BOBCAPS
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BUY
TP: Rs 611 | ⮝ 19%

360 ONE

| Diversified Financials | 08 August 2023

Annual report analysis: Forging ahead

- **Shift from commission to recurring revenue model (ARR) paying off – the latter now contributes 61% of AUM and 67% of revenue at end-FY23**
- **Higher recurring revenue (+15% YoY) coupled with lower C/I (-530bps) led to ~200bps ROAE expansion to 22%**
- **Maintain BUY on rising margins, a strong platform, loyal client base and low valuations; TP unchanged at Rs 611**

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Sustainable ARR model: 360 One continues to derive benefits from its shift to a recurring revenue business model in FY20. Annual recurring revenue (ARR) grew 15% YoY to Rs 10.5bn in FY23 (25% CAGR over FY20-FY23) and recurring AUM grew 16% to Rs 1.7tn (39% CAGR). At end-FY23, 61% of AUM and 67% of revenue were based on ARR, which management expects will grow further. Net flows stood at Rs 252bn, a bulk of which were recurring in nature. The company has a strong outlook and aims to raise the wallet share of existing clients while expanding operations beyond its traditional base of tier-1 cities and into selective offshore locations.

360 One Plus and 360 AMC in focus: The 360 One Plus business reported AUM of Rs 423bn (+29% YoY) and yield of 25bps in FY23. A transparent fee-only pricing model along with the flexibility for clients to choose the level of engagement helped the company gain traction. In the AMC business, 360 One expanded its product range across four asset classes: listed equities, private equities, credit and real assets. Following a slew of fund launches and commitments raised in the AIF category, it closed the year at Rs 583bn in AUM (+5% YoY) and 69bps in yield. Listed and private equities were the top asset classes with AUM of Rs 247bn and Rs 205bn respectively.

Stable financial parameters: Higher recurring revenue (+15% YoY) coupled with operating leverage supported expansion in ROAE from 20% in FY22 to 22% in FY23 and in ROAA from 6.0% to 6.1%. The cost-to-income ratio fell 530bps YoY to 46% in FY23 and is expected to remain steady. Asset-liability management was healthy and contingent liabilities remained under control. Per management, the business is backed by a robust central risk management department with a well-defined policy to mitigate risks. On the dividend front, the company retains its policy of distributing 70-80% of profits to shareholders.

Maintain BUY: The stock is trading at 21x FY25E EPS and appears undervalued, in our view. We retain BUY with an unchanged TP of Rs 611 set at 25x FY25E EPS – a 10% premium to the 4Y average, given a robust model, strong fundamentals and a supportive macro climate.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	360ONE IN/Rs 511
Market cap	US$ 2.3bn
Free float	78%
3M ADV	US$ 2.1mn
52wk high/low	Rs 545/Rs 395
Promoter/FPI/DII	22%/23%/2%

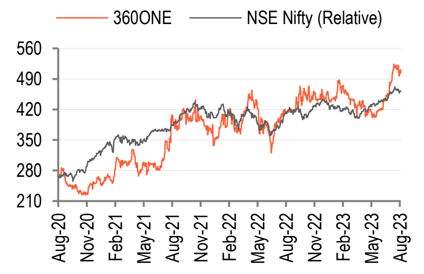
Source: NSE | Price as of 8 Aug 2023

Key financials

Y/E 31 Mar (Rs mn)	FY23A	FY24E	FY25E
PBT (Rs mn)	8,503	10,225	11,731
PBT growth (%)	13.2	20.3	14.7
Adj. net profit (Rs mn)	6,679	7,771	8,915
EPS (Rs)	18.1	21.3	24.4
Consensus EPS (Rs)	18.1	23.2	26.0
P/E (x)	28.2	24.0	20.9
MCap/AUM (%)	0.0	0.0	0.0
ROE (%)	21.8	24.4	27.0

