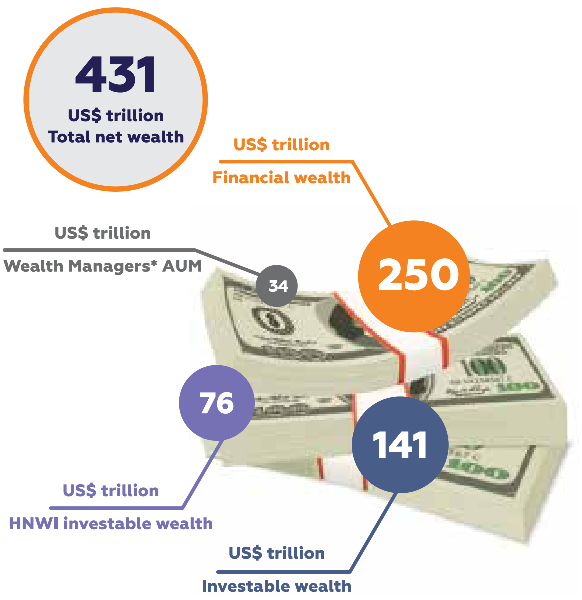
Management Discussion & Analysis

Industry structure and developments

Global Wealth Landscape

Total Global Wealth has clocked 6.7% CAGR over the last five years, from US$312 trillion in 2015 to US$431 trillion in 2020. Despite the pandemic, investor bullishness, fuelled by government stimulus and a volatile global economy, has boosted worldwide financial markets to record levels. The financial wealth of the world stood at US$250 trillion (52%) of global wealth in 2020. Real assets - led primarily by real estate ownership, stood at US$235 trillion, or 48% of total global wealth.

Lenses for looking at wealth



*Total net wealth - Financial wealth + Real assets - Liabilities

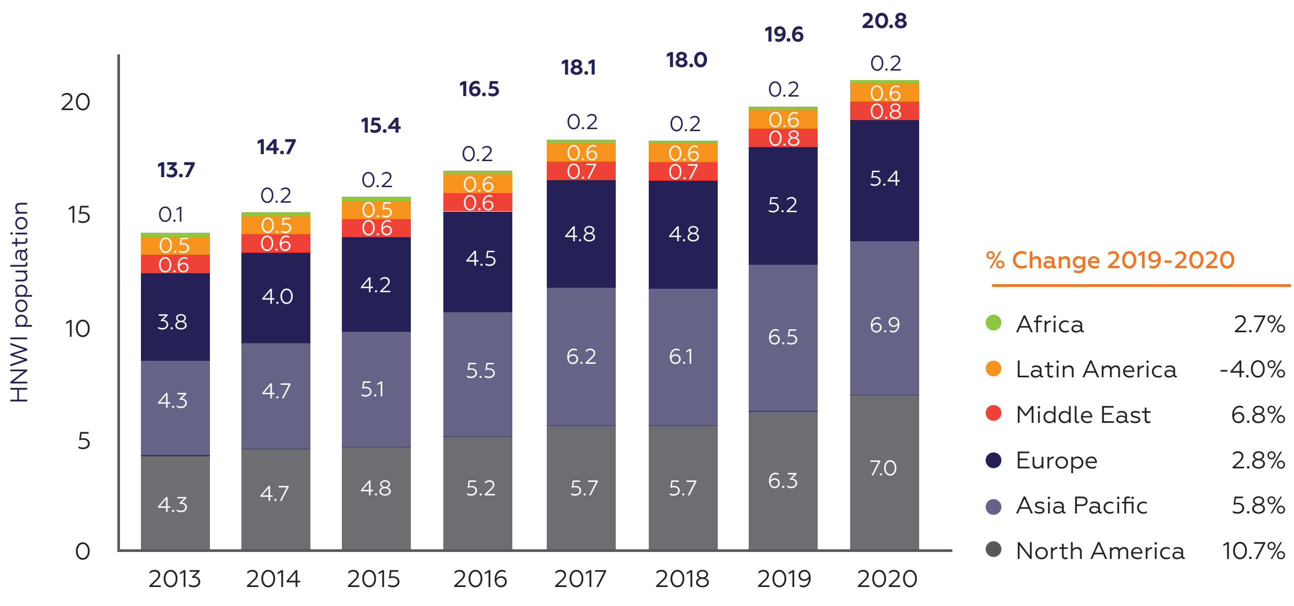
Global (trillions)		2015	2020	2025E
			+6.70%	+4.80%
		312	431	544
Financial assets consist of cash and deposits, bonds, equities, and investment fund shares; life insurance and pensions; and other small asset classes	Financial assets	183	250	315
Real assets consist of real estate (including land owned by individuals), consumer durables, and valuables (such as nonmonetary gold and other metals valued at current prices)	Real assets	170	235	296
Liabilities include credit card loans, mortagage loans, and other short-term and long-term loans	Liabilities	-41	-53	-67

Total net wealth = Financial wealth + Real assets - Liabilities
Source: BCG Global Wealth 2021 Jun 2021

Rising equity markets drove a 6.3% rise in the global high-net-worth-individual (HNWI) population and a 7.6% jump in global HNWI wealth in 2020. After five years of Asian leadership, North America again overtook Asia-Pacific to lead the total HNWI population and wealth, with 10.7% and 11.9% growth in 2020. The US equity market benefited from US$2 trillion government stimulus package and the Federal Reserve's announcement of unlimited quantitative easing. Robust performance from major Asia-Pacific markets helped the region expand 8.4% and perform better than the 7.6% global HNWI wealth growth rate. Europe's HNWI wealth growth was 4.5% and HNWI population growth was 2.8%.

Figure 1. Number of HNWIs by region (millions), 2013-2020

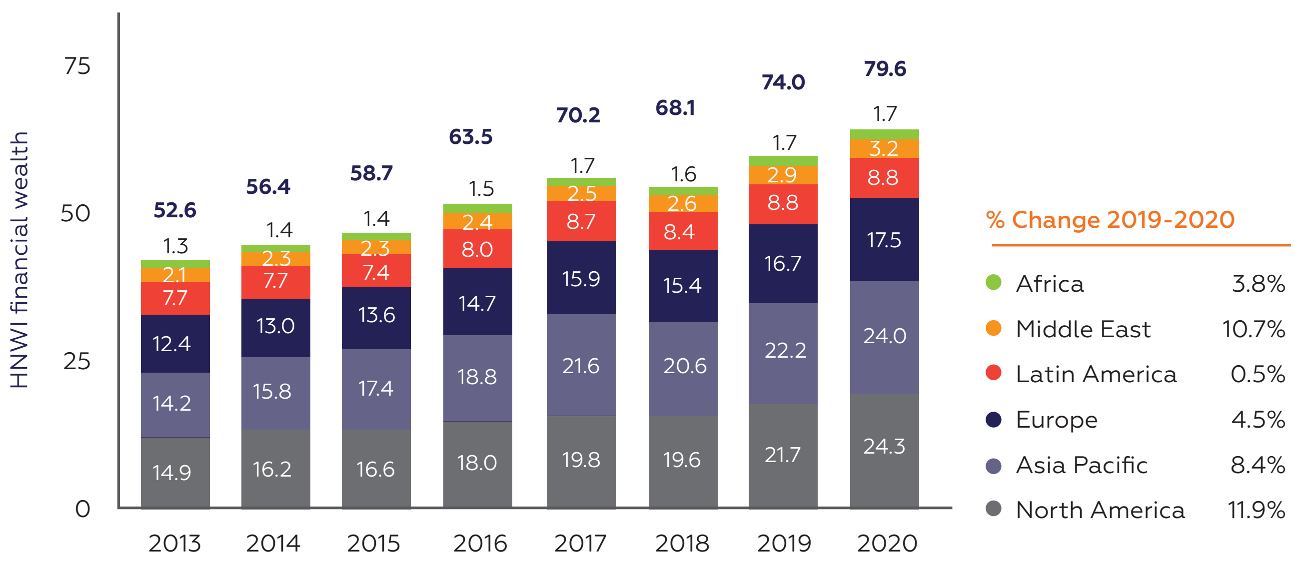
CAGR 2013-2019: 6.1% Annual growth 2019-2020: 6.3%



Note: Chart numbers and quoted percentages may not add up due to rounding
Source: Capgemini Financial Services Analysis 2021

Figure 2. HNWI financial wealth by region (USD trillions), 2013-2020

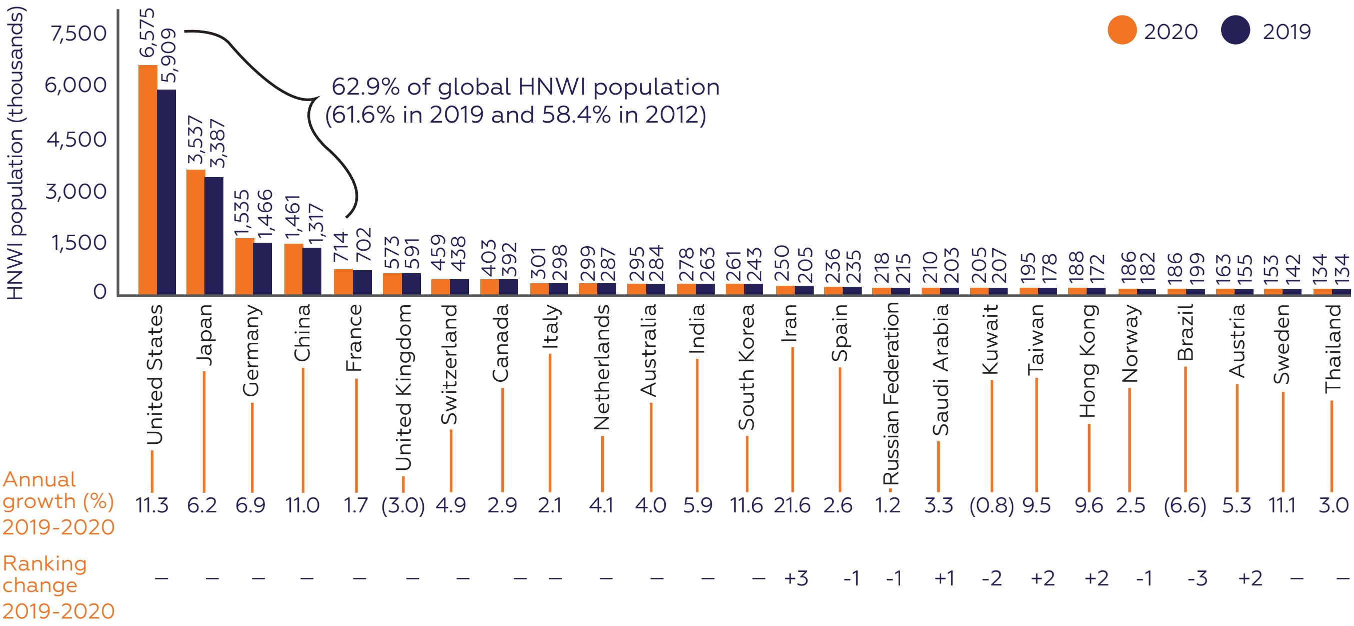
CAGR 2013-2019: 5.8% Annual growth 2019-2020: 7.6%



Note: Chart numbers and quoted percentages may not add up due to rounding
Source: Capgemini Financial Services Analysis 2021

With a 5.9% HNWI population increase, India performed marginally better than Asia-Pacific's average population growth.

Figure 3. Top 25 markets by HNWI population, 2019-2020



Source: Capgemini Financial Services Analysis 2021

The ultra-HNWI segment led overall HNWI population and wealth growth during a positive year for financial markets with overall HNWI population growing 9.6% and wealth growing 9.1%, respectively.

