Management Discussion & Analysis

INDIAN ECONOMIC AND MACRO OVERVIEW

India was one of the fastest growing major economies in the world in FY19 and will so remain in FY20 as well, as per World Bank estimates. India's Real Gross Domestic Product (GDP) grew at 6.8% in FY19.

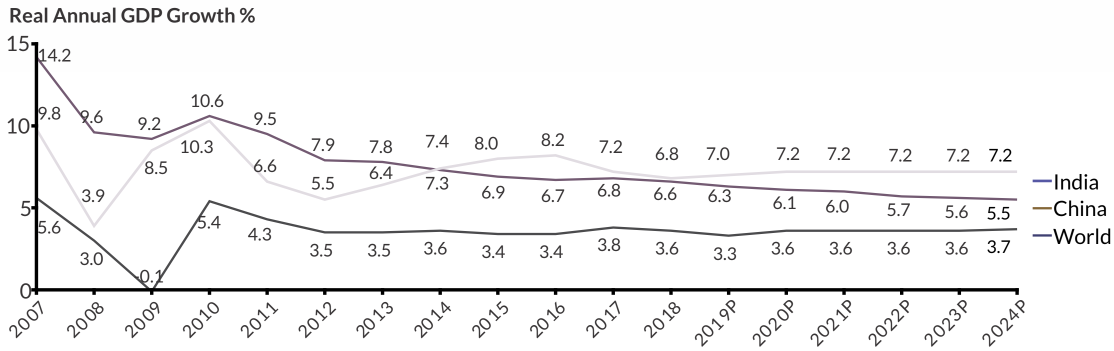
However, the calendar year 2019 is expected to be a period of slowing growth, low inflation, weakening commodity prices and steep decline in interest rates. Credit markets are clearly pointing towards a worsening macro environment and higher odds of recession. The difference between the yield on three-month Treasury bills and the benchmark 10-year bond, which has turned negative or "inverted" before almost every US recession over the past 50 years, widened to a level last seen before 2008 crisis, a clear sign of an impending slow-down.

India's economy hasn't been immune to increasing signs of slowdown, lagging indicators and the unmet expectations. Weak macros and tight liquidity conditions are taking a toll on India's corporate earnings. It's a known fact now that the economic growth has faltered in India as both the drivers of growth – consumption & investment are slowing down. We have seen weakness in consumer demand and that is visible in the weak earnings growth across segments such as auto & auto-ancillaries, FMCG, consumer durables and capital goods.

The slump in the auto sector, which accounts for nearly half of India's manufacturing output, has been a major factor behind the slide in economic growth to a five-year low earlier this year. Last and not the least, the aggravation of all sectors is borne by the banking sector, which is battling through a liquidity crisis and stifling demand amid lost confidence and crisis in the NBFC space. A demand slowdown across sectors is also because the household savings rate has been declining on the back of low income growth

The government's approach to adopt a prudent fiscal approach does deserve some credit. There were some notable positives in the budget with tax cuts for small businesses and a further injection of funds into state owned banks as well. In addition, the fact that the finance ministry has shown agility in coming up with a stimulus package by dropping the contentious surcharge on foreign portfolio investors (FPIs), doing away with the angel tax on start-ups and an immediate Rs 70,000 crore capital infusion into banks to kickstart credit flow, are all steps that will help boost the economy and perk up markets.

In addition to the above steps taken, there are some indicators that remain strong, price levels remained in line within RBI's target and headline inflation was largely at the same levels as last year.



(Fig. 1)[1]

[1] IMF GDP Projections:https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEOWORLD;
Economic Survey FY'19 GDP growth number: https://www.indiabudget.gov.in/economicsurvey/doc/vol2chapter/echap01_vol2.pdf;
RBI Projections FY 2019-20: https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=47818
IMF tempers growth projections: https://www.business-standard.com/article/international/imf-scales-down-india-s-gdp-growth-rate-by-0-3-each-for-fy20-and-fy21-119072301227_1.html

GDP growth is expected to remain around 7% in FY20and then rise further to 7.2% FY21 onwards, as per IMFestimates. In FY19, Gross Value Added (GVA) at basic current prices from manufacturing grew 12.4% year-on-year to Rs 288.56 trillion (US$ 395.89 billion).

As the IMF projections in Figure 1 depict, India's Real GDP growth clearly surpassed China's in 2018, and in expected to maintain a ~3.5% spread vs. the average Worldwide Real GDP growth through 2024.

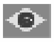
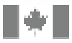
"India has created one of the most effective institutional mechanisms for cooperative federalism - the GST Council", according to the Economic Survey of India, 2017-18. "At a time when international events have been marked by a retreat into economic nativism and the attendant seizing of control, Indian states and the center have offered up a refreshing counter-narrative, voluntarily choosing to relinquish and then pool sovereignty for a larger collective cause", the survey adds[2]

Key macroeconomic risks hovering over the Indian economy include a global slowdown, increase in commodity prices, fiscal slippage and monetary over-stimulus. Rising commodity prices, especially of crude, could widen the current account deficit. That apart, geopolitical pressures in the immediate neighbourhood in South Asia, could worry global investors as the government has taken a more aggressive stance in dealing with cross-border terrorism. It is a policy that is likely to continue and will heighten tensions particularly along India's western and northern borders.

India is now the world's 7th largest economy, per the World Bank[3]. India's success will be central to the world's collective ambition of ending extreme poverty and promoting shared prosperity, as well as for achieving the 2030 Sustainable Development Goals (SDGs), says a World Bank report highlighting the fact that the country remains in a period of unprecedented opportunity, challenge and ambition in its development. Over the next few years, "India is expected to grow at well over 7 percent per year, with progress being buttressed by dynamic reforms in the macroeconomic, fiscal, tax and business environments", the World Bank added[4].

World Bank GDP Rankings 2018

(₹ in million)

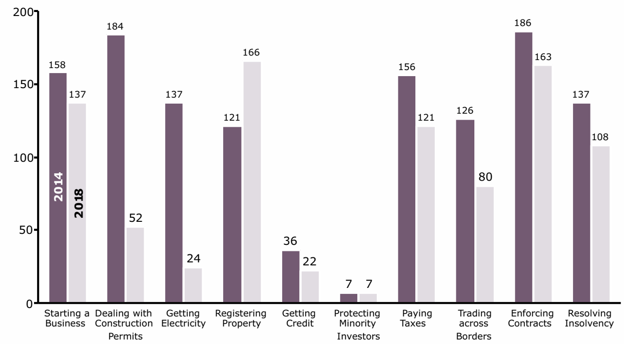
Rank	Flag	Country	GDP (US$ Trillion)	Share of World GDP
		World	**80.68**	**100.0%**
1		United States	20.49	25.4%
2		China	13.61	16.9%
3		Japan	4.97	6.2%
4		Germany	4.00	5.0%
5		United Kingdom	2.83	3.5%
6		France	2.78	3.4%
7		India	2.73	3.4%
8		Italy	2.07	2.6%
9		Brazil	1.87	2.3%
10		Canada	1.71	2.1%

(Fig. 2)[5]

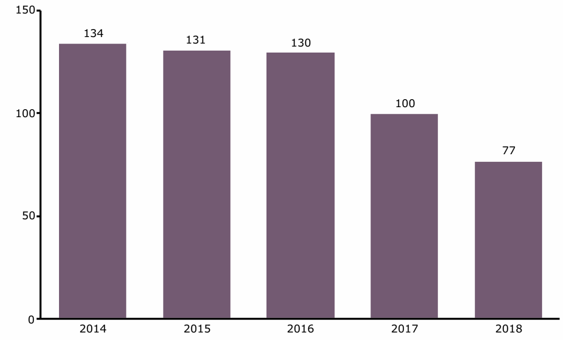
[2]Economic Survey 2017-18: http://www.indiaenvironmentportal.org.in/files/file/economic%20survey%202017-18%20-%20vol.1.pdf
[3]https://thewire.in/macro/world-bank-report-gdp-ranking-india
[4]World Bank report on India: https://www.worldbank.org/en/country/india/overview
[5]World GDP Rank: https://thewire.in/macro/world-bank-report-gdp-ranking-india

On the ease of doing business rankings that capture the performance of 190 countries, India has showed an improvement in six of the 10 parameters, jumping higher to a record 77thposition in the World Bank's latest report. In the last two years alone, India has jumped 53 spots — the sharpest by any country.

