



Building unique business model

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IIFL Wealth Management

BSE Sensex
41,199

S&P CNX
12,130

CMP: INR1,290

TP: INR1,525 (+18%)

Buy



Stock info

Bloomberg	IIFLWAM IN
Equity Shares (m)	87.1
M.Cap.(INRb)/(USDb)	112.4 / 1.6
52-Week Range (INR)	1532 / 1042
12M Avg Val (INR M)	121

Financial Snapshot (INR b)

Y/E March	2020E	2021E	2022E
Net Revenues	9.4	11.3	13.4
Opex	5.6	6.3	7.1
PBT	3.7	5.0	6.3
PAT	2.8	3.7	4.7

Ratios

PBT margin (bp)	25	30	33
PAT margin (bp)	19	22	25
RoE (%)	9.3	11.9	14.8
Div. Payout (%)	84.3	84.3	84.3

Valuations

P/E (x)	40.1	30.2	23.7
P/BV (x)	3.6	3.5	3.5
Div. Yield (%)	1.7	2.3	3.0

Shareholding pattern (%)

As On	Dec-19	Sep-19
Promoter	24.1	24.2
DII	0.4	0.7
FII	18.8	16.5
Others	56.6	58.6

FII Includes depository receipts

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[Please click here for Video Link](#)

Building unique business model

Migration to a complete advisory model could be a game-changer

- India is fast marking its place in the league of wealthy population with a CAGR of 17% in the number of ultra-high net worth individuals (UHNI) to 161k. However, only 9% of their combined wealth of INR153t (1% of global wealth) is managed by wealth managers (versus 20% for China and 50%+ developed countries). The rapidly growing pie and the low penetration thus point toward huge potential in India's wealth management industry.
- IIFL Wealth (IIFLWAM) – the third largest wealth manager in India – has ~10% market share (AUM CAGR of ~25% to INR1.6t over FY15-20E) in the wealth management industry. Over the years, it has built a robust business model, backed by strong relationships, low attrition levels for both employees/clients, ability to structure products and provide unique solutions.
- From a transaction-oriented revenue model (based on flows), IIFLWAM is focusing on raising the share of stable and granular revenue by aggressively expanding the advisory platform, and scaling up the AMC/lending businesses (credit solutions provided to own clients). The new business model intends to drive earnings through AUM rather than gross flows in the business.
- In the AMC business, IIFLWAM intends to focus more on alternate funds. It has introduced several unique alternate funds and has become the largest AIF player (13% market share) in India with an AUM of INR192b.
- IIFLWAM is well positioned to deliver 20%/30% revenue/PAT CAGR over FY20-23 and improve RoE from 9% to 19% by FY23. Annual free cash flows are very strong, which will drive a healthy dividend payout ratio of 80%+. We value IIFLWAM at 28x FY22E EPS of INR54/share and derive a target price of INR1,525/share (+18%). On an implied basis, it would trade at 4.1x PBV FY22E.

Dedicated player in a vastly expanding market

Financialization of savings, higher acceptance of sophisticated products and reducing presence of foreign firms (domestic firms have 78% market share now) provide a perfect platform for domestic wealth managers to grow their businesses in a rapidly expanding market (13% CAGR from FY08-18). IIFLWAM manages just ~1% of total UHNI wealth and has ~10% market share amongst wealth managers. With its steadfast focus on capitalizing on the growth opportunities, IIFLWAM will likely deliver AUM CAGR of ~18% over FY20-23.

Business model less prone to cyclicity now

IIFLWAM is moving from a distributor commission-led income model to a client advisory fee-led model under its flagship program **IIFL ONE**. This move increases transparency for clients and mitigates mis-selling by aligning the incentives of the company with those of the client. The transition of the entire book is likely to take over three years. For clients that will not transition to the

IIFL ONE platform, fees will be recognized on a trail basis. The rising share of AMC and the cross-sell of lending products to existing clients will likely provide more stability/granularity to revenues.

AMC – alternates a key focus area

In a span of just five years, the AMC business has grown in size from INR30b to ~INR270b, largely driven by the strong AIF business (INR192b, 13%+ market share). For the AMC business, the company is focusing on alternate products and thematic/unique PMS proposition. Strong in-house wealth knowledge and a diversified client base with strong understanding of risk have helped IIFLWAM to create a niche in this business.

NBFC – capitalizing on its customer base

IIFLWAM also has an in-house NBFC (was acquired in 2016) which caters to the liquidity and credit needs of its clientele. With assets and liabilities sourced from internal clients, there is no sourcing cost and nil NPAs. Total loan book outstanding stands at ~INR40b. While we expect a loan CAGR of ~17% over FY20-23, we note that growth would be opportunistic.

Valuation and view

Over the past decade, IIFLWAM has evolved into one of the best wealth management franchises in the country, posing tough competition to the private sector banks and foreign banks too. Over the past five years, it has become the largest AIF player in India with unique product offerings. **With IIFL ONE, IIFLWAM looks to revolutionize the way wealth management is offered in India. While this could have near-term pressure on profitability, it would be a trend-setter in the industry, if successful.** Moreover, we find comfort in **(a) leadership position of this franchise, (b) sustainable, capital-light business model and (c) the long-term growth potential.** We thus initiate coverage on IIFLWAM with a Buy rating and a target price of **INR1,525 (28x FY22E EPS).**

Exhibit 1: Peer Comparison (Global/Domestic)

Co. Name	Market Cap (USD b)	EPS			PE (x)			PB (x)			ROE (%)		
		FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
IIFLWAM	1.6	32.2	42.8	54.4	40.1	30.2	23.7	3.6	3.5	3.5	9.3	11.9	14.8
HDFC AMC	9.7	63.4	68.9	78.3	50.5	46.5	40.9	19.8	17.7	15.8	41.4	40.2	40.8
Nippon Life AMC	3.2	8.9	10.2	11.8	41.5	36.3	31.2	8.6	8.2	8.0	21.1	22.9	25.6
Bank of America	290.3	3.0	3.3	3.5	10.8	10.0	9.3	1.2	1.1	1.0	10.8	11.0	11.1
Julius Baer	11.2	3.6	4.2	4.5	13.4	11.6	10.7	1.7	1.6	1.5	12.0	13.8	14.5
Credit Suisse	33.5	1.2	1.5	1.7	10.5	8.4	7.6	0.7	0.6	0.6	7.2	7.9	8.1

Source: Bloomberg, FY20-22 are estimates, Bank of America, Credit Suisse and Julius Baer values are as per calendar years

Business Snapshot - FAQs

What are the various products offered?

- Discretionary & Non-Discretionary Portfolio Management Services (PMS).
- Distribution of financial products across asset classes.
- Broking solutions for debt, equity, real estate, commodities and currency.
- Investment advisory services, primarily catering to corporate treasuries.
- Credit solutions: Providing credit to fill short-term liquidity gaps or enable leveraged investing.
- Estate and succession planning.
- Corporate Finance Advisory: M&A, divestments, raising funds from private equity, strategic investments, structured equity/debt, IPOs and QIPs.

How Wealth Management firms earn revenue?

- Typically, wealth management companies/distributors do not charge an explicit fee for their services to the customers. They make money via commissions from manufacturers whose products they distribute.
- Revenues depend on the mix of products offered, weighted average commissions/spreads could vary between 50-80bp.

What is so different IIFLWAM doing?

- The company intends to alter its business model – from earning commissions as a distributor to charging clients for advisory services (IIFL-One).
- The client fees could be charged in two ways – ‘all-in fee’ or ‘AUM-linked fee’ – the ‘all-in fee’ is only for discretionary portfolio management while ‘AUM-linked fee’ is for discretionary and non-discretionary portfolio management.

Why is IIFLWAM planning to alter business model?

- By eliminating vendor commissions and transaction brokerages, focus is firmly on return optimization for clients’ investments. This would enable it to improve transparency with the client as well as mitigate mis-selling.
- Large part of IIFLWAM AUM as of now earns transactional income which could be volatile.
- Dependence on the manufacturer for its own earnings reduces significantly.

Can a customer opt out of IIFL-ONE and continue with the existing model?

- Yes, a customer can choose whether he/she wants to be part of IIFL-One or not. He/she can also have some assets in IIFL-One and some outside of it. However, even in a distributor kind of arrangement, IIFLWAM has shifted to trail income recognition.

What are ARR/TBR/Double counted assets?

- Annual recurring revenue (ARR) assets are those that have an annual income stream.
- Transactional/brokerage revenue assets are those wherein the company earns only a one-time fee income.
- Double counted assets in the overall AUM are (a) AMC AUM sourced by wealth management division of IIFLWAM, and (b) Loan book of NBFCs.
- The strategy is to increase the share of ARR assets such that ARR income constitutes 70-80% of total income.

Huge opportunity – Significant under-penetration

Number of UHNIs to double over FY17-22; Domestic wealth managers gaining market share

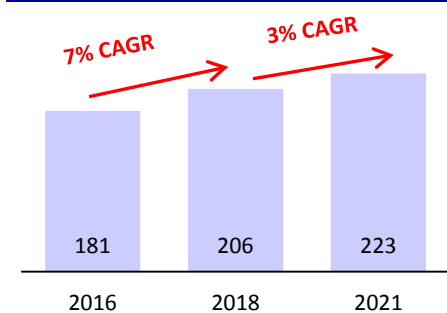
- Over FY17-22, the number of UHNIs in India is expected to double to 330k, with their cumulative wealth increasing from INR153t (USD2.2T) to INR352t (USD5.0T). Of the total wealth of USD2.2T – 60% (INR1.3T) is in financial assets. However, of this money, only USD201b is managed by top tier wealth managers. Hence only ~10% of the overall market and only 15% of the financial assets wealth is addressed by top tier wealth managers as of now.
- The Indian wealth management industry has witnessed consistent shift in competitive dynamics from global players to domestic players. The share of total AUM managed by domestic players increased from 64% to 78% over 2015-18. Moreover, this is a concentrated industry with the top-5 players comprising 55% of total AUM and top-10 players comprising 80% of total AUM.

Share of Indian wealth in global wealth to increase 20bp to 1.3% over 2016-18

Indian wealth to grow at 10% CAGR over 2018-21

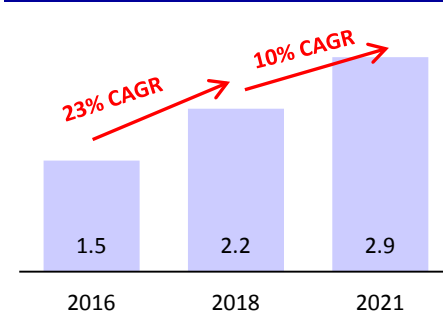
- Over 2016-18, while global wealth grew at 7% CAGR to USD206t, cumulative Indian wealth grew at 23% CAGR to USD2.2t.
- The trend of growth outperformance of Indian wealth is likely to continue in the medium term – the share of Indian wealth in total global wealth is expected to increased 20bp+ to 1.3% over 2018-21.

Exhibit 2: Global wealth(USD t)



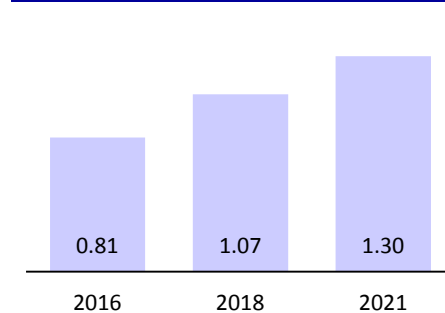
Source: MOFSL, Company

Exhibit 3: Indian wealth (USD t)



Source: MOFSL, Company

Exhibit 4: Indian wealth's share in global wealth (%)

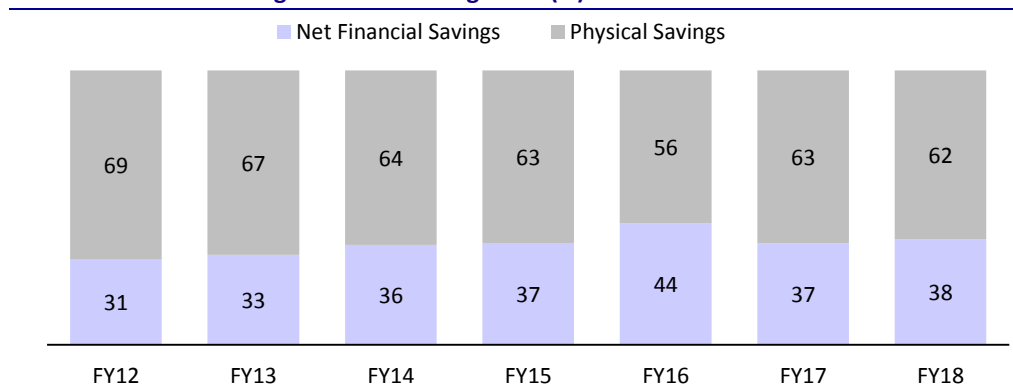


Source: MOFSL, Company

Share of savings in financial assets up 500bp over FY13-18 to 38%

Financialization of savings increasing

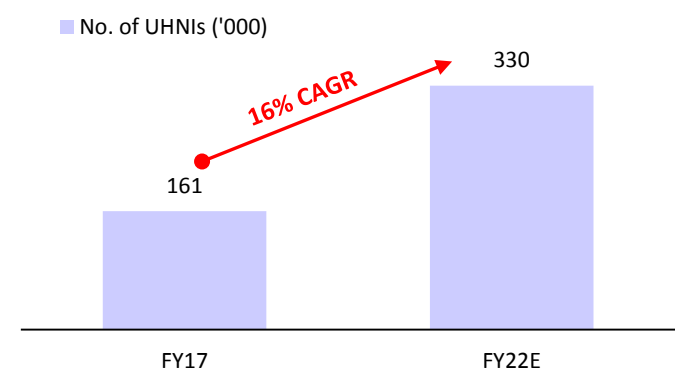
- With healthy equity returns and increasing financial literacy, the share of savings in financial assets increased from 33% in FY13 to 38% in FY18.
- Apart from healthy growth in economy, financialization of savings, increasing acceptance of wealth managers to manage money, rapidly rising acceptance of MF, Insurance and sophisticated products (PMS and AIF) as investment and savings product etc. all indicating towards strong growth in wealth management industry ahead.

