

BSE SENSEX 73,097
S&P CNX 22,147

CMP: INR694 TP: INR850 (+22%) Buy



Stock Info

Bloomberg	360ONE IN
Equity Shares (m)	356
M.Cap.(INRb)/(USDb)	249.1 / 3
52-Week Range (INR)	789 / 395
1, 6, 12 Rel. Per (%)	-3/23/31
12M Avg Val (INR M)	319
Free float (%)	82.2

Financials Snapshot (INR b)

Y/E March	2024E	2025E	2026E
Net Revenues	17.4	21.0	24.1
Opex	8.9	10.0	11.0
Core PBT	8.5	11.0	13.1
PAT	7.6	9.1	11.0
EPS	21.5	25.7	30.9
EPS Grw (%)	16.2	19.6	20.2
BV	91.5	96.6	102.8

Ratios

PBT margin (bp)	21.1	22.6	24.0
PAT margin (bp)	19.1	18.7	20.1
RoE (%)	24.0	27.3	31.0
Div. Payout (%)	80.0	80.0	80.0

Valuations

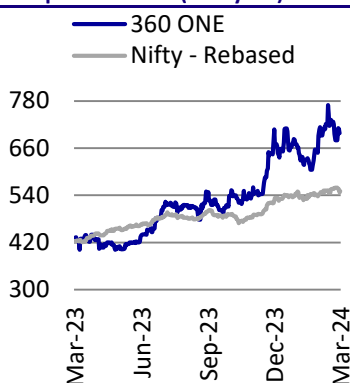
P/E (x)	32.1	26.8	22.3
P/BV (x)	7.5	7.1	6.7
Div. Yield (%)	2.5	3.0	3.6

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	17.8	20.8	22.0
DII	8.9	6.4	2.2
FII	62.5	61.9	61.2
Others	10.9	10.8	14.6

FII Includes depository receipts

Stock performance (one-year)



Growth momentum intact despite near-term cost pressures

A wide product suite reduces risk of cyclicity in flows

- 360 ONE WAM (360ONE) is well placed to maintain its leadership position in a favorable macro environment, wherein inter-generational wealth transfer is expected to gather momentum and the adoption of organized wealth management increases in the lower tier cities.
- With a wide product portfolio, 360ONE is capable of countering the cyclicity as it is seeing strong traction in credit products and advisory mandates (360ONE Plus inflows of INR238b in 9MFY24 vs. INR110b in FY23).
- In order to grow ARR AUM, 360ONE is focusing on a five-point strategy: 1) increase wallet share among existing clients, 2) expand into new geographies, 3) increase share in inter-generation wealth transfer, and 4) scale up AMC.
- 360ONE has a combination of both ESOPs and incentive for employees, which is largely as a function of three parameters: 1) time spent by the employee (~15-20% weightage), 2) respective business plan achievement and performance (~50-60% weightage), and 3) performance of the firm (~10-20% weightage).
- For the next six to nine months, 360ONE will be going through an investment phase for building out both businesses, the global business as well as the mid-market business (HNI Proposition). Management expects a visible impact on the topline from FY25 onwards (can potentially add INR 100b in FY25 with ~60% from HNI and ~40% from global platform). HNI proposition is on track to go live by Apr'24, whereas the global business will be launched by Jul'24.
- In terms of costs, continued investments in new businesses will keep the costs elevated in H1FY25. Post which, CIR is expected to improve to 47.5% by the end of FY25 and further improve to 45.6% in FY26.
- We expect 360ONE to register an ARR AUM CAGR of 23% during FY24-26. This, along with an improvement in CIR, will translate into an earnings CAGR of 20%. Also, the company will report a healthy RoE of 31% by FY26 and maintain a healthy dividend payout of 80%. We reiterate our BUY rating on the stock with a one-year price target of INR850 at 27x FY26E EPS.