Source: Company, Bloomberg, BOBCAPS Research

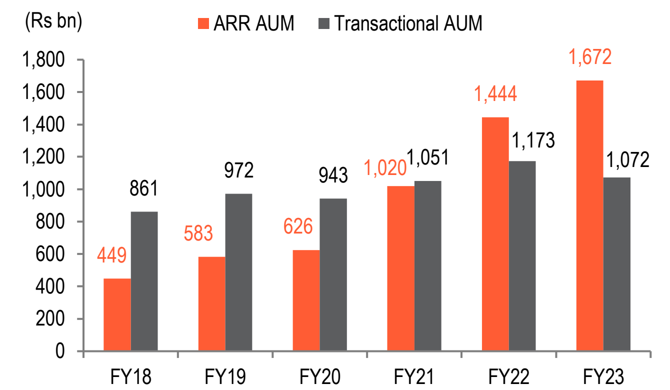
Stock performance



Source: NSE

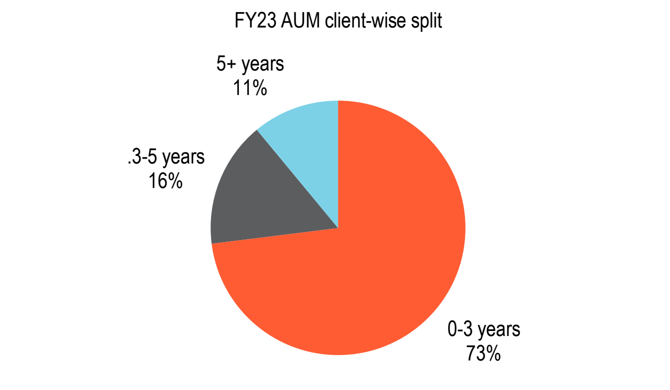
Focus charts

Fig 1 – ARR AUM growth higher than transactional AUM



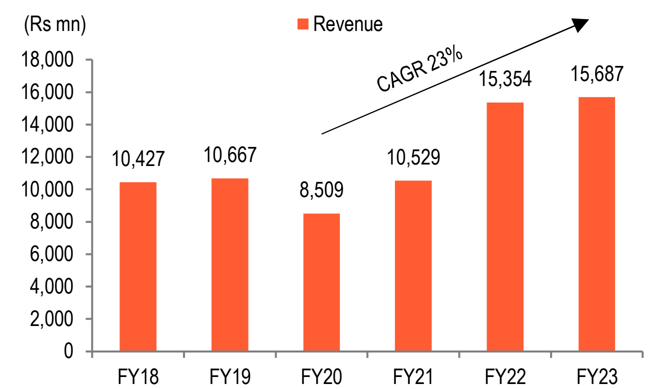
Source: Company, BOBCAPS Research

Fig 2 – Sticky client base



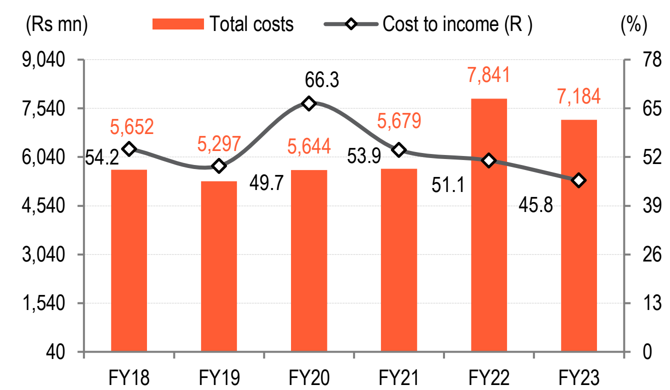
Source: Company, BOBCAPS Research

Fig 3 – Revenue has trended up over last three years



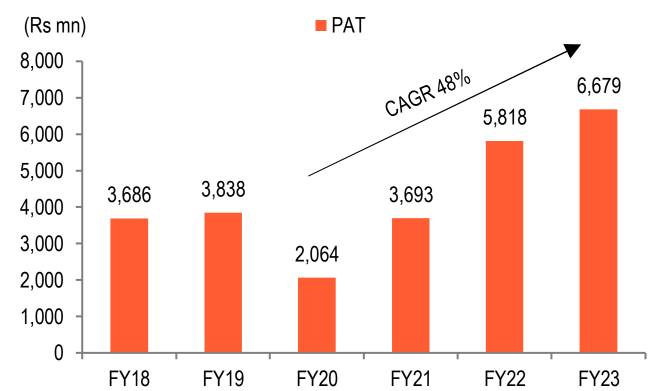
Source: Company, BOBCAPS Research

Fig 4 – C/I ratio has headed down



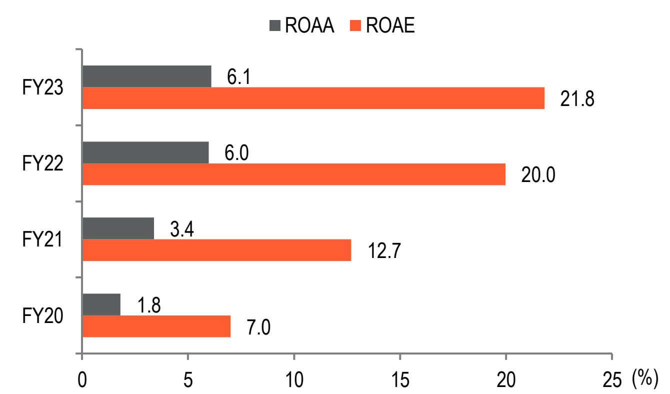
Source: Company, BOBCAPS Research

Fig 5 – Net profit has risen over last three years



Source: Company, BOBCAPS Research

Fig 6 – Return ratios expanding since FY20



Source: Company, BOBCAPS Research

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Management discussion & analysis: Key takeaways

- Wealth management firms historically focused on generating commission but are now shifting to an advisory-based approach. Firms offer a comprehensive range of products and services that go beyond traditional investment products.
- India has the second-highest number of high-net-worth individuals (HNI) among BRICS nations, with this affluent populace expected to witness a 75% rise between 2020 and 2025 and cross the 0.6mn mark. Further, the total number of ultra-HNIs in India is seen rising by 39% between 2021 and 2026 to 19,000.
- From customisation to optimal risk mitigation and maximisation of returns, digitisation is fast evolving as a key enabler in the asset management ecosystem.
- Alternate investment funds (AIF) raised close to Rs 7tn in capital in 2022 as against Rs 4.5tn in 2020, with market players opining that the industry has the potential to grow 4-5x in coming years.
- 360 One has completed 15 years of operations and reiterated its key strategic drivers of (i) holistic and innovative product offerings, (ii) a superior workforce aligned with client interests, and (iii) a robust digital and technology framework.
- The company continues to focus on the ARR model with a steadfast transition towards stable cost structures and higher profits that will consequently result in better return ratios.
- Management has a strong outlook towards business growth, with a focus on increasing the wallet share of existing clients and expanding operations in domestic geographies (into tier-2/3 markets beyond the traditional base of tier-1 cities) and in selective offshore locations.

360 One Plus and AMC verticals driving growth

360 One Plus – Tailormade solutions gaining wider acceptance

360 One Plus (earlier IIFL-One) consists of the portfolio management services (PMS) business and advisory services. In FY23, the vertical reported AUM of Rs 423bn (+29% YoY) and yield of 25bps (calc.).

Fig 7 – 360 One Plus – Focus on all three revenue streams

(Rs mn)	AUM			Revenue		
	FY21	FY22	FY23	FY21	FY22	FY23
Discretionary PMS	87,531	1,06,770	1,08,582	265	496	448
Non-discretionary PMS	1,33,914	1,51,464	1,71,940	264	355	406
Advisory	57,952	69,009	1,42,545	23	48	89
Total	**2,79,397**	**3,27,242**	**4,23,066**	**553**	**899**	**944**

Source: Company, BOBCAPS Research

Fig 8 – 360 One Plus – Key benefits and attributes

Key benefits	Key attributes
Efficient portfolio design	Building portfolios which are designed to lower volatility over the medium term
Incorporates key core portfolio attributes: size, quality, liquidity, tax efficiency	Creating portfolios that are liquid and can be redeemed with minimal or no cost
Transparent fee structure ensuring complete alignment with client financial objectives	Designing portfolios for the long term, which are balanced periodically

Source: Company, BOBCAPS Research

The company offers a transparent fee-only pricing model and two types of PMS solutions:

- **Signature offerings:** The portfolio manager has sole discretion in the selection of investment ideas and solutions – these include:
  - **Core AIF** – a bouquet of high-quality, liquid, direct equity stocks and direct bonds picked through a rigorous research process
  - **Managed solutions** – an array of mutual funds and exchange traded funds selected using multiple parameters
- **Bespoke offerings:** The portfolio manager creates customised portfolios that include:
  - **Treasury solutions** – fixed-income portfolios that are run for the benefit of large corporate treasuries and offered via both discretionary and non-discretionary platforms
  - **Mandate (Discretionary PMS)** – a tailored investment framework developed for each client considering their objectives and goals, and describing a general asset allocation and instrument selection (no customer approval necessary for modification to the instrument choice as long as it is within the mandate)
  - **Consult (Non-discretionary PMS)** – a unique investment framework for each client that is built for their needs and goals, outlining a wide asset allocation and instrument selection (client permission needed for any changes to the instrument choice)
  - **Select Alpha PMS** – a concentrated direct equity portfolio for the short-to-medium term formed by a bottom-up approach and non-discretionary in nature

Asset management – Steady performance

360 One is the largest alternative asset manager in India and maintains a strong outlook for the asset management (AMC) business given its prominent position in the alternative segment where India's market is relatively nascent.