Exhibit 5: Financial savings on an increasing trend (%)

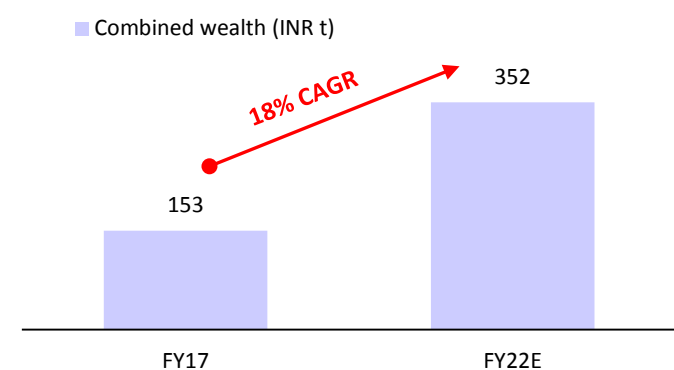
Source: MOFSL, RBI

Number of UHNIs is expected to double in five years to 330K by FY22

- The number of ultra-high networth individuals (UHNI) in India is estimated to double to 330,000 over FY17-22E. The combined wealth of UHNIs is also expected to grow at a healthy 18% CAGR over the same time period to reach INR352t.

Exhibit 6: Number of UHNIs to double...

Source: MOFSL, Company

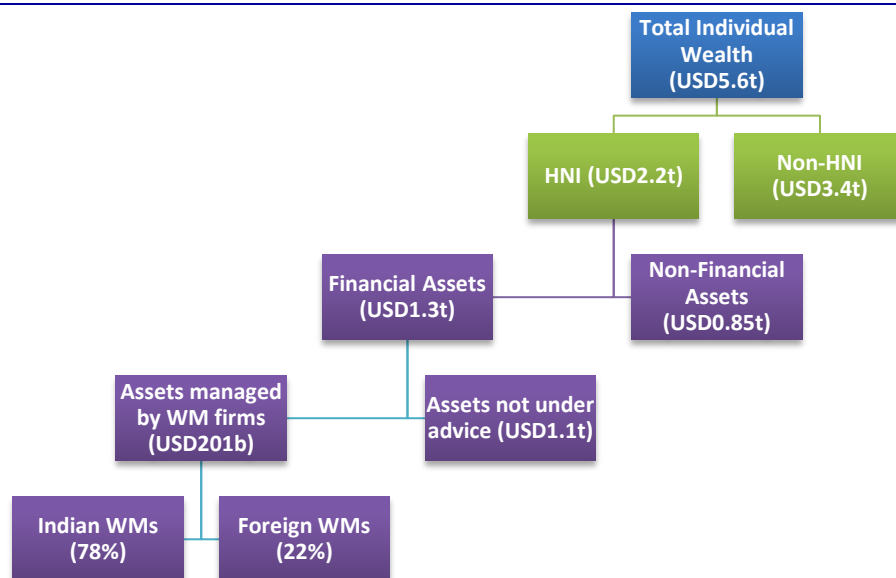
Exhibit 7: ...with combined wealth more than doubling

Source: MOFSL, Company

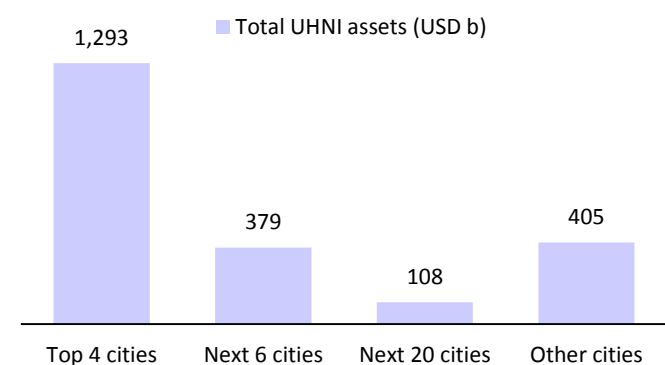
Only ~10% of the overall market and ~15% of the financial assets wealth is addressed by top Tier wealth managers as of now.

Underpenetrated market opportunity

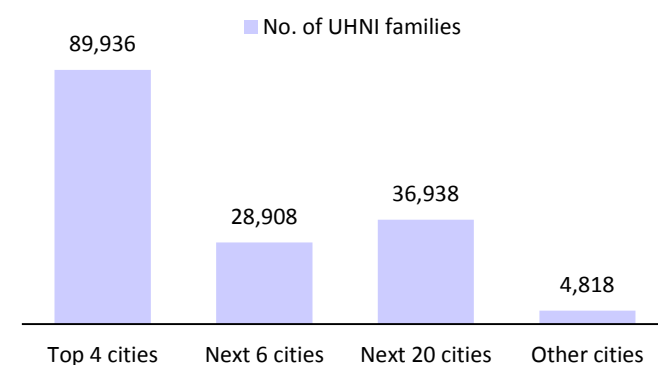
- Total HNI wealth in India stands at USD2.2T. Of this, ~60% (USD 1.3T) is in financial (investable) assets. However, only 15% of these assets (USD200b) are managed by wealth managers (WM) while the rest are either self-managed or promoter holdings. This presents a huge scope for formal industry players to continue penetrating market the further. Of this USD200 billion, IIFLWAM's market share is 10.6%.
- Estimates suggest that 56% of HNIs live in the top 4 metros, followed by 18% in the next 6 cities, 23% in next 20 cities and balance 3% in others. In terms of assets, the 4 metros account for 59% of wealth and the next 6 cities at 17% of wealth. Tier 2 & 3 Cities have seen significant wealth creation, are underpenetrated by large WMs.
- IIFLWAM's share in metros and next 6 cities stands at 1% whereas in next 20 cities and other cities it is as low as 0.4% and 0.2% respectively. Hence the opportunity to expand reach and penetration across the country is immense.

Exhibit 8: Wealth Managers address only 10% of the HNI wealth currently

Source: MOFSL, Company

Exhibit 9: 59% of UHNI assets come from the top 4 cities

Source: MOFSL, Company

Exhibit 10: 56% of UHNI families come from the top 4 cities

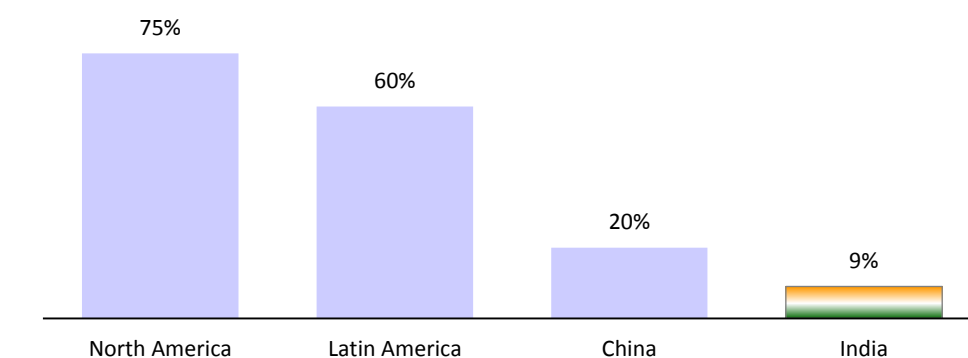
Source: MOFSL, Company

Wealth is largely personally managed in India unlike Western peers

- Based on the IIFL Wealth Index 2018 report, the share of wealth by wealth managers is significantly lower for Indian UHNIs as compared to their western peers.
- Only 9% of Indian UHNI wealth is professionally managed, as compared to 20% for China and 75% for North America.

Exhibit 11: Share of professionally managed UHNI wealth (% of total wealth AUM)

Only 9% of Indian UHNI wealth is managed by wealth managers, as compared to 20% for China and 75% for North America.



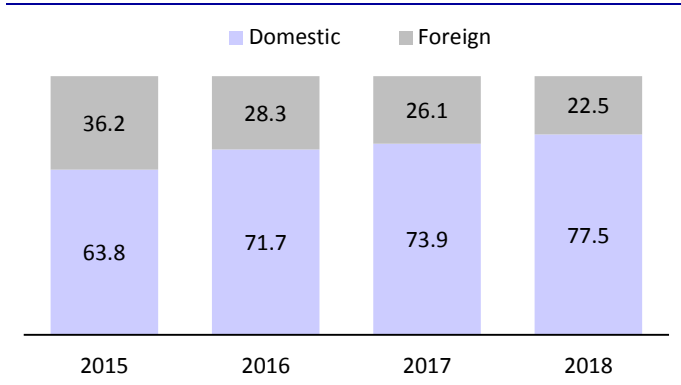
Source: MOFSL, Company

Indian companies
(Banks/NBFC/Brokers)
comprise 78% of total
industry AUM

Indian Wealth Management Industry – Domestic players gaining share

- Over the past decade, the wealth management industry in India has not only witnessed strong growth, but also a change in competitive dynamics. Indian players have significantly gained market share as global wealth managers have scaled back due to their own internal restructuring.
- Indian companies (Banks/NBFC/Brokers) comprise 78% of the overall industry AUM. With localized offerings and better reach, Indian players will continue gain market share
- The top-5 players account for ~55% of the total industry AUM while the top-10 players account for ~80% of the total AUM.

Exhibit 12: Market share in wealth management (%)



Source: MOFSL, Asian Private Banker

Exhibit 13: Top-10 players account for ~78% of total AUM

Company	AUM (2018, USD b)
Kotak Wealth Management	33.63
ICICI Bank Private Banking	25.61
IIFL Wealth & Asset Management	21.38
Edelweiss Wealth Management	14.70
BNP Paribas Wealth Management	13.79
Axis Bank Wealth Management	12.78
Standard Chartered Private Bank	9.70
HDFC Private Bank	9.10
Julius Baer	9.00
JM Financial Wealth Management	6.14

Source: MOFSL, Asian Private Banker

Increasing granularity and reducing cyclicity of revenues

Transition to ARR assets is the key

- IIFLWAM delivered 25% CAGR in total AUM to INR1.5t over FY15-9MFY20, becoming the third largest wealth manager in India. Including custody assets, AUM stood at INR1.8t. During the same period, AMC AUM increased from just INR30b to ~INR270b (estimated at INR490b by FY22E). Product innovation, low attrition of clients and employees, customized solutions (credit and advisory) and strong processes have been the key guiding factors for such a strong growth.
- With the evolving regulatory structure (distribution moving to trail model from transaction-based upfront income) and to reduce the cyclicity to revenues, IIFLWAM intends to migrate to an advisory-based commission income (under IIFL-ONE) model. If the client is not part of IIFL-ONE, then IIFLWAM is recognizing distribution fees on a trail basis. This should provide granularity and steadiness to revenues.
- Strong scale-up of the asset management business and synergistic lending to existing clients (5%+ NIM with NIL credit cost) should further increase stability of revenues.
- The share of annual recurring revenue (ARR) assets, on which the company earns trail and advisory fees, has increased from 22% of total AUM in FY15 to 41% in 9MFY20. We believe that over FY20-23, the share of ARR assets (~35% CAGR) would increase to 64%, thus providing a steady income stream.

Share of ARR assets increased from 22% in FY15 to 41% in 9MFY20.

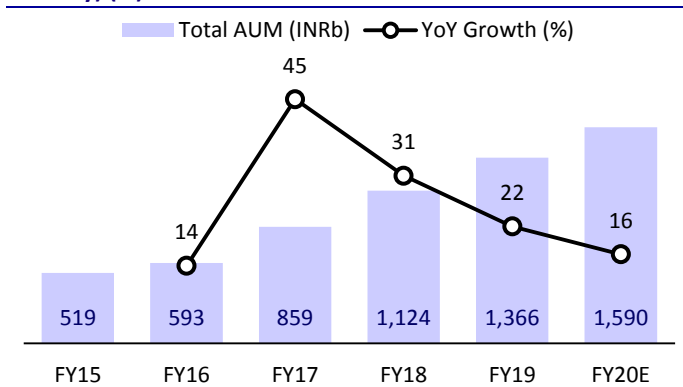
ARR assets – A key driver of AUM growth and stable revenues

- **Annual recurring revenue (ARR) assets** are mainly divided into advisory-based assets (commission to be received from clients), asset management business' assets (granular recurring revenues), distribution (mutual funds, MF or managed assets) led assets where the revenue recognition is on the trail basis and lending done to the company's own wealth clients.
- Growth in this segment is dependent on (a) migration of clients to IIFL One (b) Migration of assets earlier invested in regular code MF schemes/ managed accounts wherein the company earned only upfront income (outstanding pool of INR300b as of 9MFY20), (c) MTM gains on the portfolio, (d) Net new money added, (e) AMC AUM growth, especially from external sources (ex. IIFLW), and (f) Growth in synergistic lending.
- Inorganic growth, such as IIFLWM's acquisition of Wealth Advisors India Pvt. Ltd, a premier Chennai-based advisory firm with majority of trail/fee income, would also expedite the process of increasing the share of ARR assets.

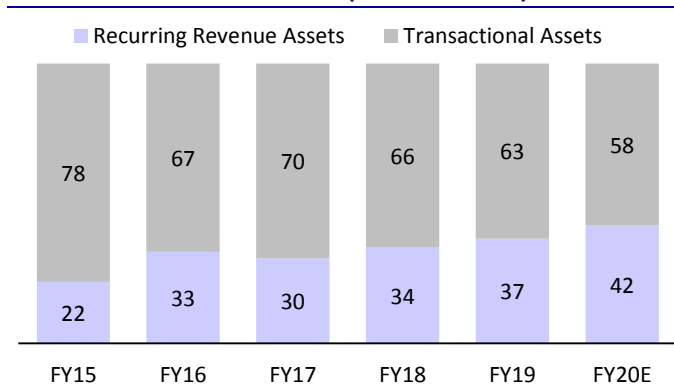
ARR asset CAGR stood at 50% v/s overall AUM CAGR of 27% over FY15-19.

ARR assets – Strong CAGR of 50% over FY15-19

- Over the past four years, particularly after demonetization, IIFLWAM witnessed a surge in its AUM. IIFLWAM reported 27% CAGR to reach INR1.4t.
- **As IIFLWAM consciously focused on increasing the steadiness of its revenues, ARR assets witnessed ~50% CAGR.** Consequently, the share of these assets increased from 22% in FY15 to 41% in 9MFY20 and stood at INR704b.

