

BUY

TP: Rs 540 | ▲ 30%

360 ONE

| Diversified Financials

| 05 May 2023

Tough quarter

- **Q4 AUM/PAT 6%/10% below our expectations at Rs 2.7tn/Rs 1.6bn; ARR focus continues**
- **Net flows (ex-custody) at Rs 70bn; expect a conservative Rs 302bn for FY24**
- **FY24/FY25 PAT estimates pared by 7%/8% and AUM by 10%/12%, leading to a lower TP of Rs 540 (vs. Rs 591); retain BUY**

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Q4 below expectations: 360 One's Q4FY23 PAT of Rs 1.6bn declined 8% YoY and 14% QoQ, missing our expectations by 10%. This was due to (i) softer yields in the ARR segment, and (ii) negative other income of Rs 78mn due to MTM and forex losses. Consequently, the C/I ratio was higher at 48% (45.8% in FY23). ROAE stood at 20.5% (-250bps YoY, -300bps QoQ). In order to lower the volatility in other income, the company plans to trim its own investments in AIFs from Rs 11bn to Rs 4bn-4.5bn. AUM grew 5% YoY to Rs 2.7tn (6% below est.). The focus on ARR continues and it now forms 61% of AUM and 68% of revenue from operations.

Net flows stable: The company generated Rs 70bn of net flows (ex-custody) in Q4 (Rs 60bn in Q3). Notably, AIF net flows constituted Rs 18bn. Within the wealth segment, net flows increased 47% QoQ (-3% YoY) to Rs 51bn (Rs41bn for the ARR segment and Rs 10bn for the non-recurring segment). The company has guided for ARR net flows of Rs 400bn for FY24 with MTM gains of 6%. Of these, Rs 140bn-160bn each are expected to come from 360 One Plus & AMC business and the remaining Rs 80bn-100bn from the distribution business. We conservatively factor in overall net flows (ARR plus non-ARR) of Rs 302bn and MTM gains of only 4% for the year.

Estimates pared: Management has guided for FY24 PAT of Rs 8bn, ARR net flows of Rs 400bn and ARR AUM of Rs 2.2tn. Based on the Q4 print, we cut FY24/FY25 AUM estimates by 10%/12% to Rs 3.1tn/Rs 3.7tn and scale back PAT estimates by 7%/8% to Rs 7.5bn/Rs 8.6bn. We expect ~27% ROAE and ~7% ROAA by FY25.

Maintain BUY: 360 One has a niche position in wealth management backed by innovative products and a resilient business model. We believe it will weather the difficult macro climate as (a) flows into 360 One Plus remain strong, (b) the NBFC business earns robust margins, and (c) traction in AMC business continues. At current valuations of 18x FY25E EPS, the stock appears undervalued. Post estimate revision, we have a new TP of Rs 540 (vs. Rs 591), valuing the stock at an unchanged 23x FY25E P/E multiple – in line with the long-term average. BUY.

Key changes

| Target | Rating |
|--------|--------|
| ▼ | ◀ ▶ |

| | |
|------------------|------------------|
| Ticker/Price | 360ONE IN/Rs 414 |
| Market cap | US\$ 1.8bn |
| Free float | 78% |
| 3M ADV | US\$ 1.5mn |
| 52wk high/low | Rs 490/Rs 309 |
| Promoter/FPI/DII | 22%/23%/2% |

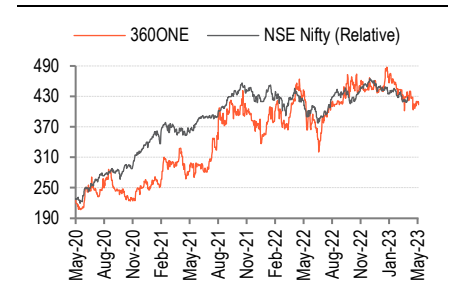
Source: NSE | Price as of 5 May 2023

Key financials

| Y/E 31 Mar (Rs mn) | FY23P | FY24E | FY25E |
|-------------------------|-------|-------|--------|
| PBT (Rs mn) | 8,503 | 9,893 | 11,265 |
| PBT growth (%) | 13.2 | 16.3 | 13.9 |
| Adj. net profit (Rs mn) | 6,679 | 7,518 | 8,562 |
| EPS (Rs) | 18.1 | 20.6 | 23.5 |
| Consensus EPS (Rs) | 18.1 | 23.2 | 27.0 |
| P/E (x) | 22.8 | 20.1 | 17.6 |
| MCap/AUM (%) | 0.0 | 0.0 | 0.0 |
| ROE (%) | 21.8 | 23.9 | 26.5 |

