

## Management Discussion and Analysis

# Wealth & Asset Management – An Industry in Transition

The global wealth management industry is nearly 200 years old, and it has undergone massive transformations in the two centuries. If we look back just a decade and a half, we can trace the humungous breadth the industry has traversed in our lifetimes. A confluence of factors such as evolving market conditions, capital expenditure, PE-driven investment activity, mergers and acquisitions, and growing consumption, have fuelled the alternative investment landscape too.



The global financial crisis of 2008 was a watershed moment for the wealth and management industry, with the collapse of Lehman Brothers and the subsequent fallout resulting in an unprecedented loss of trust in the industry and the way it operated. Understandably, investors were wary of putting their money into the hands of those who had been unable to prevent the crisis, and it took the industry considerable time and effort, as a whole, to move past this debacle.

Over the past decade, the wealth management sphere has undergone a significant transformation. Firms have taken a more holistic approach to wealth management, rebuilding trust, and delivering greater value to clients. This decisive pivot involved a greater focus on the regulatory scrutiny of the asset management industry, with new rules and standards being introduced to improve investor protection and reduce systemic risks, such as the Dodd-Frank Act in the US and the European Union's Alternative Investment Fund Managers Directive (AIFMD). The 2008 crisis also highlighted the importance of effective risk management in asset management, with stakeholders turning a hawk's eye towards managing risk and protecting investor capital optimally. In addition, there was an enhanced emphasis on transparency, with investors demanding more information about fees, investment strategies, and risk management practices, and asset managers focusing on strengthening approachability and accountability.

Today, the space is once again in the throes of a transition, with changing imperatives such as net-zero targets, alternatives, customisation, and digitisation driving the need for urgent and targeted action. As wealth and asset management firms adapt to these changes, we must balance the need to deliver superior client experiences while also ensuring competitiveness in a rapidly evolving landscape. Our Annual Report will explore how the industry has evolved since the 2008 crisis, the challenges and opportunities it faces today, and how firms can, as a singular force, take action to thrive in this new era of wealth management.

## MACROECONOMIC OVERVIEW

### Year in Review

The year 2022 brought several surprises for both the Indian and global economies. Marred by rising inflation and consequent rate hikes, 2022 had its share of positives and negatives, with equities witnessing both stellar heights and crushing falls. Despite fears of a global economic slowdown, and a possible recession expected to hit developed economies in 2023, the Indian equity arena stayed strong, with the BSE Sensex climbing to a historic 63,583 points in December<sup>1</sup>. The Indian stock market's ability to withstand global caution depicted the country's robust fundamentals and cemented India's position as the fastest-growing major economy in the world.

India also witnessed the introduction of the Digital Rupee, with the pilot launch of its retail version taking place on December 1<sup>st</sup>, 2022. The currency is expected to make routine financial transactions more convenient, in addition to acting as a secure and dynamic alternative to the physical rupee. In the digital space, India's flagship online payments platform, Unified Payments Interface (UPI), recorded a stellar year, processing 7.3 Bn transactions worth a total of 12.11 Trn rupees, in the first 10 months of the year. This was also the year wherein India's demat accounts grew to a record 10.6 Cr, with the year gone by adding 18 Lakh new accounts and indicating the rising retail interest in market participation. Finally, the year also saw the rupee undergoing a record depreciation of 6.9% against the dollar, on the back of rising crude oil prices, a strengthening dollar and consistent outflow of foreign capital.

## GLOBAL INFLATION

The year 2022 was marked by the impact of inflation, which escalated following the post-pandemic landscape of 2021. Global economies and sectors faced the challenge of persistently rising prices. One of the primary drivers of this inflationary pressure was the increase in crude oil prices, triggered by geopolitical tensions in Russia and Ukraine. Consequently, numerous European economies sought alternative fuel sources to mitigate the situation.

In terms of inflation rates, the United Kingdom experienced a peak of 11.1% in 2022, closely followed by the Eurozone at 10.6%, and the United States reaching a high of 9.1%<sup>2</sup>. Although inflation was widespread geographically, certain parts of Asia observed relatively lower figures. Central banks, which had already focused on fiscal tightening in 2021 to combat inflation, implemented further interest rate hikes in 2022 to manage overheated economies while striving to strike a balance between growth and inflation.

In India, consumer prices for various items surged by 6.5% between December 2021 and 2022. Food prices witnessed a significant rise of 10.4%, while cereals and bakery products experienced an inflationary surge of 16.1%<sup>3</sup>. Fruits and vegetables also saw an increase in inflation at 8.4%. Energy prices rose by 7.3%, with fuel oil prices soaring by 41.5% between 2021 and 2022. Health insurance prices also experienced a notable increase of 7.9%, indicating a general rise in inflation across major sectors.

In response to the rising inflation, the US Federal Reserve raised its benchmark interest rate to a target range of 5-5.25% between 2022 and 2023, reaching the highest level in nearly 16 years<sup>4</sup>. India followed suit by implementing consistent repo rate hikes, leading to a benchmark rate of 6.50%, reflecting a 250 basis point increase since the pandemic<sup>5</sup>. Looking ahead, global central banks are expected to pause on further rate hikes as inflation begins to stabilize worldwide.

<sup>1</sup> <https://timesofindia.indiatimes.com/business/markets/sensex/sensex-nifty-end-2022-with-over-4-gains-how-markets-outperformed-global-peers/articleshow/96622141.cms>

<sup>2</sup> <https://www.ft.com/content/088d3368-bb8b-4ff3-9df7-a7680d4d81b2>

<sup>3</sup> <https://www.bls.gov/opub/ted/2023/consumer-price-index-2022-in-review.htm>

<sup>4</sup> <https://www.bankrate.com/banking/federal-reserve/how-much-will-fed-raise-rates-in-2023/>

<sup>5</sup> <https://www.thehindubusinessline.com/money-and-banking/rbi-likely-to-maintain-an-extended-pause-cut-the-repo-rate-by-100-bps-in-2024-deutsche-bank-report/article66835621.ece>

## Management Discussion and Analysis

## INDUSTRY STRUCTURE AND DEVELOPMENTS

### 1: Evolution of the Global Wealth and Asset Management Industry

#### 1.1 Downfall in Absolute Global Wealth

While 2021 was the year in which global financial wealth expanded by a massive 10.6% YoY<sup>6</sup> - its fastest pace in over a decade - 2022 witnessed a decline in wealth on the back of geopolitical tensions. The conflict between Russia and Ukraine precipitated an energy crunch in Europe, leading to the already high inflation receiving an added boost. Accordingly, the year gone by witnessed an unprecedented hike in global interest rates - an attempt by central banks to tame the surging inflation. With the trifecta of economic, energy and geopolitical tensions weighing on global wealth, a majority of the globe's ultra-high-net-worth (UHNI) individuals witnessed a decline in their wealth. Even as four in 10 UHNIs experienced an increase in their wealth in 2022,