Exhibit 14: Total AUM trend (Ex. Double counting and custody) (%)

Source: MOFSL, Company

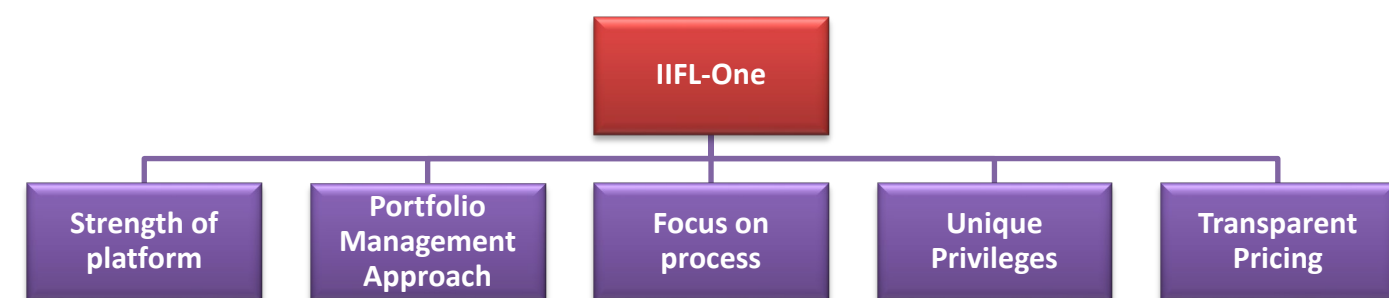
Exhibit 15: Product mix trend* (% of total AUM)

Of the gross AUM; Loans (INR40b) and AMC AUM sourced by wealth team (INR173b) are double counted in gross AUM; Source: MOFSL; Company

Building an open,
transparent, fee-based
wealth management model
– IIFL-ONE

IIFL-ONE to drive ARR asset growth

- On the Wealth Management front, IIFLWAM is focusing on building a steadier and predictable income stream with emphasis on getting commissions from customers directly under its flagship advisory-based IIFL-ONE model (launched in FY19).
- Typically, a wealth manager would earn money from distributor commissions, without charging the client. This not only led to lack of transparency but also sometimes misaligned the incentives of the relationship manager vis-à-vis the client.
- To counter these issues, IIFL-ONE earns annual wealth management fees from clients instead of distributor commissions. The entire transition is expected to conclude in the next 3-5 years.

Exhibit 16: Key benefits of IIFL-ONE

Source: MOFSL, Company

What is IIFL-ONE?

- IIFL-ONE is a platform that institutionalizes a range of investment options for clients under a competitive and transparent single-fee structure (negotiable depending on the size of WM operations), with all investments in direct code and trail income. Platform is an aggregation of product expertise, active advice and discretionary services.
- By eliminating vendor commissions and transaction brokerages, focus is firmly on return optimization for clients' investments.
- The IIFL-ONE platform comes with a host of privileges, such as access to preferred lending terms, wealth structuring and estate planning services. Besides, partnerships with other industry leaders, such as American Express and IATSL, open up new opportunities for clients.

What are the product offerings under IIFL-ONE?

- **IIFL-ONE Consult** is a guided strategy of the company, under which it will use its expertise to create a customized investment framework for clients. The portfolio guidelines are defined by specific client needs. **Company will work alongside investors to provide bespoke product recommendations to suit their needs, goals and risk inclinations.**
- **IIFL-ONE mandate: Clients define the portfolio guidelines and entrust the entire investment management process to an expert team at IIFLWM.** The team, in turn, customizes an investment strategy based on the set guidelines, followed by portfolio construction that ensures a scientific product fitment.

What are the benefits to all parties involved?

- **Clients:** Transparency, process-driven approach and alignment of interest.
- **Employees:** Deeper engagement with clients, advisory v/s product driven.
- **Firm:** Higher wallet share, higher fees, better risk management and control over client.

What is our view on the platform?

- We believe that IIFL-ONE can be a game-changer in disrupting the wealth management business with its goal-oriented counsel and completely transparent fee-based advisory.
- Nevertheless, key monitorables are the fees charged to the client (net yield to the company) and willingness of the customer to shift to this model.

Exhibit 17: Moving from a distributor to an advisor increases client engagement

	As a distributor	As an advisor
Fee from clients	No	Yes
Commission from manufacturer	Yes	No
Transaction charges	Yes	Yes

Source: MOFSL, Company

Exhibit 18: Benefits of moving from an upfront-income based model to an advisory model

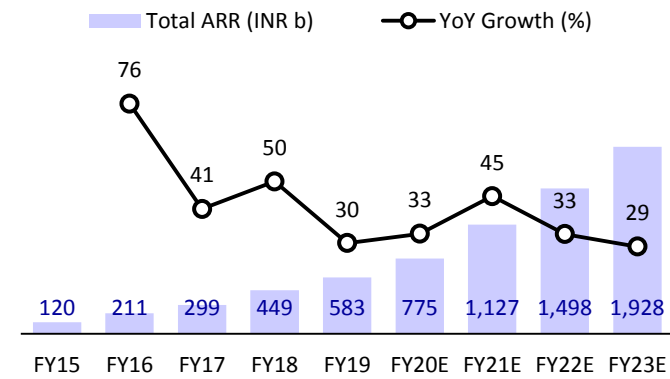
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Direct Stocks	20.00					
Bonds + Structured Products	15.00					
Mutual Funds (Broker Code)	20.00					
Mutual Funds (Direct Code)	20.00					
Managed Accounts (PMS+ AIF)	25.00					
UPFRONT MODEL						
Total Portfolio Value for revenue	80.00	84.00	93.45	103.37	113.79	124.73
Typical Churn Rate per Year	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%
Value Available from existing Portfolio		12.00	12.60	14.02	15.51	17.07
Plus : New Flows Every Year		5.00	5.00	5.00	5.00	5.00
Total Value Available to Churn	12.00	17.00	17.60	19.02	20.51	22.07
Total Portfolio Value	80.00	89.00	98.45	108.37	118.79	129.73
Average Upfront Income on Transactions	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Average Upfront Income Per Year	0.30	0.43	0.44	0.48	0.51	0.55
Other Transactional Incomes (Average)	0.15	0.15	0.15	0.15	0.15	0.15
Total Income Earned	0.45	0.58	0.59	0.63	0.66	0.70
Avg. Retention on Total Portfolio Value	0.56%	0.68%	0.63%	0.60%	0.58%	0.56%
ADVISORY MODEL						
Total Portfolio Value	100.00	105.00	115.50	126.53	138.10	150.26
New Flows Every Year		5.00	5.00	5.00	5.00	5.00
Total Portfolio Value	100.00	110.00	120.50	131.53	143.10	155.26
Fee % on Portfolio Value	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
Average Fee Income Per Year	0.50	0.53	0.58	0.63	0.69	0.75
Transactional Incomes (Average)	0.15	0.15	0.15	0.15	0.15	0.15
Total Income Earned	0.65	0.68	0.73	0.78	0.84	0.90
Avg. Retention on Total Portfolio Value	0.65%	0.66%	0.66%	0.65%	0.64%	0.63%

Source: MOFSL, Company; Note: Upfront model assumes all income to be earned upfront and assumes no income from direct code MF

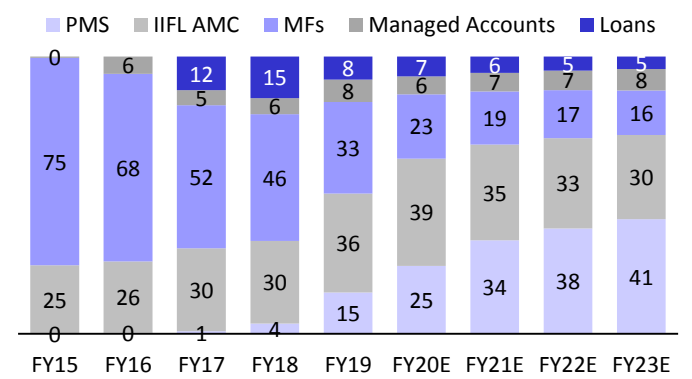
Move to complete trail-based model, scale-up of IIFL AMC and synergistic lending to provide further granularity.

Focus on other revenue streams to reduce volatility

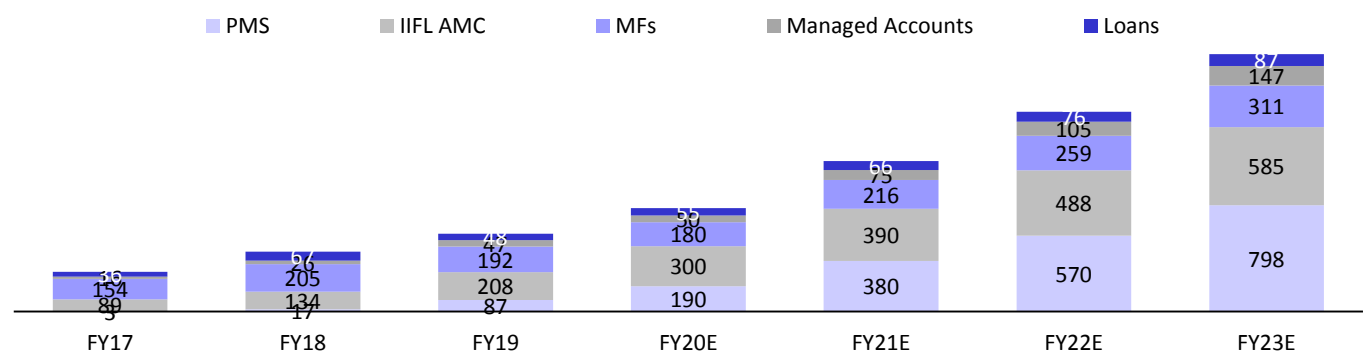
- Even under the broker-distributor model, where revenues are highly dependent on manufacturers and on regulatory changes, IIFLWAM moved on to the trail commission model to reduce volatility. This was even before regulations were announced for a ban on upfront commissions by manufacturers.
- The company is focused on rapid scale-up of IIFL AMC (explained in detail in the following chapter), which would provide granularity and stability to revenues.
- The company also acquired an NBFC in 2016 and commenced its lending operations. NII from lending book contributed ~50% to total ARR revenue (~25% to overall net revenues) in FY19.
- Higher share of lending in overall net revenues is partially led by a shift in the business model to trail income, which would take another two years to catch up. We have factored in share of this income stream in overall revenues to decline to 19% in FY23 from 27% in FY20.
- Moreover, significant opportunities are available to the company under synergistic lending operations, wherein it can tap its own customers. The company is sitting on excess capitalization and if it accelerates growth in this business, volatility in revenues can decline.

Exhibit 19: ~50% CAGR FY15-19 in ARR AUM ...

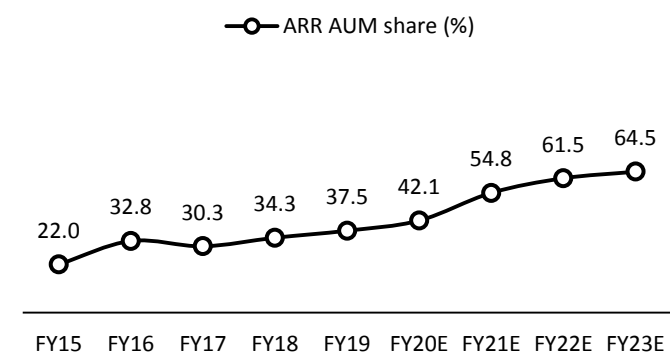
Source: MOFSL, Company

Exhibit 20: ...driven by IIFL ONE and IIFL AMC (%)

Source: MOFSL, Company

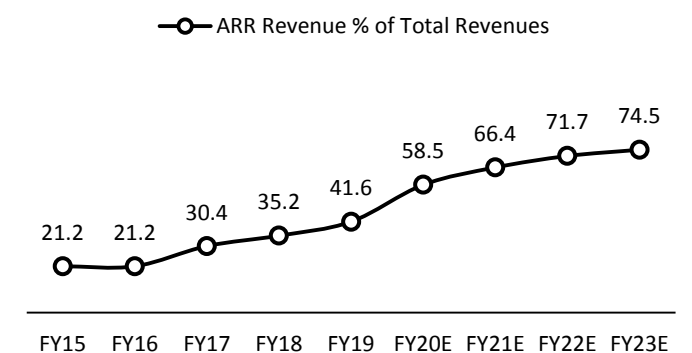
Exhibit 21: Healthy traction in IIFL-ONE platform (AUM, INR b)

Source: MOFSL, Company, IIFL-ONE AUM included in PMS

Exhibit 22: ARR AUM share in total AUM to be ~65% over + FY20-23

Of the gross AUM; Loans (INR40b) and AMC AUM sourced by wealth team (INR173b) are double counted in gross AUM

Source: MOFSL, Company

Exhibit 23: ...leading to a sharp uptick in the ARR revenue share in total net revenues (%)

Source: MOFSL, Company

AMC – Alternatives a key focus area

Largest AIF with market share of ~13%

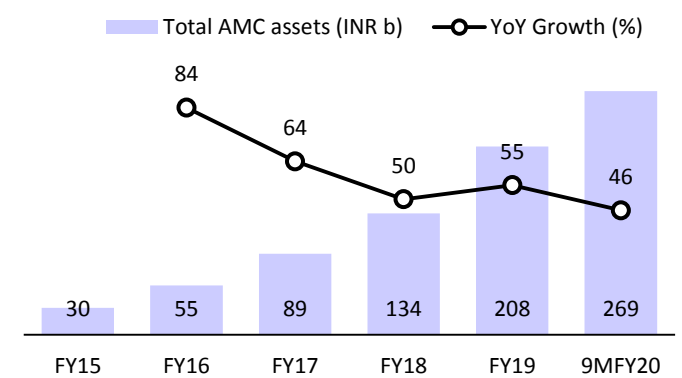
- IIFL's asset management business is unique – it has minimal contribution from mutual funds and maximum from AIFs and PMS – unlike other AMCs in India that are mutual fund heavy.
- In-house wealth knowledge (helps to customize product offerings) and a diversified client base with strong understanding of risk are the unique features, which has helped the company grow the alternate business rapidly.
- Over the past two years, the company has rolled out new innovative products in the AMC business – a private equity fund, a structured credit fund and a fund designed to specifically invest in pre-IPO opportunities.
- Its alternative investment fund (AIF) business is the largest in India with an AUM of INR192b in 9MFY20 (70%+ of IIFL AMC AUM).
- Importantly, the company has diversified its sourcing mix from internal (via the wealth platform) to external partners. The share of sourcing from external partners has increased from 4% in FY16 to 32% in FY19, and is expected to increase further to 45% by FY23E.