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance

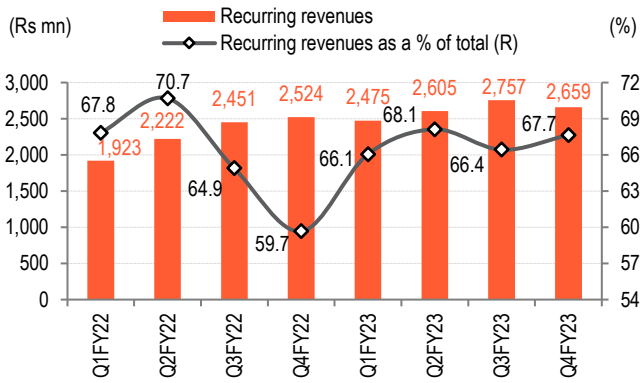


Source: NSE



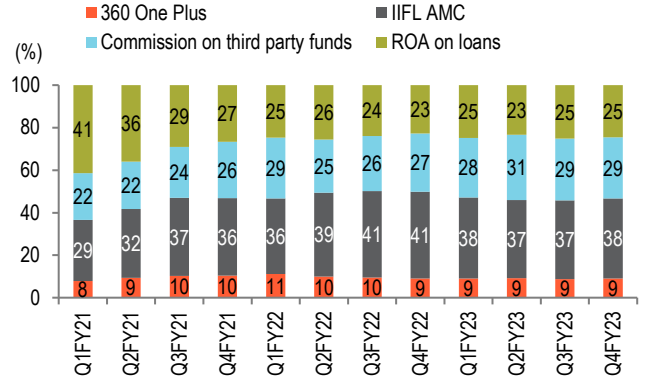
Quarterly trends

Fig 1 – Recurring revenue gaining traction...



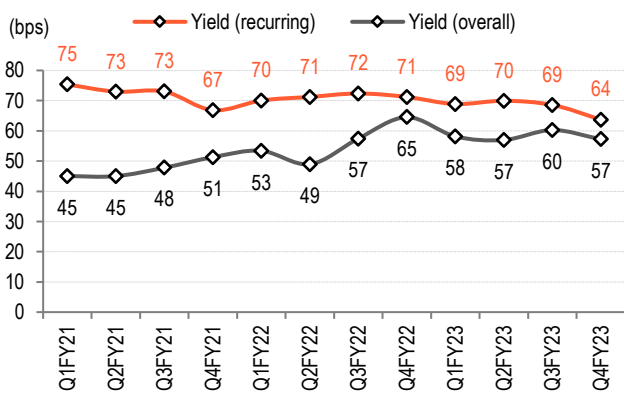
Source: Company, BOBCAPS Research

Fig 2 – ...with a focus on 360 One Plus and AMC segments



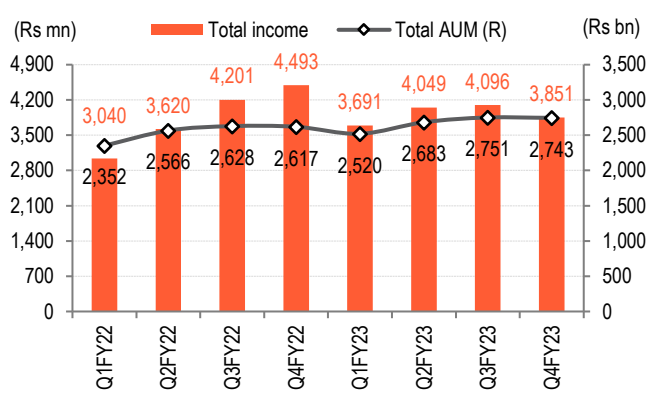
Source: Company, BOBCAPS Research

Fig 3 – ARR yield fell in Q4



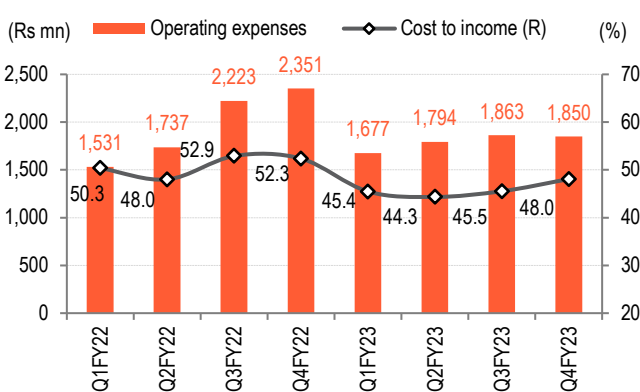
Source: Company, BOBCAPS Research Note: The above yields are calculated