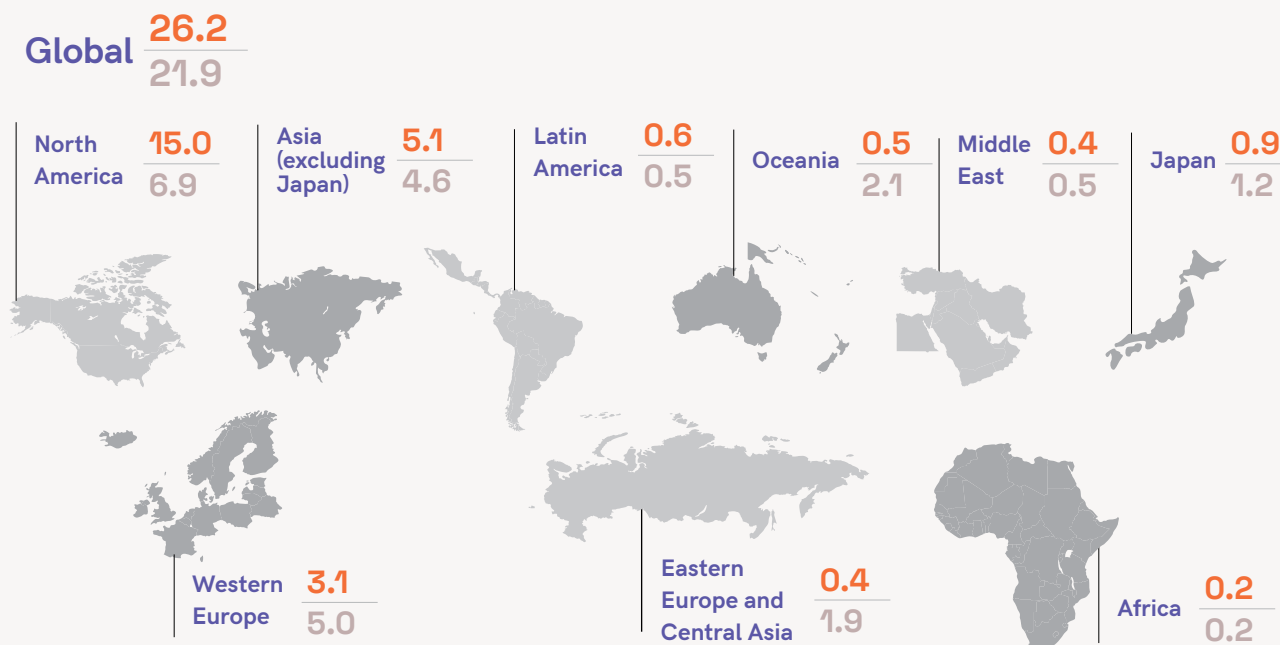
the wealth amassed by this segment plummeted 10%, in US dollar terms, on a global basis<sup>7</sup>.

This sharp bleed in global wealth did not come as much of a surprise, owing to the consistent weakness in equities on the back of a rising interest rate scenario. Geographically, the wealthy in Europe experienced a plunge of 17% in their riches, the largest on a global scale; with the Australasia region following at 11% and America close behind at 10%. On a slightly positive note, emerging markets such as Africa and Asia witnessed a comparatively lower drop, at 5% and 7%, respectively<sup>8</sup>. If the drop in the number of the wealthy is any indicator, the wealth management industry needs to undertake a wholesome transition to counter the losses caused by a multitude of negative triggers.

#### Exhibit 1 - Absolute Financial Wealth and Real Assets Growth, 2020-2021

##### Absolute $\Delta$ in financial wealth, 2020-2021 (\$ trillions)

##### Absolute $\Delta$ in real assets, 2020-2021 (\$ trillions)



Source: BCG Global Wealth Marketing-Global Wealth Report 2022

Note: Wealth in local currency was converted to US dollars at the 2021 year-end exchange rate across all time periods.

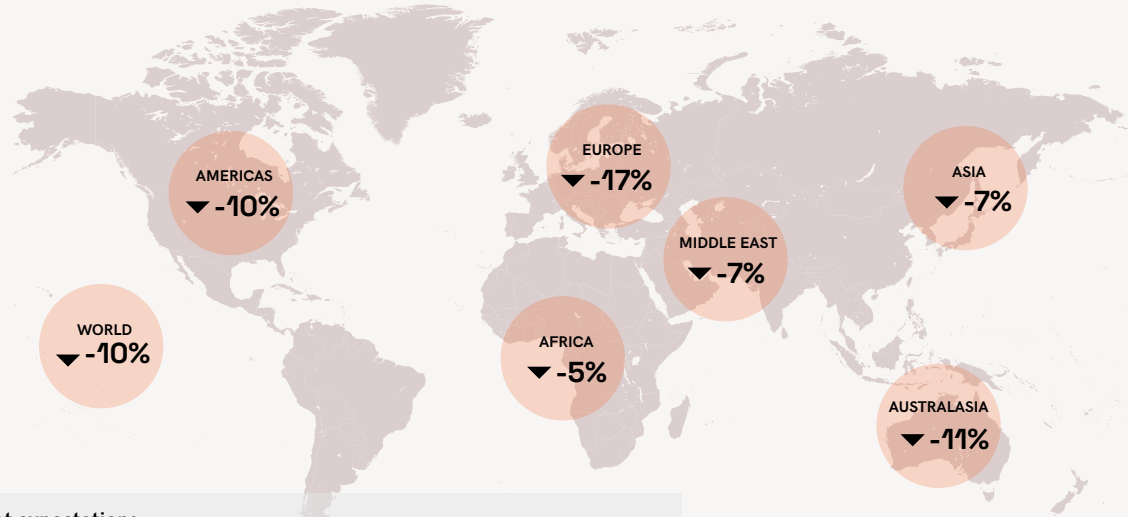
<sup>6</sup> <https://timesofindia.indiatimes.com/business/international-business/global-financial-wealth-jumps-10-6-to-530-trillion-in-2021-report/articleshow/92112964.cms>

<sup>7</sup> <https://content.knightfrank.com/resources/knightfrank.com/wealthreport/the-wealth-report---apr-2023.pdf>