Creating a niche presence

Alternative assets (71% of AMC AUM) followed by PMS (22%) are the key growth drivers.

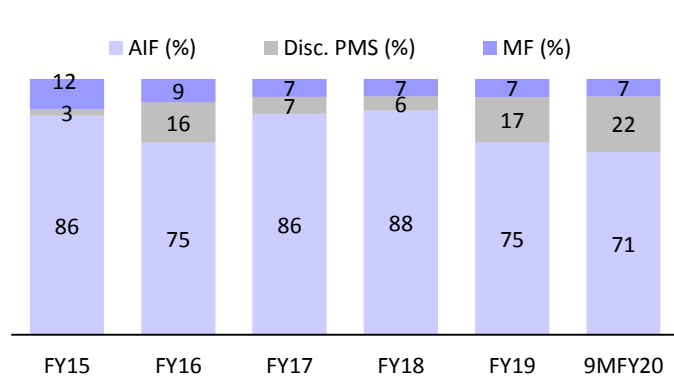
- The traditional approach to asset management focuses a great deal on mutual funds (MFs). However, IIFL AMC is consciously moving away from this strategy. Instead, it is harnessing focus on alternative investments (70%+ of IIFL AMC AUM), spanning public and private equity, private fixed income and real estate.
- Alternatives have low correlation as compared to standard asset classes and at times counter stock market movements. With financially well-educated client base, selling alternate products is relatively easy v/s traditional retail clients.
- On the AMC side, the vision of the company is to be a premier investment provider of alternates in India, especially in the unlisted and listed equity space, special private debt, and selective real estate asset classes.
- Over the past few years, IIFL AMC has scaled up meaningfully to an AUM of ~INR270b as of 9MFY20 v/s INR30b as of FY15. This has been one of the key drivers of recurring revenue asset growth.

Exhibit 24: 60%+ CAGR in AMC assets over FY15-19



Source: Company, MOFSL

Exhibit 25: AIF, PMS on an increasing trend (AUM mix, %)



Source: Company, MOFSL

Special Opportunities Fund, Seed Venture Fund, Structured Collateralized Real Estate Debt Fund, Structured Credit Fund, etc. are few examples of the company's innovative offerings.

Innovative offerings – Product asset diversification option to clients

- During the year, IIFL AMC came out with two products, IIFL India PE Fund and IIFL Income Opportunities Fund (a structured credit fund).
- Over the years, IIFL AMC has been a thought leader in products, be it the IIFL Special Opportunities Fund (a fund designed to invest in pre-IPO opportunities) or the IIFL Seed Venture Fund (the only fund available to high net worth individuals (HNIs) that offers investment into fund of funds and direct deals).
- AMC is also a leading player in structured collateralized Real Estate Debt with strong track record. It is also an emerging player in structured corporate credit – looking to gain market share from NBFCs and credit mutual funds.
- AMC is trying to be a niche player in mutual funds with focus on thematic managed account strategies (discretionary PMS) and few focused equity funds. In Aug'18, Mr. Anup Maheshwari joined IIFL AMC as its Joint-Chief Executive Officer and Chief Investment Officer. He has 24 years of experience, primarily with DSP BlackRock.
- IIFL AMC offers capabilities in onshore and offshore asset management through its subsidiaries based in Singapore, India and Mauritius.

Exhibit 26: Some innovative products offered by IIFLWAM

AIF Strategy	AUM (INR b, as at (9MFY20)
IIFL Public Equity	35
IIFL Real Estate	37
IIFL Unlisted Equity	113
IIFL Credit	8

Source: MOFSL, Company

Company has many unique product offerings.

Exhibit 27: Trend in share of IIFL AMC AUM (%)

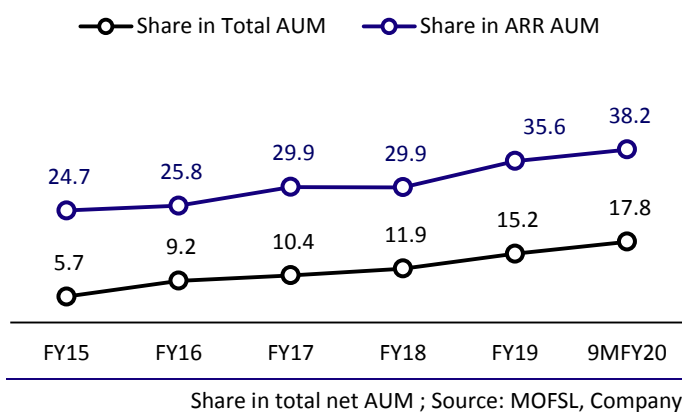
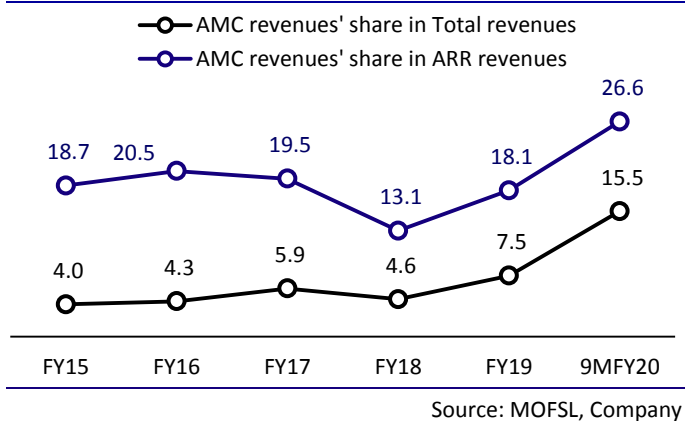


Exhibit 28: Trend in share of AMC revenues (%)



NBFC – Supporting wealth management business

Capitalizing its client base on both sides of balance sheet

- In 2016, IIFL Wealth acquired 100% stake in Chephis Capital Markets Ltd. (a non-deposit taking NBFC), by infusing INR9b as capital and renamed it IIFL Wealth Finance. Its product offerings primarily include LAS and IPO financing.
- Wealth clients often need short-term liquidity for meeting business requirements, taking equity trading positions, exercising ESOPs, etc.
- All of its business is sourced via the Wealth RMs by tapping existing clients. Hence, no additional distribution costs are incurred. Also, the exposure of a client's AUM to such bonds is capped at 15% of his/her total AUM.
- The entire liability side is also sourced from the internal customer base, and hence, is not impacted by liquidity shocks witnessed by other players in the market.
- The book has had zero credit loss since inception due to (a) LTV being restricted to less than 50% and b) the loan tenure being only 90 days.
- AUM as at 9MFY20 stood at INR40.3b with spread of 1.8%. As a large part of the equity capital is locked in this business, margins are at ~5.9%. We bake in lower (200bp+) NIMs for this business with lower capital allocation and increase in leverage.

Synergistic lending to existing wealth client

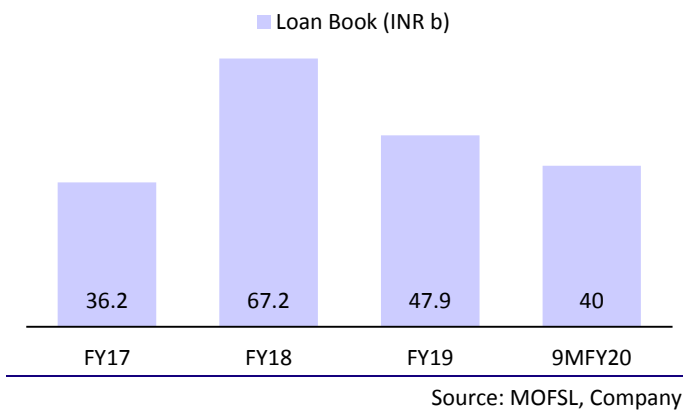
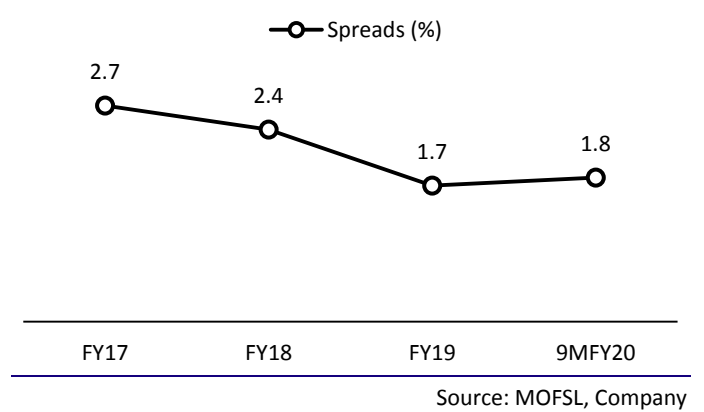
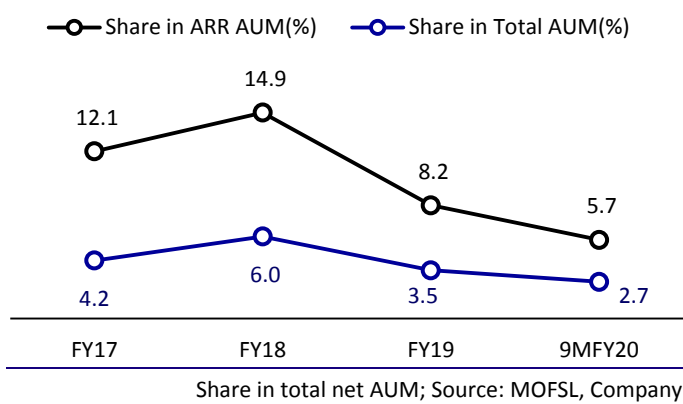
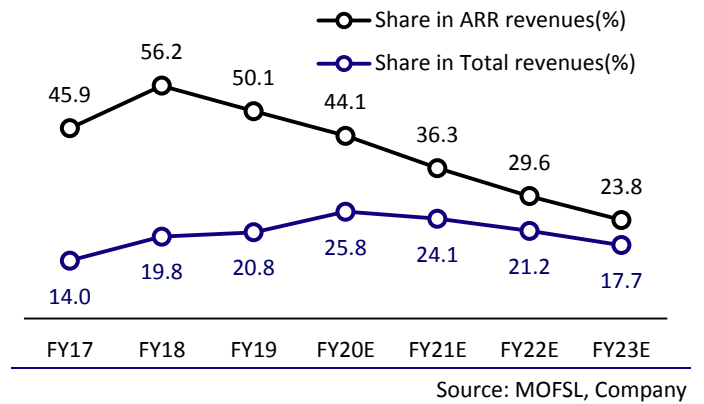
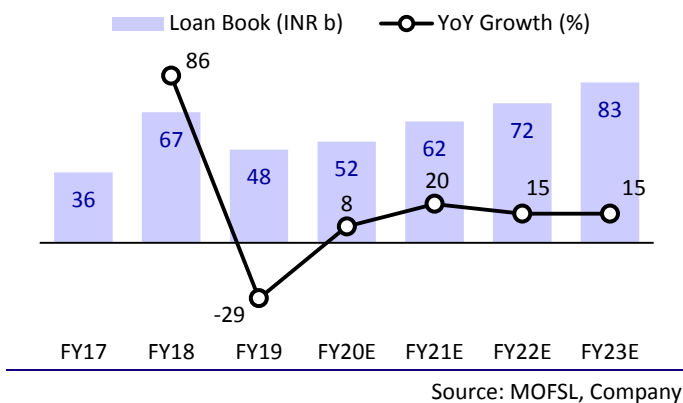
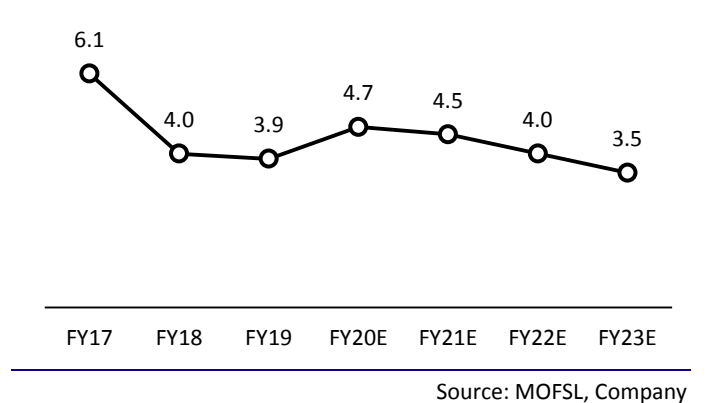
- The company has a collateralized loan book with AUM of the client *leading to complete control over credit quality*. It has zero credit cost till date.
- Loan book is largely short term in nature – funding requirement for ESOPs, IPOs, promoter short-term fund requirement, etc.
- All the liabilities are raised in the form of structured notes from in-house clients.
- No sales/distribution costs as company's RMs are sourcing from their clients.
- Usually 3-4% of the wealth AUM.

How the business has shaped up over the years

- The company's loan book has declined over the past six quarters and stood at INR40.3b in 9MFY20. Lending against shares make up ~98% of the book (80% of the book is with existing large portfolio clients).
- In FY19, IIFLWAM changed most of its liabilities mix, moving from short-term to long-term borrowings through structured loans (raised from existing clients). The consequent rise in cost of funds resulted in 70bp decline in spreads to 1.7%.
- As at 9MFY20, most of its liabilities are of an average tenure of 24-36 months while loan assets are for a maximum period of 90 days. Loans can be rolled over periodically.
- Management plans to grow this book selectively now and we factor in ~17% CAGR for it over FY20-23E.

Company has high-margin products, does cross-selling to existing customer base with no credit costs; 25% contribution to net revenues estimated in FY20E.

Most of its liabilities are of an average tenure of 24-36 months while loan assets are for a maximum of 90 days.

