

Estimate change	↑
TP change	↔
Rating change	↔

Bloomberg	IIFLWAM IN
Equity Shares (m)	87
M.Cap.(INRb)/(USDb)	161.9 / 2
52-Week Range (INR)	1945 / 1226
1, 6, 12 Rel. Per (%)	-3/-3/13
12M Avg Val (INR M)	155

Financials & Valuations (INR b)

Y/E March	2023E	2024E	2025E
Net Revenues	16.2	17.4	19.3
Opex	7.2	7.9	8.7
Core PBT	9.0	9.5	10.5
PAT	7.4	7.9	8.8
EPS	83.6	89.1	98.9
EPS Grw (%)	28.3	6.6	10.9
BV	354.6	372.5	392.2

Ratios

PBT margin (bp)	33.0	32.0	31.9
PAT margin (bp)	27.3	26.6	26.6
RoE (%)	24.1	24.5	25.9
Div. Payout (%)	80.0	80.0	80.0

Valuations

P/E (x)	21.8	20.4	18.4
P/BV (x)	5.1	4.9	4.6
Div. Yield (%)	3.7	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

CMP:INR1,822

TP:INR2,300 (+26%)

Buy

Revenue in line; PAT misses by 3%

- IIFL Wealth (IIFLWAM)'s PAT increased 20% YoY and 10% QoQ to INR1.7b (3% miss) in 2QFY23. The miss on profitability was led by 4% higher-than-estimated operating expenses (OPEX; up 7% QoQ).
- The sequential increase in OPEX was attributable to a sharp 18% rise in variable employee expenses. Administration costs grew 12% QoQ.
- The cost/income (C/I) ratio of IIFLWAM contracted 810bp YoY, but expanded 240bp QoQ to 46.9% (est. 44.6%) in 2QFY23.
- Sequentially, net inflows were steady at INR61b (excluding custody).
- Revenue/op. profit/PAT rose 27%/52%/27% YoY, respectively, in 1HFY23.
- IIFLWAM's Board approved a dividend of INR17/share.

Gross AUM increases QoQ to INR2.7t; a shift in mix favors ARR assets

- Total AUM on a closing basis grew 5% YoY and 6% QoQ to INR2.7t. This was slightly better than our expectation of INR2.6t. ARR AUM grew 17% YoY and 8% QoQ to INR1.6t. TBR AUM declined 9% YoY, but grew 4% QoQ to INR1.1t. The contribution of ARR assets to total AUM stood at 58% in 2QFY23 v/s 57%/51% in 1QFY23/2QFY22, respectively.
- AUM for IIFL ONE grew 13% QoQ to INR366b. The sequential growth was led by a 38%/8% increase in non-discretionary PMS/advisory assets, respectively. MTM gains on ARR/TBR assets stood at INR48b/INR53b.

Marginal contraction in yields

- Reported retentions in total revenue (including other income) stood at 63bp v/s 59bp/59bp in 2QFY22/1QFY23, respectively. ARR retentions were at 71bp v/s 72bp/72bp in 2QFY22/1QFY23, respectively. Overall, retentions were lower than our estimate.
- Retentions in IIFL-ONE dipped QoQ to 31bp as the share of advisory and non-discretionary assets increased. NIM in the loan book was higher by 18bp QoQ to 5.9%. AMC retentions were weak QoQ, with a 7bp decline as retentions on AIF assets fell and the share of PMS assets increased.

OPEX rises QoQ led by variable employee and administrative costs

- Total OPEX grew 7% QoQ and 4% YoY to INR1.8b (4% above our estimate). In 2QFY23, variable employee costs surged 18% QoQ.
- Administration cost also increased 12% QoQ to INR481m.

Highlights from the management commentary

- The company expects to maintain C/I ratio in the 44-45% range and sustain tangible RoE around 23-25% with a dividend payout of 75-80%.
- For the mid-market segment proposition, strong digital platform is worked upon and a launch is expected by the end of current fiscal.