Ease of Doing Business drivers - India



Ease of Doing Business Rank - India

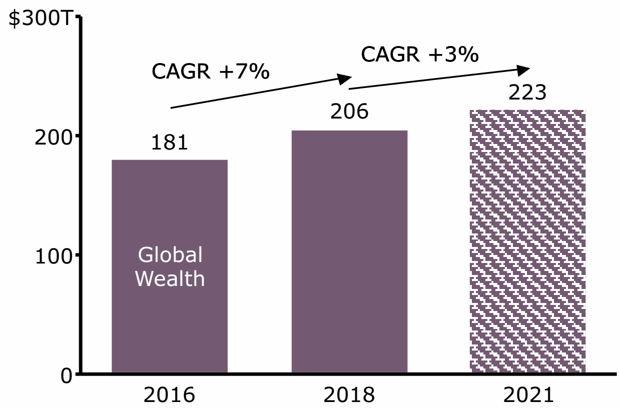


(Fig. 3)[6] (Fig. 4)[7]

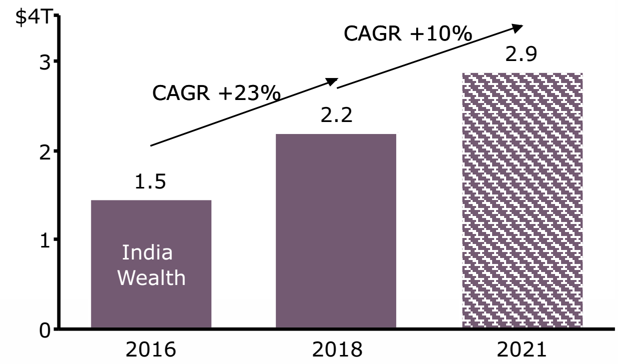
INDUSTRY OVERVIEW

The global wealth management industry, estimated at $205Tnin client assets, as of 2018, grew at ~7%per annum from 2016 through 2018, and is expected to grow at a much slower pace of 3%going forward through 2021. (Fig. 5). In contrast, the wealth management industry (Total HNI wealth)in India estimated at INR ~153 Lakh Crores in 2018 ($2.2Tn), grew at a whopping 23% CAGR from 2016 and is poised to continue growing at nearly ~3x the global pace at ~10%CAGR through 2021, to reach INR ~188 Lakh Crores ($ 2.89Tn). (Fig. 6). HNI is defined as individuals with a minimum total net-worth of INR 25 Crores.

Global Financial Wealth Assets



India Financial Wealth Assets



(Fig. 5)[8] (Fig. 6)[9]

[6] Ease of Doing Business Parameters
http://pib.nic.in/newsite/PrintRelease.aspx?relid=151967;http://www.doingbusiness.org/content/dam/doingBusiness/country/i/india/IND.pdf

[7] Ease of doing business trends: https://tradingeconomics.com/india/ease-of-doing-business

[8] BCG Global Wealth reports 2012-18, Year 2021 Figures are Projected:
2018: http://image-src.bcg.com/Images/BCG-Seizing-the-Analytics-Advantage-June-2018-R-3_tcm20-194512.pdf;
2012:https://www.researchgate.net/profile/Juan_Peramo/post/How_can_I_know_which_countries_are_included_in_Europe_in_some_Boston_Consulting_Groups_Global_Wealth_Reports/attachment/59d621426cda7b8083a1aa19/AS%3A273742821822478%401442276782648/download/BCG+-+2012.pdf;
2017: https://www.bcg.com/publications/2017/asset-wealth-management-financial-institutions-global-wealth-2017-transforming-client-experience.aspx

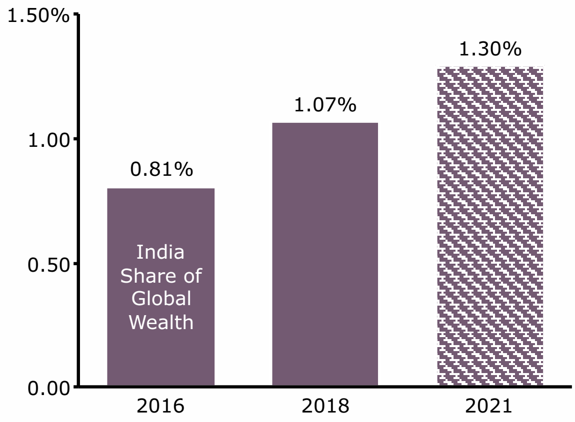
[9] IIFL Wealth Index 2018, in partnership with WealthX, Year 2021 Figures are Projected: https://www.iiflwealth.com/wealth-x-2018

Given the statistics above, India is one of the fastest growing wealth management markets in the world and is primarily driven by a rapidly expanding economyand the other factors including the rapid leaps in the 'Ease of Doing Business Rankings' (reference Fig. 3 & 4), discussed in the Economic Outlook section previously.

This rapid growth, under-pinned by strong economic fundamentals, is allowing the Indian wealth management industry to gain share versus other regions. (Fig. 7)

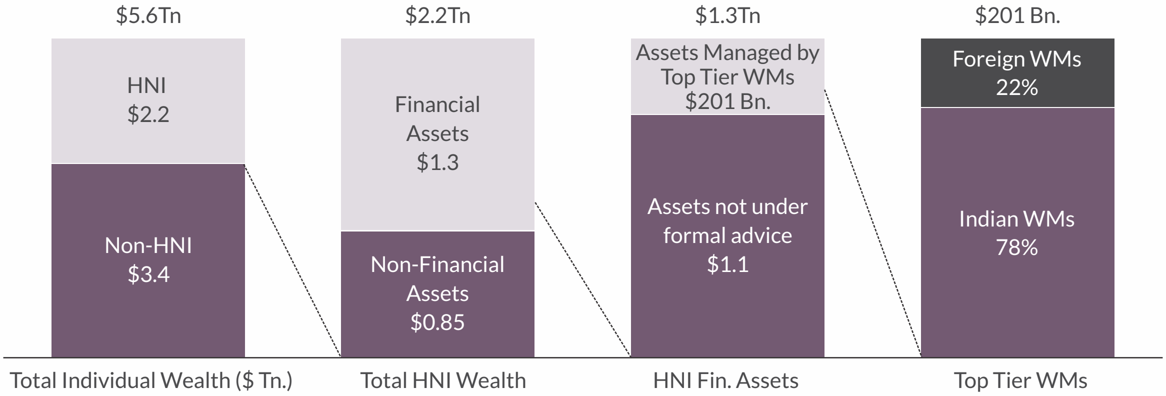
The total Indian High Net Worth Individuals' (HNI) financial assets stand at $2.2Tn, of these, only $1.3Tn (~60%) are financial (investible) assets. As explained in (Fig. 8), below, of the $1.3Tn total estimated HNI financial assets, only 15% or $201Bn is managed by the Top 25 wealth managers in India. 85% of the estimated financial assets are still either self-managed or held as promoter stock, leaving a massive scope for formal industry players to continue penetrating the market further.