<sup>8</sup> <https://content.knightfrank.com/resources/knightfrank.com/wealthreport/the-wealth-report---apr-2023.pdf>

## Measuring down

% change in aggregate wealth held by UHNIS in 2022



### Great expectations

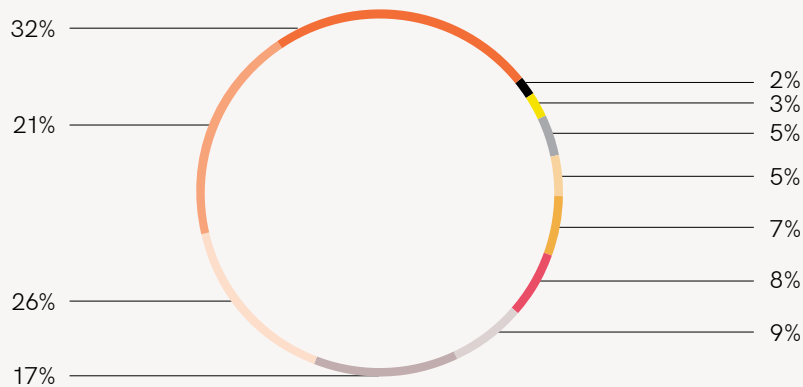
How did/do you expect your clients' total wealth to change in...

	2022	2023
INCREASE	▲ 40%	▲ 69%
REMAIN THE SAME	◊ 16%	◊ 18%
DECREASE	▼ -44%	▼ -13%

Sources: The Wealth Report Attitudes Survey. Wealth Sizing Model, Macrobond Exchange rates as at 30 December 2022

## Portfolio make-up

On average what proportion of...



...total wealth is allocated to:

- Primary and secondary homes
- Bonds
- Other
- Gold

...investable wealth is allocated to:

- Equities
- Private equity/venture capital
- Commercial property indirectly through REITs
- Crypto assets

- Commercial property directly (e.g. ownership of assets)
- Commercial property indirectly through funds
- Investment of passion (e.g. art, cars, wine, etc.)

Source: The Wealth Report Attitudes Survey

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### 1.2 Robust Product-Side Evolution

In keeping with the changing times and new-age trends, the wealth management industry is undergoing significant alterations in the present era. One of the most prominent shifts is the transfer of wealth from older generations to younger ones, accompanied by the rise of self-made millionaires and billionaires across all age groups. This phenomenon has prompted wealth managers to revise their approach to client engagements, as these new clients are influenced by a plethora of factors that are significantly different from the ones that impacted their forebears' relationship with wealth. Accordingly, wealth managers have found it necessary to undertake product-side evolution, making a decisive shift from mere debt and equity solutions to alternatives and other sophisticated products to enable optimal diversification and foster an efficient risk-reward equation.

Wealth management firms have, therefore, evolved to offer a wider range of products, including hedge funds, private equity, real estate, and commodities. These products often have higher risk profiles and require specialised expertise to manage, but they also have the potential to deliver higher returns and help savvy clientele achieve their financial goals. This evolution in wealth management can be considered a sign of the industry's ability and willingness to adapt and innovate to meet changing client needs and market conditions.

Moreover, with competition heating up in the industry, wealth management firms are feeling pressured to innovate continuously, adopt digital-first strategies, emphasise on the ESG agenda and offer customised services to clients. They are starting to adopt a 360-degree view of client requirements, with future-ready wealth managers now delivering more than just performance and adopting a 'plus-plus' attitude towards their offerings.

Another key development is the increased adoption of digital solutions – an approach that became particularly

prevalent in the aftermath of the pandemic. However, wealth managers are also realising that while digital tools can enhance the efficiency and customisation of services, they cannot replace the value of a human touch. These digital solutions are, therefore, being developed to serve as enablers for wealth managers to provide a higher level of service and strengthen relationships with clients.

### 1.3 Transitions in the Business Model

The evolving expectations of wealth management clients have had a significant impact on how advice is structured. With clients now demanding greater convenience, personalised solutions, and more choices, wealth managers are taking concerted efforts to provide appropriate and timely advice. The global wealth management business model is rapidly transitioning due to changing demographics, generational wealth transfer, and the increasing number of millennial high-net-worth individuals, with the industry experiencing a decisive shift from transactional to advisory models to becoming more holistic and all-encompassing.

In the past, wealth management firms primarily focused on selling investment products and generating commission-based revenues from transactions. However, with the rise of sophisticated clients and increased competition, the firms have shifted to an advisory-based approach that emphasises holistic, long-term relationships with clients. As a result, the firms are becoming more comprehensive, offering a wide range of services that go beyond traditional investment products. They provide advice on tax planning, estate planning, retirement planning, philanthropy, and more, with a stringent focus on building stronger relationships with clients, becoming more integrated into their lives, and offering customised solutions that meet their unique needs. New-age wealth management firms are also taking a more holistic approach by integrating banking and lending services and emerging as a comprehensive, one-stop solution for clients, thereby increasing the value of their relationship.



## Asset Management Landscape

The global asset management landscape performed incredibly well in the aftermath of the pandemic, maintaining a strong path towards sustainable growth. However, 2022 and the first few months of 2023 were a clarion call for the segment, with previous tailwinds such as rising inflation and consistent geopolitical tensions coalescing into turbulence in the latter half of 2022 and the early months of the ongoing year. Accordingly, global wealth has sustained significant erosion, necessitating new models of thinking and performance. Despite the evolving paradigms, multiple reports suggest that the global asset management industry is in for a strong ride in the ongoing decade.

According to a report<sup>9</sup>, the global asset management market was valued at USD 375.14 billion in 2022 and it is predicted to hit around USD 7597.35 billion by 2032, poised to clock a CAGR of 35.2% during the forecast period 2023 to 2032.