Other highlights

- Other income stood at INR220m in 2QFY23 v/s a negative INR60m in 1QFY23 and our estimate of a positive INR200m.
- IIFLWAM's NBFC loan book was steady at INR42b in 2QFY23.

Decent performance in 2QFY23; 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. We have tweaked our estimates to factor in better yield in TBR and relatively weaker flows in AIF segment. Importantly, the FY23 net flows target of sourcing INR300b in ARR assets will be a key monitorable. **We maintain our BUY rating with a TP of INR2,300 (premised on 25x Sep'24E EPS).**

Quarterly performance

Y/E March	FY22				FY23				FY22	FY23	INR m
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QFY23E
Net Revenues	2,834	3,143	3,781	4,228	3,750	3,824	4,137	4,475	13,987	16,186	3,848
Change (%)	42.6	48.3	58.1	59.2	32.3	21.7	9.4	5.8	52.8	15.7	22.4
ARR Assets Income	1,936	2,222	2,451	2,524	2,560	2,605	2,918	3,176	9,133	11,259	2,765
TBR Assets Income	898	921	1,330	1,704	1,190	1,219	1,219	1,299	4,854	4,927	1,083
Operating Expenses	1,531	1,730	2,220	2,350	1,670	1,794	1,855	1,888	7,831	7,207	1,717
Change (%)	17.8	29.2	46.2	54.3	9.1	3.7	-16.4	-19.6	37.9	-8.0	-0.8
Cost to Income Ratio (%)	54.0	55.0	58.7	55.6	44.5	46.9	44.8	42.2	56.0	44.5	44.6
Operating Profits	1,304	1,413	1,561	1,878	2,080	2,031	2,282	2,586	6,156	8,979	2,131
Change (%)	89.3	80.9	78.8	65.8	59.5	43.7	46.2	37.7	77.2	45.8	50.8
Other Income	206	480	420	265	-60	200	250	260	1,371	650	200
Profit Before Tax	1,510	1,893	1,981	2,143	2,020	2,231	2,532	2,846	7,527	9,629	2,331
Change (%)	38.1	67.8	54.9	59.0	33.8	17.8	27.8	32.8	55.2	27.9	23.1
Tax	341	458	449	487	449	513	582	671	1,735	2,215	536
Tax Rate (%)	22.6	24.2	22.7	22.7	22.2	23.0	23.0	23.6	23.1	23.0	23.0
PAT	1,169	1,435	1,532	1,657	1,571	1,717	1,950	2,176	5,792	7,414	1,795
Change (%)	42.0	64.6	58.8	60.3	34.5	19.7	27.3	31.3	56.9	28.0	25.1
PAT Margins (%)	41.2	45.6	40.5	39.2	41.9	44.9	47.1	48.6	41.4	45.8	46.6
Key Operating Parameters (%)											
AUM (INR B)	2,352	2,566	2,628	2,617	2,520	2,682	2,771	2,817	2,617	2,817	2,603
Change (%)	33.1	37.1	31.1	26.4	7.2	4.5	5.4	7.6	26.4	7.6	1.4
ARR Assets	1,175	1,320	1,389	1,444	1,429	1,550	1,627	1,644	1,444	1,644	1,500
TBR Assets	1,178	1,246	1,238	1,173	1,092	1,132	1,144	1,173	1,173	1,173	1,103
Yield on AUM - Calculated (%)*	0.51	0.51	0.58	0.64	0.58	0.59					0.61
ARR Assets	0.71	0.71	0.72	0.71	0.71	0.70					0.75
TBR Assets	0.32	0.30	0.43	0.57	0.42	0.44					0.39



Highlights from the management commentary

Flows and AUM

- AMC net flows – older AIFs saw release of INR4.7b and Liquid segment saw outflows INR3b that was offset by fresh inflows of INR7.5b in credit strategy.
- Of the AUM where upfront commission has been paid (2Q closing AUM of INR113b), INR50-60b will mature in the next 6-12 months of which 65-70% can be converted into ARR flows.
- About 65% of the current net flows are accounted by the new clients. Of the new clients, 70% are acquired from competition in terms of number of clients. However of the new AUM, 30-35% is from clients acquired from competition as they take time to scale up.
- IIFL ONE's flows were the highest ever in any quarter driven by the advisory proposition and the company expects the momentum to sustain. Excluding the corporate treasuries from IIFL ONE AUM, one-third is from Discretionary and rest is from Non-discretionary.
- Redemption in AIF schemes if routed through the wealth management team, almost 65-70% assets is retained. However, if the same is acquired through a Third Party distributor and a new product is offered at the time of redemption, 35-50% is retained.