Strong inflows momentum to sustain

- While both primary and secondary equity markets witnessed strong activity, the deal flow in terms of promoter stake sales has been upbeat. With its close association with promoters through its seed funds and pre-IPO funds, 360ONE is well placed to leverage it to sustain the momentum in flows.
- New business can potentially add INR 100b (~60% from HNI and ~40% from global platform) in FY25. ARR net flows continues to be very strong at ~INR275b for 9MFY24. This is equivalent to full FY23 business net flows. Additionally, inflows in wealth segment for 9MFY24 is 22% higher than full-year FY23 inflows.
- 360ONE expects FY24 inflows at INR 350-400b and is aiming for 20-30% growth (excluding new business) in FY25.

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Expanding into new geographies

- Two years back, the top 10 cities accounted for 88%-91% of 360ONE's business, which has now reduced to 80%-83%. However, the company now sees opportunities in tier 2 cities, where a significant base of families with high net worth (INR150-200m) exists.
- Over the past few years, the company has increased its footprint to 23-24 cities (from 14-15), and aspires to expand coverage for the next 15-20 domestic locations. The company plans to establish offices in these cities by attracting talent from local bank branches.
- For 9MFY24, 360ONE on boarded over 400 new clients with INR 50m+ ARR AUM. Furthermore, clients with ARR AUM above INR 500m has increased by over 100 for the same period. Clients, having a total AUM of INR 50m+ stands at 3,750+ and account for 97% of Wealth AUM (excl. custody).
- During FY24, at the Partner & above level, 35+ new hires are being on boarded in the Wealth Sales teams allowing 360ONE to significantly expand market coverage and penetration.
- A senior partner, basically a managing partner with a team of two partners, would look at ~100 families. So, those teams, after the addition of these 35 people, would move to close to 85-90. From a capacity perspective, 360ONE would be well set to be able to manage 8,000-9,000 families as compared to ~4,000 families above INR 50m (TAM here is 30,000-50,000 families).

Traction in AMC business

- In the MF business, 360ONE saw inflows of INR22.6b in 9MFY24 vs. outflows of INR1.5b in 9MFY23. The momentum is likely to sustain over the next 12-24 months.
- In the UHNI segment, the company has an open architecture, where relationship managers are instructed not to invest more than 15-20% into its own asset management products. However, in the mid-market segment, the limit to invest in own asset management products will almost be double than that of the UNHI segment. This shall drive the AUM growth in AMC business for 360ONE.
- The company plans to launch SOF 12, a special opportunities fund, and expects it to grow to INR 30-40b by 1QFY25. Management believes its healthcare fund will reach the INR 10b mark from the current INR 5b. A new INR 20-25b credit fund is also planned for the launch.
- With present market cycles being quite volatile, the diversified strategies on alternates - across listed, unlisted, credit, RE & Infra allow 360ONE to go through these cycles with a higher resilience. Thus, we believe that there are multiple levers at play to accelerate growth in AMC business.

Mid-market (HNI Proposition)

- The company is on track to launch its HNI platform with a client base worth INR 50m-250m from Apr'24. Currently, it is undergoing an expanded pilot phase, while also making significant progress in building out its go-to-market strategy and strengthening the sales teams.
- This segment remains highly attractive and underpenetrated and opens an additional prospective client base of approximately 160k-170k households in the

domestic market with an addressable asset pool of USD 1 trillion+, growing in high teens over the next few years.

- Mr. Satheesh Krishnamurthy has joined 360ONE to head this business. Mr. Satheesh has been instrumental in developing similar businesses from scratch in his earlier stints with large banks.

Global Business Platform

- There are significant opportunities in serving the growing “Global Indian” client segment and 360ONE is in the process of building Wealth and Asset management platform for the same.
- By leveraging its established deep connections with the Indian diaspora globally, 360ONE expects this segment to be a strong engine of growth in the medium to long term.
- Industry veteran Mr. Vikram Malhotra has joined 360ONE WAM to build this growth engine. Vikram brings a wealth of experience to his new role, having served as the Global Market Head for Global South Asia & Middle East at Bank of Singapore. 360ONE expects the global business to go live by Jul’24.