Key takeaways from the report include:

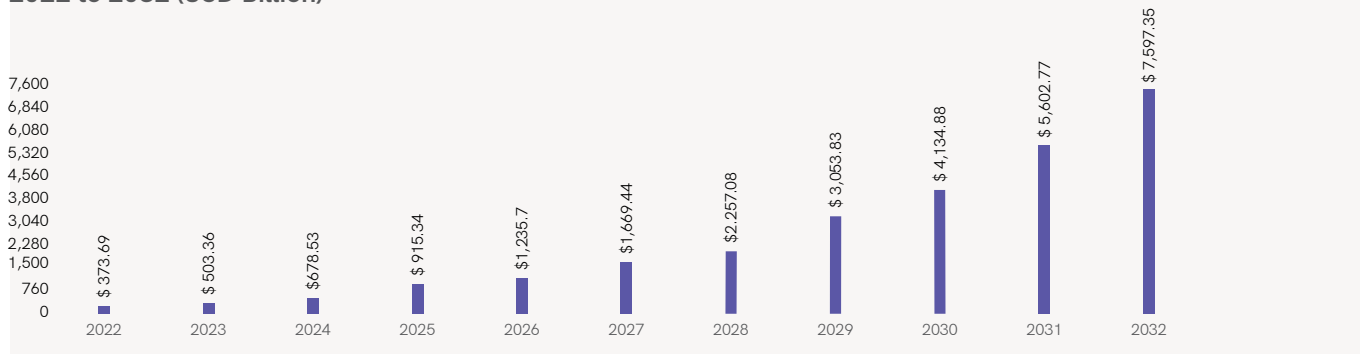
- North America dominated the market and generated more than 34% of the revenue share in 2022.
- By Component, the solution segment contributed more than 57% of revenue share in 2022.
- By Asset Type, the digital assets segment recorded of around 25.8% revenue share in 2022.
- By Application, the aviation segment generated more than 82% of the revenue share in 2022.

Separately, the landscape will also stand to benefit from the rising wealth being amassed by the HNI and mass affluent classes, as well as a focus on retirement-ready investments. Reports also suggest that a pivot in investor stance, which is an ongoing attempt to effectively counter volatility and attain specific targets, will bolster alternative asset categories including private equity, private debt and real assets.

In terms of the potential challenges accosting the asset management landscape, there is a possibility of the higher expenses involved in comprehensive solutions hampering the growth of the sector, and this should act as a wake-up call for service providers to create more value-for-money platforms capable of offering one-stop solutions at attractive prices.

On a geographic scale, a report indicated that the China-based asset management landscape would reach a potential valuation of \$348.3 Bn, by 2030, at a CAGR of 27.3%, trailed by Japan and Canada at 14.5% and 16.4%, respectively<sup>10</sup>. Coming to India, reports suggest that the country houses the second highest number of HNIs, among BRICS nations, with this affluent populace expected to witness a 75% rise between 2020 and 2025, and reach the coveted above-6 lakh mark. Further, the total number of UHNIs in India is seen rising by 39%, between 2021 and 2026, and coming to rest at around 19,000, three years down the line<sup>11</sup>. While this sustained rise in the affluent class is a reason for celebration, given the possibilities of the ongoing global slowdown manifesting into a potential recession, reports are suggesting a cautiously optimistic stance while navigating the opportunities and pitfalls embedded in the asset management landscape.

**Asset Management Market size, 2022 to 2032 (USD Billion)**



Source: Precedence Research

<sup>9</sup> <https://www.precedenceresearch.com/asset-management-market>

<sup>10</sup> <https://www.globenewswire.com/news-release/2023/02/10/2605781/0/en/Global-Asset-Management-Market-to-Reach-1-2-Trillion-by-2030.html>

<sup>11</sup> <https://inc42.com/resources/decoding-the-wealth-management-market-in-india-trends-building-blocks-of-a-successful-model/>



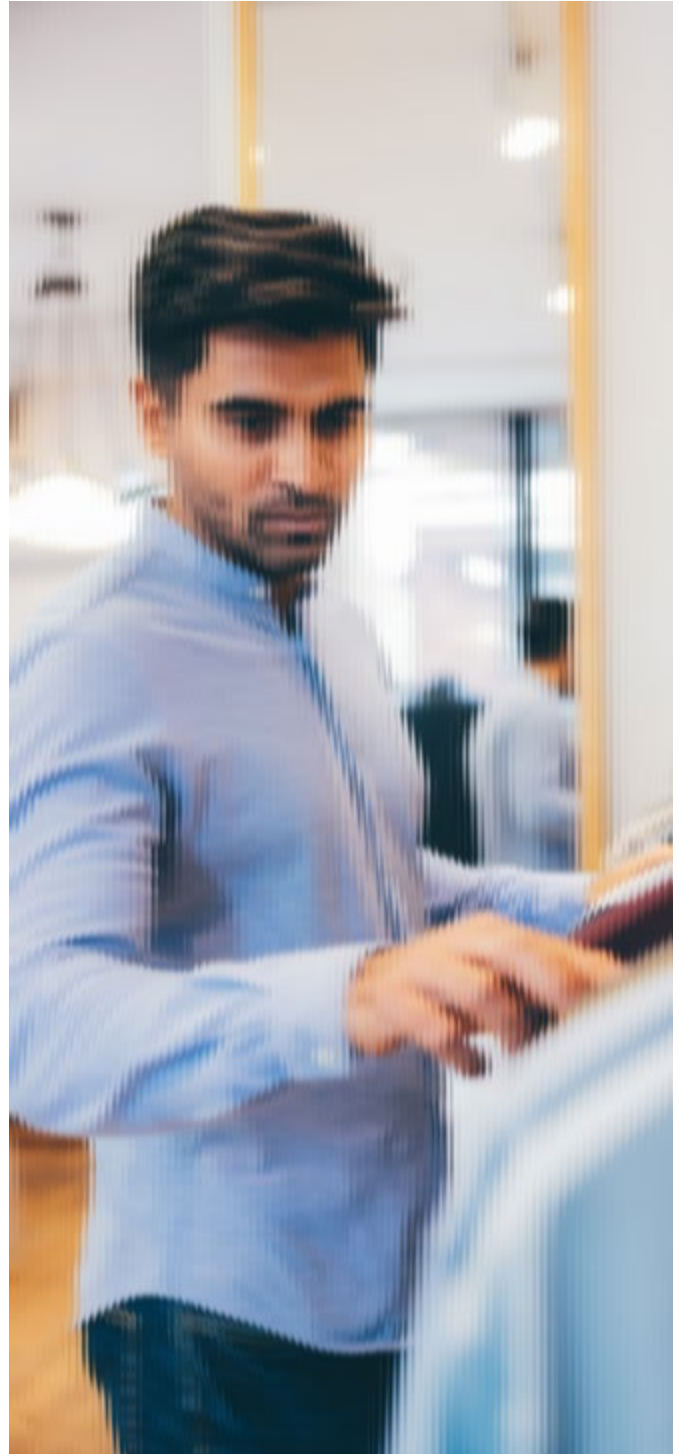
## Management Discussion and Analysis

### Alternative Investment Landscape

Going forward, the asset management industry, at least in the near term future, is expected to be buffeted by consistent volatility, a high-interest rate regime and low growth, necessitating a decisive pivot towards alternative investment approaches capable of driving sustained growth and effective risk-reward equation. A recent report suggested that the AUM of the alternative investment industry could witness a CAGR of 9.3%, between 2021 and 2027<sup>12</sup>. The alternative investment landscape, on a global scale, is expected to be powered by private credit strategies offering higher rates. In addition, reports also suggest an increased focus on hedge fund strategies capable of capitalising on the evolving volatility<sup>13</sup>. Similarly, private equity and REITs will continue to find favour with both investors and asset managers, albeit on a more nuanced level, as these segments deal with higher interest rates and comparatively lower growth figures. Such an environment will trigger strong competition for appealing opportunities, making it more challenging to manoeuvre.

