year. During the year, it added two more offshore mandates with a total AUM of INR243b. IIFL AMC now has four offshore mandates in a short span of three years.

IIFL ONE offerings explained

IIFL ONE has been a flagship product for IIFLWAM especially with a perspective of transitioning clients AUM from the Transaction-based Revenue (TBR) to Annual Recurring Revenue (ARR) model. The key underlying premise of the product is that the client is charged a mutually agreed fee per annum, while IIFLWAM does not earn anything from the product manufacturer. Each customer agreement is different based on the AUM size, the risk profiling, goals, return expectations, and product preferences.

Signature offerings

In this category, portfolio manager has the sole discretion in selecting investment ideas with adherence to permissible instruments and chosen investment approach for the strategy. They include the following solutions.

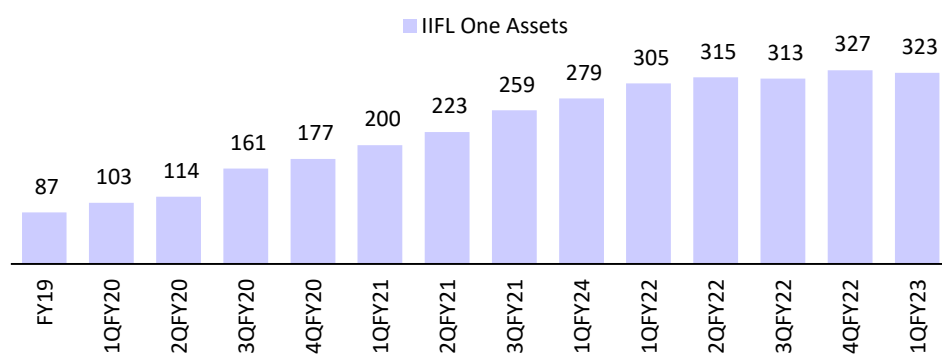
- Core AIF: A bouquet of high quality, liquid, direct equity stocks and direct bonds picked through a rigorous research process,
- Managed Solutions: Selection process brings together an array of mutual funds and ETFs using multiple parameters

Bespoke offerings

Portfolio manager creates customized portfolios in adherence to permissible instruments and selected investment approach. They include the following solutions:

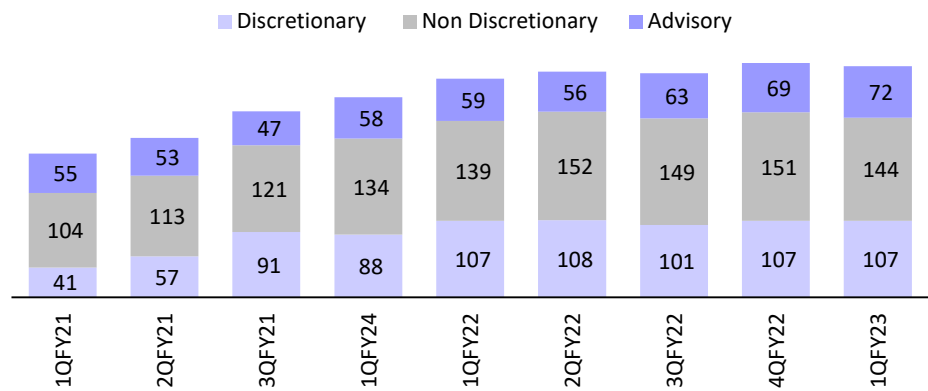
- Treasury Solutions: Fixed income portfolios focusing on the twin objectives of risk control and return optimization. This offering is run for the benefit of large corporate treasuries. It can be offered via both the discretionary and non-discretionary platform.
- Mandate: Customized instrument selection that brings together high-quality instruments from a diversified universe. Clients define the portfolio guidelines and entrust the entire investment management process to our team of experts
- Consult: Portfolio created by expert fund management team from a diversified universe of high-quality instruments. Under this, we use our expertise to create customized investment framework using the portfolio guidelines defined by the clients
- Select Alpha PMS: Concentrated direct equity portfolio for the short-to-medium term formed by following a bottom-up approach. This is a non-discretionary solution

Exhibit 15: Growing IIFL One Assets (INR b, closing AUM)



Sources: MOFSL, Company

Exhibit 16: Mix of IIFL One assets (INR b, Closing AUM)