Figure 4. Global number of individuals per wealth band (2020) and growth (2019-2020)

	Number of individuals 2020	Share of HNWI wealth 2020	HNWI population Growth 2019-2020[a]	HNWI wealth Growth 2019-2020[a]
Ultra-HNWI US$30 mn	200.9 k (1% of total)	34%	9.6% (0.5PP)	9.1% (0.9PP)
Mid-Tier Millionaires US$5mn - US$30 mn	1,894 k (9.1% of total)	22.7%	7.8% (1.1PP)	7.9% (0.9PP)
Millionaires Next Door US$1mn- US$5 mn[b]	18,742.3 k (89.9% of total)	43.3%	6.1% (2.7PP)	6.3% (2.5PP)

a. PP in parentheses denotes the changes in 2019-2020 over 2018-2019.

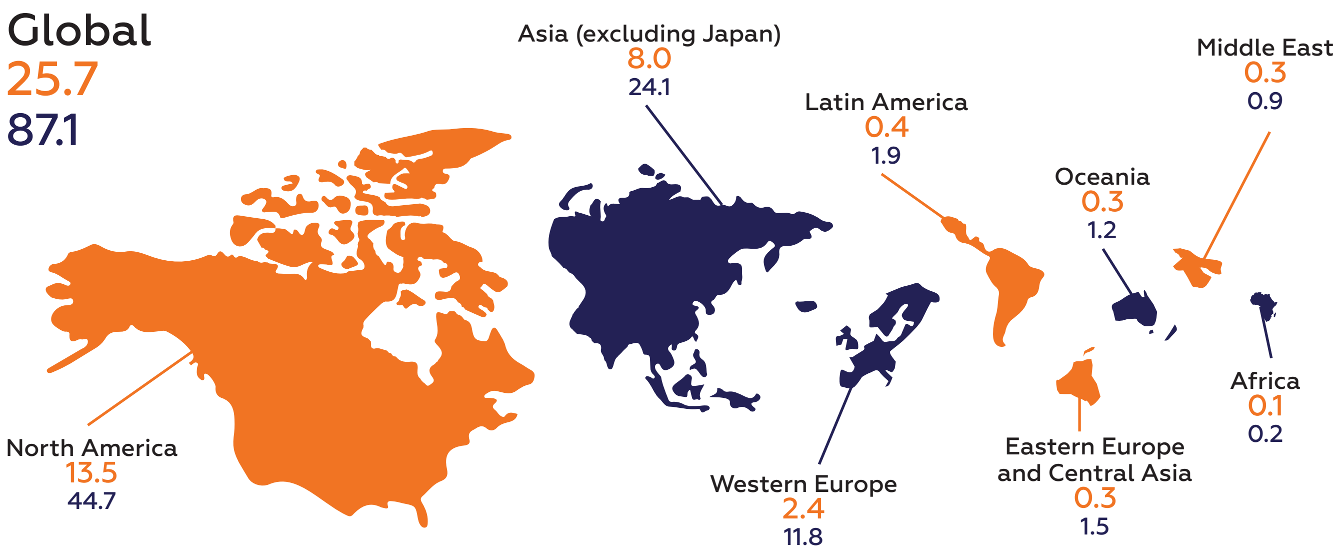
b. The wealth bands are based on HNWIs' investable assets, excluding primary residence, collectibles, consumables, and consumer durables.

Note: Chart numbers and quoted percentages may not add up due to rounding
Source: Capgemini Financial Services Analysis 2021

As per global reports, North America and Asia (ex-Japan) are anticipated to lead the financial wealth generation in absolute terms over the next five years. These, followed by Western Europe, are expected to account for more than 85% of the new financial wealth growth – until 2025.

If we review the same data with a revenue lens, North America dominates the share of worldwide wealth management revenues (US$235 bn) - having generated US$150 bn in revenues in 2020, which is 64% of the global total. This is followed by Western Europe in second place (US$ 43 bn in revenues, 18%), and Asia comes in a distant third, at US$28 bn (12%) due to the fact that today Asia still remains relatively under-penetrated in terms of wealth management. Forecasts suggest that wealth management assets under management (AUM) in Asia are expected to clock a CAGR of 11.6% till 2025, outpacing the growth in investable wealth of high net worth individuals (HNWIs), which will be approximately 10.4%.

Absolute HNWI Investable Assets and Revenue Growth, 2020–2025



Absolute Δ in HNWI investable wealth 2020-2025 (US$ trillion)
Absolute Δ in WM revenues 2020-2025 (US$trillion)

Source: Global Wealth Report 2021; BCG global wealth market sizing benchmarking database.
Note: Wealth in local currency was converted to US dollars at the 2020 year-end and exchange rate across all time periods.

Source: BCG Global Wealth 2021

Wealth Management Landscape - India
020 was a momentous year, with Covid-19 upending some forecasts and trends whilst reinforcing and accelerating others. The economic impact of the coronavirus pandemic in India has been significant, causing GDP contraction of more than 10% and leading to the highest-ever annual fiscal deficit at 9.5% for fiscal year 2021. However, things have turned a corner in 2021, with unprecedented stock market gains on the back of sooner-than-expected business recovery, strong foreign institutional investor (FII) inflows, and Covid-19 vaccine approval and administration. The latest forecasts by the IMF expect strong rebound in 2021, with growth returning to the long-term trend of 7%–8% from 2022 to 2025.

A quick U-shaped recovery driven by a sector led growth has led to the sharp recovery of key indices. Covid-19 played a pivotal role in accelerating multiple trends, including the increase of online touchpoints, emergence of direct-to-consumer (D2C) players, adoption of remote working, and focus on healthier living. Additionally, government initiatives to bolster the economy and strengthen the investment ecosystem in India, augurs well for the economy. With a large set Private Equity (PE) deal pipeline, an accelerating interest building in the Unlisted Equities space and the plethora of IPOs lined up, India seems at present, a lucrative investment opportunity, garnering significant interest from FIIs and Domestic Institutional Investors (DIIs) alike. India continues to have an incredible growth story.

The Indian wealth landscape is now at the cusp of transformation. To assess the wealth potential of our nation is to understand the opportunities accessible to our diverse people.

A Large And Growing Consumer Economy Is Unfolding

Favourable Demographics

450 mn	Working popualtion
850 mn	Population aged <34 yrs
78%	Literacy rate

Rising Affluence

$2,000	Per capita Income
60mn	Middle-class households growing to 95mn in 2025
3.5x	Growth in Domestic Consumption over last decade

Well-connected

550 mn	Active internet users
$0.20 per GB	**Data rate** is among the cheapest in the world
16 GB / month	**Data consumption** per user compared to 2 GB/month in Sep 17

Population Digital Print

1,250 mn	UIDAI enrolments
725mn	Broadband Subscriber (5x growth in 5 years)
>2Bn	Monthly UPI transactions as of Nov 2020

The thriving startup ecosystem, coupled with the large deals and monetization events, make India an exciting place to be in. The opportunities for wealth creation remain unparalleled and the valuations continue to be lucrative on account of buoyant equity markets. In 2020, a whopping 12 Indian startups achieved Unicorn status, which is the second highest in the world.

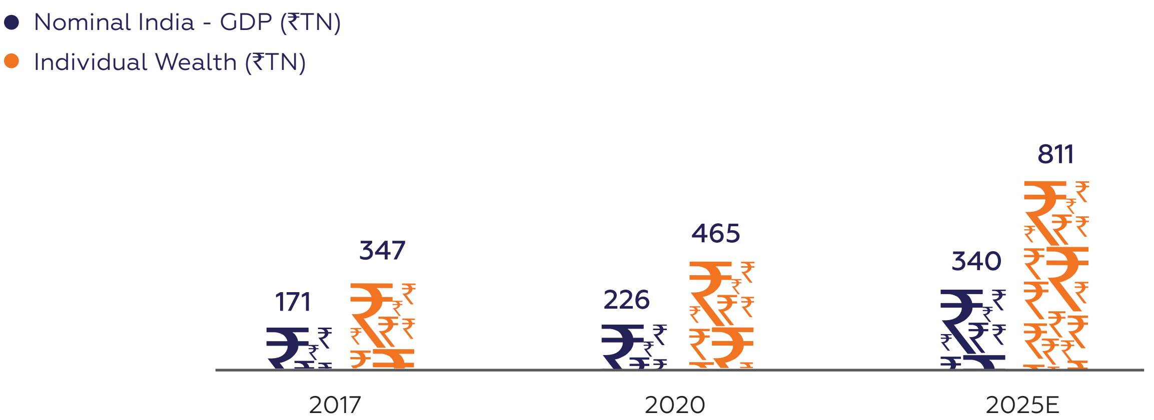
The Unicorn Story - India Has The 2nd Highest Number Of Unicorns In 2020

	China	USA	India	UK	Germany	S Korea
Total # of Unicorns	227	243	**38**	24	12	11
Avg. Time to Unicorn (Yrs)	5-7	6-8	**7-8**	7-9	6-8	9-11
No. of Unicorns added in 2020	8	66	**12**	2	1	1

Source: Media reports

Growth in individual wealth in India has a higher elasticity as compared to GDP growth. Recent studies have laid emphasis to the fact that individual wealth tends to grow at a much rapid pace as compared to the nominal GDP. As reported by Karvy, total individual wealth in India currently is at ₹465 trillion, which is expected to rise by ~75% to ₹811 trillion by 2025. Within the same time frame, nominal GDP numbers are expected to grow by 50% to ₹340 trillion.

This is on the backdrop of accelerated growth, fueled by the fast-paced normalization in economic activity, rise in savings and low leverage of households, continued monetary and fiscal support along with return of consumer confidence, thereby propelling a strong growth rebound in 2021 and beyond.

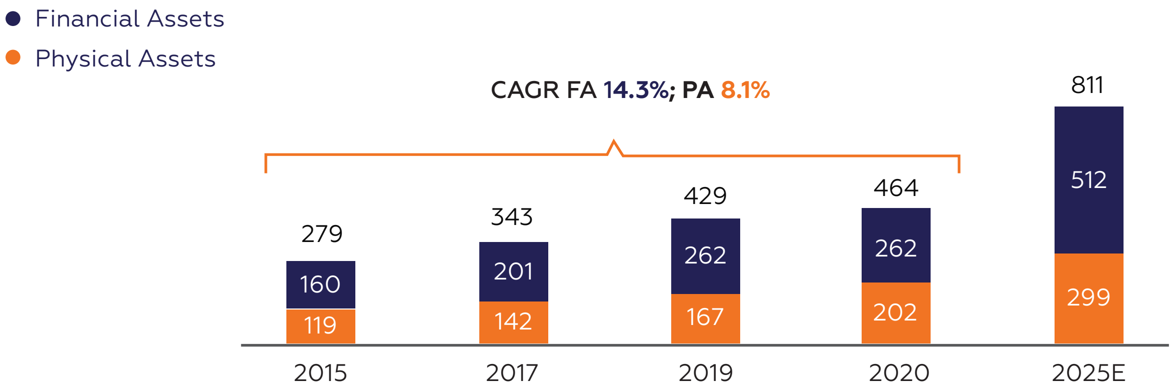


Source: Karvy Wealth Reports 2019, 2020

The Big Shift – Financial Assets Set To Grow At A Rapid Pace

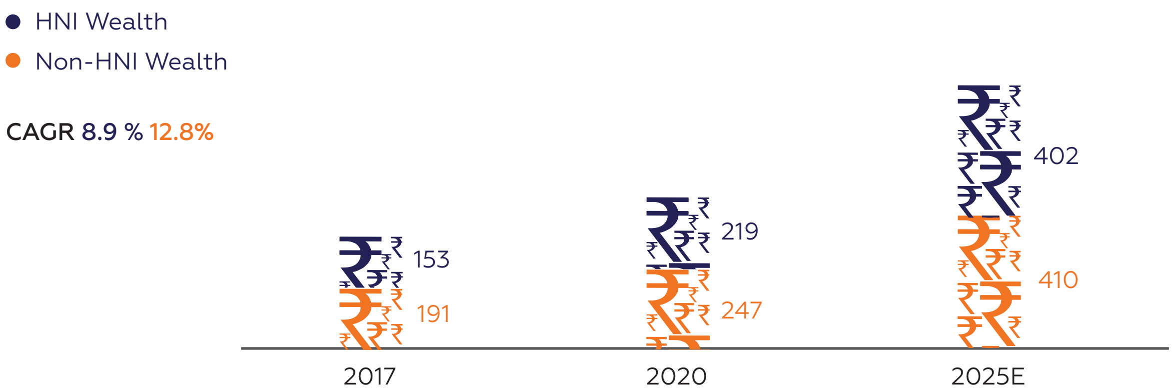
Financial assets have shown a continuous trend of having a greater share in the savings of Indian households. In the current growing trajectory, except for 2020, which was an anomaly, we see strong financialization of assets, and expect financial assets to increase from the mid 50% range to an estimated 63% in FY25.