In the non-traded REITs space, asset managers will experience ample opportunities and challenges as they navigate a fast-evolving space driven by residential rental demand in some areas, and a lack of demand for spaces in other sectors, with the pandemic introducing new-age trends such as online shopping and hybrid or remote work. However, positive trends are expected from the expanding industrial spaces, e-commerce infrastructure including cold storage, warehouses and logistics and healthcare facilities, making it a potentially challenging yet rewarding market for those able to attain the sweet spot. While these aspects continue to impact the alternative investment landscape on a global scale, the space will also witness robust adoption of technology and automation to become more streamlined, profitable and current.

In the Indian scenario, reports from SEBI suggest that AIFs raised almost ₹7 Trn in capital in 2022, as against ₹4.5 Trn in 2020<sup>14</sup>, with market players opining that the industry has the potential to grow 4 to 5 times more, in the coming years, thus approaching the market size enjoyed by the mutual fund industry at present. This optimism, which emerges during evolving market conditions that are driving up the appeal of alternative investments, indicates strong growth potential for the sector, especially in the domestic milieu.



<sup>12</sup> <https://www.mas.gov.sg/news/speeches/2023/growth-opportunities-of-alternative-investment-industry-and-its-ecosystem-in-singapore#:~:text=According%20to%20Preqin%2C%20the%20alternative,the%20global%20asset%20management%20industry>

<sup>13</sup> <https://www.nasdaq.com/articles/alternative-investments-outlook-for-2023%3A-a-shifting-landscape>

<sup>14</sup> <https://www.businesstoday.in/mutual-funds/story/aifs-can-grow-4-5x-to-become-as-big-as-mutual-funds-industry-say-fund-managers-371121-2023-02-22>

## India: Poised for Strong Growth

As we enter a volatile financial ecosystem, the asset management sphere must prepare itself for a potential deceleration in the country's GDP, with a CRISIL report<sup>15</sup> expecting a 100 bps YoY deceleration, from 7% to 6%, in FY24. According to the report, this drop in GDP growth can be attributed to three key factors – a global slowdown precipitated by rising inflation and consistent rate hikes; the absolute impact of RBI's six rate hikes in the previous financial year; and the ongoing geopolitical crisis in Europe.

Accordingly, the industry needs to recalibrate itself to better navigate a financial landscape buffeted by potential global downside risks to India's growth story, which will now require enhanced support from domestic demand. The scenario is further exacerbated by the impact of RBI's monetary policy moves that are expected to affect domestic growth over the next quarters, and the volatility in crude and commodity prices, on the back of the Russia-Ukraine war. While several factions are predicting a doomsday for the fastest-growing major economy in the world, we do have reasons to cheer, and that includes the moderation in domestic inflation with the report suggesting that it could lower to 5% in the ongoing

financial year, from 6.8%, on the back of a high base. There is also a possibility of a robust rabi crop harvest facilitating a cooling in food inflation, and the globally slowing economy pushing core inflation downwards.

Even with global recessionary fears and risks, India is poised for strong growth, especially in the medium term. The report opines that over the next five financial years, the Indian economy could depict a 6.8% growth in GDP, on an annual basis, bolstered by a boost in capital and productivity. A key enabler here would be the higher scale of capital expenditure by the government, as well as adequate support from the private sector. Domestic productivity will also witness sustainable growth, propelled by digitisation and efficiency-focused reforms such as the GST (Goods and Services Tax) and the IBC (Insolvency and Bankruptcy Code). The Indian growth story will also be supported by enhanced physical infrastructure, innovation and efficient payment platforms capable of boosting connectivity and reducing the logistics costs being borne by industries, thus prompting sustainable expansion and cementing the growth potential.

### Three reasons why India's GDP growth could slow to 6% next fiscal

Real GDP Growth (%)



F: Forecast

Source: NSO, CRISIL

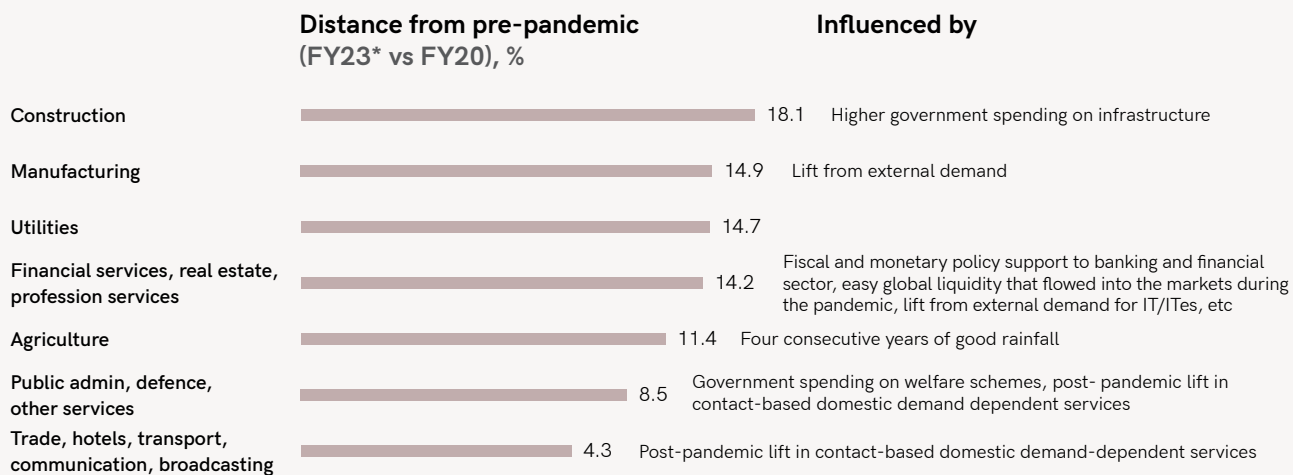
<sup>15</sup> <https://www.crisil.com/en/home/events/india-outlook/2023/rider-in-the-storm.html>