Fig 4 – AUM and income below expectations



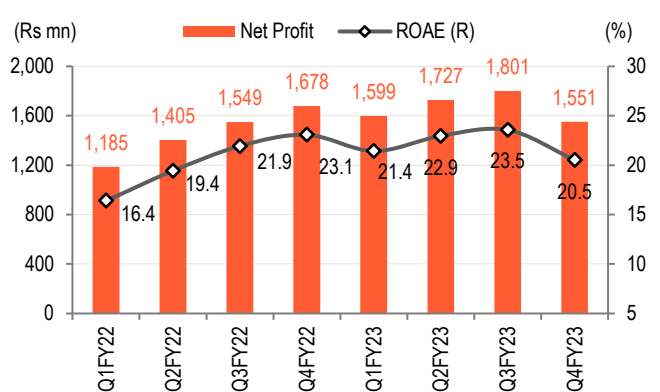
Source: Company, BOBCAPS Research

Fig 5 – C/I ratio higher this quarter



Source: Company, BOBCAPS Research

Fig 6 – Net profit fell 8% YoY; ROAE at 20.5%



Source: Company, BOBCAPS Research

Fig 7 – AUM breakup – Recurring AUM growth strong

| (Rs mn) | Q4FY23 | Q4FY22 | YoY (%) | Q3FY23 | QoQ (%) | FY23 | FY22 | YoY (%) |
|--|------------------|------------------|--------------|------------------|--------------|------------------|------------------|--------------|
| Recurring AUM | 16,71,744 | 14,44,315 | 15.7 | 16,64,940 | 0.4 | 16,71,744 | 14,44,315 | 15.7 |
| 360 One Plus (IIFL One) Assets | 4,23,066 | 3,27,242 | 29.3 | 4,05,938 | 4.2 | 4,23,066 | 3,27,242 | 29.3 |
| Funds managed by IIFL AMC | 5,82,983 | 5,55,742 | 4.9 | 5,90,527 | (1.3) | 5,82,983 | 5,55,742 | 4.9 |
| Trail commissions managed by third party funds | 6,12,026 | 5,18,151 | 18.1 | 6,23,735 | (1.9) | 6,12,026 | 5,18,151 | 18.1 |
| Loans | 53,670 | 43,180 | 24.3 | 44,740 | 20.0 | 53,670 | 43,180 | 24.3 |
| Non-Recurring AUM | 10,71,686 | 11,73,131 | (8.6) | 10,86,396 | (1.4) | 10,71,686 | 11,73,131 | (8.6) |
| Brokerage | 9,75,906 | 9,98,555 | (2.3) | 9,83,425 | (0.8) | 9,75,906 | 9,98,555 | (2.3) |
| Direct Stocks | 5,91,499 | 5,35,270 | 10.5 | 5,76,310 | 2.6 | 5,91,499 | 5,35,270 | 10.5 |
| Debt Instruments & Bonds | 2,33,802 | 2,91,976 | (19.9) | 2,59,473 | (9.9) | 2,33,802 | 2,91,976 | (19.9) |
| Mutual Funds - Direct Code / Feeders | 1,50,605 | 1,71,309 | (12.1) | 1,47,643 | 2.0 | 1,50,605 | 1,71,309 | (12.1) |
| Distribution Assets Not Earning Trail Fees | 95,780 | 1,74,576 | (45.1) | 1,02,971 | (7.0) | 95,780 | 1,74,576 | (45.1) |
| Managed Accounts where upfront fees received earlier | 95,780 | 1,74,576 | (45.1) | 1,02,971 | (7.0) | 95,780 | 1,74,576 | (45.1) |
| Total AUM | 27,43,430 | 26,17,447 | 4.8 | 27,51,336 | (0.3) | 27,43,430 | 26,17,447 | 4.8 |

Source: Company, BOBCAPS Research

Fig 8 – ARR AUM adversely impacted by FY23 MTM losses

| (Rs bn) | Opening AUM – FY22 | Net Flows | MTM | Closing AUM – FY23 |
|--|--------------------|------------|-------------|--------------------|
| Total ARR | 1,444 | 281 | (53) | 1,672 |
| Wealth ARR | 889 | 226 | (26) | 1,089 |
| 360 ONE Plus | 327 | 110 | (14) | 423 |
| Distribution Assets Earning Trail Fees | 518 | 106 | (12) | 612 |
| NBFC | 43 | 10 | - | 54 |
| AMC ARR | 556 | 54 | (27) | 583 |
| Listed Equity | 243 | 9 | (5) | 248 |
| Private Equity | 221 | 7 | (22) | 205 |
| Credit | 33 | 23 | 1 | 58 |
| Real Assets | 34 | 11 | (2) | 43 |
| Long Short | 16 | (2) | 1 | 14 |
| Customized Multi Asset | - | 10 | (0) | 10 |
| Liquid | 9 | (4) | 1 | 5 |

Source: Company, BOBCAPS Research

Fig 9 – Revenue breakup – Recurring revenue grew 5% YoY in Q4

| (Rs mn) | Q4FY23 | Q4FY22 | YoY (%) | Q3FY23 | QoQ (%) | FY23 | FY22 | YoY (%) |
|--|--------------|--------------|---------------|--------------|--------------|---------------|--------------|-------------|
| Recurring Revenues | 2,659 | 2,524 | 5.3 | 2,757 | (3.6) | 10,496 | 9,120 | 15.1 |
| Fees on PMS- Discretionary/Non- Discretionary (IIFL One) | 242 | 230 | 5.0 | 240 | 0.8 | 944 | 899 | 5.0 |
| Management Fees on funds managed by IIFL AMC | 1,000 | 1,031 | (2.9) | 1,024 | (2.3) | 3,930 | 3,588 | 9.5 |
| Trail commission on third party funds | 764 | 687 | 11.2 | 798 | (4.2) | 3,048 | 2,425 | 25.7 |
| ROA on loans | 652 | 576 | 13.3 | 695 | (6.2) | 2,574 | 2,208 | 16.6 |
| Non-recurring revenues | 1,271 | 1,704 | (25.4) | 1,393 | (8.7) | 5,154 | 4,862 | 6.0 |