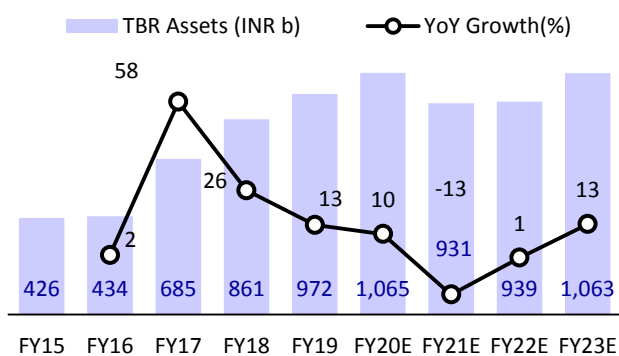
Exhibit 29: Consolidation in the loan book (INR b)**Exhibit 30: Spreads under pressure due to change in mix (%)****Exhibit 31: Share of NBFC in AUM declined sharply (%)****Exhibit 32: NII revenue share in ARR and in total revenue (%)****Exhibit 33: 15-20% CAGR in the loan book****Exhibit 34: NIMs expected to decline (%)**

Transaction and brokerage business to be opportunistic

Factor in decline in share of revenues from ~40% to ~20% by FY23

- Transactional/brokerage revenue (TBR) assets include those with one-time distribution income – for example, closed-ended mutual funds, structured bonds, etc.
- Mutual funds in direct code are also included in TBR. However, these investments do not earn any income for the company.
- The company also caters to the stock broking needs exclusively for its clients, it does not outsource it to sister concerns or other brokerage houses.
- While majority of the assets managed by IIFLWAM generate transaction-only revenue, the company is looking to scale down the contribution of such assets. In addition, some of the book, after running down, would be reinvested in ARR assets.
- AUM growth in this segment slowed down from 26% in FY18 to 15% in FY19 and further to 6.3% in 9MFY20.
- Revenue from this book is based on transactions (one time and not recurring), which could be lumpy or that can decline sharply (depending on the markets and opportunities), hence, projecting the same is difficult. We have baked in a gradual drop in the net yields for this business.

Exhibit 35: Slowdown in growth of transaction-revenue assets



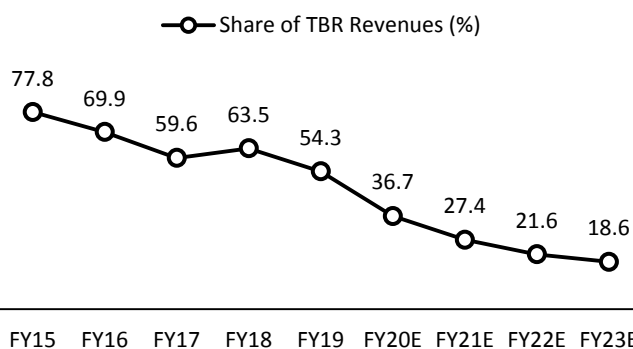
Source: MOFSL, Company

Exhibit 36: Contribution of structured notes in TBR assets increasing (%)



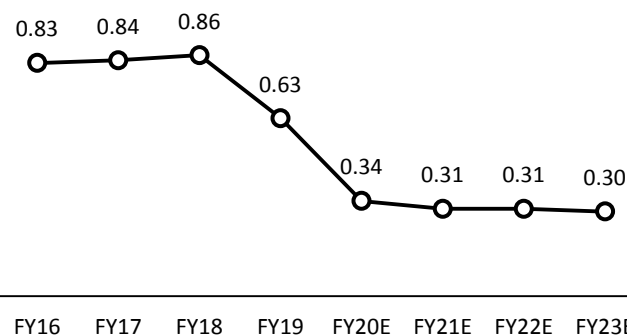
Source: MOFSL, Company

Exhibit 37: TBR revenues to net revenues on the decline (%)



Source: MOFSL, Company

Exhibit 38: Baked in lower net yield for the TBR business (%)



Source: MOFSL, Company

Earnings CAGR of ~30%

Making business model significantly resilient to regulatory changes

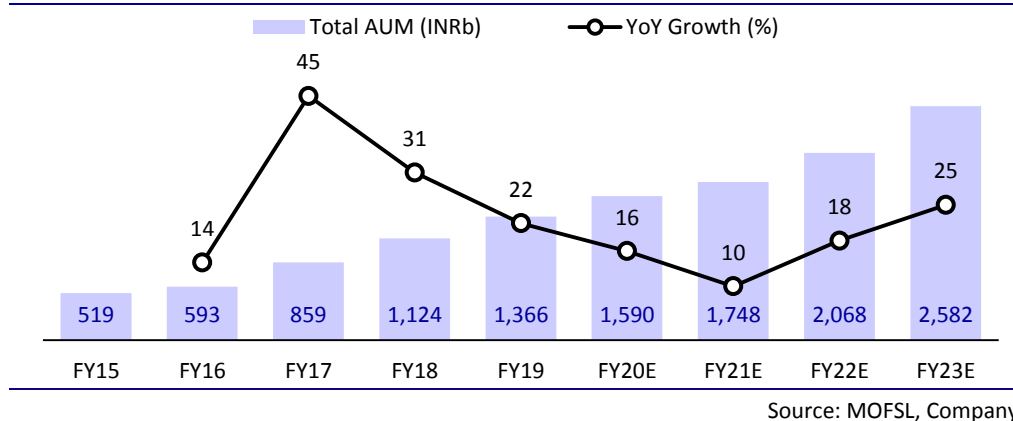
- The past two years (FY19-20) have been tough for the company due to regulatory changes (banning of upfront commissions, reduction in MF TERs leading to a consequent reduction in commissions, etc.) as well as a rejig of the business model. While we expect the impact of the regulatory changes to end in FY20, the business model rejig would take another 2-3 years for complete transition.
- Over the next three years, we expect the contribution of ARR assets in the total AUM to increase from 42% to 64%, while its revenue contribution should increase from ~58% to ~75%. Note that contribution of TBR assets in the revenue is lower than in the AUM as some portion of TBR assets do not earn fees and revenues are transaction-based and lumpy in nature.
- As a result, we estimate revenues at 20% CAGR to INR16b over FY20-23E. Focus on cost control coupled with operating leverage should drive 30% PAT CAGR, with RoE improving from 9% to 19% over the same period.

Healthy AUM CAGR of ~18% over FY20-23E...

- With rejig in the business model coupled with volatile capital markets, we expect moderate overall AUM growth at ~10% in FY21 v/s ~16% in FY20. However, with transition happening effectively along with a pick-up in capital market activity, total AUM is likely to witness 20%+ CAGR over FY21-23E.
- Importantly, ARR assets are likely to witness CAGR of 35% over the same period.

We expect the TBR assets to decline ~12% in FY21 leading to a drag on the overall AUM CAGR. Note that the company earns on flows and not on the outstanding stock in this segment.

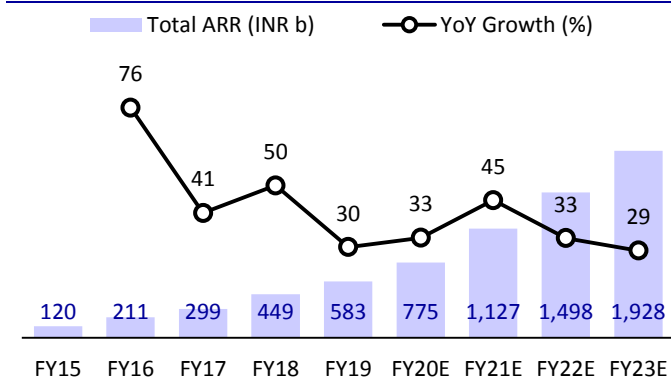
Exhibit 39: AUM growth to decelerate in FY21...but, thereafter should pick up



...driven by 35% AUM CAGR from ARR assets

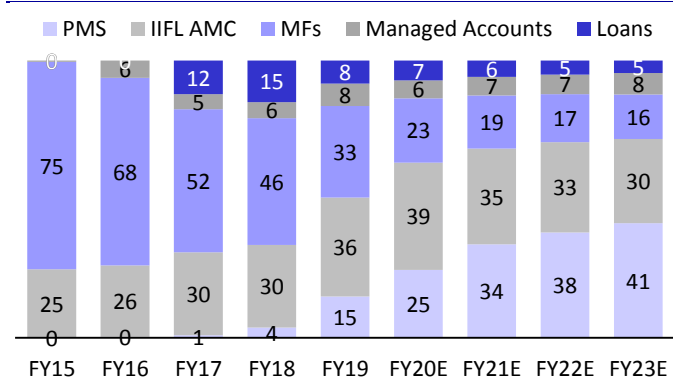
- There are two key drivers of ARR AUM growth, which include (a) clear focus on growing the 'IIFL-ONE' platform and the AIF segment, and (b) migration of assets from 'TBR' to 'ARR'.
- Within the TBR segment, assets of Managed Accounts and MF assets (regular code) would gradually run down to zero as they would be reinvested as ARR assets.
- Hence, we expect the TBR assets to decline 6% CAGR over FY20-22E and to then grow 13% YoY in FY23E. Note that the company earns on flows and not stock outstanding in this segment.

Exhibit 40: ARR assets to cross INR1t in FY21E...



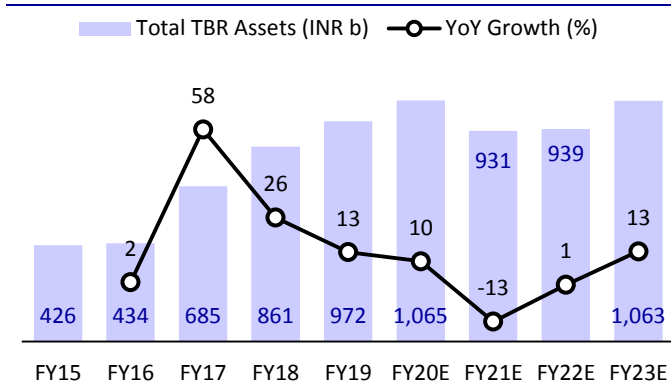
Source: MOFSL, Company

Exhibit 41: ...with increasing contribution from IIFL-ONE (%)



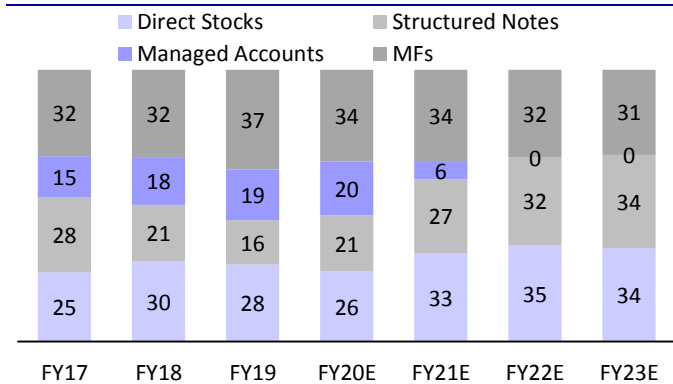
Source: MOFSL, Company; Note: 'IIFL One' assets categorized as PMS in the above chart

Exhibit 42: TBR AUM growth to be modest



Source: MOFSL, Company

Exhibit 43: TBR AUM mix trend (%)

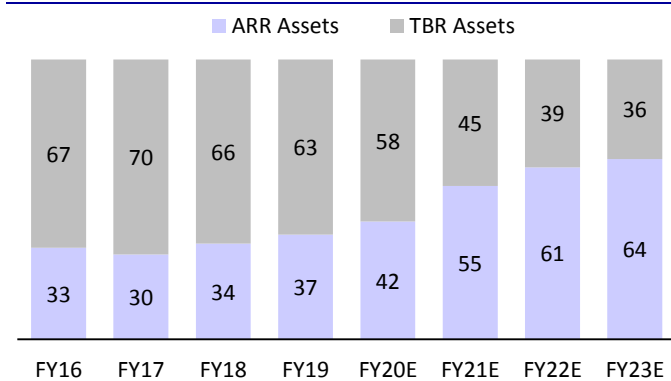


Source: MOFSL, Company

Revenue contribution from TBR to decline meaningfully

- We expect revenue contribution from TBR assets to decline meaningfully over FY20-23E due to:
 - Decline in share of TBR assets from 58% in FY20 to 36% in FY23.
 - ~30% of TBR assets would be invested in direct code mutual funds; these assets are not expected to earn any revenue for the company.

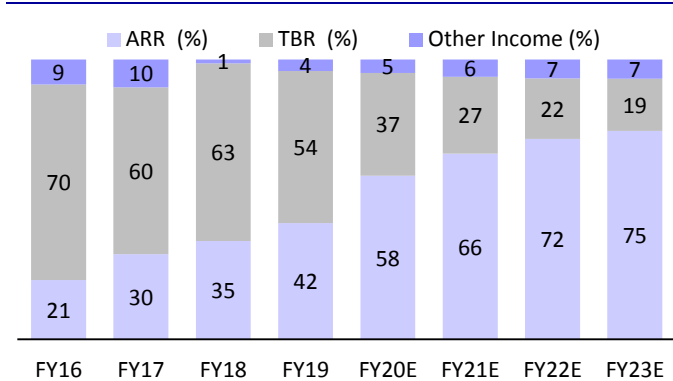
Exhibit 44: ARR/TBR AUM mix (% of total AUM)



Of the gross AUM; Loans (INR40b) and AMC AUM sourced by wealth team (INR173b) are double counted in gross AUM

Source: MOFSL, Company

Exhibit 45: Share of ARR in total income to increase meaningfully (%)

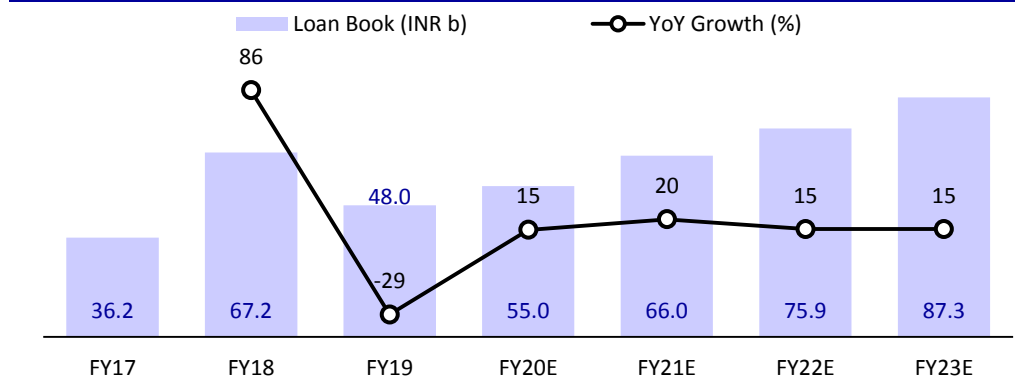


Source: MOFSL, Company

ARR net yields very sensitive to NIMs on loans

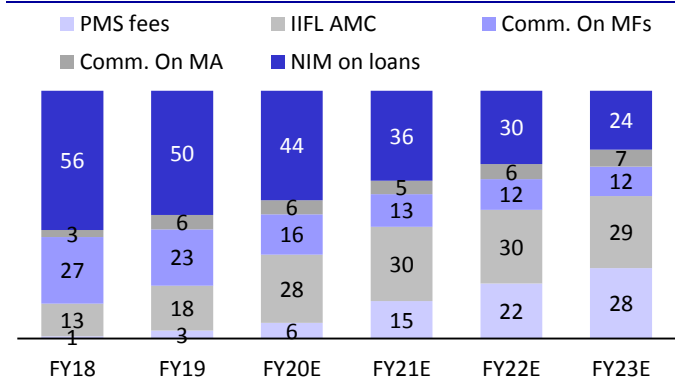
- While we expect the margins (revenue/average assets) earned on ARR products like PMS, MFs, etc. to improve over FY20-23E, the net interest margin (**NIMs**) on loans is likely to decline with increasing leverage of the loan book.
- **ARR revenue is very susceptible to NIMs earned on loans and could vary meaningfully with just 50bp change in NIMs.**

Exhibit 46: Expect 15-20% growth in loan book



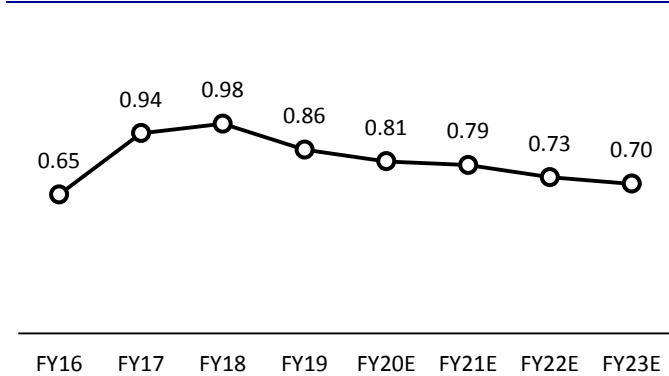
Source: MOFSL, Company

Exhibit 47: Share of revenue from NIMs in ARR to decline from 43% to 24% over FY20-23E...