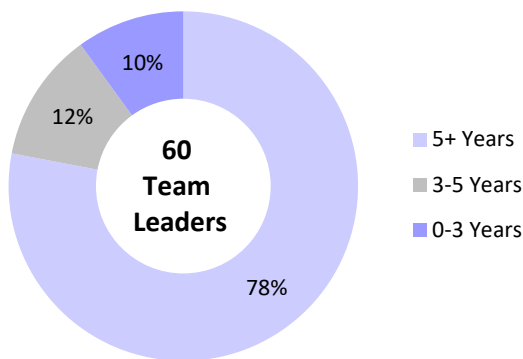
Sources: MOFSL, Company

Strong focus on Five Ps of wealth management

People

- Wealth management is a people-centric business with high engagement levels. A quality team of experienced professionals across relationship management, service management, product and other support teams, assure that the highest level of service is provided to the clients.
- The team undergoes continuous learning through one-to-one mentorships and our dedicated Learning Management System (LMS), group engagements, and access to courses from leading global universities.
- The number of hours of training is 12,000+ hrs with 19 unique training programs through Virtual instructor-led training (VILT) & online sessions. These included trainings such as Negotiation, Strategic 6 Trusted Relationship Manager, Interpersonal Skills, Time Management, Managerial Effectiveness, and a few master classes both for sales and non-sales functions.
- Employee equity ownership and a strong internal culture have led to perhaps the lowest attrition in the industry for team leaders

Exhibit 17: Breakup of the current team leaders



Sources: MOFSL, Company

Exhibit 18: Insights into the key teams9

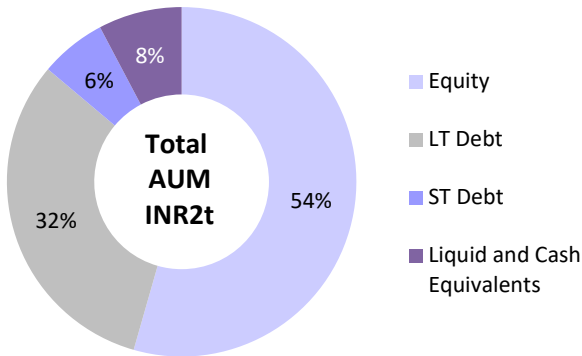


Sources: MOFSL, Company

Proposition

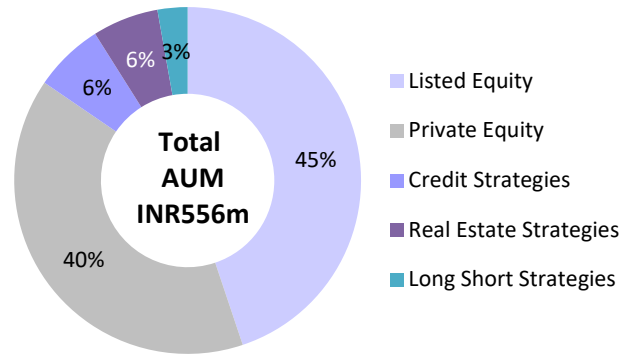
IIFLWAM’s ability to offer full scale wealth management services gives it the edge. They have an open architecture with a mid-manager platform. It provides avenues for diversification across asset classes. This provides the ability to generate steady-state returns above inflation with less volatility and risk.

Exhibit 19: Breakup of the Wealth Management AUM



Sources: MOFSL, Company

Exhibit 20: Breakup of Asset Management AUM

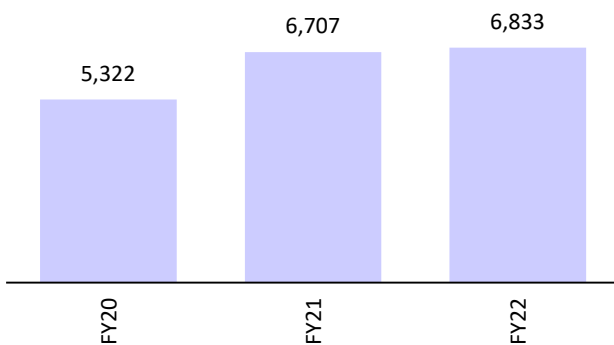


Sources: MOFSL, Company

Platform

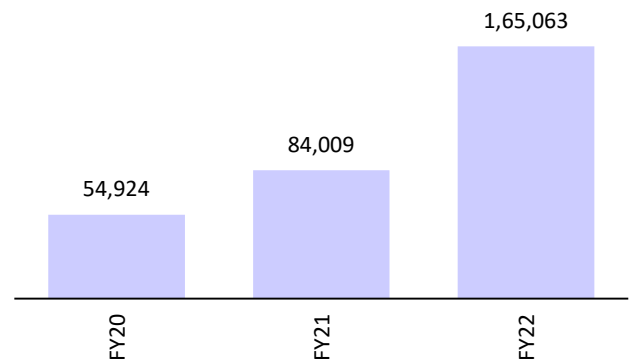
- IIFLWAM’s comprehensive suite of products and services is perhaps unmatched in the industry. It has one of the largest products and investment teams, which provide innovation and high-quality support.
- The cutting-edge technology ensures the best-in-class Client Portfolio Reporting, In-Depth Analysis, and Data Aggregation.
- An integrated lending solutions offering along with a strong estate planning practice complete the platform.
- Niche corporate finance services to help clients with capital structuring for their businesses.