Source: Company, BOBCAPS Research

Fig 10 – Yields declined

| Yields (calculated) (bps) | Q4FY23 | Q4FY22 | YoY (bps) | Q3FY23 | QoQ (bps) | FY23 | FY22 | YoY (bps) |
|--|-----------|-----------|------------|-----------|------------|-----------|-----------|------------|
| Recurring | 64 | 71 | (8) | 69 | (5) | 67 | 74 | (7) |
| Fees on PMS- Discretionary/Non- Discretionary (IIFL One) | 23 | 29 | (5) | 25 | (2) | 25 | 30 | (4) |
| Management Fees on funds managed by IIFL AMC | 68 | 74 | (6) | 71 | (3) | 69 | 77 | (8) |
| Trail commission on third party funds | 49 | 55 | (6) | 53 | (3) | 54 | 57 | (3) |
| ROA on loans | 530 | 544 | (13) | 635 | (105) | 532 | 556 | (25) |
| Non-recurring | 47 | 57 | (9) | 50 | (3) | 46 | 44 | 2 |
| Yield on AUM (Overall) | 57 | 65 | (7) | 60 | (3) | 58 | 60 | (1) |

Source: BOBCAPS Research

Earnings call highlights

FY24 guidance

- Management has guided for total revenue of Rs 18.3bn in FY24, of which annual recurring revenue (ARR) is expected at Rs 15bn, non-recurring revenue at Rs 3bn and other income at Rs 0.3bn. PAT is forecast at Rs 8bn. The cost-to-income (C/I) ratio is expected at 44% with employee costs at 33% and administration costs at 11% of total revenue.
- PAT guidance for FY24 has been trimmed from Rs 8.4bn to Rs 8bn as a measure of conservatism towards non-recurring revenue and other income. The latter is a function of capital markets and not under management's control.
- Net ARR flows are guided at Rs 400bn for FY24 vs. Rs 281bn reported in FY23
- ARR AUM is guided to grow to Rs 2.2tn from Rs 1.7tn in FY23 even after factoring in Rs 60bn-70bn of redemption. The incremental AUM is expected to come from the following:
 - Rs 200bn-250bn of flows from new and existing clients,
 - Rs 60bn-70bn of flows from the AUM that was not earning commission, and
 - Rs 100bn-150bn via faster conversion from TBR (transactional brokerage revenue) to ARR as relationship managers will now be judged based on ARR AUM.

Business wise, broadly, Rs 140bn-160bn each would come from 360 One Plus and the asset management business, and the remaining Rs 80bn-100bn from the distribution business.

- The company intends to continue with Rs 50mn-500mn category clients along with Rs 500mn+ accounts so as to maintain yields at desired levels.

Other income

- Other income was negative (-Rs 78mn) for Q4FY23 owing to (i) MTM losses and (ii) negative forex movement of Rs 8mn. For FY23, this number stood at Rs 37mn as compared to Rs 1.4bn in FY22.
- The company's net worth excluding goodwill is ~Rs 26bn, which includes ~Rs 11bn invested in its own AIF that is largely causing the volatility in other income owing to

MTM gains/losses. Management intends to pare this investment to Rs 5.5bn-6bn over the next few months and further to Rs 4bn-4.5bn which will curb the volatility in other income.

Net flows

- 360 One's net flows ex-custody stood at Rs 70bn in Q4, with wealth management constituting Rs 51bn and asset management bringing in the balance. Within the AMC segment, alternatives saw strong flows worth Rs 18bn.
- 360 One Plus clocked robust net flows of Rs 25.3bn in Q4 (Rs 109.7bn in FY23).
- The transactional business reported a net inflow of Rs 10bn in Q4; however, FY23 saw a total outflow of Rs 28.8bn, though this includes some movement into the ARR bucket.

360 One Plus

- Yields on 360 One Plus remained tepid in Q4 at 23bps (calculated), which management felt could have been higher. One of the reasons for the lower yield was a shift in funds from equity to debt by a couple of large clients in the discretionary PMS segment to take advantage of expiring tax benefits.
- Going forward, the company expects yields to move up as discretionary PMS will likely earn 45-50bps and non-discretionary PMS 35-40bps. Corporate treasuries are expected to earn low yields but isn't a major focus area.

Distribution assets

- Distribution assets saw MTM losses of Rs 18bn in Q4.
- Yield on distribution assets has remained under pressure owing to (i) customers having preferred debt over equity, and (ii) low distribution income on the private equity side on account of redemptions. A bulk of the redemptions have been ploughed back by clients but not necessarily in the high-yield private equity space.

Other updates

- NIM on the lending book remained soft in Q4 as 50% of the increase in interest rates was passed on to customers only at the fag end of the quarter. The lending book is guided at 1.5-2% of AUM.
- The company intends to expand its presence from 25 to 40 cities in India and also open offices in Dubai and Singapore. Of these, ten cities and foreign offices would be fully operational by CY23-end and the remaining five in H1CY24. Recruitment and infrastructure for this expansion is already in place, per management.
- 360 One announced a first interim dividend of Rs 4/sh for FY24. Dividend payout is proposed to continue at 70-80% of PAT.