In 2015, financial assets were at ₹160 trillion or 57% of the total Individual wealth in India. Over the last five years, the number has sharply moved at a CAGR of 14.3% to ₹300 trillion in 2020 or 60% of total wealth. We expect this to increase to more than ₹500 trillion in 2025, at a CAGR of 11.5%, with financial assets comprising more than 63% of the total wealth.



Source: Karvy Wealth Reports 2019, 2020

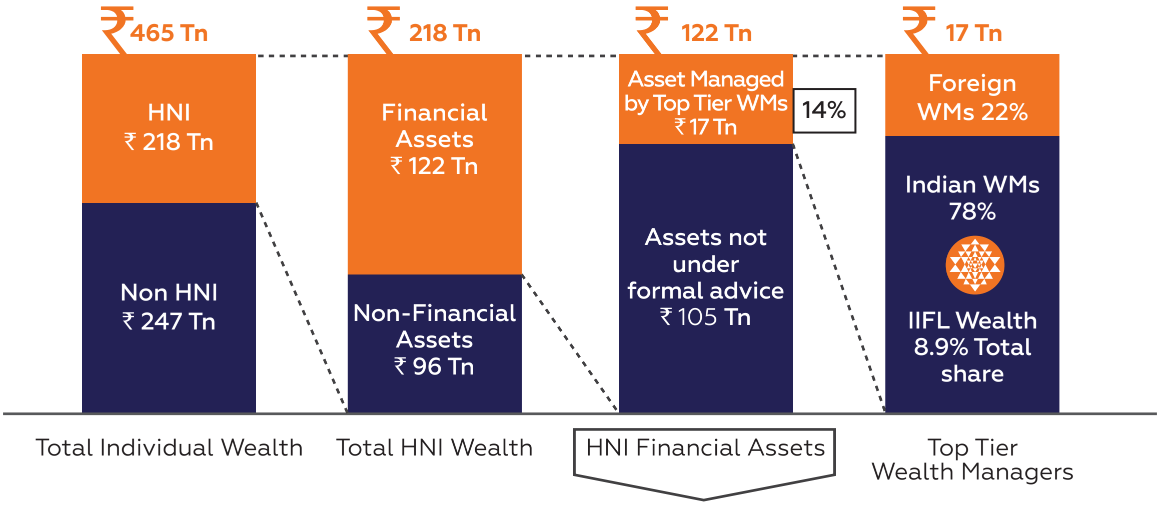
Of the Total Individual Wealth of ₹465 Trillion, HNI Wealth is ₹219 Trillion, and has clocked at a CAGR of ~13% from 2017 to 2020, as against Non-HNI wealth which has clocked at a CAGR of ~9% over the same period. Going forward, we expect HNI Wealth to continue growing at a faster pace, at 13% CAGR, as compared to Non-HNI Wealth, which is expected to grow at 10% CAGR.



Source: Credit Suisse Data book, Karvy 2017-2020, Extrapolation

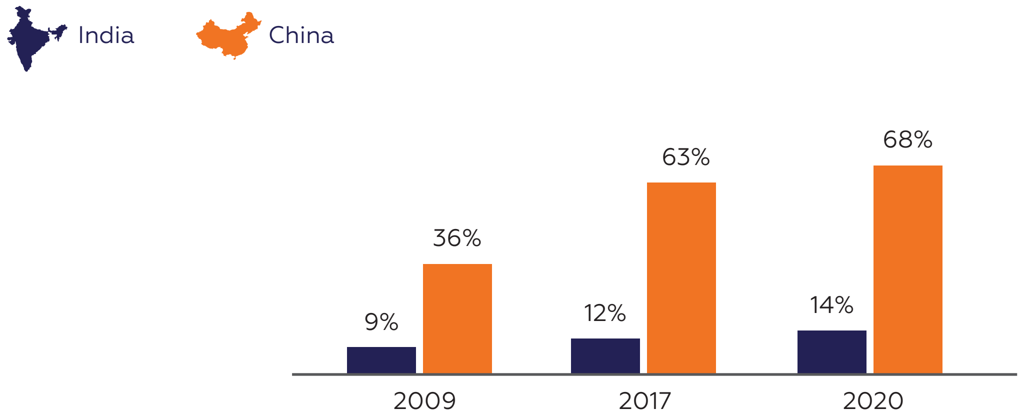
HNI Wealth continues to be under-penetrated by the established wealth managers. Only 14% (or ₹17 trillion) of the ₹218 trillion of estimated HNI financial assets are managed by the top 25 wealth managers in India. Majority of the estimated financial assets are still either self-managed or held as promoter stock. With foreign wealth managers significantly reducing their presence, Indian wealth managers have gained significant share. IIFL Wealth has a 9% market share of assets under formal advice and management.

Assets under advice are less than 10% of the total estimated HNI wealth in 2020-21



Source: Karvy Wealth Report 2019-20, Credit Suisse World Wealth Report, Asian Private Banker India League Tables and IIFLW estimates and triangulations

Wealth under professional management set to increase



Source: Credit Suisse Global Wealth Reports – 2020

In comparison, in China, almost 68% of HNI Wealth is under formal advice and management, as against only 14% in India. Over the next five years, we expect this number to show a substantial increase as more assets come under formal advice and penetration of wealth management services improve across the country.

New wealth creation and expansion of Tier 2, Tier 3 cities

Monetization of businesses by new age entrepreneurs has resulted in tremendous wealth creation, specifically in Tier 2 and Tier 3 cities. Many of these cities are not covered by the large wealth managers. IIFL Wealth has majority of its clients and assets in the Top 10 cities and therefore the opportunity to garner new assets in Tier 2 and Tier 3 cities is immense.

HNI FINANCIAL ASSETS BY CITIES – 2020

	TOP 4	Next 6 Cities	Next 11-20 Cities	Others	Total
Total HNI Count	1,54,275	56,100	30,855	39,270	2,80,500
HNI Financial Assets (₹ trillion)	67	25	13	17	122
IIFLW AUM as % of HNI Financial Assets	1.12%	0.38%	0.04%	0.03%	1.57%
IIFLW Relevant Client Count as % of Total HNI Count	1.31%	0.48%	0.26%	0.33%	2.39%
IIFLW AUM % Split by City	71.20%	24.43%	2.39%	1.98%	100%

Source: IIFL Wealth Analysis and Triangulations – Kotak Wealth Report, 2017-18; Karvy Wealth Report 2020; Asian Private Banker 2019. Cities - Top 4: Mumbai, Delhi, Chennai, Kolkata. Next 6 Cities: Bengaluru, Ahmedabad, Pune, Hyderabad, Nagpur, Ludhiana. Next 11-20 Cities: Chandigarh, Surat, Jaipur, Lucknow, Kanpur, Jamshedpur, Amritsar, Raipur, Indore, Aurangabad

Another barometer to judge the speed of wealth creation in India is the growth of mutual funds assets across geographies. From FY19 to FY21, AUM in MFs has seen a 32% increase – indicating increasing wealth creation, specifically in Tier 2 and Tier 3 cities. The Top 20 cities account for 75-80% of overall MF assets, in which, the Tier 2 cities, which are the next 10 cities after the 5 Metro cities have a CAGR of ~12%.

The IIFL Wealth-Hurun India Rich List

IIFL Wealth in conjunction with Hurun India published the IIFL Wealth-Hurun India Rich List for 2020. The List is a barometer of the health of the Indian economy, helping us to understand, which industries have gone up, innovated, or gone down. With rising new wealth creators via innovative startups, family businesses with strong professional management, investors who believe in the India story, and a demographic advantage that is inferior to none, the wealth creation story of India is still yet to reach the half-way mark. The stories of these entrepreneurs tell the stories of India's modern businesses.

The List identified 827 individuals – a three-fold increase over the past five years; including 40 women with at least ₹1,000 Crs spread across 111 cities, up from 94 last year. The average wealth in the list is ₹7,300 Crs and the average age is 63. The list features self-made founders, professional managers, inheritors, CEOs, NRIs, investors and cashed-out entrepreneurs.

The combined wealth of the individuals identified in the List is a staggering US$ 823 bn, equating to 1/3rd of India's GDP and more than the combined GDP of Pakistan, Bangladesh, Sri Lanka, Afghanistan and Bhutan.

The Rich Listers' wealth has grown twice as fast as the net market capitalization growth of all the companies listed in the Bombay Stock Exchange despite a number of headwinds. The List added 161 new faces, from 31 industries and 50 cities, recording a cumulative wealth growth of 20% or ₹1 trillion compared to last year.

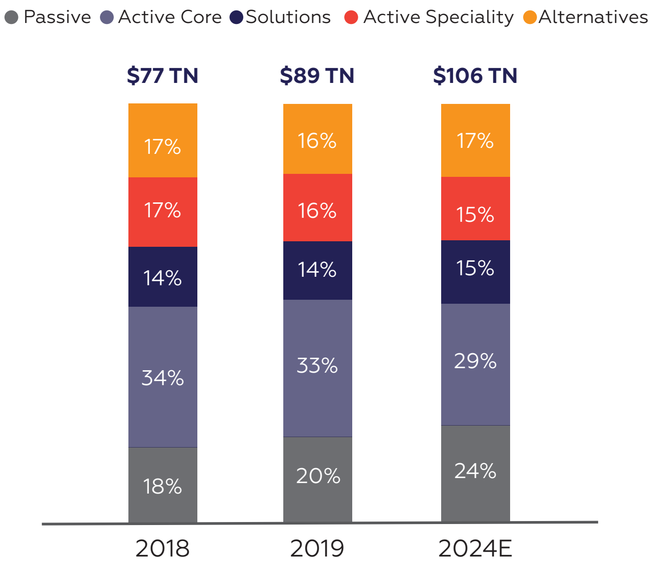
Half of the new additions are contributed by the Top 3 cities and the List features entrepreneurs from 111 cities across the length and breadth of India – a testimony to the geographical spread of India's wealth creation story. More than 70% of the new entrants are self-made – depicting the rising first-generation wealth creation in India.