Exhibit 21: Count of relevant families



Sources: MOFSL, Company

Exhibit 22: Count of MF Folios



Sources: MOFSL, Company

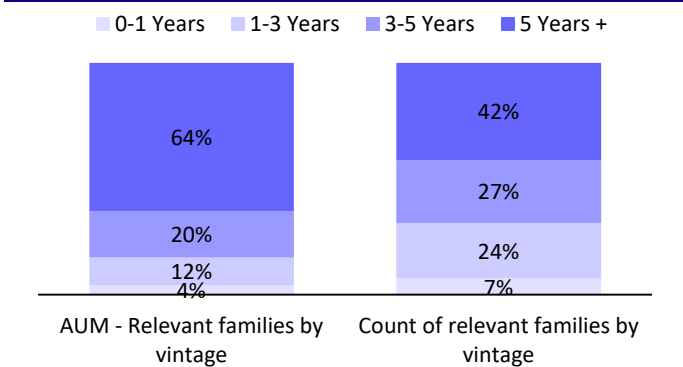
Process

- The company has stringent standardized control mechanisms, which include a personalized review and an assessment by the fund management team.
- The portfolio management approach ensures client portfolios are managed in line with defined Investment Policy Statements, which are constantly monitored. Strong business intelligence, state-of-the-art technology, and robust internal processes ensure seamless and efficient execution.

Pricing

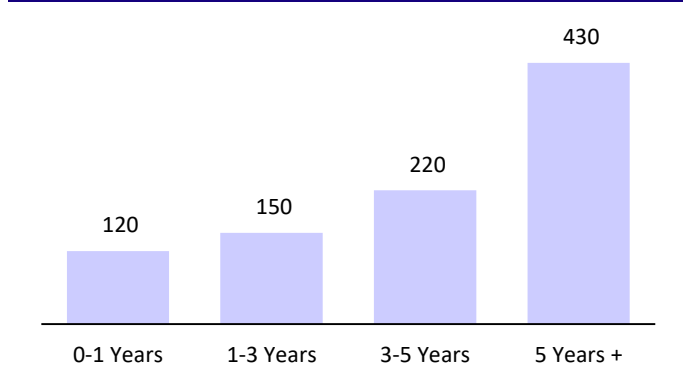
The scale gives us an edge in pricing products. With the launch of IIFL-ONE, the company pioneered the fee-based portfolio management model in India. The combined platform, which includes brokerage and allied services, allows for All-in-Fee models. It ensures that the efforts are completely aligned with clients' objectives.

Exhibit 23: Vintage of clients improving



Sources: MOFSL, Company

Exhibit 24: With vintage, AUM per client increases (INR m)



Sources: MOFSL, Company

Valuation and view

- The revenue growth in the ARR segment is likely to moderate, led by a decline in retentions on AUM under its AMC. AUM under IIFL-ONE is expected to trend higher on rising share of discretionary PMS.
- TBR yields are likely to see a significant fall as transaction volumes normalize from their elevated levels of FY22.
- We expect a significant improvement in profitability, on the back of a marked reduction in employee costs, due to: 1) completion of the soft landing needed to retain RMs during this business transition, and 2) one-time payments in FY22 to attract new talent.
- Scale benefits will also help improve PBT margin to 56.1% in FY25E from 43.9% in FY22.
- The stock currently trades at an attractive FY25E P/E of 18.5x, given its strong earnings CAGR of 16% over FY22-25E. We reiterate our **Buy** rating with a one-year TP of INR2,300/share.

Financials and valuation

Income Statement						(INR M)		
Y/E March	2018	2019	2020	2021	2022	2023E	2024E	2025E
Annual Recurring Revenues Assets	3,670	4,437	5,345	5,828	9,120	11,552	13,125	15,189
Transactional/Broking Revenues Assets	6,618	5,794	3,855	3,325	4,862	4,223	4,223	4,223
Net Revenues	10,288	10,231	9,200	9,154	13,982	15,776	17,348	19,413
Change (%)	45.3	-0.5	-10.1	-0.5	52.8	12.8	10.0	11.9
Operating Expenses	5,652	5,297	5,645	5,679	7,838	7,050	7,755	8,530
Core Profit Before Tax	4,636	4,934	3,555	3,474	6,144	8,726	9,594	10,882
Change (%)	51.2	6.4	-28.0	-2.3	76.8	42.0	9.9	13.4
Other Income	140	445	-691	1,375	1,372	600	850	850
Profit Before Tax	4,775	5,380	2,864	4,849	7,516	9,326	10,444	11,732
Change (%)	24.2	12.7	-46.8	69.3	55.0	24.1	12.0	12.3
Tax	1,099	1,634	853	1,157	1,736	2,145	2,402	2,698
Tax Rate (%)	23.0	30.4	29.8	23.9	23.1	23.0	23.0	23.0
PAT	3,676	3,746	2,011	3,692	5,780	7,181	8,042	9,034
Change (%)	37.0	1.9	-46.3	83.5	56.6	24.2	12.0	12.3
Proposed Dividend	785	848	2,018	6,150	4,858	5,745	6,433	7,227