Strong traction in AIFs

In FY23, the company introduced a suite of AIFs and raised commitments, closing the year at Rs 583bn in AUM (+5% YoY) and 69bps in yield. Notably, it garnered Rs 54bn in net flows.

Fig 9 – Slew of AIF launches in FY23

Fund	Activity	Fund profile
360 ONE Equity Opportunity Fund (CAT III AIF)	Fund launch	Invests in turnaround stories and special situation opportunities
360 ONE Equity Opportunity Fund Series 2 (CAT III AIF)	Fund launch	Invests in listed equities with an inbuilt feature to hedge portfolio returns
360 ONE Special Opportunity Fund - Series 11	Fund launch	Multi-asset class fund that optimises investments through diversification
360 ONE Mid-Stage Venture Fund (formerly known as TrueScale Venture Growth Fund I)	Fund launch	Invests in breakout tech companies
Commercial Yield Fund (CAT II AIF)	Raised commitments	Sector-agnostic private credit strategy targeting high-quality credit backed by strong collaterals
Income Opportunities Fund Series 4 (CAT II AIF)	Fund launch	Invests in unlisted infrastructure and real assets

Source: Company, BOBCAPS Research

PMS sees business as usual

On the listed equity front, the AMC business continued to onboard new distribution partners and achieve scale across existing products (Multicap PMS and Phoenix PMS). It launched a new debt PMS strategy, Managed Credit Solution Portfolio, which will invest primarily in debt securities.

Mutual funds gaining traction

The company continued to focus on scaling up the Focused Equity Fund (formerly IIFL Focused Equity Fund) during the year. The fund performed well in FY23 and was ranked within the top quartile in its category. 360 One also launched an ELSS Nifty 50 Tax Saver Index Fund (formerly under the IIFL tag).

Offshore business expanding

In terms of client coverage, the AMC vertical has secured an additional US$ 150mn from two offshore clients.

Expanding in tier-2 and tier-3 cities

With growing wealth creation in India's tier-2 & 3 cities, the demand for professional investment solutions and customised advice is on the rise. 360 One sees this as an opportunity to deepen relationships with existing clients, expand its client base in existing and new geographies, and establish a strong presence in domestic markets as well as selective offshore locations.

Financial review

ARR model gaining momentum

In FY20, 360 One transitioned its business model from being transaction-driven to a more sustainable annuity distribution-commission model. The goal was to offer unbiased client solutions that were not contingent upon direct commercial benefits. Although financials initially took a hit, the new annual recuring revenue (ARR) model has been steadily gaining traction.

Recurring revenue grew 15% YoY to Rs 10.5bn in FY23 (25% CAGR over FY20-FY23) and recurring AUM increased 16% YoY to Rs 1.7tn (39% CAGR). At end-FY23, 61% of the company's AUM and 67% of revenue was based on ARR, which management expects will grow further. Net flows for the fiscal stood at Rs 252bn, a bulk of which were recurring in nature. This clearly reflects management's conscious shift in focus towards building an ARR-driven asset base.

Fig 10 – ARR traction in FY23 justifies management's strategic decision

(Rs mn)	AUM			Revenue		
	FY21	FY22	FY23	FY21	FY22	FY23
ARR	**10,19,694**	**14,44,315**	**16,71,744**	**5,830**	**9,120**	**10,496**
IIFL One	2,79,397	3,27,242	4,23,066	553	899	944
Funds managed by IIFL AMC	3,73,718	5,55,742	5,82,982	1,977	3,588	3,930
Distribution assets earning trail fees	3,30,376	5,18,151	6,12,026	1,386	2,425	3,048
Loans (NBFC)	36,203	43,180	53,670	1,914	2,208	2,574
Transactional	**10,50,741**	**11,73,131**	**10,71,686**	**3,325**	**4,862**	**5,154**
Brokerage	8,24,216	9,98,555	9,75,906	NA	NA	NA
Distribution assets not earning trail fees	2,26,525	1,74,576	95,780	NA	NA	NA
Total	**20,70,436**	**26,17,447**	**27,43,430**	**9,155**	**13,982**	**15,650**

Source: Company, BOBCAPS Research

Fig 11 – AMC business growing at a rapid pace

(Rs mn)	AUM			Revenue		
	FY21	FY22	FY23	FY21	FY22	FY23
Wealth Management	16,96,718	20,61,704	21,60,447	7,178	10,394	11,720
AMC	3,73,718	5,55,742	5,82,982	1,977	3,588	3,930
Total	**20,70,436**	**26,17,446**	**27,43,430**	**9,155**	**13,982**	**15,650**

Source: Company, BOBCAPS Research

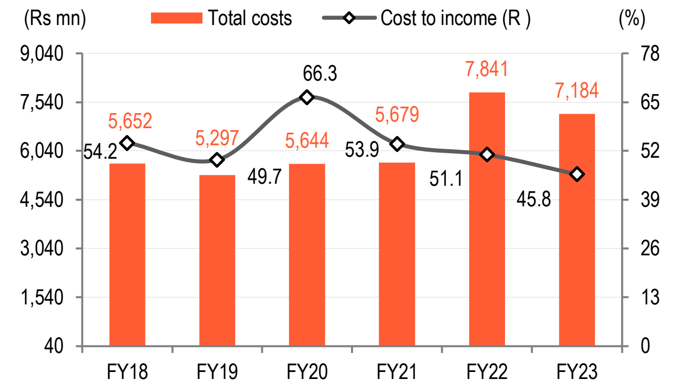
Recurring yield >65bps, blended yield at 58bps

Upon the business model transition in FY20, the company expectedly witnessed a decline in yields. It generated a blended yield of 58bps on operating revenue in FY23 (vs. 60bps in FY22), with recurring business generating 67bps.