India % of Global Wealth US$



(Fig. 7)[10]

ASSETS UNDER ADVICE ARE LESS THAN 10% OF THE TOTAL ESTIMATED HNI WEALTH IN 2018



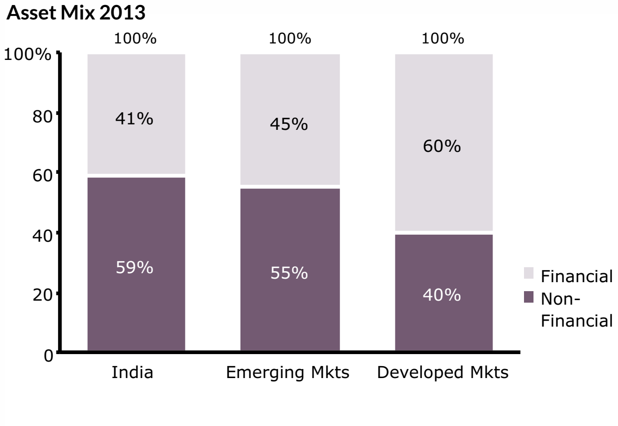
(Fig. 8)[11]

OPPORTUNITIES AND INDUSTRY GROWTH DRIVERS:

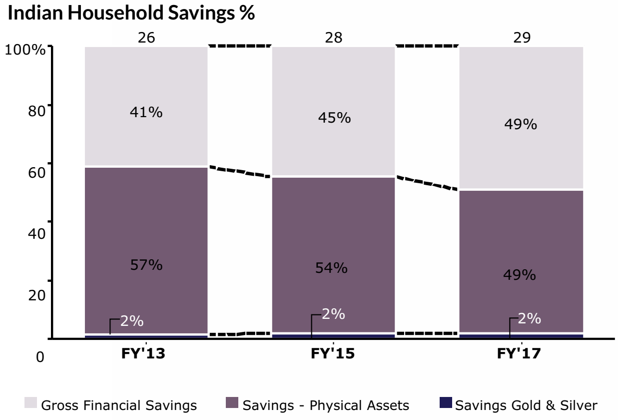
1. **Financialization of savings:** The sustained economic expansion over the last 10-years, since 2008 (reference Fig. 1),above global GDP growth averages, has created pools of wealth in India, which have traditionally been held in assets classes like gold and real estate.

   The historical over-indexation to non-financial asset classes vis-à-vis global benchmarks(Fig.9) has begun to change (Fig. 10) rapidly due to primarily two factors. Firstly, the prolonged slump in real-estate led to a move away from a sector that had traditionally been the default 'go-to' asset class, a few years ago. Secondly, post-demonetisation, with a greater share of assets already formalized and 'in the bank', more of these assets have been 'put to work' in mutual funds.

[10] IIFL Wealth Index 2018, in partnership with WealthX and BCG Global Wealth Reports 2012-18, Year 2021 Figures are Projected
[11] IIFL Wealth Analysis and Triangulations – Kotak Wealth Report, 2018; Karvy Wealth Report 2018; Asian Private Banker 2019

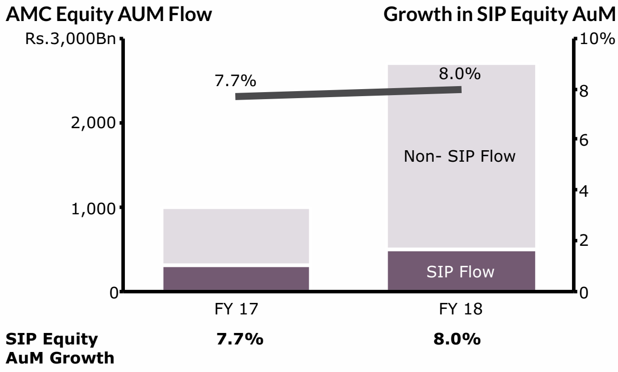


(Fig. 9)[12]

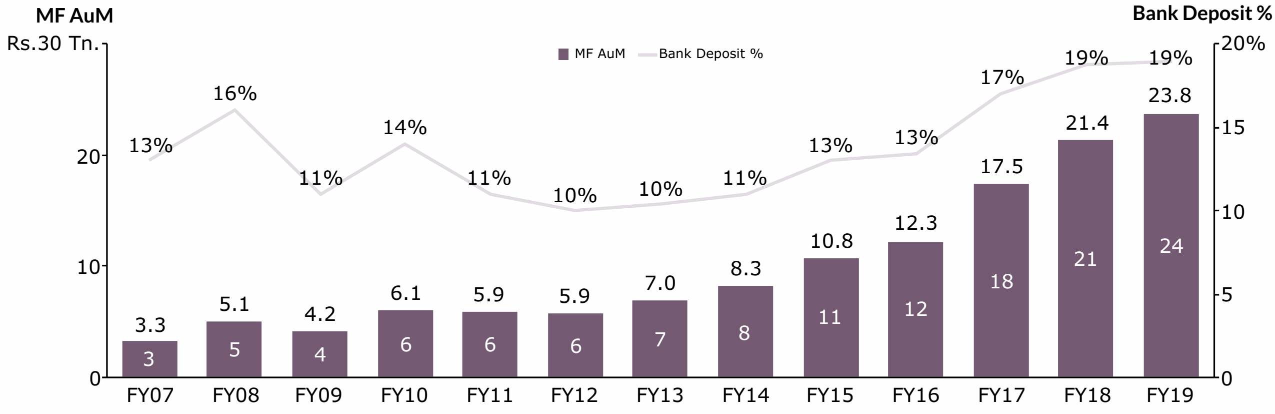


(Fig. 10)[13]

How deep the culture of financialization has seeped into India, is demonstrated by the accelerating growth of SIP (Systematic Investment Plans) as a disciplined investment product (Fig. 11), being adopted by households, and the emergence of newer instruments like AIFs.



(Fig. 11)[14]



(Fig. 12)[15]

This has driven the steep growth of MF AuM over the last two years immediately post November 2016, from INR 12.3 Lakh Crores in FY16 to INR 23.8 Lakh Crores at the close of FY19 (Fig.12).

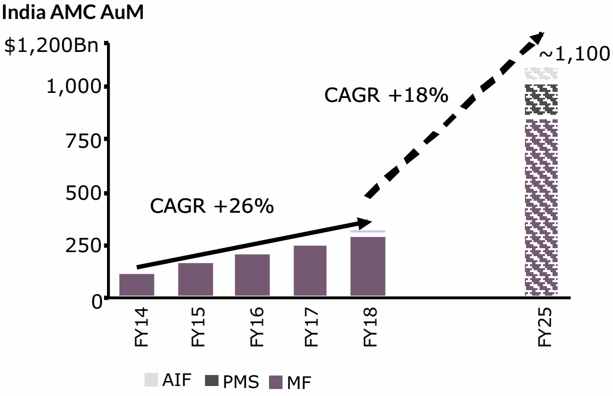
[12] Asset Mix India: IIFL Annual Report 2017-18, Page 78: Chart: Asset Mix%: https://www.iifl.com/sites/default/files/reports/IIFL%20Holdings%20AR%20%28Locked%29.pdf

[13] Ministry of Statistics, CRISIL Research, HD: https://www.equitymaster.com/5minWrapUp/charts/index.asp?date=07/26/2018&story=1&title=Is-India-Moving-Towards-Financialization-of-Household-Savings