Fig 11 – P&L – PAT below expectations

| (Rs mn) | Q4FY23 | Q4FY22 | YoY | Q3FY23 | QoQ | FY23 | FY22 | YoY |
|----------------------------------|--------------|--------------|---------------|--------------|---------------|---------------|---------------|-------------|
| P&L | | | | | | | | |
| Total income | 3,851 | 4,493 | (14.3) | 4,096 | (6.0) | 15,687 | 15,354 | 2.2 |
| Recurring Revenues | 2,659 | 2,524 | 5.3 | 2,757 | (3.6) | 10,496 | 9,120 | 15.1 |
| Transactional / Brokerage income | 1,271 | 1,704 | (25.4) | 1,393 | (8.7) | 5,154 | 4,862 | 6.0 |
| Other income | (78) | 265 | (129.4) | (54) | 44.7 | 37 | 1,372 | (97.3) |
| Costs | 1,850 | 2,351 | (21.3) | 1,863 | (0.7) | 7,184 | 7,841 | (8.4) |
| Employee Costs | 1,324 | 1,785 | (25.8) | 1,318 | 0.4 | 5,204 | 6,016 | (13.5) |
| Admin and Other expenses | 526 | 567 | (7.1) | 545 | (3.4) | 1,981 | 1,825 | 8.5 |
| Profit before Taxes (PBT) | 2,001 | 2,142 | (6.6) | 2,232 | (10.4) | 8,503 | 7,513 | 13.2 |
| Taxes | 450 | 464 | (3.0) | 431 | 4.3 | 1,824 | 1,696 | 7.6 |
| Profit after Tax (PAT) | 1,551 | 1,678 | (7.6) | 1,801 | (13.9) | 6,679 | 5,818 | 14.8 |

Source: Company, BOBCAPS Research

Fig 12 – Balance sheet

| (Rs mn) | Q4FY23 | Q4FY22 | YoY | Q3FY23 | QoQ | FY23 | FY22 | YoY |
|-------------------------------------|-----------------|-----------------|---------------|---------------|---------------|-----------------|-----------------|---------------|
| Financial assets | 99,865 | 97,133 | 2.8 | 86,029 | 16.1 | 99,865 | 97,133 | 2.8 |
| Cash and cash equivalents | 5,095 | 4,886 | 4.3 | 2,286 | 122.8 | 5,095 | 4,886 | 4.3 |
| Bank Balance | 2,161 | 5,336 | (59.5) | 2,381 | (9.3) | 2,161 | 5,336 | (59.5) |
| Derivative financial instruments | 8 | 1 | 537.1 | 0 | NA | 8 | 1 | 537.1 |
| Receivables | 4,554 | 5,132 | (11.3) | 4,386 | 3.8 | 4,554 | 5,132 | (11.3) |
| Loans | 49,101 | 39,169 | 25.4 | 43,096 | 13.9 | 49,101 | 39,169 | 25.4 |
| Investment | 36,092 | 40,724 | (11.4) | 30,996 | 16.4 | 36,092 | 40,724 | (11.4) |
| Other financial assets | 2,855 | 1,885 | 51.5 | 2,884 | (1.0) | 2,855 | 1,885 | 51.5 |
| Non- Financial assets | 12,056 | 10,262 | 17.5 | 11,797 | 2.2 | 12,056 | 10,262 | 17.5 |
| Current tax assets | 1,558 | 1,368 | 13.9 | 1,467 | 6.2 | 1,558 | 1,368 | 13.9 |
| Deferred tax assets | 14 | 2 | 660.6 | 37 | (63.5) | 14 | 2 | 660.6 |
| Property plant and equipment | 2,850 | 2,778 | 2.6 | 2,805 | 1.6 | 2,850 | 2,778 | 2.6 |
| Capital work in progress | 0 | 3 | (85.2) | 294 | (99.9) | 0 | 3 | (85.2) |
| Goodwill | 4,176 | 3,734 | 11.8 | 4,176 | - | 4,176 | 3,734 | 11.8 |
| Other Intangible assets | 1,833 | 1,499 | 22.3 | 1,413 | 29.7 | 1,833 | 1,499 | 22.3 |
| Right-of-use Assets | 330 | 149 | 121.4 | 337 | (2.1) | 330 | 149 | 121.4 |
| Other non-financial assets | 1,296 | 730 | 77.5 | 1,269 | 2.1 | 1,296 | 730 | 77.5 |
| Total Assets | 1,11,921 | 1,07,395 | 4.2 | 97,827 | 14.4 | 1,11,921 | 1,07,395 | 4.2 |
| Financial liabilities | 79,520 | 75,623 | 5.2 | 65,018 | 22.3 | 79,520 | 75,623 | 5.2 |
| Derivative financial instruments | 957 | 1,406 | (31.9) | 610 | 56.9 | 957 | 1,406 | (31.9) |
| Payables | 5,249 | 6,741 | (22.1) | 5,183 | 1.3 | 5,249 | 6,741 | (22.1) |
| Debt Securities | 64,234 | 54,533 | 17.8 | 54,796 | 17.2 | 64,234 | 54,533 | 17.8 |
| Borrowings | 2,014 | 1,001 | 101.3 | 2,010 | 0.2 | 2,014 | 1,001 | 101.3 |
| Subordinated Liabilities | 1,225 | 2,542 | (51.8) | 680 | 80.2 | 1,225 | 2,542 | (51.8) |
| Finance Lease obligation | 364 | 174 | 109.0 | 370 | (1.6) | 364 | 174 | 109.0 |
| Other financial liabilities | 5,478 | 9,227 | (40.6) | 1,371 | 299.5 | 5,478 | 9,227 | (40.6) |
| Non-Financial liabilities | 1,136 | 1,797 | (36.8) | 1,917 | (40.8) | 1,136 | 1,797 | (36.8) |
| Current Tax liabilities | 514 | 286 | 79.8 | 657 | (21.7) | 514 | 286 | 79.8 |
| Provisions | 103 | 75 | 36.5 | 104 | (1.8) | 103 | 75 | 36.5 |
| Deferred Tax liabilities | 246 | 955 | (74.2) | 657 | (62.6) | 246 | 955 | (74.2) |
| Other non-financial liabilities | 274 | 481 | (43.1) | 500 | (45.2) | 274 | 481 | (43.1) |
| Total Liabilities | 80,656 | 77,419 | 4.2 | 66,936 | 20.5 | 80,656 | 77,419 | 4.2 |
| Equity | 31,264 | 29,976 | 4.3 | 30,891 | 1.2 | 31,264 | 29,976 | 4.3 |
| Equity share capital | 356 | 177 | 100.7 | 178 | 100.1 | 356 | 177 | 100.7 |
| Other equity | 30,908 | 29,798 | 3.7 | 30,713 | 0.6 | 30,908 | 29,798 | 3.7 |
| Total Liabilities and Equity | 1,11,921 | 1,07,395 | 4.2 | 97,827 | 14.4 | 1,11,921 | 1,07,395 | 4.2 |