Future strategies

- For the mid-market segment proposition, strong digital platform is worked upon and a launch is expected by the end of current fiscal. This segment is largely catered by the private banks and to compete in terms of client acquisition and generating fee income will be a challenge, while the opportunities will unfold in the form of new products and tech-based offering.
- The MF industry will be divided between passives and actives. IIFLWAM, in the short term, does not see a right to win in the active segment and hence will not invest. In the passive segment, there are two challenges: 1) cost economics – beta strategy can be 20-25bp of revenue but the economics have to be worked out astutely, 2) team culture – ETFs v/s AIFs require different kind of investment and sales teams. Hence, the focus will continue to be on Alternates in the next 12-24 months.

Acquisitions

- Acquisitions in the past couple of years – Wealth Advisor acquisitions having different experiences have played out well – people have grown, clients have expanded their wallet share. However, in the second acquisition while profit numbers have stood out, the operating leverage has not played out well. Attrition of people is also higher in the second acquisition.
- Mumbai Angels' acquisition is awaiting SEBI approval as it has a CAT 1 AIF.

Financials

- Admin costs have been higher owing to the tech initiatives taken for the launch of mid-market segment offering and the digital journey for the existing team and clients. Further, there were several events that were lined up for its own employees.

- The company expects to maintain C/I ratio in the 44-45% range and sustain tangible RoE around 23-25% with a dividend payout of 75-80%.
- Net flows for the company were lower than expected. For the full year, the target of INR350-400b may not be met but the company is confident of reaching the ARR net flows target of INR300b (INR117b in 1HFY23).
- Other income is expected to be in the range of INR650-1000m every year.

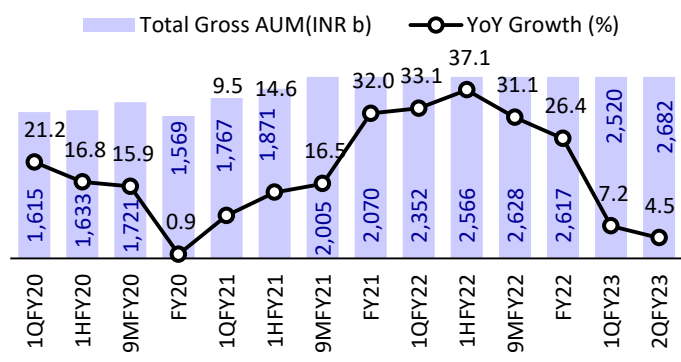
Exhibit 1: We marginally tweak our FY23/FY24 estimates

INR b	Old Est.		New Est.		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
ARR Revenue	11.6	13.1	11.3	12.5	-2.5	-4.6
TBR Revenue	4.2	4.2	4.9	4.9	16.7	16.7
Total Income	15.8	17.3	16.2	17.4	2.6	0.5
Operating Expenses	7.0	7.8	7.2	7.9	2.2	2.2
Operating Profits	8.7	9.6	9.0	9.5	2.9	-0.8
Other Revenue	0.6	0.9	0.7	0.8	8.3	-11.8
PBT	9.3	10.4	9.6	10.3	3.2	-1.7
Tax	2.1	2.4	2.2	2.4	3.2	-1.7
PAT	7.2	8.0	7.4	7.9	3.2	-1.7
Total AUM	2,819	3,180	2,817	3,128	-0.1	-1.6
Cost-to-core income	44.7	44.7	44.5	45.4	-0.4	1.7
RoE	23.4	25.0	24.1	24.5	3.2	-1.8