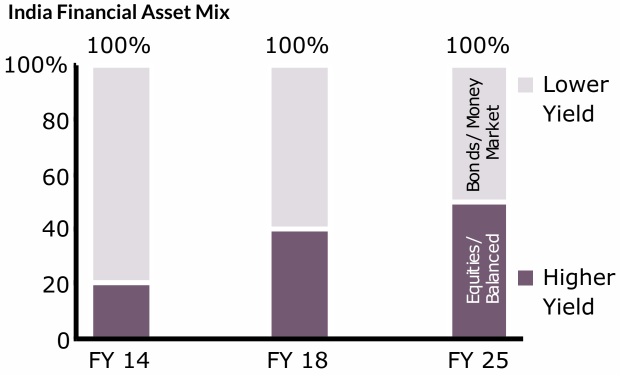
[14] AMC AuM India and SIP Equity Flow: IIFL Annual Report 2017-18, Page 78: Chart: AMC Equity AuM Flow: https://www.iifl.com/sites/default/files/reports/IIFL%20Holdings%20AR%20%28Locked%29.pdf

2. **Increasing sophistication towards investing:** Wealth managers typically grow their book of business, by offering a broader, and a more sophisticated range of products to their clients. In this regard, wealth managers typically rely on asset management companies (AMCs) to create some of these product offerings. Driven primarily by Mutual funds (MF) (Fig. 12), the AMC AuM in India has been growing at a scorching 26% CAGR over the past 5-years andis expected to continue growing at an 18% CAGR till FY25 to reach $1.1Tn in AUM, (Fig.13), topped-upadditionally by higher adoption of PMS and AIF.

   Asset managers expect the affinity towards riskier assets, like equities, to continue, (Fig.14)albeit at a slightly slower pace, given recent performance of equity markets in FY19, has slowed this trend.

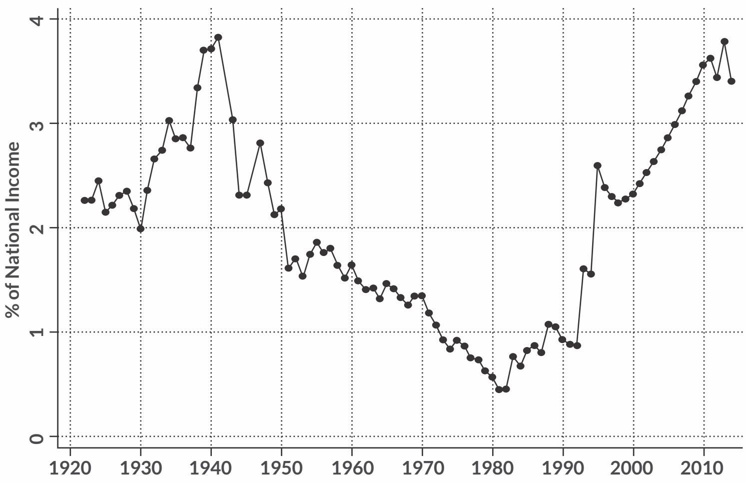


(Fig. 13)[16]



(Fig. 14)[17]

3. **Stock of wealth growing as GDP expands:** A fundamental underlying driver for growth of the wealth management industry is share of national income the wealthy generate in a nation. As the Fig. 15 shows the share of national income generated by the top 0.01% of wealthy in India, has grown from ~0.5% in 1980 to 3.4% in 2015.



(Fig. 15)[18]

[15] MF AuMhttps://www.iifl.com/sites/default/files/reports/twenty-second-annual-report-fy-16-17_0.pdf

[16] AMC AuM Growth: IIFL Annual Report 2017-18, Page 78: Chart: India AMC AuM: https://www.iifl.com/sites/default/files/reports/IIFL%20Holdings%20AR%20%28Locked%29.pdf

[17] India Financial Asset Mix: AMFI: Page 42: https://www.amfiindia.com/Themes/Theme1/images/gallery/pdf/AMFI_CRISIL_Mutual_Fund_Factbook.pdf

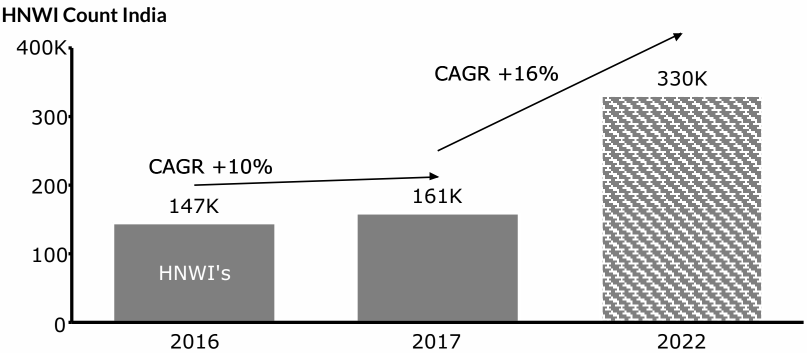
[18] Source: Lucas Chancel and Thomas Piketty, Indian income inequality, 1922-2014: From British Raj to Billionaire Raj ?http://wid.world/wp-content/uploads/2017/12/ChancelPiketty2017WIDworld.pdf

As elaborated in Fig. 15, the top 0.01% in India are those individuals characterised by an average annual pre-tax income of INR 4.7 Cr. and this segment has experienced a cumulated per adult growth rate from 1980 through 2015 of 1699% vs. the national average of 201% in the same period. (Highlighted in yellow in the table in Fig. 16).

Distribution of per-adult pre-tax national income - India 2015						
Income Group	Number of Adults (in Thousands)	Income share	Income Threshold	Average Income	Comparison to Avg. Ratio	Cumulated per Adult Growth Rate (1980-2015)
Average	749,306	100.0%		138,426	1.0	201%
Bottom 50%	397,153	14.7%	-	40,671	0.3	90%
Middle 40%	317,722	29.2%	63,728	101,084	0.7	94%
Top 10%	79,431	56.1%	195,455	776,567	5.6	435%
incl. Top 1%	7,943	21.3%	1,303,946	2,954,386	21.3	775%
incl. Top 0.10%	794	8.2%	4,459,114	11,346,371	82.0	1334%
incl. Top 0.01%	79	3.4%	18,260,916	47,154,896	340.7	1699%
incl. Top 0.001%	7.9	1.4%	77,801,552	188,558,182	1362.2	2040%

(Fig. 16)[19]

4. **Accelerating number of HNWIs:** The fact that the top 0.1%(Highlighted in green in the table in Fig. 16) has experienced 1334% cumulated per adult growth since 1980 through 2015, which is ~6.5x of the average national number at 201%, is the underlying driver for the growth in the number of HNWI families. We define HNWI – as families that have a net worth of 25 Cr. or more.