## Management Discussion and Analysis

### What has supported growth so far

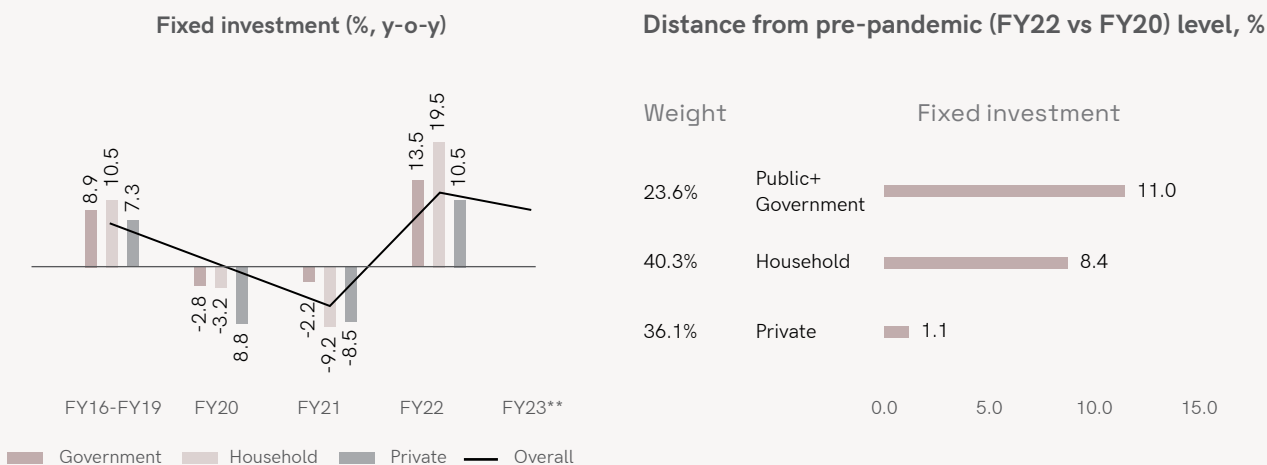
Government support, global demand, good monsoon have lifted demand in these sectors



\*Second advance estimates

Source: NSO, CRISIL

### Government still key investor, but private sector making a slow comeback



Note: \*Second advance estimates, NSO

Source: NSO, CRISIL

The future of India, in the country's Amrit Kaal, will be driven by its skilled youth and entrepreneurial workforce, but there is a significant need for focused reskilling and upskilling initiatives to tap into the potential inherent in the young and educated populace. In terms of India's corporate growth capability, CRISIL foresees corporate revenue rising by double digits in the ongoing financial year, despite the challenges being precipitated by the global slowdown and high-interest rate regime. Additionally, the commodity supercycle boost in FY22 unlocked a 16-18% rise in revenue in the last fiscal, and this bulwark is expected to remain resilient in FY24 as well, further bolstering the country's corporate revenue growth in the current financial year.

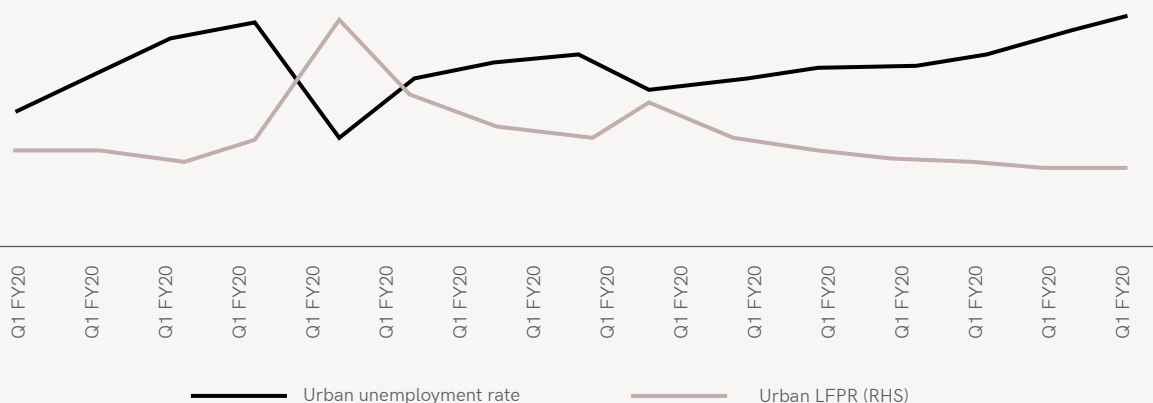
Moving to the demand side of the equation, the financial landscape will be empowered through a sustained rise in urban incomes and government employee payouts, which are expected to outperform the contribution of rural income. This rise in urban income will prompt a high demand for premium products and services, further boosting the ongoing two-speed recovery being witnessed by the economy in the post-Covid paradigm. However, the support offered by domestic demand will be somewhat tempered by a potential cooling in exports, owing to the global slowdown impacting demand from foreign shores. However, despite the slowdown making its presence felt in the past fiscal itself, the report indicates that six out of the 10 major export segments have witnessed a boost, thanks to the government-backed PLI (Production-Linked Incentive) scheme. Accordingly, FY24 is expected to witness moderate merchandise export growth of 2 to 4%, on the back of the PLI scheme which offers robust support thanks to the diversification in the global supply chain and a

focus on 'friend-shoring' strategies, which involves strategic partnerships with India's multitudinous geopolitical allies.

The wealth management space will also be supported by cross-sectoral capacity utilisation, which is expected to rise above the 10-year average, unbridled by the tepid growth in both the domestic and export arenas. However, a sharp surge in investments in legacy assets may be countered by many sectors currently indicating below-peak utilisation, which could give pause to the momentum being built up by the asset management industry. On the industrial capex aspect, the report indicates a potential rise of ₹5.7 Trn, on average, in the FY23-FY27 duration, as against a ₹3.7 Trn growth of the last five-year period, driven by the PLI scheme and burgeoning new-age sectors. This rise in capex will also be supplemented by infrastructure spending, which is likely to power 12-16% growth in the former during the current fiscal, in line with the targets set by the National Infrastructure Pipeline.

Even as these factors offer both headwinds and tailwinds to the domestic asset management space, sustainability will also essay a key role in domestic market development, with green capex in both infrastructural and industrial segments rising to 15% by FY27, from the 9% figure at present. As India trudges ahead on the path to global superstardom, the domestic asset management space will also witness the effect of climate risk mitigation on the prices of commodities, export markets, capital spending and overall revenue, making it imperative for the industry to chart a roadmap capable of navigating these challenges and opportunities efficiently and sustainably.