Source: MOFSL, Company

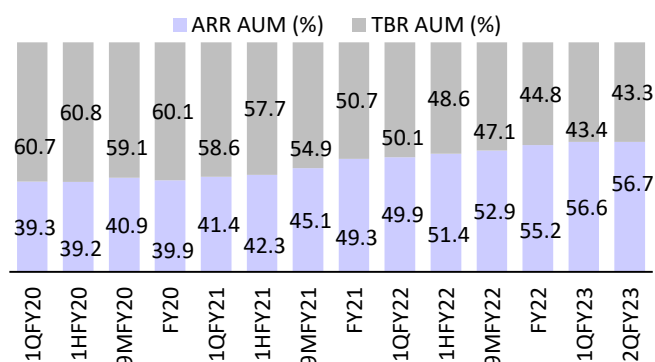
Key exhibits

Exhibit 2: Total AUM declines sequentially



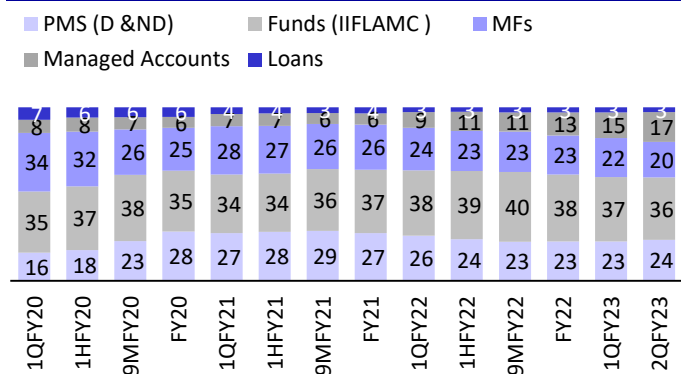
Source: MOFSL, Company

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



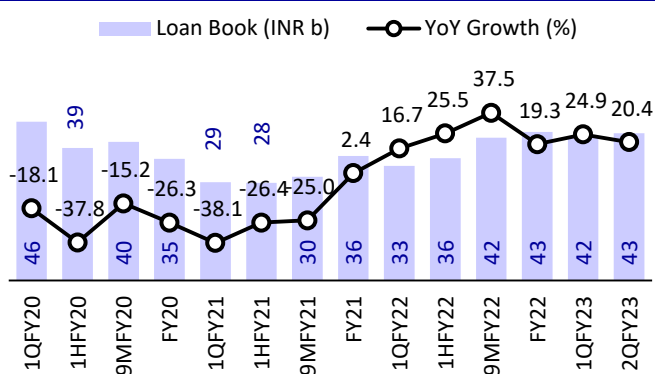
Source: MOFSL, Company

Exhibit 4: ARR AUM mix (%)