(Fig. 17)[20]

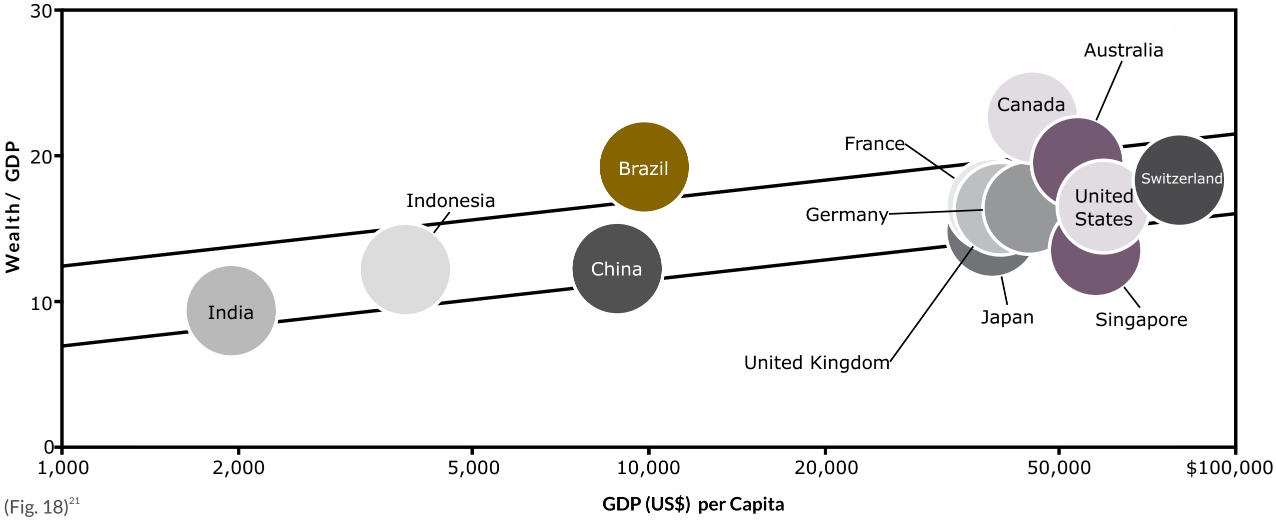
The number of HNWIs estimated at 146,600 in 2016 have grown ~10% to 160,600 in 2017, but given the economic drivers discussed previously (Fig 1), this number is expected to take a quantum leap and grow at a rapid, ~16% CAGR and is estimated to reach 330K households in 2022. (Fig. 17)

[19] Source: Lucas Chancel and Thomas Piketty, Indian income inequality, 1922-2014: From British Raj to Billionaire Raj ?

[20] IIFL Wealth Analysis: Kotak Wealth Report 2017 Top of the pyramid. https://www.kotak.com/content/dam/Kotak/about-us/media-press-releases/2018/seventh-edition-of-top-of-the-pyramid-report.pdf

5. **Long growth runway for wealth expansion in India:** As (Fig.18), depicts below, an analysis of the World Bank 2017 data on National Wealth per Capita, National GDP and Population shows that the developed economies have both higher Wealth/GDP and higher GDP per Capita.

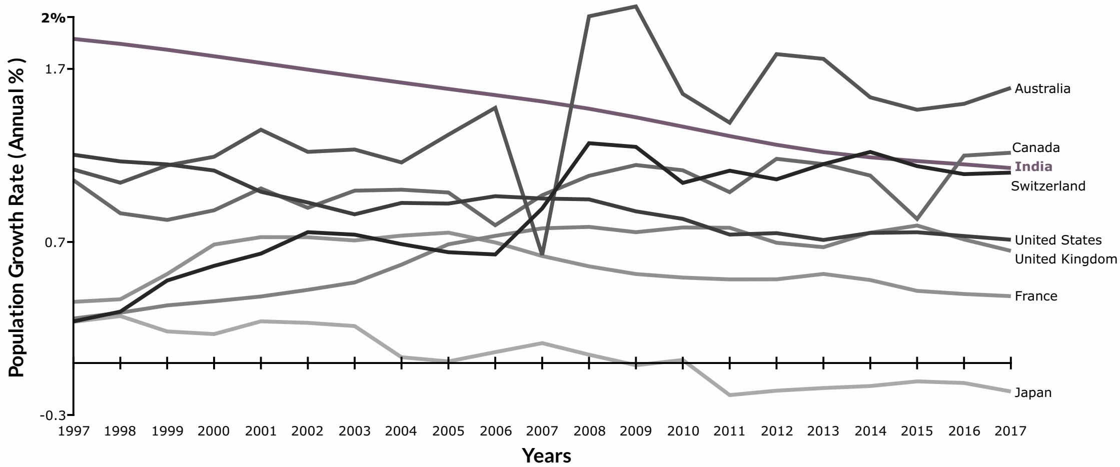
Wealth/GDP expansion typicallycoincides with GDP per Capita growth



(Fig. 18)[21]

This analysis also shows that India currently trails the pack of emerging markets both on the Wealth/GDP ratio as well as on the GDP per Capita metric.

India – declining population growth rate



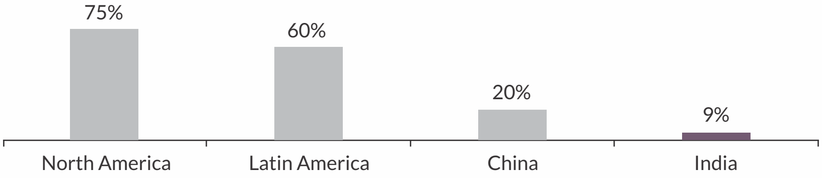
(Fig. 19)[22]

As discussed in Fig. 1 previously, as the GDP expands more rapidly than other nations over the next few years, and India's population growth rate continues to slow, as depicted in Fig. 19, India will begin climbing up into the developed economies quadrant in Fig. 18

[21] IIFL Wealth Analysis: Source World Bank Data on
a) Wealth per Capita: https://qz.com/1194051/a-new-world-bank-project-shows-that-wealth-not-gdp-is-the-best-gauge-of-a-countrys-progress/
b) GDP: https://data.worldbank.org/indicator/NY.GDP.MKTP.CD
c) Population: https://data.worldbank.org/indicator/SP.POP.TOTL

[22] IIFL Wealth Analysis: Source World Bank Data on Population Growth: https://data.worldbank.org/indicator/SP.POP.GROW

6. **Professionalization of Wealth Management in India:** Currently, as depicted in Fig. 20, professionally managed assets account for only ~9% of the financial assets in India, while that number stands at ~75% in North America. As India continues its journey towards becoming a developed economy, the wealth management industry is expected to gain a larger share of financial assets and bring those under its management.



(Fig. 20)[23]

Summary:

Underpinned by a robust economic outlook, the wealth and asset management industry is expected to continue its high growth journey driven by:

1. a trend towards financialization of savings
2. an increasing proclivity for sophisticated financial assets
3. a continued wealth stock expansion as GDP grows
4. a steady growth in the HNWI population
5. wealth expansion or Wealth/GDP growth expected as GDP per Capita continues to expand
6. professionalization of the wealth and asset management industry as the economy develops

   Given the factors stated and explained above, the wealth management industry in India is expected to continue its rapid growth over a sustained period, for the foreseeable future.

IIFL Wealth and Asset Management's Position

Wealth Management Business:

Our wealth management business mainly comprises distribution of financial products, advisory, equity and debt broking, estate planning and managing financial products essentially in the nature of advisory. The business also includes credit solutions and related investment activities which are complimentary to Wealth management activities.

The fundamental role of a wealth manager is to help clients preserve and grow their wealth. A full-service wealth management firm, like ours, not only provides investment management services enabling the client to generate optimal returns from a low- risk diversified portfolio but also allied services such as trust and estate planning, providing credit to fill liquidity gaps etc.

We serve the highly specialized and sophisticated needs of high net worth and ultra-high net worth individuals, affluent families, family offices and institutional clients through a comprehensive range of tailored wealth management solutions.