C/I decline reflects higher operating leverage

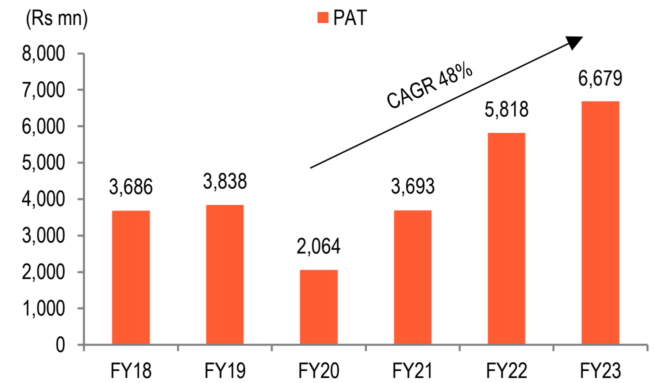
The C/I ratio declined from 51% in FY22 to 46% in FY23 as operating leverage improved. Total cost fell from Rs 7.8bn to Rs 7.2bn, of which employee cost at Rs 5.2bn (72% share) declined 14% YoY. Administration cost made up the balance Rs 2bn and grew 9%. Employee expense can be split into fixed cost of Rs 3.7bn (70% share) that grew 21%, variable cost that dropped 52% to Rs 1.3bn, and employee stock options (ESOP) that declined 18% to Rs 250mn.

Fig 12 – C/I ratio on a downward trend



Source: Company, BOBCAPS Research

Fig 13 – Net profit has increased over the last three years



Source: Company, BOBCAPS Research

Return ratios expanding

The increase in revenue, particularly recurring streams, coupled with higher operating leverage supported expansion in ROAE from 7% in FY20 to 22% in FY23 and in ROAA from 1.8% to 6.1%.

Fig 14 – Recurring revenue growth helping build a profitable business

(%)	FY20	FY21	FY22	FY23
Recurring Revenue/Average Assets	4.7	5.4	9.4	9.6
Non-recurring Revenue/Average Assets	3.4	3.1	5.0	4.7
Other Income/Average Assets	(0.6)	1.3	1.4	0.0
Operating Expense/Average Assets	4.9	5.2	8.1	6.6
ROAA	**1.8**	**3.4**	**6.0**	**6.1**
Average Assets/Average Equity	3.9	3.7	3.3	3.6
ROAE	**7.0**	**12.7**	**20.0**	**21.8**

Source: Company, BOBCAPS Research

Fig 15 – Wealth business a major profit centre, AMC business growth also significant in FY23

(Rs mn)	Net Assets		Share of Profit or Loss		Share in Other Comprehensive Income		Share in Total Comprehensive Income	
	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount
Parent								
360 ONE WAM (Formerly known as IIFL Wealth Management)	75.3	23,536	75.4	4,959	(0.6)	(1)	74.2	4,958
Subsidiaries								
Indian								
360 ONE Prime (Formerly known as IIFL Wealth Prime)	44.7	13,969	35.6	2,345	(1.5)	(2)	35.1	2,344
360 ONE Asset Management (Formerly known as IIFL Asset Management)	4.1	1,277	38.3	2,520	0.3	0	37.7	2,520
IIFL Wealth Distribution Services	24.7	7,723	11.2	735	(9.1)	(9)	10.9	726
360 ONE Portfolio Managers (Formerly known as IIFL Wealth Portfolio Managers)	8.1	2,542	6.2	406	(0.9)	(1)	6.1	405
360 ONE Investment Adviser and Trustee Services (Formerly known as IIFL Investment Adviser and Trustee Services)	1.3	410	0.2	16	(0.7)	(1)	0.2	15
360 ONE Asset Trustee (Formerly known as IIFL Trustee)	0.3	105	0.6	41	0.0	0	0.6	41
360 ONE IFSC (Formerly known as IIFL Wealth Securities IFSC)	0.0	(5)	0.0	(1)	0.0	0	0.0	(1)
MAVM Angels Network	0.2	57	(0.1)	(3)	(0.8)	(1)	(0.1)	(4)
Foreign								
360 ONE Asset Management (Mauritius) (Formerly known as IIFL Asset Management (Mauritius))	0.1	14	(0.2)	(16)	13.2	13	0.0	(3)
360 ONE INC. (Formerly known as IIFL Inc.)	0.1	21	0.0	(2)	1.7	2	0.0	0
360 ONE Private Wealth (Dubai) (Formerly known as IIFL Private Wealth Management (Dubai))	0.4	110	0.0	2	8.3	8	0.2	10
360 ONE Capital (formerly known as IIFL Capital)	2.7	829	(3.7)	(245)	92.0	91	(2.3)	(154)
360 ONE Capital (Canada) (Formerly known as IIFL Capital (Canada))	0.1	16	0.0	1	0.0	0	0.0	1
Eliminations on Consolidation	**(61.9)**	**(19,340)**	**(63.5)**	**(4,177)**	**(1.9)**	**(2)**	**(62.6)**	**(4,179)**
Total	**100.0**	**31,264**	**100.0**	**6,579**	**100.0**	**99**	**100.0**	**6,678**

Source: Company, BOBCAPS Research

High and stable dividend payout policy

360 One has a well-defined policy of distributing 70-80% of net profit as dividends to shareholders given that wealth management is a capital-light business with minimal capex requirements. In FY23, the company paid out a total of Rs 69/sh (and equivalent of Rs 17.25/sh adjusted for a share split and bonus issue), equating to an outlay of Rs 6.1bn. The dividend was paid in four parts over the year.

ESOPs at 5% of employee cost

ESOP costs declined from Rs 304mn in FY22 to Rs 250mn in FY23, constituting 5% of total employee cost. For details on the ESOP policy, please refer to the **Annexure C** on Page 16.

Share capital changes

360 One's paid-up share capital increased to Rs 356mn as on 31 Mar 2023 from Rs 177mn as of 31 Mar 2022 owing to the issue of equity shares pursuant to the exercise of ESOPs and a 1:1 bonus issue.

Fig 16 – Share capital changes

Record date	Action	Ratio
15 Feb-2023	Increase in the authorised share capital	NA
2 Mar 2023	Share split	2-for-1
3 Mar 2023	Bonus issue	1:1

Source: Company, BOBCAPS Research

Other key metrics healthy

Comfortable ALM position

The company has historically maintained a strong asset-liability management (ALM) profile. However, at end-FY23, short-term (within 12 months) liabilities outstripped the short-term assets primarily on account of longer tenured loans extended to customers. However, we view this mismatch as insignificant.