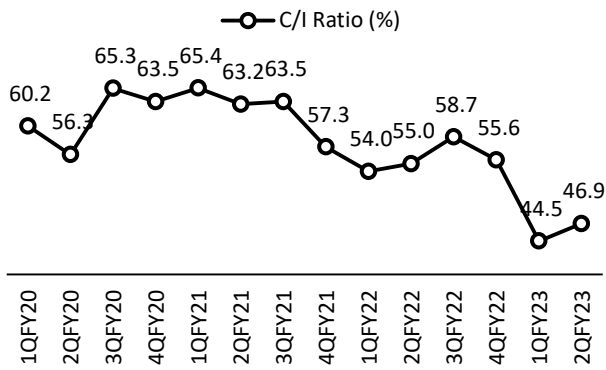
Source: MOFSL, Company

Exhibit 5: Loan book remains stable



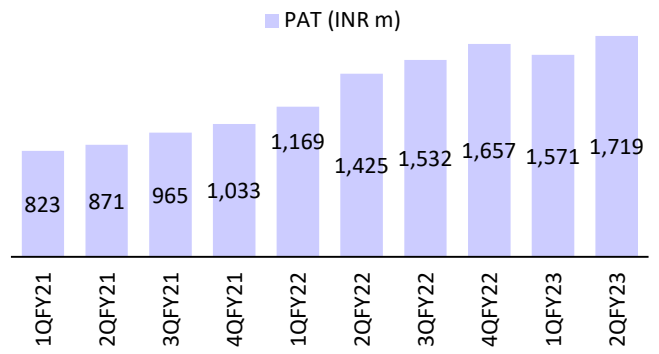
Source: MOFSL, Company

Exhibit 6: Sharp improvement in C/I ratio



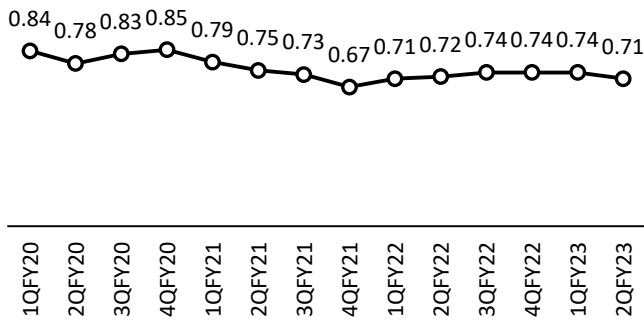
Source: MOFSL, Company

Exhibit 7: Trend in consolidated PAT (INR m)