Balance Sheet						(INR M)		
Y/E March	2018	2019	2020	2021	2022	2023E	2024E	2025E
Equity Share Capital	160	169	174	176	177	177	177	177
Reserves & Surplus	18,469	28,935	29,741	28,102	29,798	31,234	32,843	34,650
Net Worth	18,629	29,104	29,915	28,278	29,976	31,412	33,020	34,827
Borrowings	69,663	61,145	88,381	47,116	58,075	61,842	61,842	61,842
Other Liabilities	7,374	7,553	11,967	12,006	19,345	21,279	23,407	25,748
Total Liabilities	95,666	97,802	1,30,263	87,400	1,07,396	1,14,533	1,18,270	1,22,417
Cash and Investments	18,564	33,300	76,911	33,010	49,566	52,341	54,172	56,224
Change (%)	-43.6	79.4	131.0	-57.1	50.2	5.6	3.5	3.8
Loans	70,561	49,665	36,319	37,206	40,549	43,180	43,180	43,180
Net Fixed Assets	523	5,100	5,754	8,153	8,163	8,979	9,877	10,865
Net Current Assets	6,017	9,737	11,278	9,030	9,117	10,034	11,041	12,149
Total Assets	95,666	97,802	1,30,263	87,400	1,07,396	1,14,533	1,18,270	1,22,417

Y/E March	2018	2019	2020	2021	2022	2023E	2024E	2025E
AUM (Ex Custody assets) (INR B)	1,309	1,555	1,569	2,070	2,617	2,819	3,180	3,558
Change (%)	33.1	18.7	0.9	32.0	26.4	7.7	12.8	11.9
Annual Recurring Revenue Assets	449	583	626	1,020	1,444	1,646	2,006	2,385
Transactional/Brokerage Assets	861	972	943	1,051	1,173	1,173	1,173	1,173

E: MOFSL Estimates

Financials and valuation

Y/E March	2018	2019	2020	2021	2022	2023E	2024E	2025E
As a percentage of Net Revenues								
ARR Income	35.7	43.4	58.1	63.7	65.2	73.2	75.7	78.2
TRB Income	64.3	56.6	41.9	36.3	34.8	26.8	24.3	21.8
Total Cost (Cost to Income Ratio)	54.9	51.8	61.4	62.0	56.1	44.7	44.7	43.9
Employee Cost	37.9	32.4	40.5	44.7	42.2	31.8	31.8	31.3
PBT	45.1	48.2	38.6	38.0	43.9	55.3	55.3	56.1
Profitability Ratios (%)								
RoE	21.7	15.7	6.8	12.7	19.8	23.4	25.0	26.6
Dividend Payout Ratio	21.4	22.6	100.3	166.6	84.0	80.0	80.0	80.0
Dupont Analysis (Bps of AAAUM)								
Y/E March	2018	2019	2020	2021	2022	2023E	2024E	2025E
Operating Income	89.7	71.4	58.9	50.3	59.7	58.0	57.8	57.6
Operating Expenses	49.3	37.0	36.1	31.2	33.4	25.9	25.9	25.3
Core Profit Before Tax	40.4	34.5	22.8	19.1	26.2	32.1	32.0	32.3
Other Income	1.2	3.1	-4.4	7.6	5.9	2.2	2.8	2.5
Profit Before Tax	41.6	37.6	18.3	26.6	32.1	34.3	34.8	34.8
Tax	9.6	11.4	5.5	6.4	7.4	7.9	8.0	8.0
ROAAAUM	32.1	26.2	12.9	20.3	24.7	26.4	26.8	26.8
Valuations								
2018	2019	2020	2021	2022	2023E	2024E	2025E	
BVPS (INR)	234	344	343	322	338	354	372	393
Change (%)	19.8	47.5	-0.4	-6.3	5.0	4.8	5.1	5.5
Price-BV (x)	8.1	5.5	5.5	5.8	5.6	5.3	5.1	4.8
EPS (INR)	46	44	23	42	65	81.0	91	102
Change (%)	33.9	-3.8	-47.9	82.0	55.1	24.2	12.0	12.3
Price-Earnings (x)	40.8	42.4	81.5	44.8	28.9	23.2	20.7	18.5
DPS (INR)	9	10	20	70	55	65	73	81
Dividend Yield (%)		0.5	1.1	3.7	2.9	3.4	3.9	4.3

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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