Asset Management Landscape

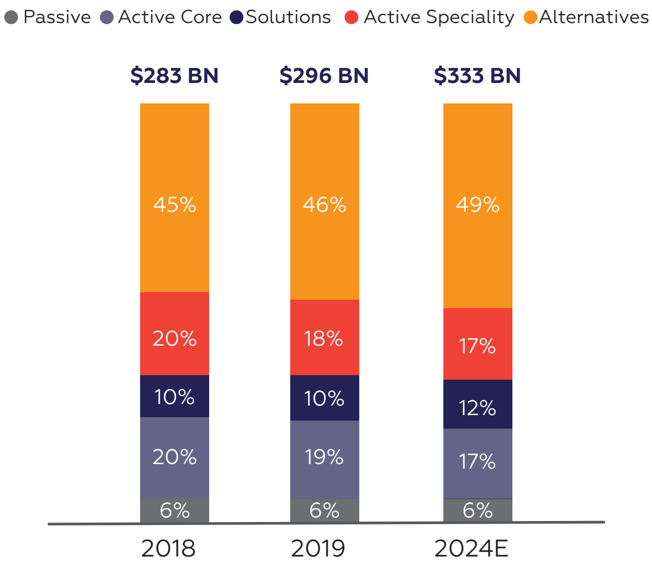
Alternates

Global Asset Management AUMs are at US$89 trillion in 2020 and are expected to grow to US$ 106 trillion by 2024. Alternates currently form 16% of the AUM at U$15 trillion but account for 46% of the revenues due to the substantially higher retentions. Alternates are expected to maintain their share of the total AUM, however, the share of revenues is expected to further increase to nearly 50% by 2025.

Global Asset Management AUM & Revenue split – Alternates dominate Revenue share



Source: BCG Global Asset Management Report 2020

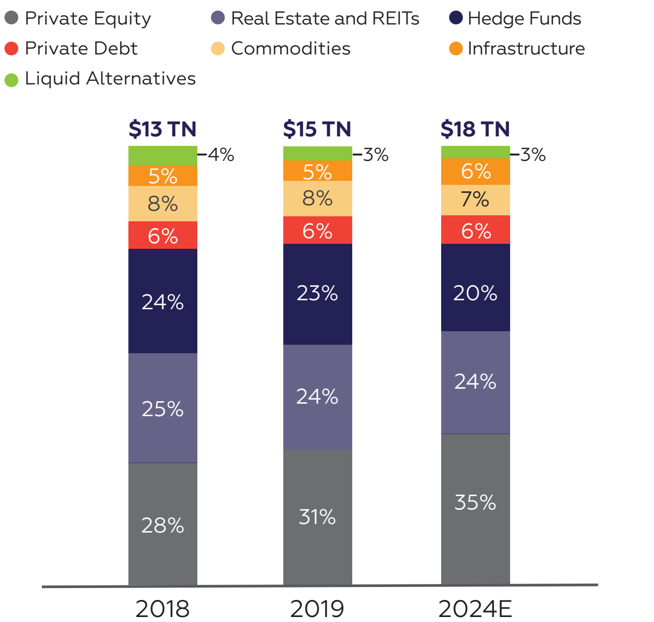


Source: BCG Global Asset Management Report 2020

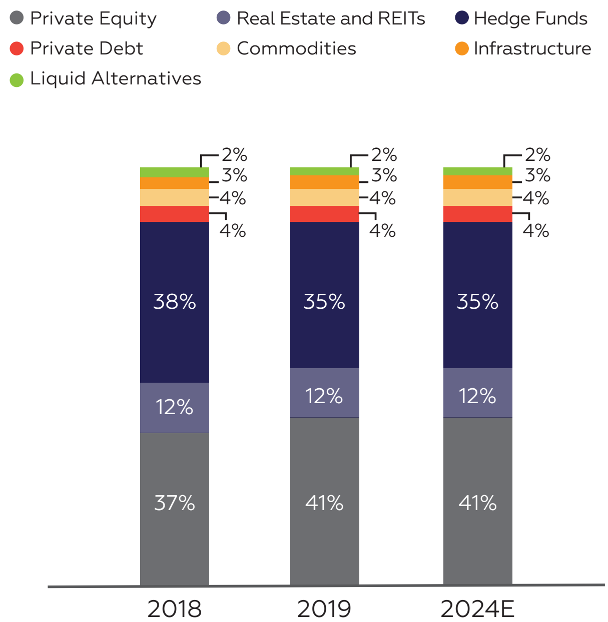
Globally, Alternates are dominated by three strategies – namely Private Equity, Hedge Funds and Real Estate/Credit that on a cumulative basis account for ~80% of AUMs and Revenues.

Private Equity and Hedge Funds currently have the highest retentions and are expected to continue to dominate the Alternates space.

Alternates AUM & Revenue split – Dominated by PE and Hedge Funds



Source: BCG Global Asset Management Report 2020



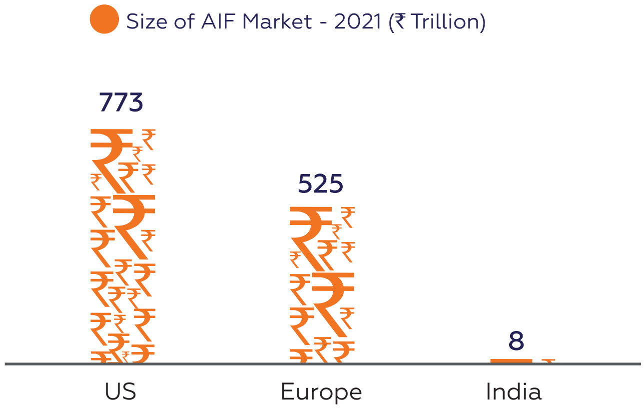
Source: BCG Global Asset Management Report 2020

In India, the Alternates space is relatively nascent

In India, the Alternates space has been dominated by pure play Private Equity / Venture Capital investments in various strategies. Most of the capital has historically been sourced from global funds and Limited Partners (LPs).

Introduction of the AIF platform in 2015-16 opened up avenues to broad base these investments and allowed managers to access domestic pools of capital from UHNIs / HNIs therefore allowing to also invest into the unlisted Equity, Debt and Credit space.

As compared to the size of the Alternates market in the US and Europe, India is still very nascent, and the Assets are relatively small



IIFL Asset Management has a leadership position in the AIF space with almost 10% market share across Cat 2 & Cat 3 AIFs. However, the overall penetration is still low and there is high potential for growth.

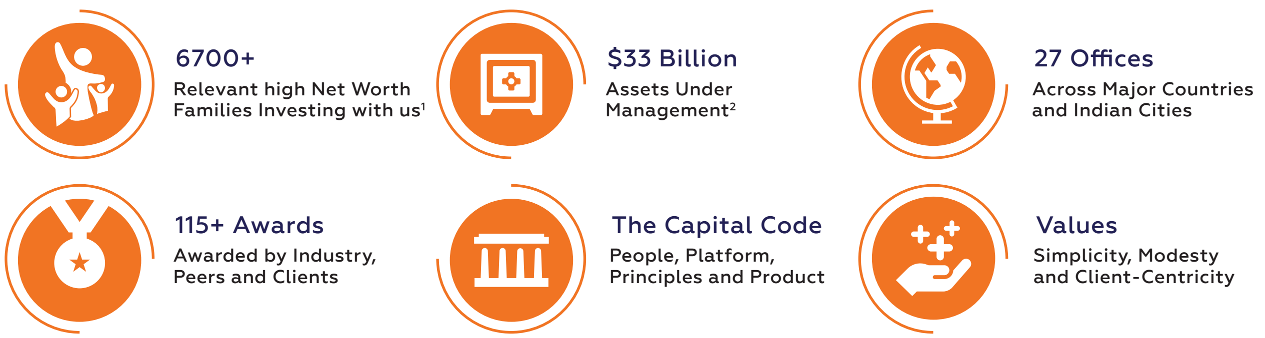
(₹Crs)	Overall AUM (Mar 2021)	IIFLW AUM	IIFLW Market share
AIF	2,30,015	22,147	9.63%
PMS	5,85,720	4,013	0.69%

Source - SEBI, Company Data

About IIFL Wealth & Asset Management

IIFL Wealth Management & Asset Management Ltd (IIFL WAM) is one of the leading wealth management companies in India. Started 13 years ago, IIFL WAM has catapulted itself to become financial advisors to over 6,700+ influential families in the UHNI / HNI segment, with more than ₹2.46 trillion of assets under management.

Headquartered in Mumbai, IIFL WAM has more than 850 employees and a presence in 6 major global financial hubs and 23 locations in India and is the only pure wealth management company to be listed on the Indian stock exchanges with a market cap of ~ ₹11,000 Crs as on 31st March 2021. IIFL Wealth Management Ltd is listed on the NSE (Symbol: IIFL WAM) and BSE (Scrip code: 542772).



WEALTH MANAGEMENT | ASSET MANAGEMENT | LENDING SOLUTIONS | SUCCESSION & ESTATE PLANNING

1 Relevant Families: Basis number of families with AUM in excess of ₹ 1 Cr.
2 AUM as on March 31, 2021. Wealth AUM excludes custody assets.

KEY DIFFERENTIATORS

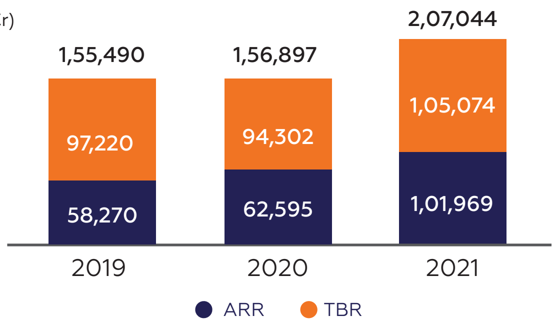
- One of the Largest Wealth Managers, and one of the largest Alternate asset managers in India today
- Ensuring our clients get first mover advantage to unique themes and ideas ahead of the market, with preferential access for sourcing / customizing investments with fund houses, institutional brokers, boutique managers etc.
- Best in class Product Platform, supported by advanced analytics to ensure portfolios managed in line with objectives
- In-house Asset Management and NBFC helps in holistically managing our discerning clients' needs.
- Robust and continuously evolving Technology platform enables ease of reporting with high accuracy

KEY REPORTING METRICS

IIFL WAM

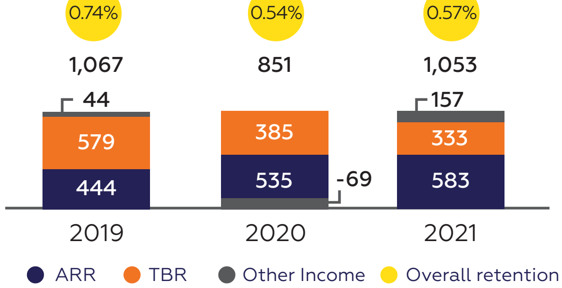
AUM - ARR, TBR

(₹Cr)



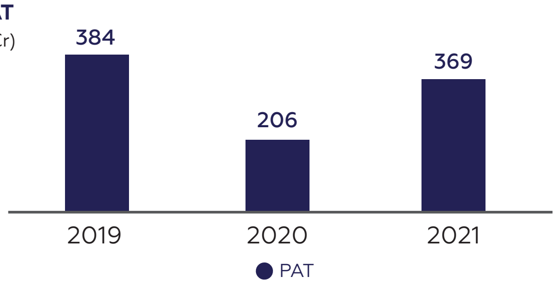
Revenue – ARR, TBR

(₹Cr)



PAT

(₹Cr)



Sustained progress on business model change – Key milestones crossed

IIFL WAM undertook an ambitious program to pivot its Revenue recognition model from a transaction driven / upfront commission-based model to a sustainable management Fee / Annuity distribution Commissions model. This change resulted in a fall in overall revenues and profitability in FY20. However, despite the pandemic and all the resulting challenges, the company has significantly grown its Annual Recurring Revenue (ARR) assets and its recurring revenues to a point where in FY21, the overall revenues and profitability have come back to the pre-transition levels.

In FY2021, Total Revenue stood at ₹1053 Crs and PAT was ₹ 369 Crs, as against a total Revenue of ₹1,067 Crs and a PAT of ₹384 Crs in FY19. While the numbers look similar, the underlying business today is at a far firmer footing and resilient to market volatility and shocks because of the significant increase in recurring revenues.