Visible impact on top-line from new businesses FY25 onwards

- Over the next six to nine months, 360ONE will embark on an investment phase (with an incremental cost-to-income of 2.5-3% for FY25) aimed at expanding both its global businesses and its mid-market segment (HNI Proposition).
- Management expects a visible impact on the topline from FY25 onwards (new business to potentially add INR 100b with ~60% from HNI and ~40% from global platform) with a stronger upside from FY26 along with retentions of 70-75bps for both businesses, together with solid returns in the longer term.
- The margins here are broadly the same as lot of the functions, including products, investments, compliance, platform, are already in place.

Near-term cost pressures

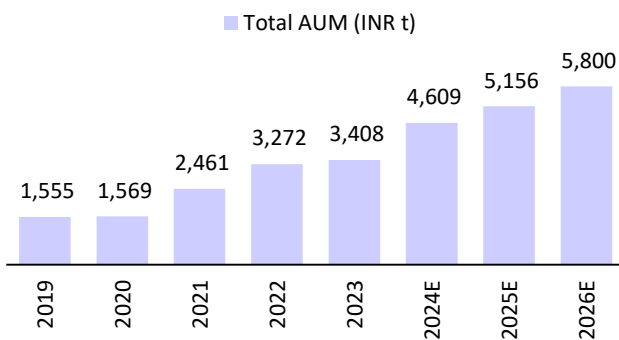
- With increasing competitive intensity and a limited pool of talent, 360ONE would ensure that employees are well rewarded. The fixed cost of employees will grow in line with the overall wage inflation, while variable pays are likely to grow in line with overall AUM growth in ARR assets.
- 360ONE has a combination of both ESOPs and incentive for employees, which is largely as a function of three parameters: 1) time spent by the employee (~15-20% weightage), 2) respective business plan achievement and performance (~50-60% weightage), and 3) performance of the firm (~10-20% weightage).
- For 9MFY24, the operating costs rose on account of additional headcount, including certain senior-level hires in the ultra HNI segment, which is not supported by corresponding revenues at this stage.
- During FY24, at the Partner & above level, 35+ new hires are being on boarded in the Wealth Sales teams, allowing 360ONE to significantly expand market coverage and penetration.
- The CIR ratio is expected to gradually settle down over the next few quarters as the new business initiatives and new teams start generating revenues. CIR should claw back to 47-47.5% from 49% currently and from FY26, it should settle around 45%.

Valuation and view

360ONE retains its niche positioning within the wealth management business, supported by a track record of innovative product offerings. The company operates with a strong team leader-driven model, resulting in low attrition rates at both the client and senior banker levels. The management’s decision to venture into new domestic geographies and target the HNI category besides global markets is likely to spur the next leg of growth and have a positive impact on the topline from FY25 onwards. In terms of costs, continued investments in new businesses will keep the costs elevated in H1FY25. Post which, CIR is expected to improve to 47.5% by the end of FY25 and further improve to 45.6% in FY26. **We expect 360ONE to register an ARR AUM CAGR of 23% over FY24-26. This, along with improvement in CIR, will translate into an earnings CAGR of 20%. Also, the company will report a healthy RoE of 31% by FY26 and maintain a healthy dividend payout of 80%. We reiterate our BUY rating on the stock with a one-year price target of INR850 at 27x FY26E EPS.**