Source: Company, BOBCAPS Research

Fig 13 – Ratio analysis

| (%) | Q4FY23 | Q4FY22 | YoY (bps) | Q3FY23 | QoQ (bps) | FY23 | FY22 | YoY (bps) |
|--|--------|--------|-----------|--------|-----------|------|------|-----------|
| Recurring Revenues as a % of total revenue from operations | 67.7 | 59.7 | 797 | 66.4 | 122 | 66.9 | 59.4 | 751 |
| Non-Recurring Revenues as a % of total revenue from operations | 32.3 | 40.3 | (797) | 33.6 | (122) | 33.1 | 40.6 | (751) |
| Other income as a % of total revenue | (2.0) | 5.9 | NA | (1.3) | (71) | 0.2 | 8.9 | (870) |
| Recurring AUM as a % of total AUM | 60.9 | 55.2 | 576 | 60.5 | 42 | 60.9 | 55.2 | 576 |
| Non-Recurring AUM as a % of total AUM | 39.1 | 44.8 | (576) | 39.5 | (42) | 39.1 | 44.8 | (576) |
| Cost to Income Ratio (%) | 48.0 | 52.3 | (429) | 45.5 | 255 | 45.8 | 51.1 | (527) |
| ROAE | 20.5 | 23.1 | (255) | 23.5 | (304) | 21.8 | 20.0 | 184 |

Source: Company, BOBCAPS Research

Valuation methodology

360 One has maintained a niche position in the under-penetrated wealth management business, enjoys a track record of innovative products and has a strong team leader (TL)-driven model that boasts of low attrition at both, the client and TL level. Further, owing to its sturdy business model, we believe the negative macro environment is unlikely to have a major impact on profitability as (a) flows into 360 One Plus (earlier IIFL One) remain strong given that large clients favour the advisory model over distribution, (b) the NBFC business earns robust margins, and (c) traction in AMC business continues.

The stock is trading at 18x FY25E EPS and appears undervalued, in our view. Based on the Q4FY23 print, we cut our FY24/FY25 net flow (net new money) estimates by 17%/10% to Rs 302bn/Rs 394bn, AUM estimates by 10%/12% to Rs 3.1tn/Rs 3.7tn and PAT estimates by 7%/8% to Rs 7.5bn/Rs 8.6bn. Our net profit CAGR assumption stands revised to 13% over FY23-FY25 and we now expect ~27% ROAE and ~7% ROAA by FY25.

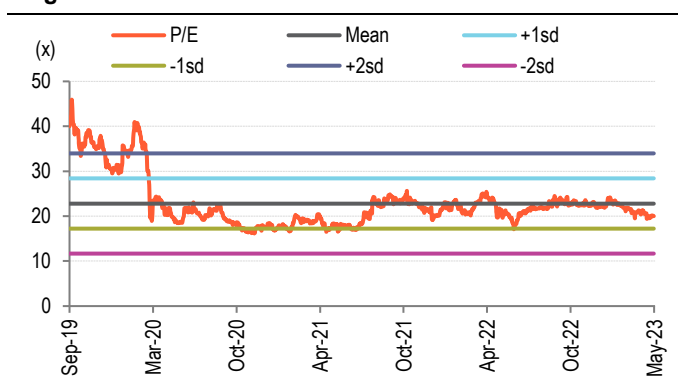
Following our estimate revisions, we have a new TP of Rs 540 (vs. Rs 591), valuing the stock at an unchanged 23x FY25E P/E – in line with the long-term average – and offering 30% upside. Maintain BUY.