In FY21, Recurring Revenues constituted 55% of Total Revenues at ₹583 Crs, and ARR assets constituted 49% of Total AUM, at ₹ 1,01,969 Crs. As against FY19, wherein Recurring Revenues constituted 41% of Total Revenues at ₹444 Crs, and ARR assets constituted 37% of Total AUM, at ₹58,270 Crs. Of our overall Net Flows for FY21, of ~₹ 24,000 Crs, 63% was towards ARR Assets.

Other Highlights

During the year, we have declared and paid a total of ₹70 per share as dividend, ₹40 of which constitutes a special dividend and ₹30, a regular dividend; which is in line with our policy of paying out 70-75% of our annual profits as dividend to our shareholders. This is in accordance with our stated aim of efficiently managing our capital and net worth and moving towards our Target RoE of 20%.

In April 2020, we have seamlessly completed the acquisition and integration process of L&T Capital Markets, and their clients and RMs. Assets onboarded on account of the acquisition were ₹9,919 Crs.

Areas of Business: The two key areas of business are Wealth Management and Asset Management.

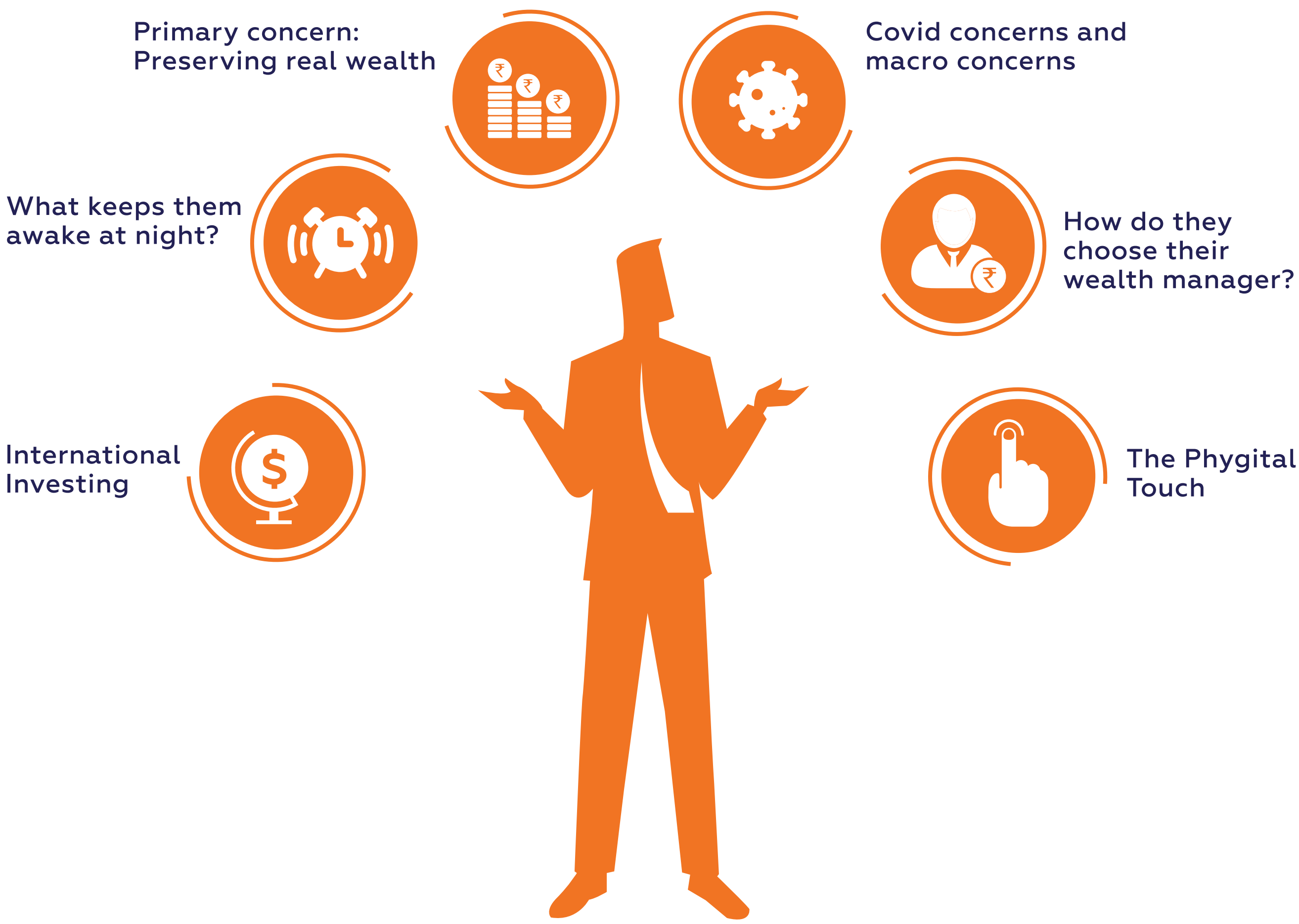
Segment–wise and product-wise performance

Wealth Management

The wealth management business is an open architecture advisory-based offering with the objective of wealth preservation while providing optimal returns relative to the client's risk appetite. While Indian firms have significantly gained market share, most existing players in India offer wealth management as a non-core extension to their core business (banking/ broking/ investment banking). IIFL Wealth on the other hand, 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, lending and corporate advisory. Clients benefit from professional and unbiased advice, a scientific investment process, consolidated reporting across advisors, and cutting-edge portfolio analytics.

We maintain a healthy balance between Fixed Income, Equity and Alternatives Investments thereby keeping returns consistent and not too volatile during turbulent times. This approach has ensured our clients' portfolio grow steadily on a compounded basis over long periods of time. Our unique approach in wealth management has resulted in high retention of clients and assets. We continue to invest in our people, products, technology and compliance to give clients the best platform to preserve and grow wealth.



IIFL Wealth's Role - Understanding Behavior Of Wealthy & Innovating To Serve Them

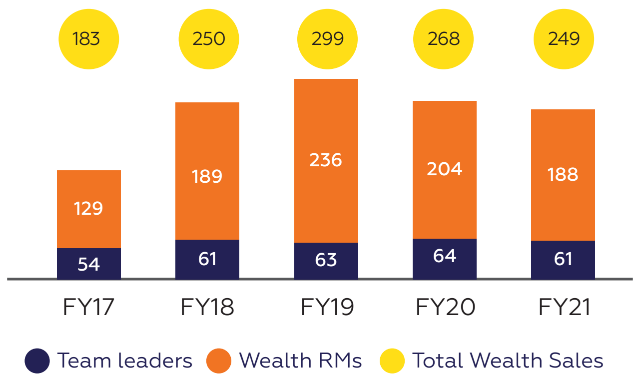
Key Client Segments

- **Entrepreneurs:** Who have sold their businesses either partly or wholly
- **Senior executives:** Who have exercised their stock options, or sold equity in their firms
- **Professionals:** Including doctors, corporate lawyers, actors
- **Medium to large industrialists:** Marquee families with substantial liquidity in their personal books
- **Corporate Treasuries:** Our expertise in Fixed Income and Debt and our capability to synthetically structure products give us access to some large corporate treasuries
- **Funds, Endowments and Family Offices:** Account for 70% of the International assets under FII sub accounts
- **Large traders:** Our focus is on utilization of platform (funding limits, speed of execution and service levels)

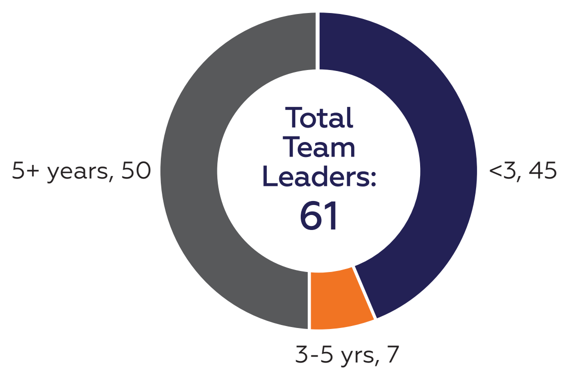
Our culture thrives achieving and maintaining alignment of interests between employees, clients and shareholders and has been the cornerstone of our success over the years. Our 850+ People remain the core focus of our business and their development continues to be of paramount importance for the continuing growth of our business. To this end, our processes, performance plan, skill development and a high level of employee ownership has ensured low attrition, especially, at the team leader levels. This has resulted in a virtuous cycle where client retention is amongst the highest in the industry and average AUM per client continues to increase as the Team Leader vintage increases.

During the year, despite the pandemic and a 5-month lockdown, we added more than 1,850 new relevant families, of which ~900 were a part of the L&T Capital Markets acquisition. As part of our continuous efforts to increase efficiency, the Average AUM as well as the number of families managed per Team Leader has been continuously increasing and has almost Doubled over a 5-year period. We continue to deploy technology to increase and drive productivity enhancements

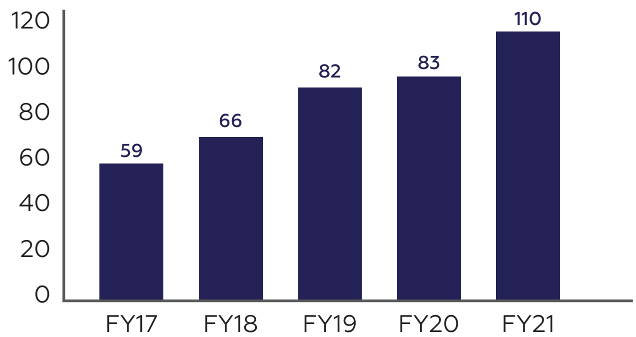
Team Leaders and Relationship Managers



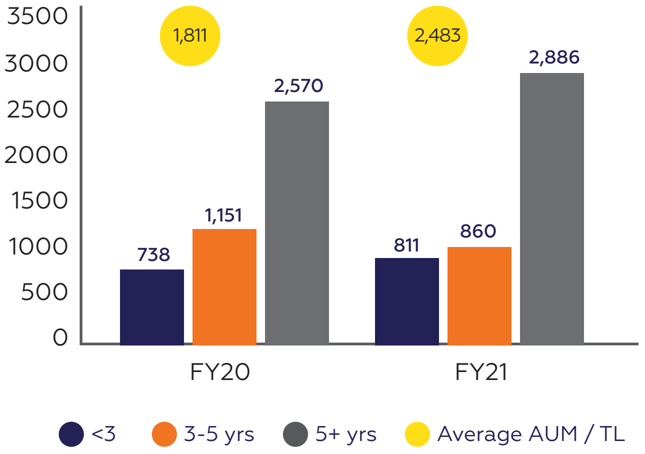
Team Leaders Vintage Bucket



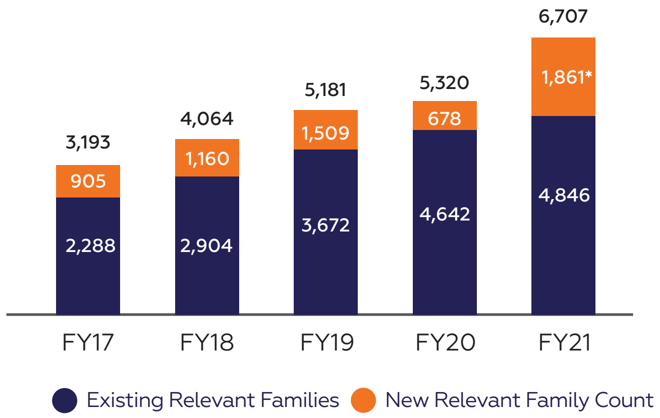
Average no of relevant families per Team Leader



Vintage Bucket of Team Leader (Average AUM)