Fig 17 – ALM profile

Particulars (Rs mn)	Within 12M	After 12M	Total
ASSETS			
Financial Assets			
Cash and cash equivalents	5,095	0	5,095
Bank balance other than (a) above	2,104	57	2,161
Derivative financial instruments	8	0	8
Receivables			
(I) Trade receivables	3,196	0	3,196
(II) Other receivables	1,325	32	1,358
Loans	6,298	42,802	49,101
Investments	28,299	7,793	36,092
Other financial assets	2,131	724	2,855
Non-Financial Assets			
Current tax assets (net)	0	1,558	1,558
Deferred tax assets (net)	0	14	14
Property, plant and equipment	0	2,850	2,850
Capital work-in-progress	0	0	0
Intangible assets under development	391	0	391
Goodwill	0	4,176	4,176
Other intangible assets	0	1,442	1,442
Right to use	0	330	330
Other non-financial assets	803	493	1,296
Total Assets	**49,651**	**62,270**	**1,11,921**
LIABILITIES AND EQUITY			
LIABILITIES			
Financial Liabilities			
Derivative financial instruments	7	950	957
Payables			

Particulars (Rs mn)	Within 12M	After 12M	Total
(I) Trade payables	-	-	0
(i) total outstanding dues of micro enterprises and small enterprises	-	-	0
(ii) total outstanding dues of creditors other than micro enterprises and small enterprises	1,356	-	1,356
(II) Other payables	-	-	0
(i) total outstanding dues of micro enterprises and small enterprises	-	-	0
(ii) total outstanding dues of creditors other than micro enterprises and small enterprises	3,893	-	3,893
Finance Lease Obligation	120	244	364
Debt securities	39,794	24,440	64,234
Borrowings (other than debt securities)	2,014	-	2,014
Subordinated liabilities	40.6	1,184	1,225
Other financial liabilities	5,477	1	5,478
Non-Financial Liabilities			
Current tax liabilities (net)	514	-	514
Provisions	71	32	103
Deferred tax liabilities (net)	-	246	246
Other non-financial liabilities	262	12	274
EQUITY			
Equity share capital	-	356	356
Other equity	-	30,863	30,863
Non-controlling interest	-	45	45
Total Liabilities and Equity	**53,547**	**58,373**	**1,11,921**
Bucket wise Gap	**(3,896)**	**3,896**	**-**

Source: Company, BOBCAPS Research

About 33% of the company's financial liabilities mature after a year. Within the one-year bracket, 38% of liabilities mature over 1-6 months.

Fig 18 – Financial liabilities – maturity analysis

Particulars (Rs mn)	Less than 1M	1M to 6M	6M to 1Y	1Y to 5Y	5Y & above	Total
Derivative financial instruments	7	-	-	380	570	**957**
Trade Payables	1,149	180	26	-	-	**1,356**
Other Payables	-	3,893	-	-	-	**3,893**
Debt Securities	8,076	19,637	12,082	19,892	4,548	**64,234**
Borrowings (Other than Debt Securities)	-	1,510	504	-	-	**2,014**
Subordinated Liabilities	-	25	15	1,184	-	**1,225**
Other financial liabilities	504	4,969	4	2	-	**5,478**
Total	**9,736**	**30,214**	**12,630**	**21,457**	**5,118**	**79,156**
% of Total	12%	38%	16%	27%	6%	-

Source: Company, BOBCAPS Research

Investments dip on account of maturities

Total investments stood at Rs 36bn at end-FY23 as compared to Rs 41bn in FY22 because many funds reached maturity. The other reason for the drop in investments was the down-selling of some specific shares to clients. Thus, the decline on an annual basis is not a cause for concern.

Fig 19 – Investments in FY23 at Rs 36bn

Particulars (Rs mn)	FY21	FY22	FY23
Mutual funds	2,326	7,136	3,964
Debt securities	13,077	9,861	8,330
Govt securities	649	637	3829.2
Equity	253	9,049	5,580
AIF	8,443	12,341	11,637
Others	381	1,700	2,751
Total	**25,129**	**40,724**	**36,092**
Debt securities as a % of total	52	24	23
AIF as a % of total	34	30	32
Equity as a % of total	1	22	15

Source: Company, BOBCAPS Research

Contingent liabilities in check

Contingent liabilities remained low at Rs 2.9bn or ~3% of assets, the lowest over the last three years. Management does not expect these liabilities to have a material adverse impact on its financial position and cash flows.

Fig 20 – Contingent liabilities <3% of assets

Particulars (Rs mn)	FY20	FY21	FY22	FY23
Bank guarantees (1)	1,687	2,499	2,369	2,209
Corporate guarantee	2,100			
Disputed income tax demand (2)	324	437	451	484
Legal matters (3)	-	-	167	167
In respect of service tax matter in dispute	-	-	68	68
Total contingent liabilities	**4,111**	**2,936**	**3,055**	**2,927**
Total Assets	1,30,263	87,401	1,07,395	1,11,921
Contingent liabilities / Total assets (%)	3.2	3.4	2.8	2.6

Source: Company, BOBCAPS Research | Note: (1) Fixed Deposits (excluding accrued interest) amounting to Rs 1.3bn (P.Y. Rs 1.3bn) are pledged against bank guarantees. (2) Amount paid under protest with respect to income tax demand is Rs 232.9mn (P.Y Rs 144.7mn). (3) The parent company has received a demand for a sum of Rs 750mn towards stamp duty on account of the Composite Scheme of Arrangement. As per the scheme document, any incidental expenses will be borne equally by the resulting companies, i.e. IIFL Finance, IIFL Securities and IIFL Wealth Management. The parent company has appealed against the same and paid Rs 83.3mn under protest towards its share of the liability and shown Rs 166.7mn as contingent liability.

ECL in lending operations has reduced

The amount of expected credit loss (ECL) has reduced to Rs 194mn in FY22 and further to Rs 181mn in FY23 from Rs 338mn at end-FY21 – well within the company's comfort zone.

Fig 21 – Reconciliation of ECL allowance of lending operations

Particulars (Rs mn)	FY21	FY22	FY23
Opening balance	167.2	338.2	193.9
Provision on loans originated during the year	79.6	42.5	177.8
Net change in provision on continuing loans	245.3	(161.7)	(2.9)
Provision on loans derecognized during the year	(153.9)	(25.1)	(187.4)
Closing balance	**338.2**	**193.9**	**181.4**

Source: Company, BOBCAPS Research

Loans to key personnel/related parties repaid

As a policy, all loans given to key personnel or related parties are recovered during the same year. Should any minor amount remain unpaid, it is received in the next financial year. We note that the impact of related party transactions on revenue and expenses is insignificant.