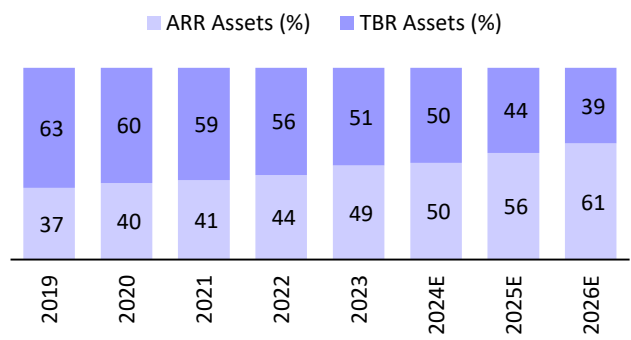
Key exhibits

Exhibit 1: Trend in total AUM



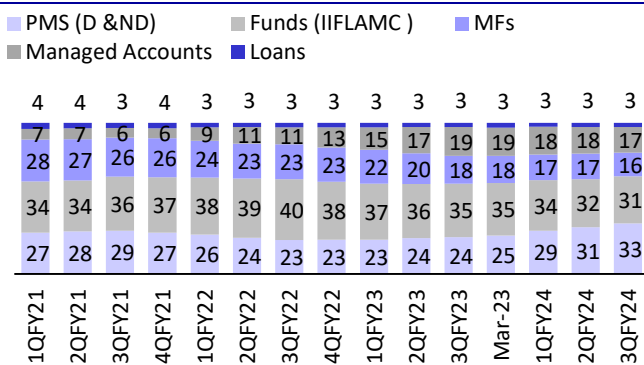
Source: MOFSL, Company

Exhibit 2: Expect ARR AUM mix to improve



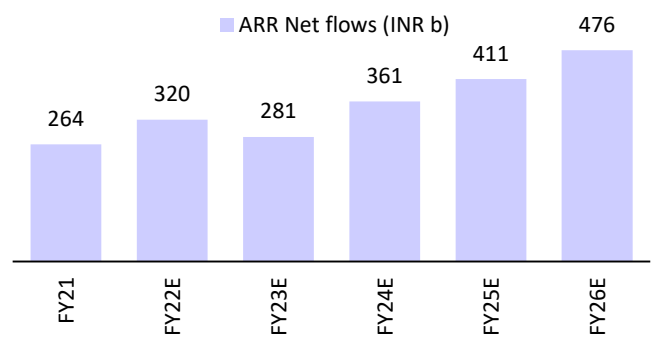
Source: MOFSL, Company

Exhibit 3: ARR AUM mix (%)