Count of relevant families over years

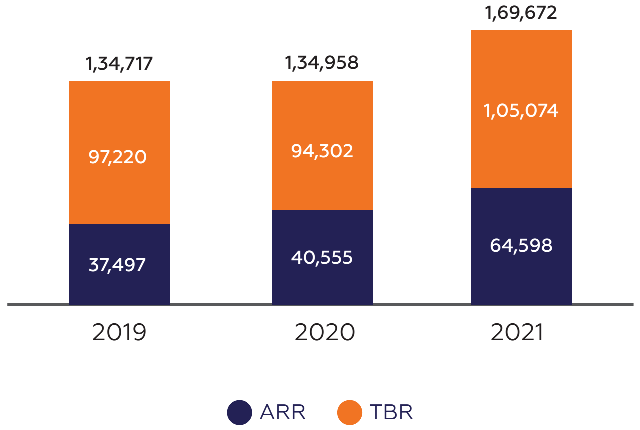


* includes ~900 families on account of L&T Acquisition

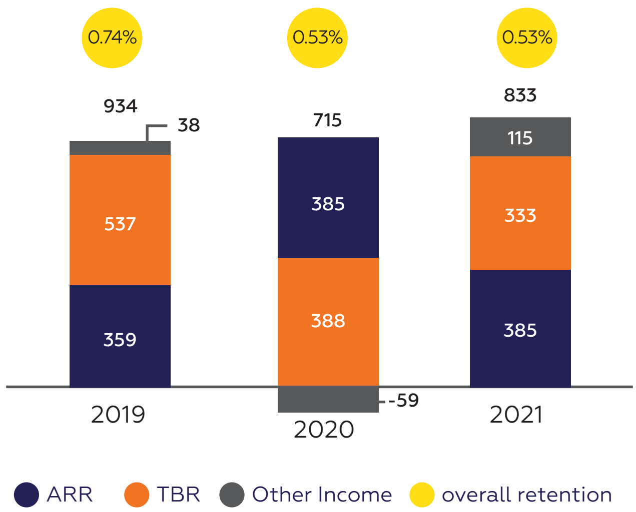
Our flagship proposition IIFL-ONE continues to grow and gain acceptance across Client Segments. AUM under IIFL-ONE has grown more than three-fold over the last two years from ~₹8,700 Crs in FY19 to almost ₹28,000 Crs in FY21, further strengthening our belief that a transparent fee driven model is the future of the Wealth Management industry.

Wealth Management snapshot

Total AUM



Total Revenue



Asset Management - 'Innovation is the change that unlocks new value'

The Asset Management business (IIFL AMC) focuses on creating niche alternative India focused strategies for the UHNI / HNI space. A disciplined and active investment management approach combined with intensive research and innovative strategies creates avenues for investors to tap into India's potential to facilitate long-term wealth creation. The distinctive and diversified product suite of mutual funds, portfolio management schemes and alternative investment funds span across public and private equities, fixed income securities, Credit & Real Estate and enable investors across the world to participate in India's unique growth story.

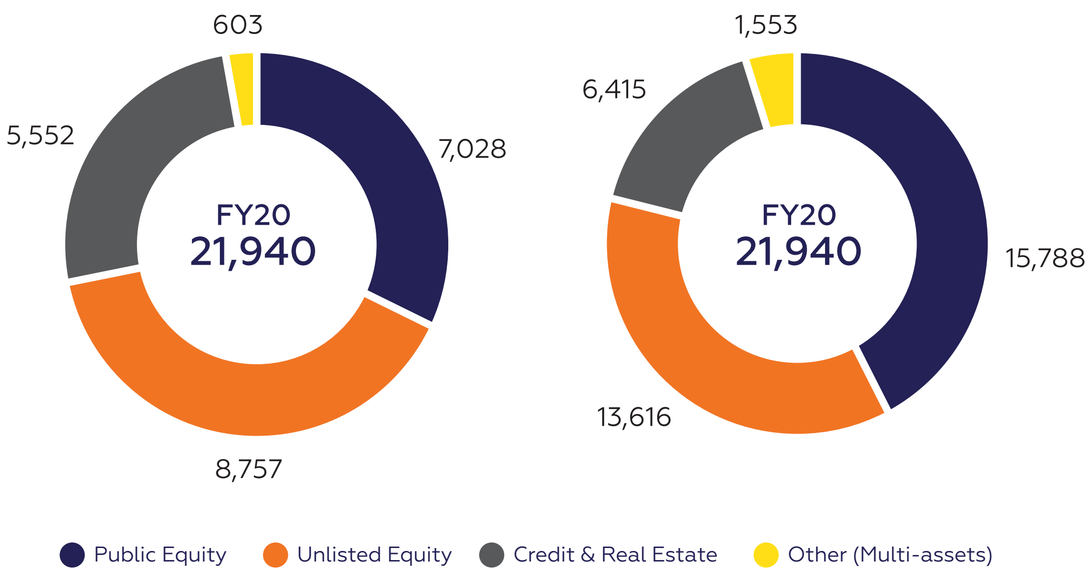
IIFL AMC has been playing a pivotal role in the growth of the AIF industry in India and continues to be one of the largest AIF Managers in the country.

We continue to invest in technology, people, and processes. We holistically embraced digitisation to ensure that our investors have seamless access to all our funds and can efficiently manage their investments. Some of the initiatives on this front included the introduction of digital onboarding and automated factsheet generation, IIFL AMC is among the first AMCs to launch online PMS and AIF applications.

Despite the pandemic and changed working dynamics during FY21, the Assets Under Management grew by 70%. With a focus on increasing the products suite, several new funds were launched during the year including late-stage consumer technology fund, and a fund of funds, which aims to provide unique opportunities to invest in the best-in-class technology-focused Venture Capital Funds. In the listed equity space, under our Portfolio Management Services, we added a new strategy to create a portfolio of businesses with established track record and have the potential to see sharp improvements in their fundamentals. Over the year, we continued to onboard new distribution partners and achieve scale across our existing products (Multicap and Multicap Advantage PMS).

In FY21, the AMC's overall Assets Under Management have grown by more than 70% to ₹37,372 Crs. A split across Strategies showcase that this growth was primarily fueled by the Listed Equities space, growing by more than 100%; and the Unlisted Equities growing at more than 50% during the year.

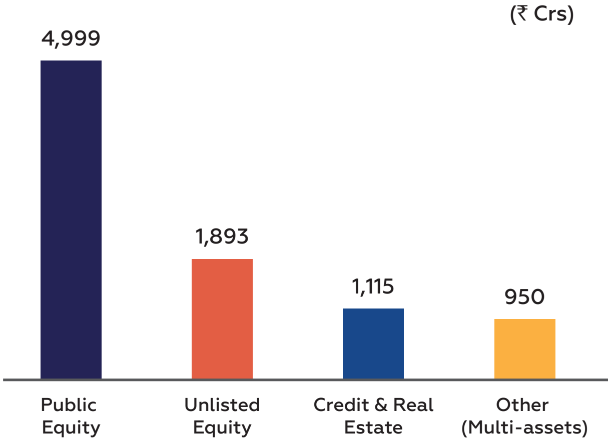
Strategy-wise AUM snapshot (₹ Cr)



A view on the Net Flows for FY21 across Strategies in the AMC segment showcase the growing trend of inflows across the Public Equities business, and the gaining popularity within the Unlisted space.

Product Category-wise net sales

Strategy-wise Net Flows



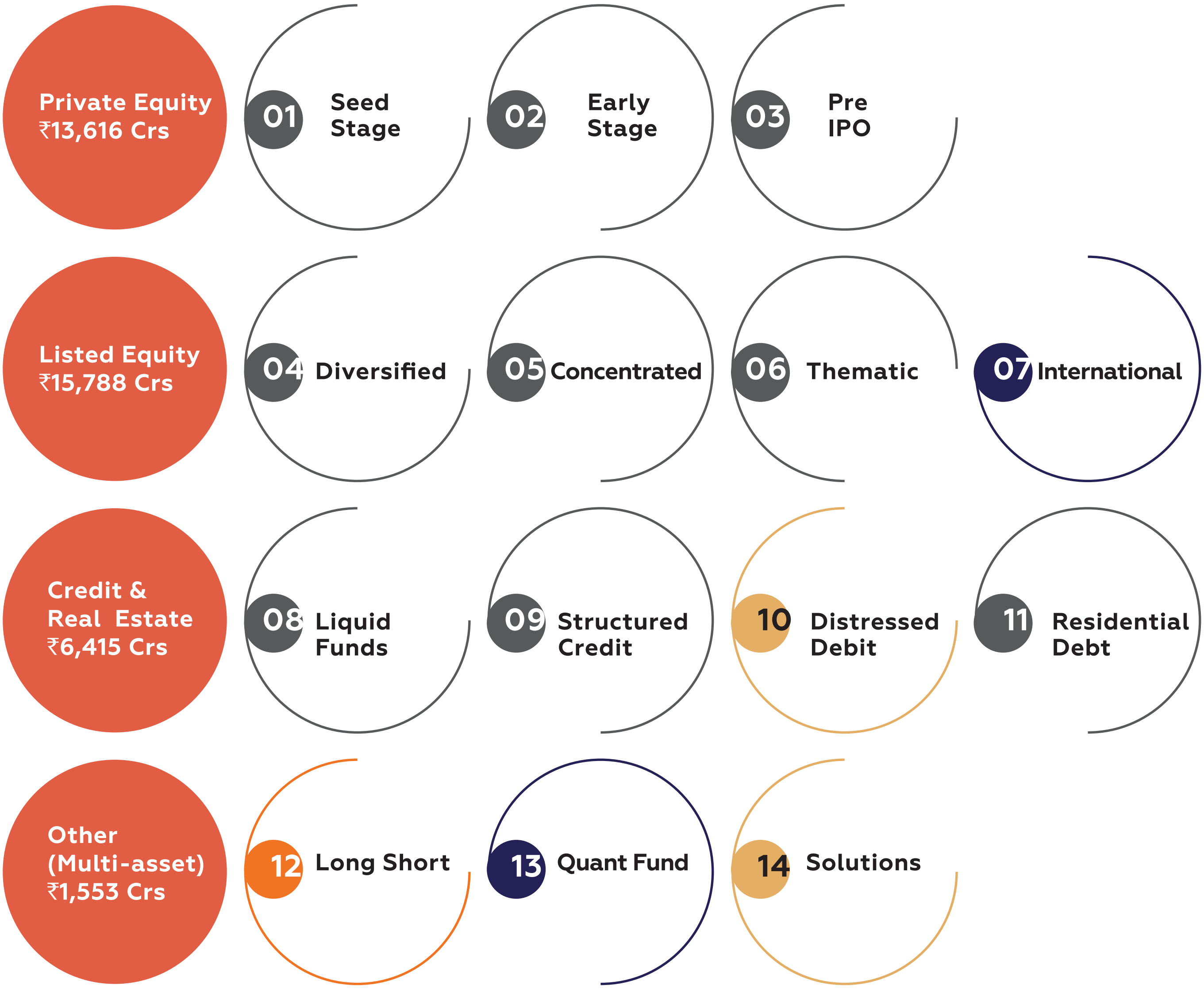
Data as of March 2021

The year was particularly successful from institutional mandates' perspective as we established connects with many offshore institutions and family offices and onboarded a Sovereign Wealth Fund; the largest mandate received by IIFL AMC till date. The company now manages an AUM of ₹7,133 Crs across offshore institutions and expects this to be an important driver of growth going forward.

Thanks to the efforts of our people, despite disruptions, net inflows for the year were almost ₹9,000 Crs , spread across various asset classes and geographies the highest ever for a single year in the short history of the AMC.

Both listed equity and private equity remain scale strategies with ₹15,738 Crs AUM in listed equity and ₹13,616 Crs AUM in private equity in FY21. Fixed income investment categories comprising liquid mutual funds and structured credit products contributed ₹2,851 Crs to overall AUM while real estate funds contributed ₹5,118 Crs.

AMC Strategy-wise split



Total AUM ₹37,372 Crs

In the coming year we will continue to explore opportunities to enhance our product offering across our four asset classes i.e. listed equities, private equities, credit and real estate. We aim to maintain our position as the largest alternative asset manager in India and build a complete range of product offerings across asset classes.