Modes of Engagement with Clients:

- Distribution of financial products across asset classes
- Discretionary & Non-discretionary multi-asset class Portfolio Management Service
- Broking Solutions for debt, equity, real estate, commodities and currency
- Advisory: Pure-play investment advisory primarily catering to corporate treasuries

Pillars of the Wealth Management business:

i. **People:** Wealth management is a people-centric business with high engagement levels. A quality team comprised of experienced professionals across verticals such as relationship management, products, operations etc is essential to ensure high levels of service to clients.

ii. **Platform:** A comprehensive platform with scale of operations, wide product & research capabilities enables us to provide cost-efficient access to best in class fund managers and jointly create innovative and often exclusive product ideas in partnership with leading AMCs.

iii. **Process:** A strong emphasis on building processes, helps us to create standardized solutions and streamlined working mechanisms

iv. **Proposition:** Our ability to engage with clients through multiple engagements such as Distribution, advisory, non-discretionary/discretionary Portfolio management basis their requirements and suitability. Across

[23] Credit Suisse Report on IIFL Holdings Limited: https://www.iifl.com/sites/default/files/Rise-of-mini-financial-conglomerates.pdf Page 15 ;McKinsey global wealth management survey; IMF,

engagement models, we strive for transparency in pricing and provide client maximum value.

What differentiates our Wealth Management services?

Over the last few years, Indian Firms have significantly gained market share (78% of AUM in 2018) as Foreign/Global Wealth Management firms have scaled back. Most existing players in India offer wealth management as a non-core extension to their core business (banking/ broking/ investment banking etc.). In turn, IIFL Wealth is a pure play wealth management firm with a deep focus on managing UHNI wealth.

This focus has enabled us to offer full-fledged services including an evolving advisory platform, building allied services like estate planning, broking and corporate advisory. Having an in-house Asset Management Company and NBFC also allows us to offer customised solutions for our clients.

Asset Management Business:

Our asset management business mainly comprises management of pooled funds under various products and structures such as mutual funds, alternative asset funds, portfolio management and related activities.

Asset management in India too has witnessed strong growth over the last few years (growth of 24% from FY'14 – FY'19). Alternative Investments in India (AIF - Real Estate & Private Equity, Debt, Equity) is estimated to be around USD 145 million and is poised to grow sharply as investors are increasingly looking to allocate to more sophisticated products.

We have a diversified suite of alternative investment funds (AIF), Portfolio Management Schemes (PMS) and mutual funds (MF) that span public and private equities, fixed income securities and real estate. Our clients include global and domestic institutions, channel partners including private banks, family offices, pension funds, and retail investors.

Our asset management business, having a differentiated position as the leading alternates player, complements the wealth business by manufacturing innovative products:

- First to develop late-stage/pre-IPO as an attractive investment asset-class
- Thematic equity strategies offered via PMS route
- Pioneer in offering structured collateralized senior secured debt issued by Real Estate developers to HNIs in India when rest of the market was focusing on project equity
- First to launch venture fund-of-fund in India with attractive co-investment options
- Early trend spotter in movement of structured whole-sale corporate credit from NBFCs to AIFs

Pillars of the Asset Management business:

i. **Attracting and retaining the right talent for each alternate strategy:** Since core of the asset-management business is alternates – Private Equity, Venture capital, Structured corporate credit, Real Estate - each requiring highly specialized deal due-diligence and deal execution skills, attracting and retaining the right talent for each alternate strategy is the key. Entrepreneurial culture promoting and rewarding innovation and ownership, financial incentives and opportunity for growth are key drivers in place.

ii. **Constant Product innovation:** Tapping niches and developing newer sub-asset-classes – biggest example of same being the Pre-IPO fund, which garnered over a billion dollars in commitment. The fund filled a large gap in the market as large segment of HNI investors wanted to invest in unlisted equity but wary of risks in early stage PE/VC investing but there was no institutional fund product offering late stage/Pre-IPO investments.

iii. Building a wide diversified investor base: HNIs, Endowments, Family offices, Pension Funds and distributor base encompassing leading Banks, brokers and IFAs

What differentiates our Asset Management business?

IIFL AMC has built a strong franchise over the last 3 years –with a strong position and market share in AIFs alongside a more nascent play in PMS & MF.

In Alternates

- Private Equity: multiple funds straddling early stage investing right up to late stage/ Pre-IPO
- Leading player in structured collateralized Real Estate Debt with strong track-record
- Emerging player in structured corporate credit –

looking to gain market-share from NBFCs and credit mutual funds

Listed Equity:

- Niche player with focus on thematic managed account strategies (discretionary PMS) and few focused equity funds.

Challenges for the Wealth & Asset Management Industry:

- Macro-economic Factors: Low economic growth can negatively impact the capital markets sector thereby affecting the WM industry. Movement in crude oil prices is one of the key determinants of the direction of financial markets and GDP expansion. It can be bundled with rising current account deficit, inflation, depreciating currency, slowdown in foreign investment flows etc. thereby posing a threat to the economy and therefore HNI's. Uncertainty in the global markets, owing to slow growth in the advanced economies, coupled with the ensuing US-China trade war and increased strain in certain emerging economies can result in volatile capital inflows and currency fluctuations. Increased restrictions on migration and global trade could hurt productivity and incomes and take an immediate toll on market sentiment, thereby affecting returns of client portfolio as well as AuM expansion.
- Technological disruptions: With rapid changes in technology and innovations, companies need to increase their attention towards innovation objectives alongside business growth objectives. With increasing performance expectations related to quality, timings and cost, technological upkeep is very important to keep in line with competitors, especially new competitors that are "born digital" and with a low-cost base for their operations. The risk of disruptive innovations enabled by new and emerging technologies is always present, particularly so in the Wealth Industry that has hitherto been a laggard in technology adoption vis-à-vis other financial services verticals like retail banking.
- Debt market: The Indian debt market is going through a tough phase post the IL&FS crisis. The yield on the 10-year government bond slid to below 7 percent for the first time since November 2017. The ongoing crisis on the debt market is likely to have a contagion effect on the performance of the equity markets with investors either pulling out of their existing investments or avoiding the market altogether. This has damped the wealth management market in particular, with firms having to be extremely cautious on asset allocation, to ensure they protect their client's capital pools.
- Regulatory Changes: There are essentially two regulators the WM industry engages with:
  - o SEBI - for all financial products and capital markets based transactions
  - o RBI - for lending solutions offered to clients, (loans against shares/ property) through NBFC's

  Both the regulators are active and progressive and have been pushing the financial services industry in a direction that is ultimately good for the end-consumer.For example -
- The SEBI order in Sept '18 moving MF commissions to trail – aligns pay-out structures and incentives for sales and brings these inline over the life of the asset, rather than being paid up-front. Incentivising the right behaviours.
- The investment-advisors regulation committee being constituted by SEBI is likely to clearly define the distinction between distribution and advisory in the coming year, further aligning behaviours for the industry, which are good for the client.

The Sept '18 order has already started putting pressure on the industry and most firms will likely report lower revenues, given that commission revenue will now be recognised, in trail form.

The impending order from SEBI on separating the advisory businesses from distribution businesses will further impact firms and will require them to separate out their advisory and distribution businesses and get the required licenses. This restructuring is also expected to lower headline numbers for the current fiscal year.

Discussion on financial performance with respect to operational performance:

IIFL Wealth and Asset Management is one of the largest and fastest growing private wealth management firms in India. Founded in 2008, IIFL Wealth has grown steadily and now manages assets more than Rs.1.67 Trillion, as on March 31, 2019. We have a wide network comprising of 999 employees operating out of 33 offices, spread across the world.

The table below is a Consolidated Statement of Profit and Loss of our group for the periods indicated.