Source: MOFSL, Company

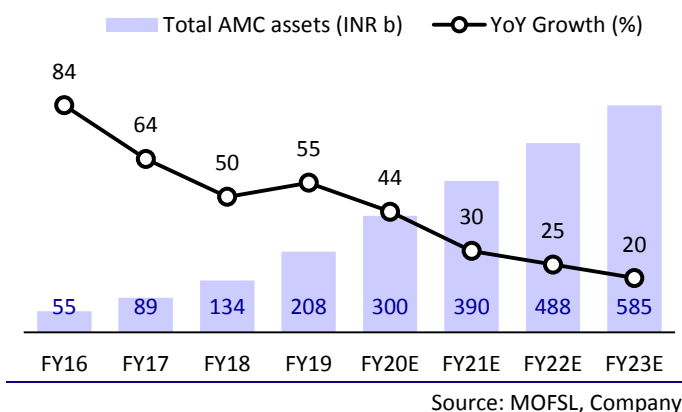
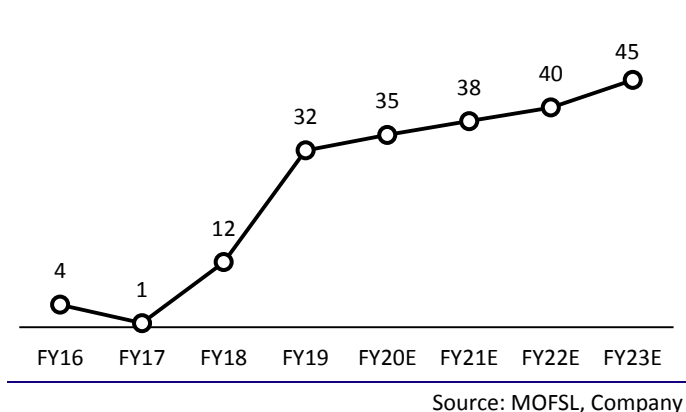
Exhibit 48: ...resulting in a compression in overall ARR net yields (%)



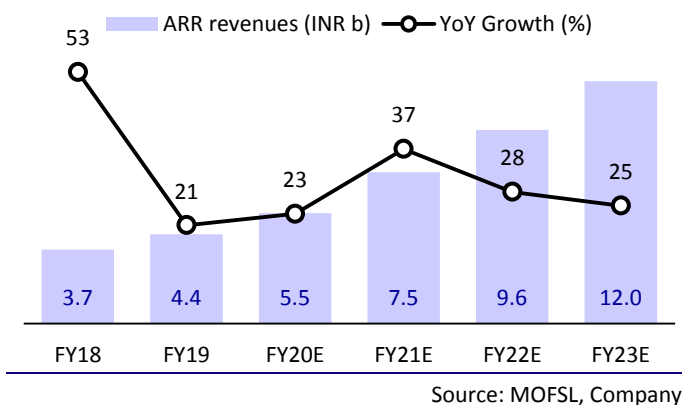
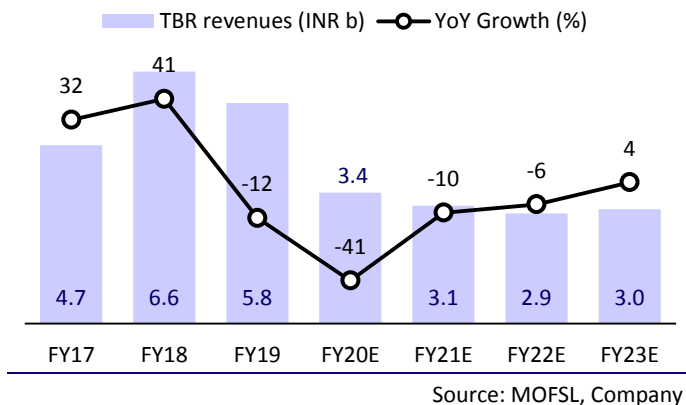
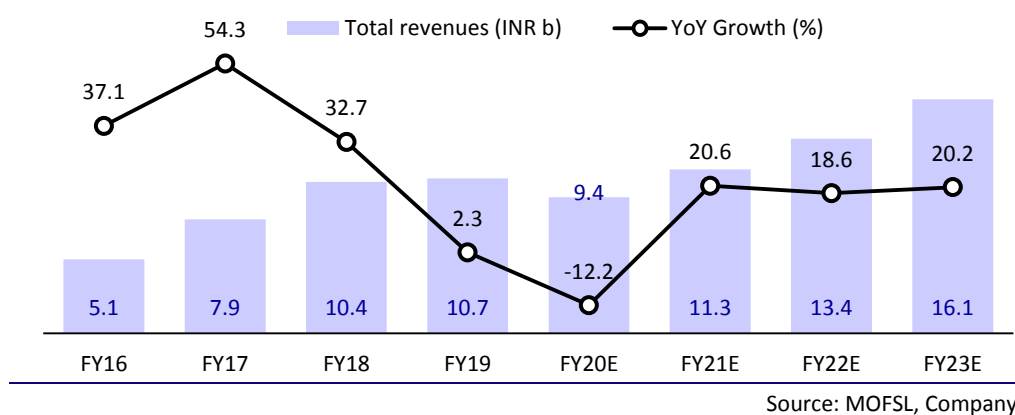
Source: MOFSL, Company

IIFL AMC AUM to reach ~INR600b by FY23E

- Unlike MF money, PMS and AIF money tend to be more sticky and long term. With strong inflows into its new funds and modest redemptions, we expect the AMC'S AUM to nearly double to INR585b over FY20-23E.
- **Until FY17, bulk of the AUM was sourced by the Wealth Management team. However, over the past few years, the share of external sourcing has increased to ~35%, which we expect will further increase to 45% by FY23E.**

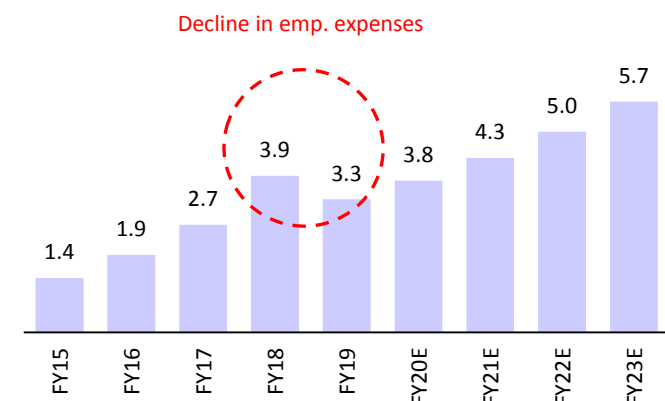
Exhibit 49: Expect 25% AUM CAGR in the AMC segment...**Exhibit 50: ...with rising share of sourcing via external partners (%)****Revenues subdued in FY20, but to normalize thereafter**

- We expect total revenues to decline ~12% YoY in FY20 driven by 40% decline in TBR revenues. This is due to the ban on upfront commission recognition for managed accounts and MFs, along with a decline in commissions earned on structured bonds (off a high base in FY19).
- As a result, net yields on TBR assets would almost halve from 63bp to 32bp in FY20. We further bake in 2-3bp decline in net yields for this segment.
- On the other hand, we expect 30% revenue CAGR from ARR assets over FY20-23E, largely driven by 35% CAGR in the AUM.

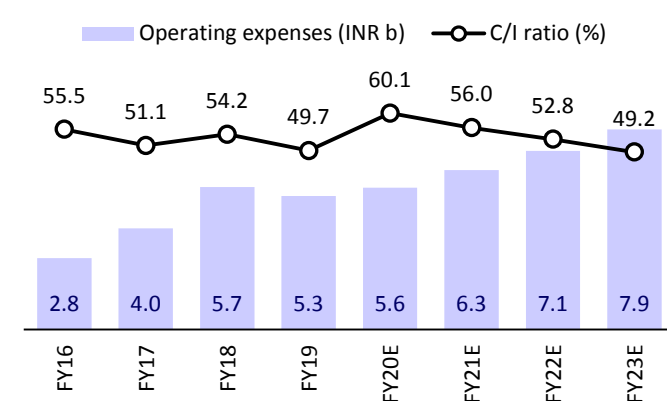
Exhibit 51: 30% CAGR in ARR revenues...**Exhibit 52: ...offset by shrinking TBR revenues****Exhibit 53: Overall revenues to be subdued in FY20E but should pick up from FY21**

Sharp decline in employee expenses over FY20-23E

- IIFLWAM has cut down its employee expenses; it declined from INR3.9b in FY18 to INR3.3b in FY19, and is expected to grow ~15% in FY20 on back of higher ESOP cost and higher variable cost/revenues. While total variable component for RMs is likely to be same across life of asset, IIFLWAM has tried compensate (for change in revenue recognition model) RMs by increase upfront payment. We bake in 15% employee cost CAGR over FY20-23.
- The company has introduced various initiatives to cut overhead costs. For e.g. rental cost is likely to decline meaningfully due to renegotiation of lease agreement; also, its head-office building has been bought by the company. Further, a meaningful decline is expected in legal and other expenses too.
- Overall, we expect the C/I ratio to decline from the near-term peak of 60% in FY20E to 49% by FY23E.

Exhibit 54: Employee cost CAGR of ~15% over FY20-23

Source: MOFSL, Company

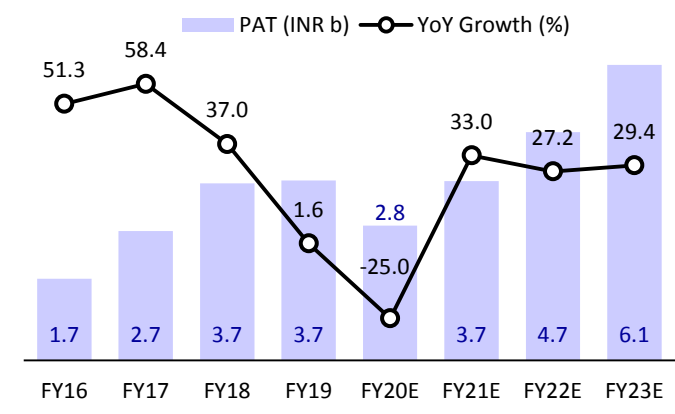
Exhibit 55: C/I ratio to decline from ~60% to ~50%

Source: MOFSL, Company

Earnings CAGR of ~30% FY20-23E

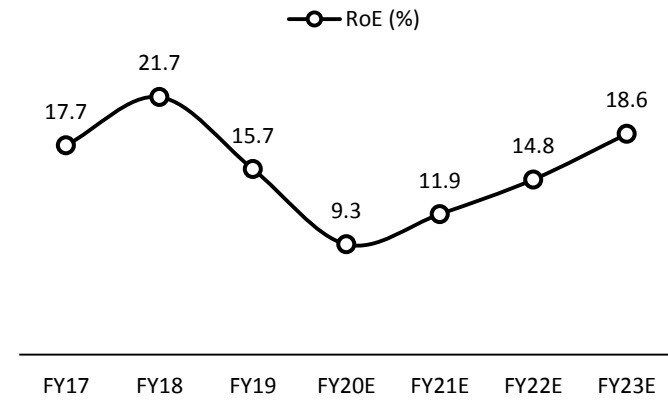
- After witnessing ~50% CAGR over FY15-18, PAT was largely flat in FY19 and is likely to decline ~25% in FY20.
- However, with increasing share of ARR assets (which have 70bp margin compared to 30bp for TBR assets) coupled with low double-digit operating expenses growth, PAT is expected to rebound to 30%+ over FY20-23E (off a low base).
- As a result, there would be steady improvement in RoE from 9% to 19% over the same period.

Exhibit 56: Earnings CAGR of ~30% FY20-23E



Source: MOFSL, Company

Exhibit 57: Steady improvement in RoE (%)



Source: MOFSL, Company

Asset light business model; Payout ratio at 80%+ expected

- Wealth management (excl. credit solution book) and the AMC business are largely capital-light business models. **IIFLWAM typically requires capital for (a) credit solution business, (b) seed investment in its own funds, (c) M&A opportunities** (acquired L&T WM, Wealth Advisors of Chennai, Altiore (technology platform), Finvest Asset Manager of Pune and an NBFC so far), **and (d) working capital largely for the brokerage business.**
- With network of ~INR30b, IIFLWAM is well capitalized for all its business needs. We expect dividend payout to remain strong at 80%+ (including DDT).