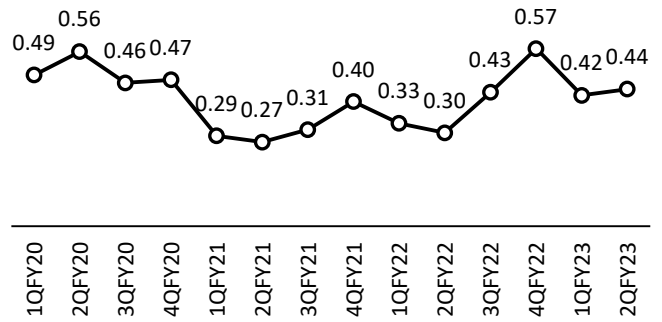
Source: MOFSL, Company

Exhibit 8: Yields in ARR



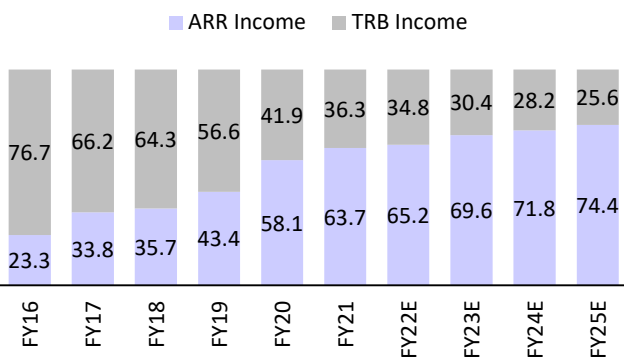
Source: MOFSL, Company

Exhibit 9: Yields in TBR



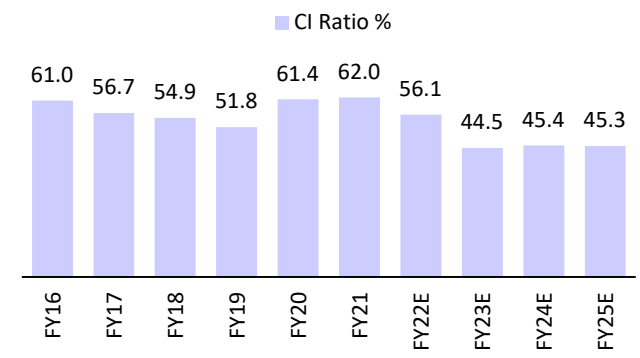
Source: MOFSL, Company

Exhibit 10: Mix of revenues



Source: MOFSL, Company

Exhibit 11: C/I ratio



Source: MOFSL, Company

Financials and valuations

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	11,259	12,517	14,333
Transactional/Broking Revenues Assets	6,618	5,794	3,855	3,325	4,862	4,927	4,927	4,927
Net Revenues	10,288	10,231	9,200	9,154	13,982	16,186	17,444	19,260
Change (%)	45.3	-0.5	-10.1	-0.5	52.8	15.8	7.8	10.4
Operating Expenses	5,652	5,297	5,645	5,679	7,838	7,207	7,928	8,721
Core Profit Before Tax	4,636	4,934	3,555	3,474	6,144	8,979	9,516	10,539
Change (%)	51.2	6.4	-28.0	-2.3	76.8	46.1	6.0	10.8
Other Income	140	445	-691	1,375	1,372	650	750	850
Profit Before Tax	4,775	5,380	2,864	4,849	7,516	9,629	10,266	11,389
Change (%)	24.2	12.7	-46.8	69.3	55.0	28.1	6.6	10.9
Tax	1,099	1,634	853	1,157	1,736	2,215	2,361	2,620
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	7,414	7,905	8,770
Change (%)	37.0	1.9	-46.3	83.5	56.6	28.3	6.6	10.9
Proposed Dividend	785	848	2,018	6,150	4,858	5,931	6,324	7,016

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	31,281	32,862	34,616
Net Worth	18,629	29,104	29,915	28,278	29,976	31,459	33,039	34,793
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	1,14,580	1,18,289	1,22,384
Cash and Investments	18,564	33,300	76,911	33,010	49,566	52,388	54,191	56,190
Change (%)	-43.6	79.4	131.0	-57.1	50.2	5.7	3.4	3.7
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	1,14,580	1,18,289	1,22,384

E: MOFSL Estimates

Financials and valuations

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	2,817	3,128	3,478
Change (%)	33.1	18.7	0.9	32.0	26.4	7.6	11.0	11.2
Annual Recurring Revenue Assets	449	583	626	1,020	1,444	1,644	1,954	2,305
Transactional/Brokerage Assets	861	972	943	1,051	1,173	1,173	1,173	1,173

E: MOFSL Estimates

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	69.6	71.8	74.4
TRB Income	64.3	56.6	41.9	36.3	34.8	30.4	28.2	25.6
Total Cost (Cost to Income Ratio)	54.9	51.8	61.4	62.0	56.1	44.5	45.4	45.3
Employee Cost	37.9	32.4	40.5	44.7	42.2	32.1	32.8	32.6
PBT	45.1	48.2	38.6	38.0	43.9	55.5	54.6	54.7
Profitability Ratios (%)								
RoE	21.7	15.7	6.8	12.7	19.8	24.1	24.5	25.9
Dividend Payout Ratio	21.4	22.6	100.3	166.6	84.0	80.0	80.0	80.0

Dupont Analysis (Bp 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	59.6	58.7	58.3
Operating Expenses	49.3	37.0	36.1	31.2	33.4	26.5	26.7	26.4
Core Profit Before Tax	40.4	34.5	22.8	19.1	26.2	33.0	32.0	31.9
Other Income	1.2	3.1	-4.4	7.6	5.9	2.4	2.5	2.6
Profit Before Tax	41.6	37.6	18.3	26.6	32.1	35.4	34.5	34.5
Tax	9.6	11.4	5.5	6.4	7.4	8.1	7.9	7.9
ROAAAUM	32.1	26.2	12.9	20.3	24.7	27.3	26.6	26.6

Valuations	2018	2019	2020	2021	2022	2023E	2024E	2025E
BVPS (INR)	234	344	343	322	338	355	372	392
Change (%)	19.8	47.5	-0.4	-6.3	5.0	4.9	5.0	5.3
Price-BV (x)	7.8	5.3	5.3	5.7	5.4	5.1	4.9	4.6
EPS (INR)	46	44	23	42	65	83.6	89	99
Change (%)	33.9	-3.8	-47.9	82.0	55.1	28.3	6.6	10.9
Price-Earnings (x)	39.5	41.0	78.9	43.3	27.9	21.8	20.4	18.4
DPS (INR)	9	10	20	70	55	67	71	79
Dividend Yield (%)		0.5	1.1	3.8	3.0	3.7	3.9	4.3

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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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