### Employment prospects improve in urban areas



Source: NSO, RBI, CRISIL

## Management Discussion and Analysis

## OPPORTUNITIES AND THREATS

### 2: Emerging Key Trends in the Indian Wealth and Asset Management Industry

#### 2.1 Growth in Absolute Wealth

Even as the global wealthy experienced a concerning period of volatility and drop in absolute wealth in 2022, India was an outlier with nine out of 10 UHNIs in the country witnessing an absolute growth in their wealth, despite the tumultuous ecosystem. According to a report, this stellar figure is more than double the global average, wherein only 40% of global UHNIs experienced a growth in their wealth<sup>16</sup>. Additionally, the Indian UHNI populace witnessed their wealth grow by over 10% in the year gone by, driven by the country's resilient economic performance amidst a global slowdown. The report further mentioned that UHNIs have allocated 84% of their investable wealth to assets such as real estate, equities and bonds, with the equity market enjoying the highest allocation with 34% of the total amount being parked in it. The debt market came in third at 16%,

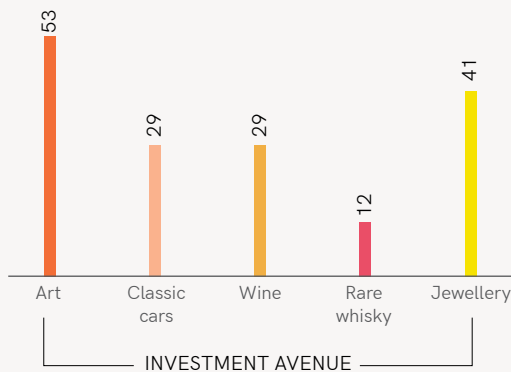
trailing behind commercial property that amounted to 25% of the investments.

The same report stats that all Indian UHNIs foresee their wealth growing in 2023, as against 69% UHNIs on a global basis. Additionally, 47% of the UHNIs expect their wealth to rise over 10% this year, with the remainder looking forward to a minimum hike of 10%. Accordingly, Indian UHNIs are indicating much higher volumes of optimism than the global average, and this positive sentiment is expected to bolster both investment and consumption patterns in the months ahead.

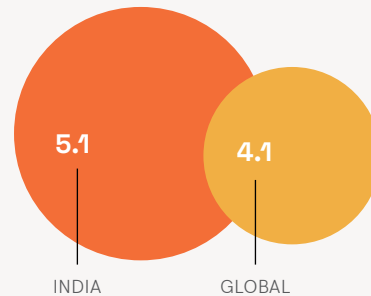
On a global scale, capital appreciation, capital preservation, income generation and diversification are the primary goals for UHNIs, for 2023<sup>17</sup>.

#### PASSION PURCHASES LIKELY IN 2023

% of Indian UHNIs

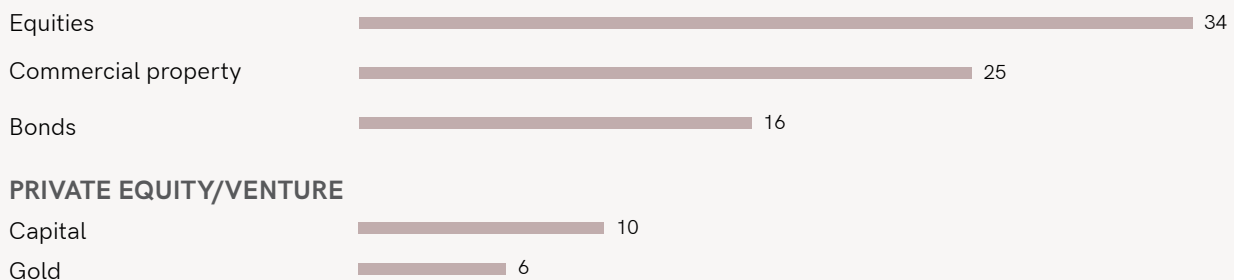


#### NUMBER OF AVERAGE HOMES HELD BY UHNIs



#### PROPORTION OF INVESTABLE WEALTH FOR ASSET CLASSES

Percentage allocation by Indian UHNWIS in India



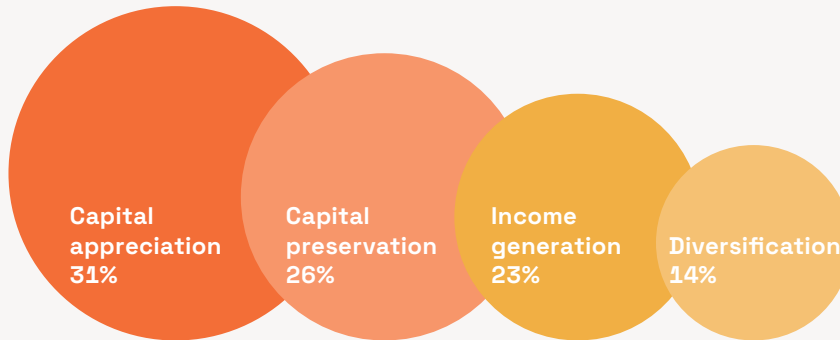
Source: Knight Frank Wealth Report 2023

<sup>16</sup> [https://www.business-standard.com/article/current-affairs/wealth-of-9-in-every-10-ultra-rich-indians-rose-in-22-knight-frank-report-123011600498\\_1.html](https://www.business-standard.com/article/current-affairs/wealth-of-9-in-every-10-ultra-rich-indians-rose-in-22-knight-frank-report-123011600498_1.html)

<sup>17</sup> <https://content.knightfrank.com/resources/knightfrank.com/wealthreport/the-wealth-report---apr-2023.pdf>

## Capital Appreciation first

Primary goals for HNI wealth in 2023



Source: Knight Frank HNW Pulse Survey

# 31%

are targeting capital appreciation

Impact investing/  
philanthropy 6%



## 2.2 The Greatest Transfer of Wealth

While the wealth ecosystem in India can be considered highly conducive to the expansion of the domestic asset management industry, there are several trends that industry stakeholders need to keep in mind before catering to the growing cadre of wealthy clients. First and foremost is the transition in the personalities of investors- 2022 has witnessed the old guard, which has ruled for several decades, giving way to the new guards- necessitating a decisive pivot in the way asset managers approach clients and fulfill their unique requirements.