The said table includes:

Effect of demerger of "Wealth Business Undertaking" pursuant to a scheme of arrangement amongst, inter-alia, the Company, IIFL Holdings Ltd., India Infoline Finance Ltd., India Infoline Media and Research Services Limited, IIFL Securities Ltd., and IIFL Distribution Services Ltd. for the years 2018-19 and 2017-18 (refer note no. 2.1 forming part of the Consolidated Financial Statements); and

Effect of acquisition of IIFL Wealth Advisors (India) Ltd (formerly known as Wealth Advisors (India) Pvt. Ltd.) from November 22, 2018 and IIFL Altiore Advisors Pvt. Ltd. (Formerly known as Altiore Advisors Pvt. Ltd.) from November 5, 2018.

(All figures ₹ in million)

PARTICULARS	2018 - 2019	2017 - 2018
Revenue from operations		
Interest income	6,537.90	6,590.82
Dividend & Distribution income on investments	293.83	485.73
Fees and commission income	8,081.37	8,831.73
Net gain on fair value changes	572.88	677.22
Sale of products		4.10-
Total revenue from operations	**15,490.08**	**16,585.50**
Other income	281.80	562.60
Total income	**15,771.88**	**17,148.10**
Expenses		
Finance costs	4,270.59	5,587.63
Fees and commission expenses	662.18	669.03
Impairment on financial instruments	(76.64)	126.06
Purchases of Stock-in-trade	205.62	-
Changes in Inventories of stock-in-trade	(197.51)	-
Employee benefits expenses	3,311.71	3,895.78
Depreciation, amortization and impairment	215.06	136.10
Others expenses	2,001.56	1,832.74
Total expenses	**10,392.57**	**12,247.34**
Profit before tax	**5,379.31**	**4,900.76**
Tax	**1,633.84**	**1,099.07**
Profit for the year	**3,745.47**	**3,801.69**
Other comprehensive income	98.10	6.71
Total comprehensive income for the year (Comprising profit & other comprehensive income for the year)	**3,843.57**	**3,808.40**

Total Income - for FY '19 at Rs.1,5771.88Mn. was 8% lower than Rs. 1,7148.10Mn. in FY '18. The declinein revenue was mainly on account of fees & commissions as well as marginal drop in interest income. This decline can be attributed to the investment climate and developments in financial markets in Q3/ Q4 FY'19 in the wake of the NBFC crisis and the impending elections. The HNI and ultra HNI segments that we cater to, were cautious with regards to buying new products and deploying fresh capital in investment products.

Total Expenses in FY'19 at Rs. 10,392.57Mn. declined 15.1% from Rs. 12,247.34 Mn. in FY'18, mainly on account of decline in finance cost and employee expenses.

Profit before Tax of Rs. 5379.31 Mn. in FY'19 increased by 9.8% over Rs. 4900.76 Mn. in FY'18.

Profit after Tax of Rs. 3745.47 Mn. in FY'19 was marginally lower than Rs. 3801.69 Mn. in FY'18 and Total Comprehensive Income in FY'19 was at Rs. 3843.57 Mn. compared with Rs. 3808.4 Mn. in FY'18.

Segment wise performance is as under

(All figures ₹ in million)

	For the year ended March 31, 2019		For the year ended March 31, 2018	
Segments	**Segment Revenue**	**Profit before Tax**	**Segment Revenue**	**Profit before Tax**
Wealth Management	13,988.68	4,970.85	15,552.00	4,470.54
Asset Management	1,783.20	408.46	1,596.10	430.22
Total	**15,771.88**	**5,379.31**	**17,148.10**	**4,900.76**

Discussion ofkey ratios pursuant to applicable SEBI circulars is as under:

Debt/Equity ratio declined by 41% from 3.74 on March 31, 2018 to 2.20 on March 31, 2019, primarily due to decline in aggregate outstanding borrowings as at March 31, 2019 of Rs. 64,046 Mn. vs. Rs. 69,663 Mn. as at March 31, 2018, a reduction of 8.1%. On the other hand,the total equity in the company stood at Rs. 29,104 Mn.at March 31, 2019, as compared with Rs. 18,629 Mn. at March 31, 2018, an increase of 56.2% mainly on account of retention of profits and fresh issuance of equity capital and share premium of Rs.10,475 Mn. during FY'19.

Return on Equity (ROE)as on March 31, 2018 was 22.5% and 16.7% onMarch 31, 2019. This decline in ROE in FY'19 over FY'18 was primarily driven by an increase of 35% in average net worth in FY'19 on account of capital raised during the year and retained profit, while the Profit After Tax (after comprehensive income) increased by 0.9%

Debtors turnover ratio moved from 4.26 in FY'18 to 3.08 in FY'19, due to lower income by way of fees and commissions over the course of FY'19 as mentioned above, while the average debtors increased during FY'19.

Developments in Human Resources:

Given that, as a company, we are in a growth phase of our business, we continue to add to our human resources and continue to hire talent actively. Much of our business relies on client relationships and building great investment products, these activities require high calibre finance professionals – both on the relationship side and on the investment and product side of our business.

This desire to build a great team and continue expanding our employee strength, can be seen in the net addition of 111 employees (Fig. 21), a 12.5% increase, from 888 employees in FY18.

(Fig. 21)[24]

Risks and Governance:

We believe that the following factors have significantly affected our results of operations and financial condition during the period under review and may continue to do so in the future.

Our Assets under Management: Our results of operations are materially affected by our AUM.Accordingly, our growth and success significantlydepend upon the appropriateness of investment options provided and the performance of our client portfolios and funds. Good investment performanceincreases the attractiveness of our products with clients resulting in higher inflows and a consequent increase inour revenues. Hence, events adversely impacting such investment performance (relating to stocks, bonds, commodities or real estate related investments) may adversely affect our business.

[24] IIFL Wealth & AMC HR employee masters FY '18 and FY '19

To mitigate these risks, we have a Product team that short-lists products which are offered to clients. We also have a Product Approval Committee for complex / structured products. That apart, we do a detailed Risk Appetite assessment of the client, and accordingly prepare an Investment Policy Statement (IPS) for the client. Hence, actual asset allocation can be checked against this and corrective action can accordingly be taken. That apart, our Internal Auditors specifically check that investment rationales are maintained and regularly updated. We also have Investment and Valuation Committees and a Risk Management team that monitor portfolios that are managed by us internally within the group.

General economic and financial services industry conditions in India: Our Company is engaged in the business of providing wealth management services and with a majority of our operations within the domestic Indian market, our results of operations are highly dependent on the overall economic conditions in India, including the GDP growth rate, inflation rate, change in demographic profile, wealth levels, the economic cycle, prevalent interest rate regime, securities markets performance, and the increased usage of technology based channels.

We believe that the Indian economy has grown rapidly over the past decade and is expected to continue to grow at a healthy rate, which could in turn, drive the underlying demand for investment products and services both in terms of the availability of capital for investment and the availability of such products and services.

However, if the general economic conditions in India deteriorate or are not in line with our expectations, or unforeseen events adversely affect our client investment portfolios, our financial condition and results of operations may be materially and adversely affected.

Competition and Market: We face significant competition in all aspects of our business from other established Indian and multi-nationalcompanies. Some of these firms have greater resources and/or a more widely recognised brand than us, which may give them a competitive advantage.

Mergers and acquisitions involving our competitors may create entities with even greater competitive advantages. We also face competition from several players who offer financial advisory services purely on technology platforms, in a highly cost-competitive manner ('Robo-advisors'). These competitive factors could reduce our market share and profitability.

There is also a fundamental change that is happening in the distribution of financial products, as the industry is moving gradually from a Commission based model to a fee-based model, that is having an effect on the revenues of asset allocators like our Company. The IIFLONE product platform has been launched to address this change.