Fig 22 – Loans to key personnel/related parties were low in FY23

Loans to promoters/related parties	FY21		FY22		FY23	
	Loan Given	Loan Received Back	Loan Given	Loan Received Back	Loan Given	Loan Received Back
Yatin Shah	500.0	500.0	33.0	15.6	14.5	31.9
Nirmal Jain	1,500.0	1,500.0	5,895.0	5,895.0	-	-
Madhu Jain	3,896.8	3,896.8	1,000.0	1,000.0	-	-
Yatin Investments	-	-	1,350.0	1,350.0	-	-
Kyrush Investments	327.2	284.8	184.0	226.4	250.0	-

Source: Company

Valuation methodology

360 One has maintained a niche position in India's under-penetrated wealth management business, enjoys a track record of innovative products and has a strong team leader-driven model that boasts of low attrition at both the client and senior banker / Team Leader level. Further, we believe the company's sturdy business model will help it to better weather potential macroeconomic challenges.

The stock is trading at 21x FY25E EPS and appears undervalued, in our view. We reiterate our BUY rating with an unchanged TP of Rs 611 (19% upside), based on 25x FY25E EPS – a 10% premium to the stock's four-year average – given a robust model, strong fundamentals, and supportive macro factors.

Key risks

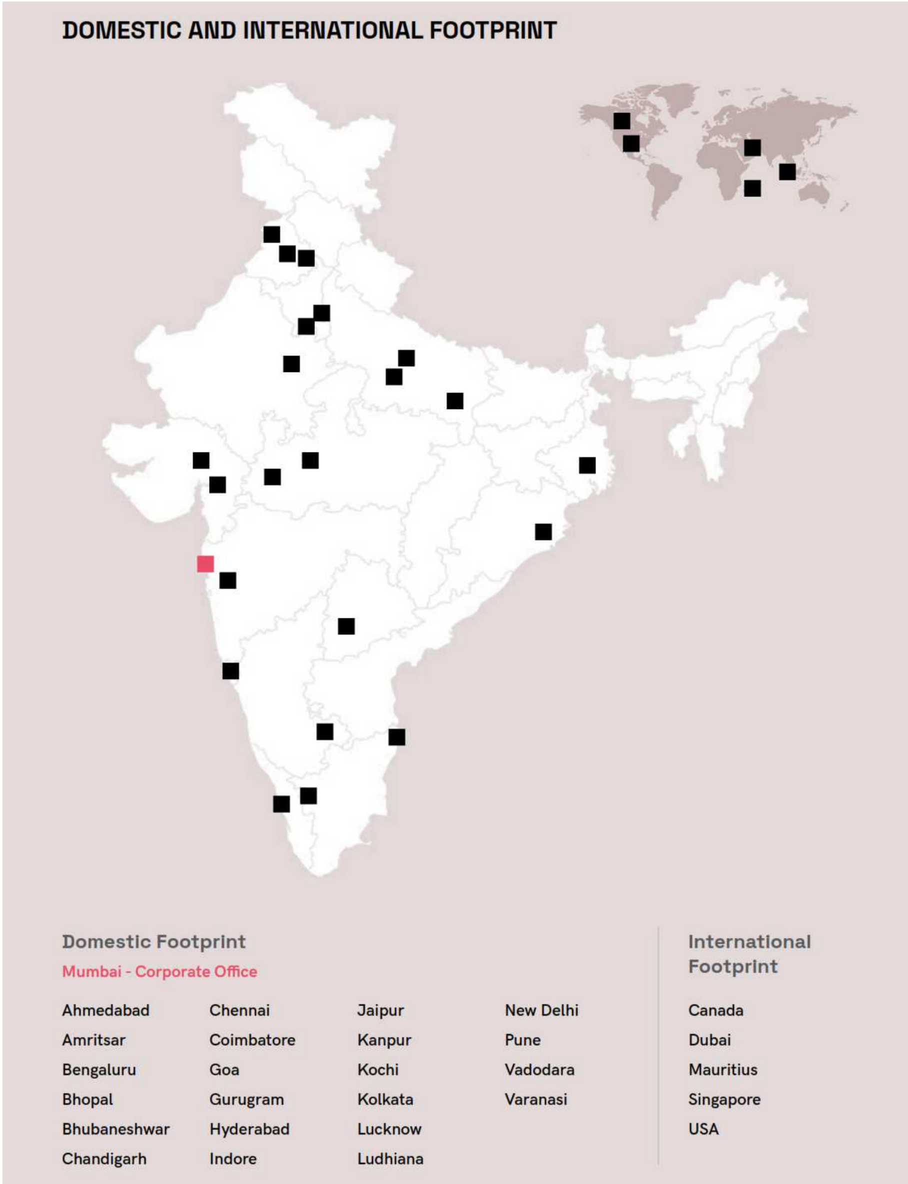
Key downside risks to our estimates are:

- **Goodwill risk:** 360 One's business is built on the goodwill of existing clients with new clients being acquired by word of mouth. Any change in the company's reputation due to a customer's bad experience can result in loss of goodwill, thereby hampering its ability to acquire new clients or even leading to attrition among existing ones.
- **Volatile capital markets:** Volatility in capital markets persists, especially after the uncertainty due to Covid-19 and ongoing geopolitical tensions. This could lead to abnormal losses/profits in client portfolios. Coupled with a drop in new wealth creation, this may slow the pace of estimated growth in the wealth industry, which may result in slower AUM growth for the company. As per management, a 20% fall in the benchmark can result in an 8-12% decline in AUM.
- **Growth in 360 One Plus assets may be slower than anticipated:** 360 One has been a pioneer in pushing for the shift to a recurring revenue model, spearheaded by the 360 One Plus proposition where revenue is earned as fees from clients rather than commissions from mutual funds. However, the speed of client conversion to this proposition may be slower than expected. Also, pricing pressures may arise as other competitors move to similar models.
- **High dependence on senior team leaders:** 360 One is dependent on senior team leaders, bankers and relationship managers to retain and expand the client base over the long term. Any substantial team leader attrition may lead to a corresponding increase in client attrition or may even slow AUM growth.
- **Regulatory issues:** Several regulatory changes have been introduced in the last few years, altering the dynamics of the business (for example, change in commission earned from upfront to trail). Any further changes can affect the income earned by the company.