Fig 14 – Revised estimates

| (Rs mn) | New | | Old | | Change (%) | |
|-----------------------|-----------|-----------|-----------|-----------|------------|----------|
| | FY24E | FY25E | FY24E | FY25E | FY24E | FY25E |
| AUM | 31,54,944 | 37,22,834 | 35,16,735 | 42,37,666 | (10.3) | (12.1) |
| Recurring AUM | 19,98,224 | 24,47,252 | 20,95,282 | 26,09,568 | (4.6) | (6.2) |
| Non-recurring AUM | 11,56,720 | 12,75,582 | 14,21,453 | 16,28,098 | (18.6) | (21.7) |
| Net flows | 3,01,777 | 3,94,368 | 3,64,807 | 4,39,592 | (17.3) | (10.3) |
| Recurring revenue | 12,365 | 14,816 | 13,187 | 16,095 | (6.2) | (7.9) |
| Non-recurring revenue | 5,000 | 5,000 | 5,000 | 5,000 | - | - |
| Revenue | 17,665 | 20,116 | 18,987 | 21,895 | (7.0) | (8.1) |
| Cost to income | 44.0 | 44.0 | 44.0 | 44.0 | 0bps | 0bps |
| PAT | 7,518 | 8,562 | 8,081 | 9,319 | (7.0) | (8.1) |
| ROAE (%) | 23.9 | 26.5 | 25.9 | 28.7 | (200bps) | (216bps) |

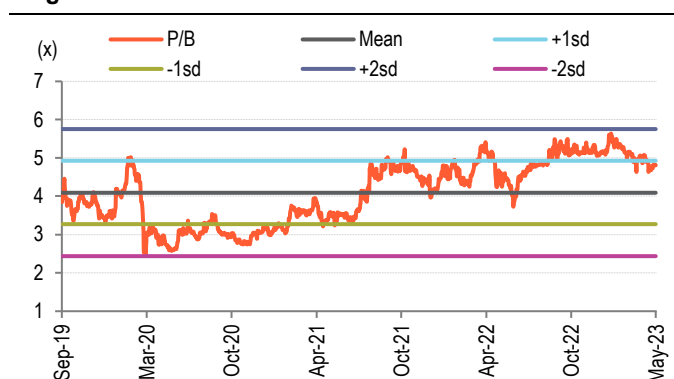
Source: BOBCAPS Research

Fig 15 – 1Y fwd P/E band



Source: Bloomberg, BOBCAPS Research

Fig 16 – 1Y fwd P/B band



Source: Bloomberg, BOBCAPS Research

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 customers or even leading to attrition among existing clients.
- **Volatile capital markets:** Volatility in capital markets persists, especially after the uncertainty due to Covid-19 and recent 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.
- **Slower-than-anticipated growth in 360 One Plus assets:** The company 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 in the form of 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 TLs, bankers and relationship managers to retain and expand the client base over the long term. Any substantial TL attrition may lead to a corresponding increase in client attrition or may even slow AUM growth.
- **Regulatory issues:** Several regulatory changes have been introduced over the last few years, altering the dynamics of the business (for example, a change in commission earned from upfront to trail). Any further changes can affect the income earned by the company.

Glossary

| Glossary | | | |
|------------|-----------------------------|------------|-------------------------------|
| AIF | Alternative Investment Fund | AUM | Assets Under Management |
| AMC | Asset Management Company | MTM | Mark to Market |
| ARR | Annual Recurring Revenue | PMS | Portfolio Management Services |

Financials

Income Statement

| Y/E 31 Mar (Rs mn) | FY21A | FY22A | FY23P | FY24E | FY25E |
|-----------------------|--------|--------|--------|--------|--------|
| Recurring revenue | 5,830 | 9,120 | 10,496 | 12,365 | 14,816 |
| Non-recurring revenue | 3,325 | 4,862 | 5,154 | 5,000 | 5,000 |
| Other income | 1,374 | 1,372 | 37 | 300 | 300 |
| Total income | 10,529 | 15,354 | 15,687 | 17,665 | 20,116 |
| Operating expenses | 5,679 | 7,841 | 7,184 | 7,773 | 8,851 |
| PBT | 4,849 | 7,513 | 8,503 | 9,893 | 11,265 |
| PBT growth (%) | 69.3 | 54.9 | 13.2 | 16.3 | 13.9 |
| Tax | 1,156 | 1,696 | 1,824 | 2,374 | 2,704 |
| Tax rate (%) | 23.8 | 22.6 | 21.5 | 24.0 | 24.0 |
| Reported PAT | 3,693 | 5,818 | 6,679 | 7,518 | 8,562 |