We believe our wide product offering, our relationships with clients and sub-brokers, industry and product knowledge, and brand image will allow us to face such competition. We have a dedicated technology team which has both domain and technology experts, and we are leveraging technology to deliver insights and interact with clients through different platforms.

Regulatory supervision: We operate in sectors that are regulated in India, and our activities are subject to supervision and regulation by multiple statutory and regulatory authorities including SEBI and RBI and the various stock / currency / commodity exchanges.

In recent years, existing rules and regulations have been modified, new rules and regulations have been enacted and reforms have been implemented which are intended to provide tighter control and more transparency in the various regulations and policies. Such changes in government and regulatory policies affecting the financial services industry may require changes to our business operations, products and pricing, and technological processes and thus may involve additional costs and management time.

While it may be possible that certain regulatory changes would be positive for some of our business operations, it may also so happen that such changes could adversely affect our financial condition and results of operations.

We have a dedicated Compliance team to interpret regulations, provide regulatory returns and interface with Regulators. We also have Anti-Money Laundering Policies and AML Committees for our various businesses to deliberate on client on boarding.

Personnel and operating costs: We function in a highly competitive industry and accordingly, our ability to manage our expenses directly affects our business and results of operations. These expenses may be impacted by macroeconomic conditions including increases in inflation, changes in laws and regulations, increased competition and personnel expenses and other factors.

Personnel related expenses constitute a significant proportion of our total expense. However, it can be difficult and expensive to attract and retain talented and experienced employees. In addition, we also strive to ensure effective utilisation of our human resources and may need to adjust to the dynamic business environment as we increase our scope of operations, activities across the board and expand into new business products.

As we grow our business, we will require additional human resources including relationship managers, investment professionals, dealers and operational, management and technology staff. Changes affecting our expenses may impact our financial condition and results of operations.

Operations and Technology: Any complex set of Operations creates the possibility of frauds and errors. To mitigate against these risks, we have written procedures, maker-checker controls and approval of all exception requests by Risk Management. The efficacy of these controls is checked by Internal Audit.

Information technology systems are crucial to the success of our business operations and help us to improve our overall productivity. They also pose a key risk in terms of failure of systems, information security failures and the possibility of cyber-attacks.

Our Technology team has deployed multiple defences to mitigate the risk of cyber-attacks and prevent unauthorised access to, and leakage of, sensitive information. We have network security in the form of a firewall, and Intrusion Prevention Systems; we also have a strict perimeter device security policy, where we have blocked access to personal email, social networking and data sharing websites, USB and local drives and forced users to save working files on a company administered One Drive. While access to emails is accessible on mobile phones, no files / attachments can be saved on these devices. We also have a Business continuity and disaster Recovery plan, with data being stored on a cloud server, which we have tested.

Inflation risk: Of late, India has experienced relatively benign rates of inflation. Inflation affects interest rates and hence, higher inflationary expectations lead to rise in borrowing costs and slowdown in credit offtake, which may affect our profitability. Adverse changes in credit offtake and savings caused by inflation also impacts the overall economy and business environment and hence could affect us.

Development and Implementation of Risk Management: We have a separate Risk Management department that directly reports to the MD & CEO and the Audit Committee of the Boards of IIFL Wealth Management Ltd. and its subsidiaries. Risk Management relies on the internal controls built into Standard Operating Procedures, and the Risk Management, Product and Investment Policies relating to the various businesses: e.g. the Broking Risk Management Policy, the MF Risk Management Policy, the Policies for Loan Against shares, Loan Against Property and Unsecured Lending and Investment Manuals and Policies that exist for our NBFC and Asset Management Company. We also have Valuation and Provisioning Policies for our MF and AIF portfolios. There is representation from the Risk Management team on Investment, Valuation and Risk Management Committees of the various businesses.

All trading limits have been put on the respective trading systems in Stock and Commodities broking, and asset management businesses.

That apart, Risk Management conducts internal reviews (using external charted accountants) of various aspects of the business, like documentation in relation to the lending business; compliance with various regulations in AIF, checking of certain regulatory returns etc.

The Company has invested in ensuring that its internal audit and control systems are adequate and commensurate with the nature of business, regulatory prescriptions and the size of its operations.

The Internal Audit of the Company and its subsidiaries is conducted by an independent firm of charted accountants, as per the scope suggested by Risk Management and approved by the various Boards.

The scope of internal audit covers all aspects of business including regular front-end and back-end operations, HR, Finance, Customer Service, IT and checking for both regulatory and internal compliances. The Internal Auditors also check and opine on the state of Internal Financial Controls.

In addition, the Company complies with several specific audits mandated by regulatory authorities such as SEBI / Exchanges / Depositories, and the reports are periodically submitted to the regulators.

The Board/Audit Committee reviews the overall risk management framework and the adequacy of internal controls instituted by the management team. The Audit Committee reviews major instances of fraud on a quarterly basis and actions are taken on the same. It also focuses on the implementation of the necessary systems and controls to strengthen the system and prevent such recurrence.

The internal processes have been designed to ensure adequate checks and balances, regulatory compliances at every stage. Internal audit team carries out a risk-based audit of these processes to provide assurance on the adequacy and effectiveness of internal controls.

Internal Financial Controls: The Company has in place adequate internal controls with reference to financial statements and operations and the same are operating effectively. The Internal Auditors tested the design and effectiveness of the key controls and no material weaknesses were observed in their examination. Further, Statutory Auditors verified the systems and processes and confirmed that the Internal Financial Controls system over financial reporting are adequate and such controls are operating effectively

Outlook

The Indian economy appears to be going through a period of slowing down. It is expected that the government will continue its focus on faster policy implementation and encourage private sector spending to boost investments. While focusing on government spending, India needs to maintain its fiscal deficit within the target range, which it should be able to meet, given the recent RBI surplus transfer.

Continuing to focus on the revenue collection and disinvestment targets will be crucial to ensure the budgeted reduction in the fiscal-deficit-to-GDP ratio. Policy continuity on the implementation of structural and financial sector reforms with efforts to reduce public debt is important to ensure the economy's longer-term growth prospects. In the near term, continued fiscal consolidation is needed to bring down India's elevated public debt. This should be supported by strengthening Goods & Services Tax compliance and further reducing subsidies.

India's economicoutput remains vulnerable to domestic and geopolitical risks, especially economic and political changes that can affectcrude oil and other prices and hurt current and fiscal account deficits. As said above, fiscal expansion is the key to growth. However, the pressure will be on government spending if private investments lose steam.

That said, in this period of a global slowdown and ensuing trade wars between global economies, India is the only large Asian economy with a positive change in share of exports. Equity valuations seems to be pricing in the near-term concerns and offer good risk-reward over a long-term horizon. India's Bond Yield-Earnings Yield (BY-EY) gap has dropped sharply to levels last seen during demonetization (Dec' 2016) and market lows in Aug 2013. Historically, equities deliver good returns for the next two years from such levels. Market cap to GDP is ~76%, lower than long term averages (78% for the last 12 years). We believe that it is extremely difficult to time the exact bottom of the market and the current valuations are starting to get reasonable. Investors should start investing in equity in staggered manner over the next 6 - 12 months.

Our company, in the past few years, has made substantial investments in people, processes and technology and continues to focus on delivering steady performance. We are cognizant of the changes in the financial services sector and we are well prepared to overcome these challenges and sustain our performance.

For IIFL Wealth Management Limited

Karan Bhagat
Managing Director
DIN: 03247753

Date: August 21, 2019
Place: Mumbai