Summary of developments across key platforms is as below:

Alternative Investment Funds (AIFs)

During the first couple of quarters, our focus was primarily on raising commitments in already launched schemes viz. High Conviction Fund - Series 1, India Housing Fund - Series 2 and IIFL Seed Ventures Fund – Series.

In Q2, on unlisted equity side, AMC launched a new fund during the quarter - IIFL India Private Equity Fund Series 1A, which intended to invest in financial intermediaries that are dominant players in their segments. The scheme raised over ₹1,522 Crs and has proved to be a successful launch.

In Q3, we launched IIFL Equity Opportunities Fund, a fund of fund, which aims to provide a unique opportunity to invest in the best-in-class technology focused VC Funds primarily focused at providing follow on capital to top performing digital companies along with other marquee investors. It garnered a commitment of ₹620 Crs.

In Q4, we launched another fund on unlisted equity side, IIFL Special Opportunities Fund Series 8, which would invest in late stage consumer tech deals. The fund received a fantastic response garnering over ₹1,300 Crs by end of April 2021.

Portfolio Management Services (PMS)

On listed equity front, we continued to onboard new distribution partners and achieve scale across our existing products - Multicap and Multicap Advantage PMS. Despite disruptions due to the Pandemic, multiple communication channels were opened up with investors informing about product performance and offering easy one click top-ups. We leveraged technology to enable editable forms for client onboarding to enable business continuity. In Q4, we added a new strategy, IIFL Phoenix Portfolio, which intends to create a portfolio of such businesses with an established track record, which have the potential to see a sharp improvement in fundamentals in the future.

Mutual Funds (MFs)

Given our continued focus on scaling up IIFL Focused Equity Fund, we were able to add net inflows of ₹379 Crs during the year. For most of the year, the fund was amongst the best performing fund in its category. Additionally, in order to increase its reach across platforms, we laid emphasis on increasing SIPs in the scheme from online channels. Towards the end of the year, we also filed for quant-based funds with SEBI (IIFL Smart Fund). We are awaiting approvals from the regulator on the same.

Offshore / Institutions

In terms of client coverage, we have established connect with many offshore institutions, wealth funds and family offices over the past year. During the year, we received an additional investment from one of our existing advisory mandates. We also received a new mandate from an institutional investor.

Outlook

The year gone by was really a story of two parts. The first half was when the pandemic first struck resulting in complete lock downs and an almost complete stall of economic activity sending global markets into a dizzying fall. The second half saw coordinated actions of governments and central banks worldwide resulting in global markets and indices rising to record highs by the year end. We expect this growth to continue into the current year as well aided by favorable macro-economic conditions and enabling policies.

Global financial wealth soared to reach an all-time high of US$ 250 trillion in FY21. Flush with cash and encouraged by the prospect of robust returns, individuals directed more wealth into equities and investment funds and away from lower-yielding debt securities, continuing pre-crisis trends. Many also embraced alternative investments such as private equity, private debt, and real estate in the quest for even higher yields.

Having adapted to extraordinary challenges, the events of the last 12 months have strengthened our belief that it continues to be prudent to think long term and not be swayed by the short-term. The key pillars of our business - our people, our clients and our proposition continue to be our key focus areas on an ongoing basis. However, a fourth pillar is now being added – Digital. The key behavioral transformation due to the pandemic has been the widespread increase in the use of digital tools and technologies in our daily lives, and this impact is sharpest in the way we interact with people and how we consume various services.

We presently find ourselves at an interesting intersection between the agility of a start-up and stability of an over 12-year-old company. As with all businesses, the COVID 19 pandemic has ensured a significant degree of adoption to digital activities. All our clients are now actively engaging with our relationship teams via digital interfaces. We have also seen some shift to self-directed transactions, particularly in stocks, as clients become more active in managing parts of their portfolio themselves. We have been at the forefront of adoption of new technologies to sharpen our proposition and improve the delivery of our services, therefore our focus on using technology to upscale our infrastructure and improve the delivery of services to clients is absolute and continuous. Over the last year, we have seen the benefits of client proximity, delivery speed, and efficiency and we will continue to strive to better leverage technology as an enabler to deliver a smoother and sharper client experience.

From a financial perspective, FY21 has seen our financial performance return to the levels attained before we made the change in our business model and adopted an annuity focused revenue model. Our reported PAT in FY21 of ₹369 Crs is almost equal to the PAT in FY19 of ₹385 Crs. However, while the profits have almost equalized we are today in a far stronger position with annuity assets now forming 50% of our total assets vs 37% in FY19. We intend to continue this trajectory in the coming years and focus on building annuity assets.

Our conscious focus on driving cost and productivity enhancements at a firm level have now begun to reap benefits. These measures have been taken using a combination of cost reduction initiatives, deployment of technology to improve productivity as well as taking judicious calls on outsourcing of select activities to derive scale benefits. The benefits are beginning to reflect in our Cost to Income ratios, which have been steadily declining. We expect going forward that these efforts will generate positive operating leverage, thereby enhancing firmwide productivity metrics. Investments will continue in strengthening key organizational areas of Digital, Compliance and Risk.

We intend to further grow and consolidate our overall market position and to enhance our platform and proposition via differentiated product offerings, as well as continuously evaluating inorganic opportunities to expand growth trajectory.

We will continue to find the right intersections between wealth creation and wealth preservation, between our expertise and client's level of involvement, between old age values and new-age technology, between clients' needs for today and our clients' family's needs for tomorrow. We continue to invest in building a high-quality team and imbibe a culture which encourages innovation and strong orientation towards knowledge-based service.

India has seen a strong economic bounce and investment sentiment remains buoyant on the back of excess liquidity and savings. There are strong tail winds across the Wealth Management and Asset Management businesses as evidenced by sustained growth in HNI/UHNI clients driven by large number of monetization events and continued growth in next tier locations along with strong traction on institutional mandates in the Asset Management business and strong momentum across our Unlisted Differentiated strategies.

Equity Markets

Growing optimism around the global economic recovery, persistent drop in new cases and the progress of vaccination drives supported the global equity markets in the latter half of FY21. Vaccination roll-outs across the globe, continued economic recovery, strengthened expectations of a fiscal stimulus in the US and dollar weakness kept investor sentiments strong for EM equities. This was further aided by strong portfolio inflows amid supportive surplus liquidity across the globe. The Hang Seng Index (Hong Kong) and Nikkei 225 Index (Japan) shot up by 20.2% and 54.3%, last year. Japan's Nikkei 225 crossed the 30,000 mark for the first time in more than three decades. This surge can mainly be attributed to Japan's economy growing by 12.7% in October-December quarter FY 2020-21 on a YoY basis. European equities suffered from a relatively slow roll-out of COVID-19 vaccines, political uncertainty in Italy and slower economic recovery amid lockdown restrictions. Brexit uncertainty along with second wave of virus infections have battered the UK, with the FTSE 100 Index being the slowest performing regional equity market.

Meanwhile, Indian equity markets outperformed the broader EM indices, with the Nifty 50 increasing by 70.9% and Nifty 500 by 76.0% in 12 months ending March 2021. Persistent traction in foreign flows and brighter domestic economic outlook as reflected through steady improvement in several high frequency indicators and better than expected Q4 FY 2020-21 corporate earnings also kept investor sentiments buoyant. This was further supported by stimulus measures announced by the Government and liquidity measures adopted by RBI.

Despite COVID-induced turbulence, Indian equity markets showed their best performance in a decade in FY 2020-21. Surge in trading by retail investors and Foreign Institutional Investors (FIIs) fuelled a rally in equity markets post the sharp correction of March 2020. FIIs net investment recorded an all-time high in FY 2020-21 at US$ 37.1 bn, which is approximately 14 times higher than that of US$ 2.6 bn in FY 2019-20, owing to continuous rally in equity prices. Unlike FIIs, Domestic Institutional Investors (DIIs) remained strong sellers of Indian equities with net outflows of US$ 19.0 bn in FY 2020-21. Net investment by DIIs remained negative due to redemption pressures and profit-booking as equity valuations touched lifetime highs.

An exponential rise in COVID infections in the second half of March 2021 compelled re-imposition of restrictive measures and raised concerns on the ongoing economic recovery, however markets seem unperturbed by the rising number of infections in the ongoing second wave of COVID-19. The likely reason is that markets see the same as a temporary bump in the course of recovery and expect activities to normalise over time. Further, the impact on the earnings of majority of the NIFTY50 sectors is likely to be temporary and limited.

Debt Markets

FY20-21 was an action-packed year for Indian fixed income markets. 10-year G-sec yields, which spiked in early April 2020 on the back of massive FPI selling and the fear of a significant rise in fiscal deficit, reversed its course soon and started trending lower. The yield fell below 6%, driven by aggressive monetary easing, but inched up again and hovered around 6% throughout the year. The 10-year yield ended only 3 bps higher than last year despite the central government's fiscal deficit rising sharply from the budgeted 3.8% to 9.2% of GDP. This was mainly due to the RBI's intervention through open market operations (OMOs). Term spread however, jumped in March 2020 from ~1% to over 2% and remained at elevated levels as the shorter end of the yield curve was firmly anchored due to ample liquidity. Domestic liquidity remained in ample surplus supported by liquidity infusion by the RBI and the further rise in government spending and the muted credit growth also added to the surplus.

FPI flows into Indian debt markets in FY20-21 were weak, albeit better than the previous year. The net FPI outflow amounted to ~US$ 2.2 bn in FY20-21 (FY 19-20: US$ 5.4 bn).

Going forward, the outlook on yields remains uncertain as rise in international crude prices, increase in 10-year US treasury yields, elevated fiscal deficit and CPI, especially core CPI, pose an upside risk to yields. The high statutory liquidity ratio (SLR) investment holdings of banks and signs of a broad-based improvement in economic activity can also push yields higher. However, the RBI has been consistently intervening to stem any significant rise in yields and may continue to do so in the foreseeable future. Also, muted credit growth, low global rates and ample liquidity bode well for yields in India.

During the year, credit markets faced heightened volatility, resulting in the widening of spreads.

This followed from Yes Bank AT1 bonds being written off (in February 2020), imposition of the lockdown, announcement of the winding up of six debt schemes by Franklin Templeton, etc. The spreads normalised from Q2FY 21 onwards, supported by the RBI's monetary and regulatory easing measures, recovery in economic activity, lower than expected impact of the pandemic on financial institutions, improvement in collection efficiency of banks and NBFCs, and other such factors.

Awards

IIFL Wealth & Asset Management won 7 awards during the year. At The Asset Triple A Private Capital Awards, 2020, IIFL Wealth won the Best Private Bank – India award for the 10th year in a row. At the Euromoney Private Banking and Wealth Management Survey, 2021, we won awards for the Best Services - Investment Management and Best Technology - Innovative or Emerging Technology Adoption.

The other awards include Global Private Banking Innovation Awards, 2020 for the following:

Change in Regulatory Policies

Broking and DP

- New margin rules requiring upfront margins (of 20% of trade value) and peak margin regime was implemented from 1st September 2020 in Stock and Commodities broking.
- It was made mandatory that margin collateral of securities was to be accepted only in pledged form.

AMC

- Criteria for Product labelling in MF Schemes was laid down by SEBI.
- Regulations were issued to align the interest of investors in MF with the asset manager, which require 20% of gross annual cost-to-company (CTC) remuneration paid to Key Managerial Personnel to be paid in units of schemes managed of the AMC, with a lock-in for 3 years and clawback applicable in case of gross negligence or fraud.
- Changes were made to the regulations pertaining to Alternative Investment Funds (AIFs): investment concentration limits are to be computed for both direct and indirect exposures where the AIF has invested into other AIFs; and leverage of 200% for Category III AIFs was to be computed after reducing exposure to other AIFs.