Building unique business model

Initiate with a Buy

- IIFLWAM is a unique investment opportunity with direct exposure to the large and rapidly expanding wealth management business in India. Over the past decade, IIFLWAM has evolved into one of the most formidable wealth management franchises in the country, giving tough competition to private/foreign banks. Strong customer focus and a wide suite of products (unmatched by most peers) have helped it to consistently grow its client base.
- IIFLWAM offers a strong blend of the 4P's (People, Product, Process and Proposition), which are the key factors to attain success in the wealth management business. Low attrition at both employee/client level (people), innovative offerings (product), strong technology platform (process) and ability to structure products and offer unique solutions (proposition) are strong moats that the company has created.
- Over the past five years, it has become the largest AIF player in India, with differentiated product offerings such as a pre-IPO fund, a real estate financing fund, etc. The push in the asset management business will be one of its key growth drivers.
- With IIFL-ONE, the company is looking to revolutionize the way wealth management is offered in India. While this could have near-term pressure on profitability, if successful, it would be a trend-setter in the industry.
- Post the revenue decline over FY18-20 due to change in (a) revenue recognition to trail basis from upfront, and (b) the business model, we expect a strong pick-up. Over FY20-23E, we expect 18% CAGR in total AUM to drive 20% revenue CAGR. Further, predictability of revenues has improved significantly v/s transaction-based/upfront revenue recognition earlier. With operating leverage playing through, PAT is likely to increase >2x to INR6.1b in FY23.
- There is no direct comparable for the business; however, as revenues are getting more trail-based and share of NII to overall revenue is also likely to reduce, we believe that it could be compared to the AMC business for relative valuation. HDFCAMC (NR) and NIPPONAMC (NR) trade at 41/31x PE FY22E according to Bloomberg consensus estimates.
- We like IIFLWAM's (a) the leadership position of the business, (b) sustainable, capital-light business model, and (c) the long-term growth potential. We are valuing the company at 28x FY22E EPS of INR54/share leading to a target price of INR1,525/share. On an implied basis, it would trade at 4.1x PBV FY22 with RoE of 18% and strong dividend payout (including tax) of 80%+.

Exhibit 58: Peer Comparison (Global/Domestic)

Co. Name	Market Cap (USD b)	EPS			PE (x)			PB (x)			ROE (%)		
		FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
IIFLWAM	1.6	32.2	42.8	54.4	40.1	30.2	23.7	3.6	3.5	3.5	9.3	11.9	14.8
HDFC AMC	9.7	63.4	68.9	78.3	50.5	46.5	40.9	19.8	17.7	15.8	41.4	40.2	40.8
Nippon Life AMC	3.2	8.9	10.2	11.8	41.5	36.3	31.2	8.6	8.2	8.0	21.1	22.9	25.6
Bank of America	290.3	3.0	3.3	3.5	10.8	10.0	9.3	1.2	1.1	1.0	10.8	11.0	11.1
Julius Baer	11.2	3.6	4.2	4.5	13.4	11.6	10.7	1.7	1.6	1.5	12.0	13.8	14.5
Credit Suisse	33.5	1.2	1.5	1.7	10.5	8.4	7.6	0.7	0.6	0.6	7.2	7.9	8.1

Source: Bloomberg, FY20-22 are estimates, Bank of America, Credit Suisse and Julius Baer values are as per calendar years

Key risks

Migration back to physical assets

The past five years have witnessed unprecedented flows into financial assets, primarily equity, from both DIIs and FIIs. This has resulted in a disproportionate surge in equity indices/individual stocks to underlying fundamentals. However, the past 1-2 years have not been good in terms of returns from equity investments. If this were to continue, we could witness investors moving back to physical assets for savings and investment.

Volatility in equity markets

Continued volatility in equity markets would lead to a slowdown in inflows as investors would take a 'wait and watch' approach.

IIFL-ONE not taking off as planned

The company has an ambitious plan of overhauling its business model to a more steady-state income generating model with its 'IIFL-ONE' offering. The company would take 3-5 years to complete the entire transition. However, if this transition were to not go as planned, it could impact growth and profitability of the company.

High attrition rate in relationship managers

The wealth management business is heavily dependent on strong relationships with clients. Thus, relationship managers are the core strength of any wealth management company. If there were to be high attrition in the same, it would negatively impact the company.

Bull & Bear case



Bull Case

- ✓ In our bull case, we factor in strong growth in ARR assets driven by IIFL ONE. As a result, we expect 22% total AUM CAGR over FY20-23 vs 18% in the base case.
- ✓ We expect 24% CAGR in net revenues to INR17.8b over FY20-23 (vs INR16.1b in the base case).
- ✓ Even in bull case we assume largely similar cost to income ratio vs base case (48% vs 49% in base case).
- ✓ PAT is likely to grow at 36% CAGR over FY20-23 to INR7b (vs INR6.1b in the base case).
- ✓ Based on the above assumptions, we value the company at INR2,125 (35x FY22E EPS) – an upside of 61%.



Bear Case

- ✓ In our bear case, we factor in moderating AUM growth due to lack of traction in IIFL ONE. As a result, we expect 12.5% total AUM CAGR over FY20-23 vs 18% in the base case.
- ✓ We expect 12% CAGR in net revenues to INR13b over FY20-23 (vs INR16.1b in the base case).
- ✓ In the bear case, we assume cost to income ratio to remain elevated at 57-58%
- ✓ PAT is likely to grow at 14% CAGR over FY20-23 to INR4.2b (vs INR6.1b in the base case).
- ✓ Based on the above assumptions, we value the company at INR1,000 (20x FY22E EPS) – a downside of 24%

Exhibit 59: Scenario analysis – Bull Case

INR b	FY21E	FY22E	FY23E
AUM (INR B)	1,809	2,202	2,822
Change YoY (%)	13.8	21.7	28.2
Net revenues	11.9	14.4	17.8
PBT	5.4	7.0	9.3
PAT	4.0	5.3	7.0
Change YoY (%)	44.5	30.5	31.9
Cost to Income (%)	55	51	48
PAT margin (bp of AUM)	24	25	26
RoE (%)	12.9	14.8	18.6
EPS	46.5	60.6	80.0
Target PE multiple (FY22E)	35		
Target price (INR)	2,125		
Upside (%)	61.0		

Source: Company, MOFSL

Exhibit 60: Scenario analysis – Bear Case

INR b	FY21E	FY22E	FY23E
AUM (INR B)	1,676	1,892	2,253
Change YoY (%)	5.4	12.9	19.1
Net revenues	10.1	11.4	13.0
PBT	3.9	4.6	5.6
PAT	3.0	3.5	4.2
Change YoY (%)	5.5	17.6	20.4
Cost to Income (%)	61	59	57
PAT margin (bp of AUM)	18	19	20
RoE (%)	9.4	10.9	12.9
EPS	33.9	39.9	48.0
Target PE multiple (FY22E)	25		
Target price (INR)	1,000		
Upside (%)	-24.2		

Source: Company, MOFSL

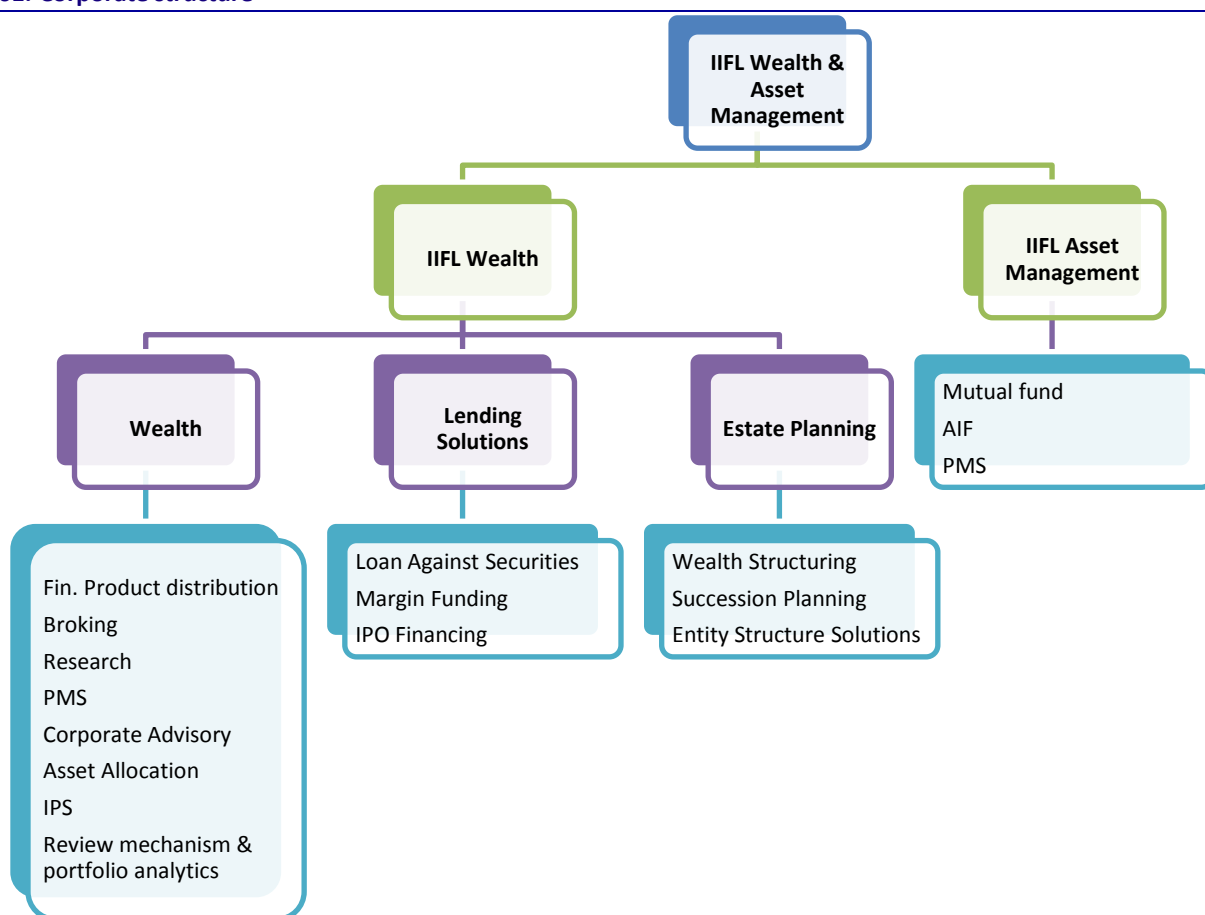
Company overview

India's third largest wealth management company

Client attrition rate was less than 2.5% p.a. as at FY19 (i.e. total AUM loss of 0.99%).

Founded in 2008, IIFL Wealth and Asset Management (IIFLWAM) is one of the largest private wealth management firms in India with an AUM of ~INR1.5t (~INR1.8t including custody assets) as of 9MFY20. IIFLWAM provides HNI and UHNI clients with investment management services, along with allied services such as trust and estate planning, credit solutions and corporate advisory. It was the first firm to launch venture-FoF in India with co-investment opportunities. It is also a pioneer in offering structured collateralized senior secured debt issued by real estate developers to HNIs in India. It operates out of 29 offices, has 900+ employees and has partnered with more than 13k families (9MFY20).