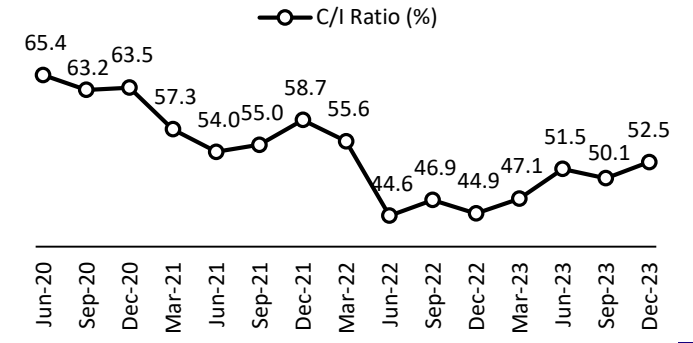
Source: MOFSL, Company

Exhibit 4: Trend in ARR net flows



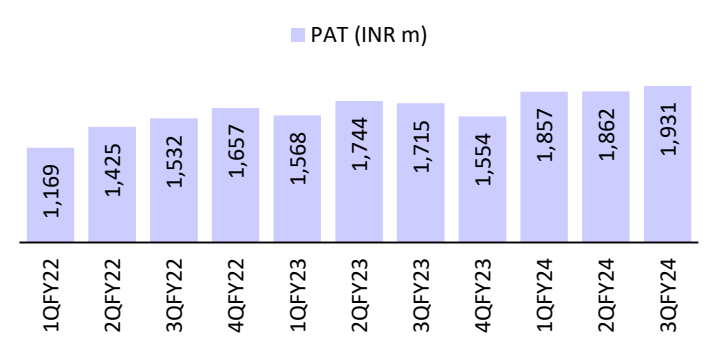
Source: MOFSL, Company

Exhibit 5: Quarterly trend in Cost-to-income ratio



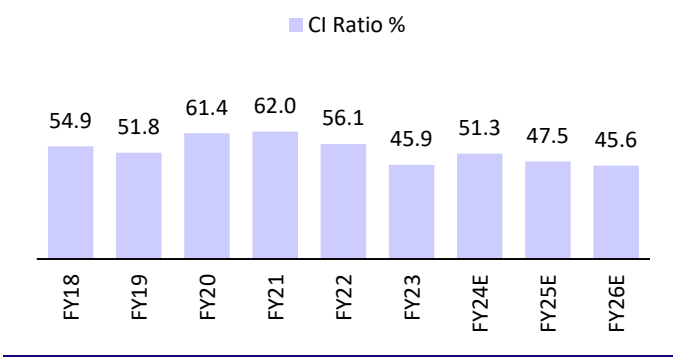
Source: MOFSL, Company

Exhibit 6: Trend in consolidated PAT (INR m)