NBFC

- Statutory Audit - The period of appointment for statutory auditors was changed to three years and a rotation requirement was introduced by the RBI: an audit firm would not be eligible for reappointment in the same entity for six years (two tenures) after completion of full or part of one term.

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 significantly depend upon the appropriateness of investment options provided and the performance of our client portfolios and funds. Good investment performance increases the attractiveness of our products with clients resulting in higher inflows and a consequent increase in our revenues. Hence, events adversely impacting such investment performance (relating to stocks, bonds, commodities or real estate related investments) may adversely affect our business.

To mitigate these risks, we have a Product team that shortlists 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.

The Indian economy has grown rapidly over the past decade and is expected to continue to grow at a healthy rate (leaving apart blips like 2019 and 2020), which, together with the increasing financialization of savings, could in turn, drive the underlying demand for investment 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-national companies. 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 IIFL-ONE product platform has been launched to address this change and clients are gradually moving to this platform.

We believe our wide product offering, our relationships with clients, 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 changesto 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, submit regulatory returns and interface with Regulators. We also have Anti-Money Laundering (AML) Policies and AML Committees for our various businesses to deliberate on client onboarding.

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, 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, 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 OneDrive. 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. During the Covid-19 induced nation-wide lockdown in 2020 and in 2021 during the second wave we tested our ability to support operations in a work from home (WFH) environment and we managed to execute this in a stable manner, with users logging in through a virtual private network (VPN) to access their office-based applications, thereby ensuring that no information security controls were compromised.

Inflation risk: Of late, India has experienced relatively benign rates of inflation, though inflation has been above the RBI's 'tolerance level of 4%+/- 2%' for a couple of months in 2021. 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, as also sectors that depend on leveraged purchases like real estate and automobiles, and hence could affect us.

Development and Implementation of Risk Management System:

We have a separate Risk Management department that reports to the Chief Operating Officer 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.

The internal processes have been designed to ensure adequate checks and balances and regulatory compliances at every stage. Authority matrices have been defined going down from the Board of Directors, to provide authority to approve various transactions.

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 Chartered Accountants, where required) of various aspects of the business, which include documentation in relation to the lending business; compliance with various regulations in AIF and checking of certain regulatory returns.

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 Chartered 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. Internal audit team carries out a risk-based audit of various processes to provide assurance on the adequacy and effectiveness of internal controls. The Internal Auditors also check and opine on the state of Internal Financial Controls. Internal Audit reports are presented to the Audit Committees of the various boards directly by the Internal Auditors.

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, through the monitoring of the Internal Audit and Statutory Audit reports and through the Risk Management Committee, to which a detailed presentation is made by the Head – Risk Management. The Audit Committee reviews major instances of fraud, if any, 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 of internal controls and prevent any recurrence.

We have also strengthened our whistleblower mechanism (backed by a policy that promises that no action will be taken against a whistleblower), and providing multiple channels (email / website / phone) managed by an external service provider (for complete independence) through which employees can record complaints and grievances, anonymously, if they choose to remain so. All whistleblowing complaints are tracked and investigated by a Vigilance Committee chaired by the Chief Operating Officer of the IIFL Wealth Group, with representation from Human Resources, Risk Management, Compliance and Business.

Our whistleblower mechanism is meant to facilitate reporting of unethical behaviour, actual or suspected fraud, or violation of the Company's code of conduct and ethics.

Another key aspect of governance is managing and resolving conflicts of interest that may arise. We have a Conflict of Interest Policy that was redrafted under the guidance of the Risk Management Committee, under which a Conflict Resolution Advisory Board (CRAB) was formed, consisting of 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 between 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 is also submitted to the Risk Management Committee of the board.

Internal Financial Controls:

The Company has in place adequate internal controls with reference to financial statements and operations and the same are operating effectively. These are encapsulated in the Risks & Controls Matrix (RCM). 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.

Review of Financial Performance

IIFL Wealth and Asset Management is one of the largest wealth and asset management firms in India. Founded in 2008, IIFL Wealth has grown steadily and now manages assets of more than ₹2.4 Trillion, as on March 31, 2021. We operate out of 27 offices spread across the world and have an employee strength of more than 850 employees.

Assets Under Management & Profitability

The table below provides a break-up of our Assets Under Management for the periods indicated:

(All figures in ₹Crs)

Particulars	2020-21	2019-20	YoY Growth %
Annual Recurring Revenue Earning Assets	**1,01,969**	**62,595**	**62.90%**
IIFL-ONE Assets	27,940	17,720	57.67%
Funds Managed by IIFL AMC	37,372	21,940	70.34%
Distribution Assets Earning Trail Fees	33,038	19,399	70.31%
Net Interest Margin on Loans	3,620	3,536	2.38%
Transactional Assets	**1,05,074**	**94,302**	**11.42%**
Brokerage	60,260	47,649	26.46%
Distribution Assets Not Earning Trail Fees	44,815	46,653	-3.94%
Total AUM	**2,07,044**	**1,55,490**	**33.16%**
Add: Custody Assets	39,039	31,145	25.35%
Total AUM including Custody	**2,46,083**	**1,67,746**	**46.70%**

The table below is a Reclassified Consolidated Statement of Profit and Loss for the periods indicated

(All figures in ₹Crs)

Particulars	2020-21	2019-20	YoY Growth %
Gross Revenue from Operations	1,659	1,527	8.64%
Less: Direct Costs	**(606)**	**(676)**	10.35%
Net Revenue	**1,053**	**851**	23.74%
Less: Other Income	**137**	**(69)**	
Net Operating Revenue	**915**	**920**	-0.49%
Classified into:			
Annual Recurring Revenue	**583**	**535**	9.06%
Management Fees on IIFL-ONE Assets	55	35	58.55%
Management Fees on Funds Managed by IIFL AMC	198	146	34.97%
Distribution Assets Earning Trail Fees	139	119	16.03%
Net Interest Margin on Loans	191	234	-18.12%
Transactional / Brokerage Income	**333**	**385**	-13.73%
Brokerage	150	139	7.85%
Investment Banking / Syndication Income	183	247	-25.89%
Costs	**568**	**564**	0.62%
Employee Costs	417	385	8.53%
Admin and Other Expenses	150	180	-16.31%
Profit Metrics			
Operating Profit before Taxes (OPBT)	348	356	-2.24%
Profit before Taxes (PBT)	485	286	69.31%
Profit After Tax (PAT) including OCI and FCTR	369	206	78.90%
Cost to Income Ratio	53.9%	61.4%	
ROE	12.5%	7.0%	
ROE Ex Goodwill & Intangibles	15.0%	7.7%	

Reclassified Segment-wise performance is as under

(All figures in ₹Crs)

	For the year ended March 31, 2021			For the year ended March 31, 2020		
Segments	Wealth Management	Asset Management	Total	Wealth Management	Asset Management	Total
Gross Revenues	1,379	280	1,659	1,325	202	1,527
Net Operating Revenue	718	198	916	774	146	920
Operating Profit before Tax	271	77	348	331	25	356

The key factors to consider are as follows:

1. Revenue from Operations remained flattish at a -0.49%YoY to ₹915 Crs, from ₹920 Crs primarily due to the first two quarters of the year being largely impacted on account of Covid-19. However, the last two quarters saw positive client sentiments and we continue to see high levels of liquidity, which allowed operations and markets to regain the lost momentum and move upwards steadily.

2. Focus on Annual Recurring Assets & Revenues during the year has resulted in an increase in ARR assets by 62.9% to ₹1,01,969 Crs and the revenues increasing by 9.1% YoY to ₹583 Crs for the year.

3. Our specific focus on growing the IIFL-ONE Offering has been well received by clients with AUM increasing by 57.7% YoY to ₹27,940 Crs and revenues increasing 58.6% YoY to ₹55 Crs.

4. Overall Net flows during the year were ₹24,096 Crs, despite challenging conditions experienced during the year.

5. On the cost side, we have continued to focus on rationalizing costs downward and increasing productivity. In FY21 fixed employee costs have reduced by 12.8% YoY to ₹261 Crs; the overall increase in total employee costs is primarily due to higher variable and ESOP costs. Administration costs have also decreased by 16.3% YoY to ₹150 Crs. We are confident of further rationalization in these costs in FY22.

6. Operating Profits before tax remained largely flattish, at a decline of 2.2%YoY to ₹348 Crs and overall Profits Before Tax have increased 69.3% YoY to ₹485 Crs, primarily on account of the market uptrends and increasing business activities in the second half of the year.

7. Other Income, which is primarily our earnings on our proprietary holdings in schemes manufactured or distributed by us is a positive ₹137 Crs for the year driven primarily by MTM movements in March 2021, led by the recovering and rising Global indices. This along with the steady Net Revenues have resulted in Profit after Tax rising by 78.9% YoY to ₹369 Crs for the year.

BALANCE SHEET AND CAPITAL DEVELOPMENT

(All figures in ₹Crs)

	ASSETS	31-Mar-21	31-Mar-20
1	**Financial Assets**		
(a)	Cash and cash equivalents	387	681
(b)	Bank Balance other than (a) above	401	498
(c)	Derivative financial instruments	166	132
(d)	Receivables		
(I)	Trade Receivables	226	242
(II)	Other Receivables	116	118
(e)	Loans	3,721	3,632
(f)	Investments	2,513	6,512
(g)	Other Financial assets	153	438
2	**Non-Financial Assets**		
(a)	Inventories	0	0
(b)	Current tax assets (Net)	75	73
(c)	Deferred tax Assets (Net)	1	5
(d)	Investment Property	0	0
(e)	Property, Plant and Equipment	288	299
(f)	Capital work-in-progress	2	1
(g)	Intangible assets under development	0	0
(h)	Goodwill	373	188
(i)	Other Intangible assets	152	88
	Right to Use assets	24	34
	Other non-financial assets	142	85
	Total Assets	**8,740**	**13,026**

BALANCE SHEET AND CAPITAL DEVELOPMENT (continued)

(All figures in ₹Crs)

	LIABILITIES AND EQUITY	31-Mar-21	31-Mar-20
1	**Financial Liabilities**		
(a)	Derivative financial instruments	221	249
(b)	Payables	391	305
(c)	Debt Securities	4,408	5,426
(d)	Borrowings (Other than Debt Securities)	104	2,850
(e)	Subordinated Liabilities	200	562
(f)	Other financial liabilities	408	512
	Finance Lease Obligation	26	35
2	**Non-Financial Liabilities**		
(a)	**Current tax liabilities (Net)**	59	17
(b)	**Provisions**	12	9
(c)	**Deferred tax liabilities (Net)**	34	32
(d)	**Other non-financial liabilities**	49	38
3	**Equity**		
(a)	**Equity Share capital**	18	17
(b)	**Other Equity**	2,810	2,974
(c)	**Non-controlling interest**	-	0
	Total Liabilities and Equity	**8,740**	**13,026**

Key Considerations as on March 2021:

1. Consolidated Net worth stood at ₹2,828 Crs Vs ₹2,992 Crs in FY20. Net worth Ex=Goodwill and intangibles stood at ₹2,303 Crs Vs ₹2,716 Crs in FY20 and average Net Worth Ex- Goodwill and intangibles stood at ₹2,371 Crs Vs ₹2,675 Crs in FY20.

2. ROE Ex-Goodwill & Intangibles has increased to 17% from 8% YoY primarily driven by the increase in PAT YoY, accompanied by the high dividend pay-out in FY21.

3. Debt/Equity ratio decreased from 2.95 on March 31, 2020 to 1.67 on March 31, 2021; due to decrease in overall outstanding debt of Group by ₹4,126 Crs.

4. Debtors turnover ratio moved from 5.58 in FY20 to 6.88 in FY21, due to increase in revenue from operations and a decrease in average trade receivables during the year.