Annexures

A: Client markets

Fig 23 – Key geographies



Source: Company, BOBCAPS Research

B: Subsidiaries and Restructuring

Fig 24 – Subsidiary details

Subsidiary	Shares held by the company (%)	Does the subsidiary participate in Business Responsibility initiatives of listed entity
360 ONE Asset Management (formerly IIFL Asset Management)	100	Yes
IIFL Wealth Capital Markets (Wholly owned subsidiary of IIFL Wealth Prime Ltd)*	100	Yes
360 ONE Portfolio Managers (formerly known as IIFL Wealth Portfolio Managers)	100	Yes
360 ONE Foundation (formerly known as IIFLW CSR Foundation)	100	Yes
360 ONE Prime (Formerly known as IIFL Wealth Prime)	100	Yes
360 ONE Asset Trustee (Formerly known as IIFL Trustee)	100	Yes
360 ONE Distribution Services (Formerly known as IIFL Wealth Distribution Services)**	100	Yes
360 ONE Investment Adviser and Trustee Services (Formerly known as IIFL Investment Adviser and Trustee Services)	100	Yes
IIFL Wealth Altiore (Formerly known as IIFL Altiore Advisors)***	100	Yes
360 ONE IFSC (Formerly known as IIFL Wealth Securities IFSC)	100	Yes
360 ONE Asset Management (Mauritius) (Formerly known as IIFL Asset Management (Mauritius))	100	Yes
360 ONE Private Wealth (Dubai) (Formerly known as IIFL Private Wealth Management (Dubai))	100	Yes
360 ONE INC (Formerly known as IIFL Inc.)	100	Yes
360 ONE Capital (Canada) Ltd. (Formerly known as IIFL Capital (Canada))	100	Yes
360 ONE Capital (Formerly known as IIFL Capital)	100	Yes
MAVM Angels Network (Subsidiary with effect from 15 Nov 2022)	91	Yes

Source: Company, BOBCAPS Research | Note: * Amalgamated into 360 ONE Prime with effect from 14 Mar 2023, ** Name changed w.e.f. 15 May 2023, *** Amalgamated into 360 ONE WAM with effect from 03 Mar 2023

Simplifying the business structure

- To consolidate the distribution businesses under a single wholly owned subsidiary, it was proposed to merge IIFL Wealth Capital Market (IWCML) with 360 One Prime (IWPL) and then demerge the distribution business from IWPL to IIFL Wealth Distribution Services (IWDSL). Pursuant to this scheme, IWCML merged with IWPL. The scheme was approved by National Company Law Tribunal (NCLT) with an appointed date of 1 Apr 2021 effective 14 Mar 2023.
- In FY23, IIFL Wealth Altiore, a wholly owned subsidiary of 360 One, amalgamated with the company. The scheme was approved by NCLT with an appointed date of 1 Apr 2021 effective 3 Mar 2023.

C: ESOP policy

Employee stock options vest in a graded manner and must be exercised within the stipulated period. The company currently has five ESOP schemes, as per the table below. In view of subdivision of shares, the number of unvested and unexercised stock options were doubled and hence the exercise price in respect of each option was halved post-adjustment. Other terms remained the same. In view of the bonus issue, upon exercise of 1 stock option, 2 equity shares (face value Re 1) would be allotted.

Fig 25 – ESOP snapshot

Particulars	IIFLW ESOP 2012	IIFLW ESOP 2015	IIFLW ESOP 2019	IIFLW ESOP 2021	IIFLW ESOP 2022
No. of options granted up to 31 Mar 2023	54,63,870	1,84,85,882	68,44,712	50,70,448	6,07,962
Grant dates	28 Mar 2012 to 28 Jan 2018	2 Jul 2015 to 29 Jan 2019	15 Nov 2019 to 27 Feb 2023	23 Apr 2021 to 27 Feb 2023	21 Nov 2022 to 27 Feb 2023
Method of accounting	Fair value	Fair value	Fair value	Fair value	Fair value
Vesting plan	Options granted would vest within a period of seven years subject to a minimum period of one year from the date of grant	Options granted would vest as per the vesting schedule subject to a minimum period of one year from the date of grant	Options granted would vest as per the vesting schedule subject to a minimum period of one year from the date of grant	Options granted would vest as per the vesting schedule subject to a minimum period of one year from the date of grant	Options granted would vest as per the vesting schedule subject to a minimum period of one year from the date of grant
Exercise period	Seven years from the date of grant	Seven years from the date of grant	Seven years from the date of grant	Seven years from the date of grant	Seven years from the date of grant
Grant price (Rs/sh)	5.0-208.5	141.0-830.5	430.5-909	530.00-888.35	1.00-899.50
Fair value on the date of grant of option (Rs/sh)*	11.8-409.0	274-1,297	899.45-1,818.00	1069.55-1779.75	1069.55-1779.75

Source: Company, BOBCAPS Research | *Share prices are as on grant dates which are before the corporate action date for giving impact of Bonus and Split

Fig 26 – Movement of options granted

Particulars	IIFLW ESOP 2012	IIFLW ESOP 2015	IIFLW ESOP 2019	IIFLW ESOP 2021	IIFLW ESOP 2022
Options outstanding at the beginning of 01 Apr 2022		6,31,294	48,83,064	44,09,568	-
Granted during the year		-	3,82,500	38,000	6,07,962
Exercised during the year		2,15,566	3,87,574	13,000	-
Lapsed during the year		79,618	3,98,872	3,80,540	3,990
Options outstanding as at 31 Mar 2023		3,36,110	44,79,118	40,54,028	6,03,972
Exercisable at the end of the year 31 Mar 2023		3,36,110	28,16,824	86,300	-
Weighted average exercise price for the options exercised during the year FY22-23 (Rs/sh)	NA	194.39	431.45	782.50	NA
Range of exercise price for the options outstanding at the end of the year 31 Mar 2023 (Rs/sh)	NA	208.50-830.50	430.50-909.00	530.00-888.35	1.00-899.50

Source: Company, BOBCAPS Research

Fig 27 – Key assumptions for calculating fair value of options as on the date of grant

Parameter	IIFLW ESOP 2012	IIFLW ESOP 2015	IIFLW ESOP 2019	IIFLW ESOP 2021	IIFLW ESOP 2022
Risk-free interest rate (%)	6.67-9.09	6.19-7.86	4.20-7.05	4.90-7.60	7.05-7.60
Expected average life	2-5 years	2-5 years	2-6 years	2-5 years	2-5 years
Expected volatility of share price (%)	10.00	10.00	12.24 - 22.98	18.39 - 25.44	16.42 - 22.43
Dividend yield (%)	3-23.19	1.5 - 3	1.95 - 5.70	5.65 - 5.70	5.65
Fair value on the date of the grant (Rs/sh)*	11.80 - 409.00	274.00-1,297.00	899.45-1,818	R1,069.55-1,779.75	1,069.55-1,779.75