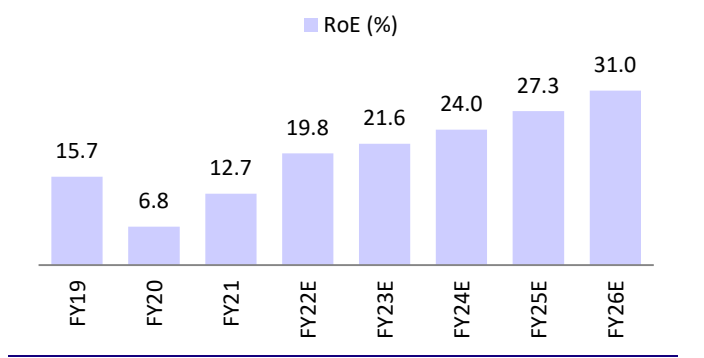
Source: MOFSL, Company

Exhibit 7: Cost-to-income ratio to decline in coming years



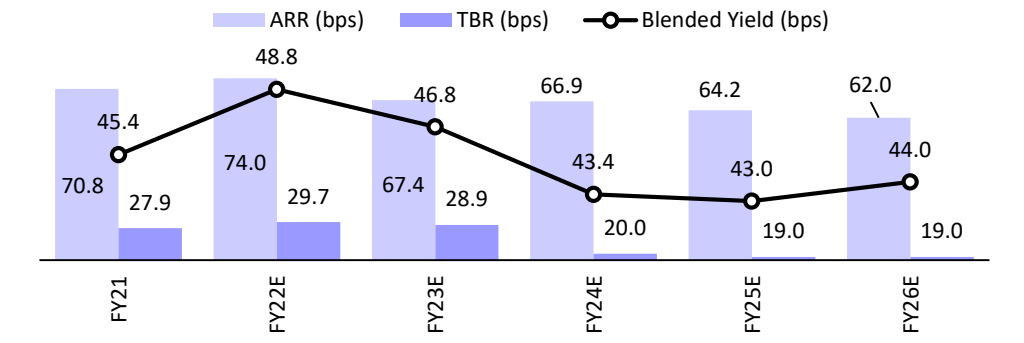
Source: MOFSL, Company

Exhibit 8: RoE to trend upwards



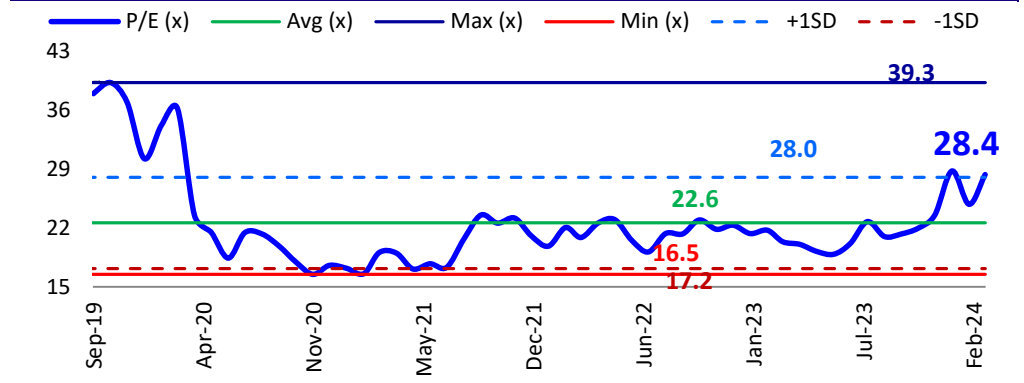
Source: MOFSL, Company

Exhibit 9: Trend in retention ratios



Source: MOFSL, Company

Exhibit 10: One-year forward P/E



Source: MOFSL, Company

Financials and valuations

Income Statement							(INR m)
Y/E March	2020	2021	2022	2023	2024E	2025E	2026E
Annual Recurring Revenues Assets	5,345	5,828	9,120	10,495	13,368	16,673	19,772
Transactional/Broking Revenues Assets	3,855	3,325	4,862	5,154	4,023	4,345	4,345
Net Revenues	9,200	9,154	13,982	15,649	17,392	21,017	24,117
Change (%)	-10.1	-0.5	52.8	11.9	11.1	20.8	14.7
Operating Expenses	5,645	5,679	7,841	7,184	8,920	9,990	10,989
Core Profit Before Tax	3,555	3,474	6,141	8,465	8,472	11,027	13,128
Change (%)	-28.0	-2.3	76.8	37.8	0.1	30.2	19.0
Other Income	-691	1,375	1,372	37	850	850	1,150
Profit Before Tax	2,864	4,849	7,513	8,502	9,322	11,877	14,278
Change (%)	-46.8	69.3	54.9	13.2	9.6	27.4	20.2
Tax	853	1,157	1,736	1,924	1,678	2,732	3,284
Tax Rate (%)	29.8	23.9	23.1	22.6	18.0	23.0	23.0
PAT	2,011	3,692	5,777	6,578	7,644	9,145	10,994
Change (%)	-46.3	83.5	56.5	13.9	16.2	19.6	20.2
Proposed Dividend	2,018	6,150	4,858	4,418	6,115	7,316	8,795

Balance Sheet							(INR m)
Y/E March	2020	2021	2022	2023	2024E	2025E	2026E
Equity Share Capital	174	176	177	356	356	356	356
Reserves & Surplus	29,741	28,102	29,798	30,685	32,214	34,043	36,242
Net Worth	29,915	28,278	29,976	31,041	32,570	34,399	36,598
Borrowings	88,381	47,116	58,075	67,473	81,997	90,242	98,487
Other Liabilities	11,967	12,006	19,345	13,406	14,747	16,222	17,844
Total Liabilities	1,30,263	87,400	1,07,396	1,11,921	1,29,314	1,40,863	1,52,929
Cash and Investments	76,911	33,010	49,566	43,347	48,221	51,625	55,332
Change (%)	131.0	-57.1	50.2	-12.5	11.2	7.1	7.2
Loans	36,319	37,206	40,549	49,101	59,670	65,670	71,670
Net Fixed Assets	5,754	8,153	8,163	8,798	9,678	10,646	11,710
Net Current Assets	11,278	9,030	9,117	10,675	11,745	12,922	14,217
Total Assets	1,30,263	87,400	1,07,396	1,11,921	1,29,314	1,40,863	1,52,929