Balance Sheet

| Y/E 31 Mar (Rs mn) | FY21A | FY22A | FY23P | FY24E | FY25E |
|--------------------------------|---------------|-----------------|-----------------|-----------------|-----------------|
| Equity capital | 176 | 177 | 356 | 356 | 356 |
| Reserves & surplus | 28,102 | 29,798 | 30,908 | 31,292 | 32,576 |
| Net worth | 28,278 | 29,976 | 31,264 | 31,648 | 32,932 |
| Total debt | 51,036 | 58,250 | 67,837 | 74,857 | 84,609 |
| Other liab. & provisions | 36,365 | 49,145 | 44,084 | 44,328 | 46,733 |
| Total liabilities & | 87,401 | 1,07,395 | 1,11,921 | 1,19,186 | 1,31,342 |
| Cash & bank balance | 8,383 | 10,222 | 7,256 | 7,496 | 9,645 |
| Fixed & Other assets | 79,018 | 97,173 | 1,04,665 | 1,11,690 | 1,21,696 |
| Total assets | 87,401 | 1,07,395 | 1,11,921 | 1,19,186 | 1,31,342 |

Per Share

| Y/E 31 Mar (Rs) | FY21A | FY22A | FY23P | FY24E | FY25E |
|----------------------|-------|-------|-------|-------|-------|
| EPS | 41.8 | 64.1 | 18.1 | 20.6 | 23.5 |
| Dividend per share | 70.0 | 55.0 | 17.3 | 17.5 | 19.9 |
| Book value per share | 319.9 | 332.6 | 85.7 | 86.7 | 90.2 |

Valuations Ratios

| Y/E 31 Mar (x) | FY21A | FY22A | FY23P | FY24E | FY25E |
|--------------------|-------|-------|-------|-------|-------|
| P/E | 9.9 | 6.5 | 22.8 | 20.1 | 17.6 |
| P/BV | 1.3 | 1.2 | 4.8 | 4.8 | 4.6 |
| Dividend yield (%) | 16.9 | 13.3 | 4.2 | 4.2 | 4.8 |

DuPont Analysis

| Y/E 31 Mar (bps of AAAUM) | FY21A | FY22A | FY23P | FY24E | FY25E |
|---------------------------|-------|-------|-------|-------|-------|
| Operating income | 50.3 | 59.7 | 58.4 | 58.9 | 57.6 |
| Operating expenses | 31.2 | 33.5 | 26.8 | 26.4 | 25.7 |
| Other income | 7.5 | 5.9 | 0.1 | 1.0 | 0.9 |
| PBT | 26.6 | 32.1 | 31.7 | 33.5 | 32.8 |
| Tax | 6.4 | 7.2 | 6.8 | 8.1 | 7.9 |

Ratio Analysis

| Y/E 31 Mar | FY21A | FY22A | FY23P | FY24E | FY25E |
|--|-------|-------|-------|-------|-------|
| YoY growth (%) | | | | | |
| PBT | 69.3 | 54.9 | 13.2 | 16.3 | 13.9 |
| EPS | 82.9 | 53.5 | NA | 13.7 | 13.9 |
| Profitability & Return ratios (%) | | | | | |
| Operating to Total income | 87.0 | 91.1 | 99.8 | 98.3 | 98.5 |
| Cost to Income ratio | 53.9 | 51.1 | 45.8 | 44.0 | 44.0 |
| PBT margin | 46.1 | 48.9 | 54.2 | 56.0 | 56.0 |
| ROE | 12.7 | 20.0 | 21.8 | 23.9 | 26.5 |
| Dividend payout ratio | 167.6 | 85.8 | 95.5 | 85.0 | 85.0 |

Source: Company, BOBCAPS Research

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BUY – Expected return >+15%

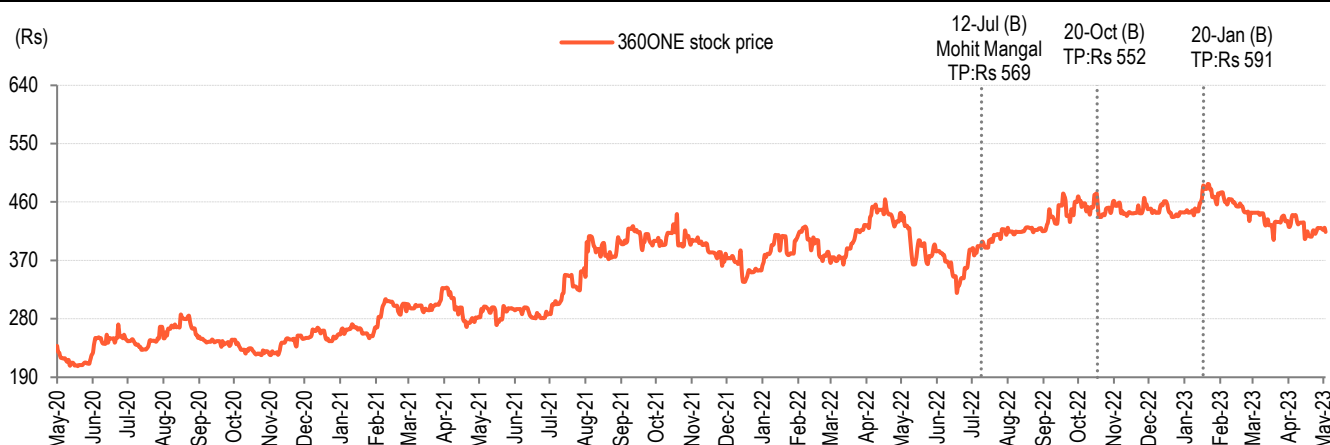
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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