Source: Company, BOBCAPS Research | *Share prices are as on grant dates which are before the corporate action date for giving impact of Bonus and Split

D: Risk management

IIFL Wealth has a central risk management department with a well-defined policy to mitigate risks, as well as a dedicated compliance team, as outlined below:

- The company has a central risk management department that reports to the Chief Operating Officer and/or Audit Committees of 360 One and its subsidiaries. There are also separate Risk Management heads for 360 One Prime (NBFC) and 360 One Asset Management (AMC) to focus on the risks pertaining specifically to those businesses. The internal audit of the company and subsidiaries is conducted by KPMG Assurance and Consulting Services (KPMG).
- 360 One has strengthened the whistleblower mechanism (backed by a policy that promises no action will be taken against the whistleblower) and provides multiple feedback channels (email, website, phone) managed by an external service provider for independence.
- The company has a Conflict-of-Interest Policy overseen by a Conflict Resolution Advisory Board (CRAB) comprising senior executives. Guidance has been provided in the policy on the types of transactions that are covered (e.g. transactions between an employee and a group entity, or an employee and a client, or a group entity and a firm in which the employee or his close relatives are interested, above certain thresholds). A summary of cases brought before the CRAB, beyond certain thresholds, is also submitted to the Risk Management Committee of the board.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Recurring revenue	5,830	9,120	10,496	13,192	16,328
Non-recurring revenue	3,325	4,862	5,154	4,500	4,250
Other income	1,374	1,372	37	900	750
Total income	10,529	15,354	15,687	18,592	21,328
Operating expenses	5,679	7,841	7,184	8,366	9,598
PBT	4,849	7,513	8,503	10,225	11,731
PBT growth (%)	69.3	54.9	13.2	20.3	14.7
Tax	1,156	1,696	1,824	2,454	2,815
Tax rate (%)	23.8	22.6	21.5	24.0	24.0
Reported PAT	3,693	5,818	6,679	7,771	8,915

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Equity capital	176	177	356	356	356
Reserves & surplus	28,102	29,798	30,908	32,007	33,344
Net worth	28,278	29,976	31,264	32,363	33,700
Total debt	51,036	58,250	67,837	76,810	86,816
Other liab. & provisions	36,365	49,145	44,084	45,199	47,677
Total liabilities &	**87,401**	**1,07,395**	**1,11,921**	**1,22,009**	**1,34,493**
Cash & bank balance	8,383	10,222	7,256	9,001	11,185
Fixed & Other assets	79,018	97,173	1,04,665	1,13,008	1,23,309
Total assets	**87,401**	**1,07,395**	**1,11,921**	**1,22,009**	**1,34,493**

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
EPS	41.8	64.1	18.1	21.3	24.4
Dividend per share	70.0	55.0	17.3	18.1	20.8
Book value per share	319.9	332.6	85.7	88.7	92.4

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
P/E	12.2	8.0	28.2	24.0	20.9
P/BV	1.6	1.5	6.0	5.8	5.5
Dividend yield (%)	13.7	10.8	3.4	3.5	4.1

DuPont Analysis

Y/E 31 Mar (bps of AAAUM)	FY21A	FY22A	FY23A	FY24E	FY25E
Operating income	50.3	59.7	58.4	59.2	58.3
Operating expenses	31.2	33.5	26.8	28.0	27.2
Other income	7.5	5.9	0.1	3.0	2.1
PBT	26.6	32.1	31.7	34.2	33.2
Tax	6.4	7.2	6.8	8.2	8.0

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
YoY growth (%)					
PBT	69.3	54.9	13.2	20.3	14.7
EPS	82.9	53.5	NA	17.5	14.7
Profitability & Return ratios (%)					
Operating to Total income	87.0	91.1	99.8	95.2	96.5
Cost to Income ratio	53.9	51.1	45.8	45.0	45.0
PBT margin	46.1	48.9	54.2	55.0	55.0
ROE	12.7	20.0	21.8	24.4	27.0
Dividend payout ratio	167.6	85.8	95.5	85.0	85.0

Source: Company, BOBCAPS Research

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Note: Recommendation structure changed with effect from 21 June 2021

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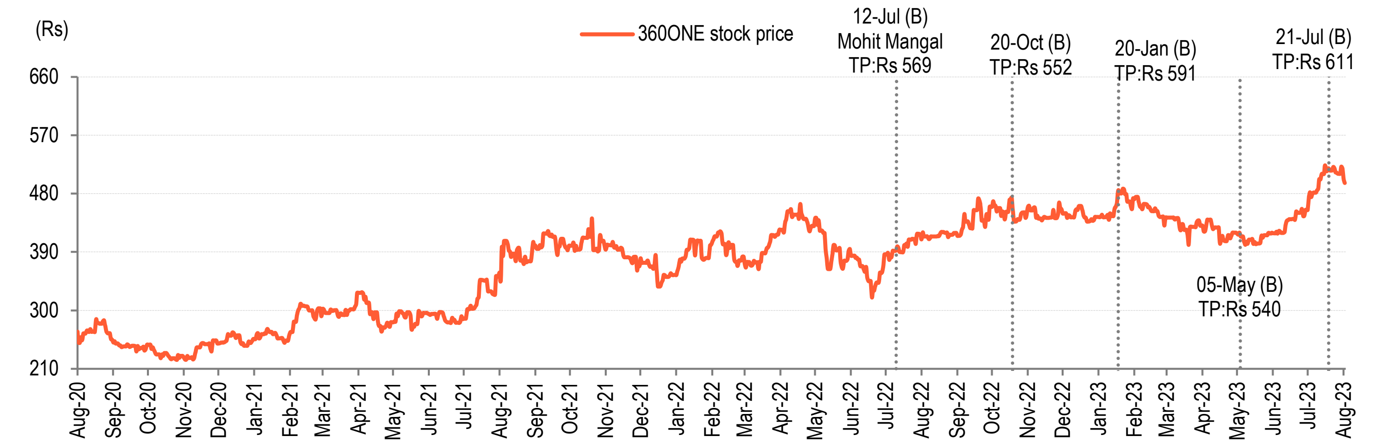
Ratings and Target Price (3-year history): 360 ONE (360ONE IN)



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