E: MOFSL Estimates

Cash Flow (INR m)	2020	2021	2022	2023	2024E	2025E	2026E
PAT	2,011	3,692	5,777	6,578	7,644	9,145	10,994
Dep	410	430	417	463	486	511	536
Changes in working capital	-1,541	2,248	-87	-1,558	-1,071	-1,177	-1,294
Op Cash flow	881	6,369	6,108	5,484	7,060	8,479	10,236
Capex	-1,064	-2,828	-427	-1,098	-1,366	-1,478	-1,601
Loans	13,346	-887	-3,344	-8,551	-10,569	-6,000	-6,000
Changes in equity	817	821	779	-1,094	-	-	-
Debt	31,650	-41,226	18,298	3,459	15,864	9,720	9,867
Dividend	-2,018	-6,150	-4,858	-4,418	-6,115	-7,316	-8,795
Cash generation	43,612	-43,901	16,556	-6,219	4,874	3,404	3,707
Op Cash	33,300	76,911	33,010	49,566	43,347	48,221	51,625
Cl Cash	76,911	33,010	49,566	43,347	48,221	51,625	55,332
FCFF	-183	3,541	5,681	4,385	5,694	7,001	8,635

Financials and valuations

Y/E March	2020	2021	2022	2023	2024E	2025E	2026E
AUM (Ex Custody assets) (INR b)	1,569	2,461	3,272	3,408	4,609	5,156	5,800
Change (%)	0.9	56.8	33.0	4.2	35.2	11.9	12.5
Annual Recurring Revenue Assets	626	1,020	1,444	1,672	2,323	2,870	3,514
Transactional/Brokerage Assets	943	1,441	1,828	1,737	2,287	2,287	2,287

E: MOFSL Estimates

Y/E March	2020	2021	2022	2023	2024E	2025E	2026E
As a percentage of Net Revenues							
ARR Income	58.1	63.7	65.2	67.1	76.9	79.3	82.0
TRB Income	41.9	36.3	34.8	32.9	23.1	20.7	18.0
Total Cost (Cost to Income Ratio)	61.4	62.0	56.1	45.9	51.3	47.5	45.6
Employee Cost	40.5	44.7	43.0	33.3	37.8	35.1	33.6
PBT	38.6	38.0	43.9	54.1	48.7	52.5	54.4
Profitability Ratios (%)							
RoE	6.8	12.7	19.8	21.6	24.0	27.3	31.0
Dividend Payout Ratio	100.3	166.6	84.1	67.2	80.0	80.0	80.0

Dupont Analysis (Bps of AAAUM)

Y/E March	2020	2021	2022	2023	2024E	2025E	2026E
Operating Income	58.9	45.4	48.8	46.8	43.4	43.0	44.0
Operating Expenses	36.1	28.2	27.4	21.5	22.3	20.5	20.1
Core Profit Before Tax	22.8	17.2	21.4	25.3	21.1	22.6	24.0
Other Income	-4.4	6.8	4.8	0.1	2.1	1.7	2.1
Profit Before Tax	18.3	24.1	26.2	25.5	23.3	24.3	26.1
Tax	5.5	5.7	6.1	5.8	4.2	5.6	6.0
ROAAAUM	12.9	18.3	20.2	19.7	19.1	18.7	20.1

Valuations	2020	2021	2022	2023	2024E	2025E	2026E
BVPS (INR)	86	80	84	87	91	97	103
Change (%)	-0.4	-6.3	5.0	3.2	4.9	5.6	6.4
Price-BV (x)	8.0	8.6	8.2	7.9	7.5	7.1	6.7
EPS (INR)	6	11	16	18	21	26	31
Change (%)	-47.9	82.0	55.0	13.5	16.2	19.6	20.2
Price-Earnings (x)	119.4	65.6	42.3	37.3	32.1	26.8	22.3
DPS (INR)	5	17	14	12	17	21	25
Dividend Yield (%)	0.7	2.5	2.0	1.8	2.5	3.0	3.6

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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