Exhibit 61: Corporate structure



Source: MOFSL, Company

Landmarks

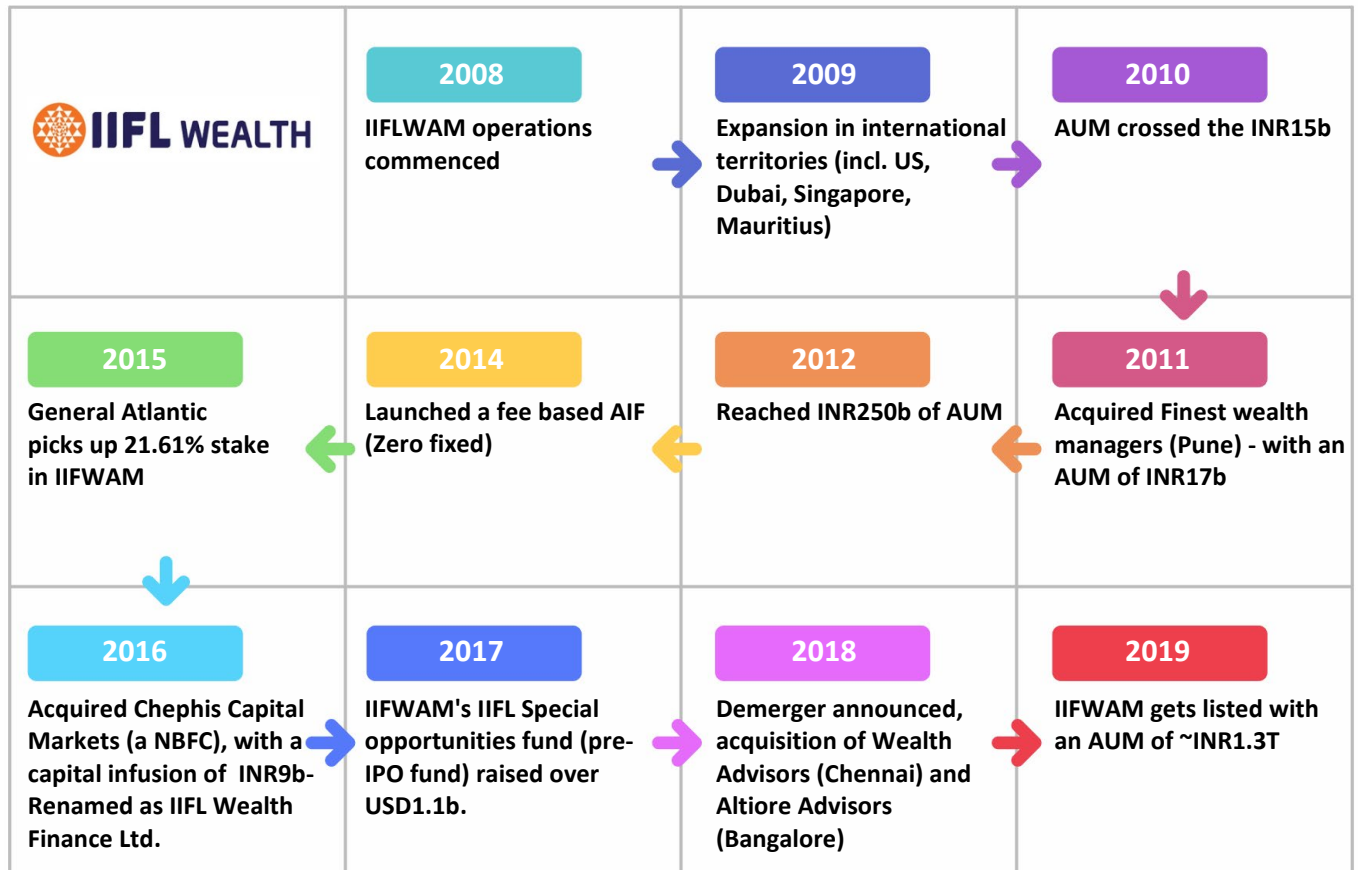
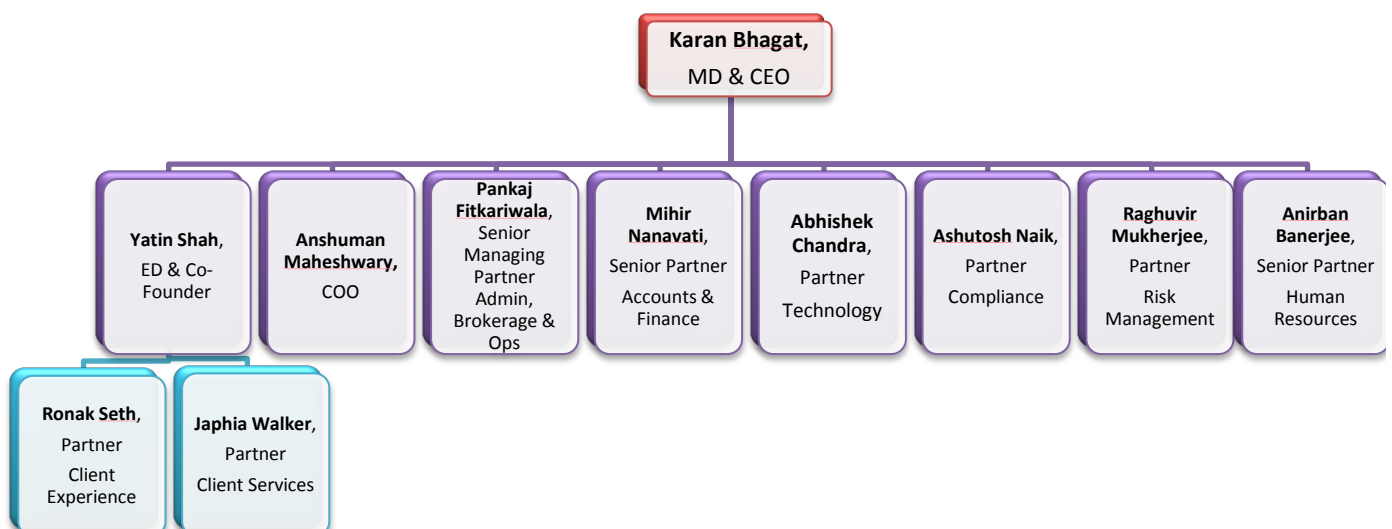
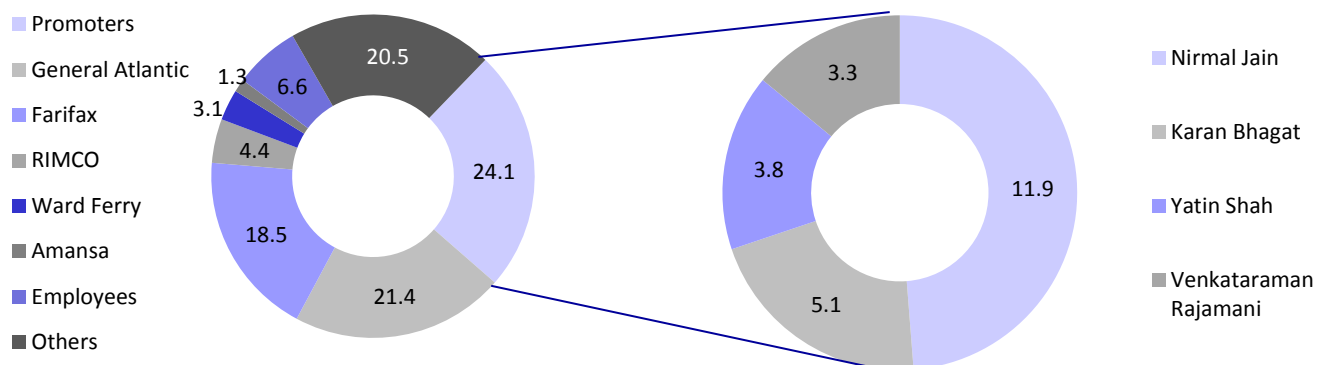


Exhibit 62: Management organizational structure



Source: MOFSL, Company

Exhibit 63: Shareholding pattern (%)

Source: MOFSL, Company

Exhibit 64: Key Management Personnel

Name	Designation	Brief Profile
Karan Bhagat	MD & CEO	Joined IIFL Holdings Ltd. to set up IIFL Investment Managers in 2008. He has two decades of experience in the financial services industry. MBA in Finance from the Indian Institute of Management, Bangalore and a Bachelor's degree in Commerce from St. Xavier's College, Kolkata.
Yatin Shah	Whole-Time Director	Co-Founder and Executive Director at IIFL Investment Managers. He has over 16 years of experience in the financial services industry, across equity research and private wealth management. He was associated with Kotak in their Wealth Management division. M.Sc. degree in Finance from Cass Business School, London.
Anirudha Taparia	Executive Director	Over 17 years of experience in the financial services industry across consumer, commercial and private banking. Prior to IIFL, he was associated with Citibank for a decade, most recently as Senior VP and Head for North India. He has previously been part of the ICICI Group and IL&FS.
Mihir Nanavati	CFO	Group CFO of IIFLWAM since Dec'16. Previously worked at Avendus Capital (Group CFO), ARCIL (Executive VP) and at ICICI group for more than a decade. He is a Chartered Accountant and holds an MBA (Finance) from NMIMS, Mumbai.
Anup Maheshwari	CIO - Asset Management	Chief Investment Officer and Joint - Chief Executive Officer of IIFL AMC's business. Previously, worked as Executive Vice President & Chief Investment Officer at DSP BlackRock MF. He holds an MBA from the Indian Institute of Management, Lucknow.
Umang Papneja	Senior Managing Partner	Over 18 years of experience in investments and wealth management. He holds board positions in a couple of companies including IIFL Alternate Asset Advisors, which offers customized fund solutions to UHNIs. Mr. Papneja also served on the board of IIFL Wealth Finance Ltd. from Feb'16 to Nov'17.

Source: MOFSL, Company

Financials and Valuation

Income Statement							(INR M)
Y/E March	2017	2018	2019	2020E	2021E	2022E	2023E
Annual Recurring Revenues Assets	2,392	3,670	4,437	5,472	7,501	9,600	12,006
Transactional/Broking Revenues Assets	4,687	6,618	5,794	3,440	3,093	2,897	3,003
Other Income	779	140	435	450	700	900	1,100
Net Revenues	7,858	10,427	10,667	9,362	11,294	13,398	16,109
Change (%)	54.3	32.7	2.3	-12.2	20.6	18.6	20.2
Operating Expenses	4,013	5,652	5,297	5,623	6,328	7,079	7,932
Profit Before Tax	3,845	4,775	5,370	3,739	4,966	6,319	8,177
Change (%)	69.8	24.2	12.4	-30.4	32.8	27.2	29.4
Tax	1,161	1,099	1,634	938	1,242	1,580	2,044
Tax Rate (%)	30.2	23.0	30.4	25.1	25.0	25.0	25.0
PAT	2,684	3,676	3,736	2,801	3,725	4,739	6,133
Change (%)	58.4	37.0	1.6	-25.0	33.0	27.2	29.4
Proposed Dividend	534	785	848	2,361	3,139	3,994	5,169

Balance Sheet							(INR M)
Y/E March	2017	2018	2019	2020E	2021E	2022E	2023E
Equity Share Capital	156	160	169	174	174	174	174
Reserves & Surplus	15,043	18,469	28,935	30,948	31,533	32,279	33,243
Net Worth	15,198	18,629	29,104	31,122	31,708	32,453	33,417
Borrowings	56,261	69,663	61,145	68,750	83,820	97,911	1,13,471
Other Liabilities	4,505	7,374	7,553	8,309	9,140	10,053	11,059
Total Liabilities	75,964	95,666	97,802	1,08,181	1,24,667	1,40,417	1,57,946
Cash and Investments	32,887	18,564	33,300	36,872	40,740	44,811	48,998
Change (%)		-43.6	79.4	10.7	10.5	10.0	9.3
Loans	36,520	70,561	49,665	55,000	66,000	75,900	87,285
Net Fixed Assets	291	523	5,100	5,610	6,171	6,789	7,467
Net Current Assets	6,267	6,017	9,737	10,699	11,756	12,918	14,196
Total Assets	75,964	95,666	97,802	1,08,181	1,24,667	1,40,417	1,57,946

E: MOFSL Estimates

Financials and Valuation

Y/E March	2017	2018	2019	2020E	2021E	2022E	2023E
AUM (Ex Custody assets) (INR B)	859	1,124	1,366	1,590	1,748	2,068	2,582
Change (%)	44.9	30.9	21.5	16.4	9.9	18.3	24.9
Annual Recurring Revenue Assets	299	449	583	775	1,127	1,498	1,928
Transactional/Brokerage Assets	685	861	972	1,065	931	939	1,063
Double counted assets	-125	-185	-189	-250	-310	-368	-409

E: MOFSL Estimates

Y/E March	2017	2018	2019	2020E	2021E	2022E	2023E
As a percentage of Net Revenues							
ARR Income	30.4	35.2	41.6	58.5	66.4	71.7	74.5
TRB Income	59.6	63.5	54.3	36.7	27.4	21.6	18.6
Total Cost (Cost to Income Ratio)	51.1	54.2	49.7	60.1	56.0	52.8	49.2
Employee Cost	34.0	37.4	31.0	40.3	38.4	37.3	35.6
PBT	48.9	45.8	50.3	39.9	44.0	47.2	50.8
Profitability Ratios (%)							
RoE	17.7	21.7	15.7	9.3	11.9	14.8	18.6
Dividend Payout Ratio	19.9	21.4	22.7	84.3	84.3	84.3	84.3

DuPont Analysis (Bps of AAAUM)

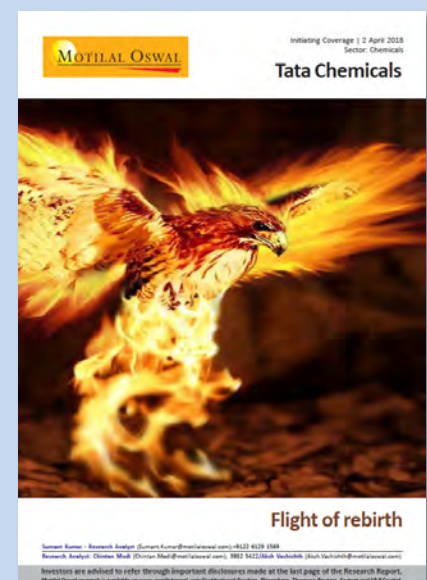
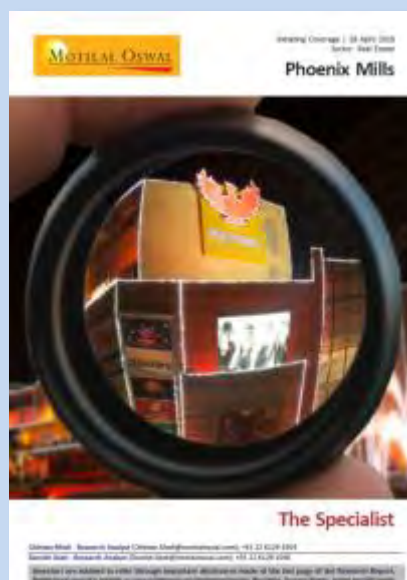
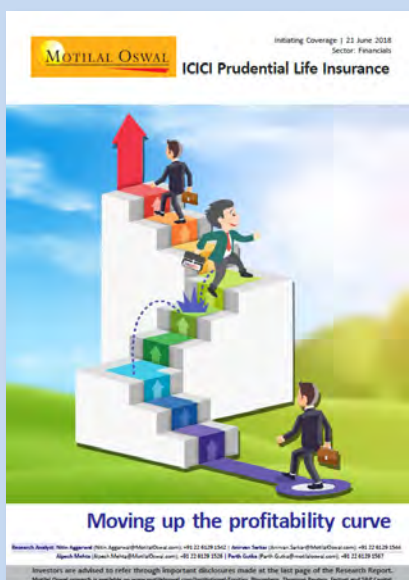
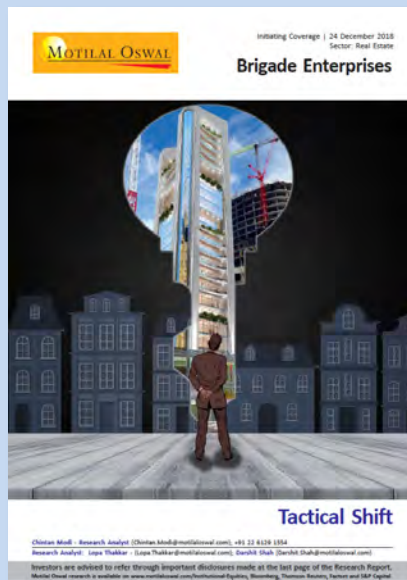
Y/E March	2017	2018	2019	2020E	2021E	2022E	2023E
Operating Income	108	105	86	63	68	70	69
Operating Expenses	55	57	43	38	38	37	34
Profit Before Tax	53	48	43	25	30	33	35
Tax	16	11	13	6	7	8	9
ROAAAUM	37	37	30	19	22	25	26

Valuations	2017	2018	2019	2020E	2021E	2022E	2023E
BVPS (INR)	195	234	344	357	364	373	384
Change (%)		19.8	47.5	3.7	1.9	2.3	3.0
Price-BV (x)	6.8	5.7	3.8	3.7	3.6	3.5	3.4
EPS (INR)	34	46	44	32	43	54	70
Change (%)		33.9	-4.1	-27.3	33.0	27.2	29.4
Price-Earnings (x)	38.3	28.6	29.9	41.1	30.9	24.3	18.7
DPS (INR)	6	9	10	23	30	38	49
Dividend Yield (%)				1.7	2.3	2.9	3.7

E: MOFSL Estimates

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UNDER REVIEW	Rating may undergo a change
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