Indeed, one major shift in the asset management space today is the transition among wealth holders. The ongoing decade bears witness to one of the most voluminous transfers of wealth, from the older generation to the next, in addition to also being the playground for an increasing number of self-made millionaires and billionaires across all age groups. This transition is being fuelled by the rise in the country's entrepreneurial spirit and an increasingly enabling regulatory environment driving the Indian startup ecosystem to the fore. Accordingly, the industry is experiencing an unparalleled shift in those holding the wealth as well as the way this wealth is being acquired, thus making a new-age client playbook and engagement methodology the need of the hour. As stakeholders work on rewriting existing strategies, the focus should remain on certain facets of this new legion of the wealthy. The new clients are different from their forebears, and, consequently, the factors that influence their relationship with wealth and wealth managers, are also significantly different. It is, therefore, paramount that today's wealth managers analyse and understand these aspects while charting a successful journey for clients.

## 2.3 ESG Considerations

With the global investment ecosystem being increasingly conscious of ESG (Environmental, Social and Corporate Governance) aspects, the Indian asset management landscape is also experiencing a wave of change. According to a recent report<sup>18</sup>, there is a significant growth potential in India's sustainable investing ecosystem, with an indication that by 2030, the segment has an opportunity to mobilise \$1 Trn towards major ESG goals such as seamless climate transition. This is expected to lead the country to its ambitious net zero emissions target by 2070. The wealthy populace is keen on putting their wealth to good use, while also generating sustainable returns. Accordingly, asset managers have a crucial role to play in ESG investments, such as investing in companies that prioritise sustainability, social responsibility, and good governance practices.

Industry stakeholders should leverage this opportunity to empower clients in taking the right decisions by assisting them in identifying and assessing companies that align with ESG principles. Asset managers can leverage their client base to advocate for ESG practices in their invested companies. They can engage with management teams to promote sustainable business practices, enhance social responsibility, and elevate governance standards. Optimal monitoring of clients' ESG portfolios will bring in a transparency and help investors hold companies accountable for their ESG practices, ensuring that their investments are aligned with their values.

<sup>18</sup> <https://www.thehindubusinessline.com/markets/india-can-attract-1-trillion-in-esg-investment-stanchart/article65942249.ece>

## Management Discussion and Analysis



### 2.4 Customisation is Becoming Table Stakes

Over the years, customisation in asset management has become exceptionally important due to the varying investment landscape and the surging demand for tailored investment solutions from investors. In this scenario, asset managers who desire to remain resilient and relevant must prioritise customisation as it helps them build portfolios that align with the unique needs, goals, and risk tolerances of individual investors and boost outcomes.

Further, customised portfolios are preferred owing to the increased flexibility and control offered by such plans. Investors get more flexibility with the option to adjust portfolios based on their changing needs and circumstances, thus mitigating risk and maximising returns over time. Many investors today are also keen on customisation as it boosts tax efficiency optimally, making it a win-win scenario for the new-age clientele seeking hyper-personalised experiences. Asset managers who offer bespoke solutions also enjoy a competitive advantage over their peers as clients today are willing to pay more for tailored services.

### 2.5 Digitisation as a Key Enabler

From customisation to optimal risk mitigation and maximised returns, digitisation is fast evolving as a key enabler in the asset management ecosystem. By automating manual processes, limiting the possibility of errors and improving efficiency, digitisation frees up time, enabling asset managers to bring the human element back into their client engagements. In addition, it can also facilitate cost savings, faster processing

times, and improved productivity. Digitisation also promotes scalability, permitting asset managers to serve more clients and manage more assets without significantly increasing headcount.

It encourages personalisation of services for clients, a highly efficient management process and analysis of copious amounts of data that result in more informed investment decisions. Add to it the fact that digitisation also plays a key role in better regulatory compliance by automating checks and ensuring that all necessary documentation is in place. There is no doubt that optimal digitisation can prove to be an absolute competitive advantage for first-movers in the asset management space, ensuring better client engagement and retention in an increasingly challenging industry.

In terms of threats, the Indian wealth and asset management space will have to contend with entry of new players in the market. This competition for customers puts pressure on fees and services, even as the regulatory bodies become more stringent in their approach towards wealth management sector norms. Subsequently, there is a rise in compliance costs and enhanced regulatory scrutiny, which may be a cause of concern for some parts of the industry. Additionally, global macroeconomic tension, market volatility and a fear of approaching recession, is prompting customers to shy away from long-term commitments.

While these issues can impact the industry, the outlook remains cautiously positive, thanks to the bevy of opportunities available in the sector and we are hopeful of maintaining a decisive path towards success.

## REVIEW OF BUSINESS AND OPERATIONS

### Segment-wise and Product-wise Performance

360 ONE WAM Limited reported a consolidated Profit After Tax of ₹668 Cr, for FY23, up 14.8% YoY. Operating Profit Before Tax stood at ₹847 Cr, up 37.9% YoY. ARR Revenue rose 15.1% YoY at ₹1,050 Cr, and 5.3% YoY, at ₹266 Cr, for the last quarter of FY23. We are especially proud of the improvement in quality of revenues that we have been able to achieve over the last four years since our listing in 2019. Revenue from Operations is up 11.9% YoY at ₹1,565 Cr for FY23, mainly driven by strong flows in ARR assets. Our Total Revenues are up 2.2% YoY, at ₹1,569 Cr, for FY23.

Segment-wise, our wealth management division witnessed a rise in Revenue from Operations to ₹1,110 Cr, from ₹1,038 Cr in FY22, with the ARR revenue rising to ₹657 Cr, from ₹553 Cr in the year ago period. Further, the TBR Revenue for this sector stood at 454 Cr in FY23, a drop from 485 Cr in FY22. Other income saw a drop from ₹112 Cr in FY22 to ₹3 Cr in FY23, and the cost dropped from ₹613 Cr to ₹527 Cr in the same period. Accordingly, our Profit Before Tax stood at ₹586 Cr, for FY23, as against ₹537 Cr in FY22, for the wealth management business.

Moving to the Asset management vertical, our Revenue from Operations rose to ₹455 Cr in FY2023, as against ₹360 Cr in the previous year, with the ARR revenue rising to ₹393 Cr from ₹359 Cr. The TBR revenue rose to ₹62 Cr in FY23, from ₹1 Cr in FY22, and other income fell to ₹1 Cr, from ₹26 Cr in the year-ago period. Our cost increased to ₹191 Cr in FY23, from ₹171 Cr in the previous fiscal. Finally, the Profit Before Tax, for the Asset Management segment, stood at ₹264 Cr in FY23, up from ₹215 Cr in FY22.

### Deep client relationships built on long-standing and experienced team members

We place great emphasis on the role that our 1000+ people play in aligning the interests of our customers and our shareholders. 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 the average AUM per client continues to increase as the Team Leader vintage increases: 51% of our clients have been with us for over 5 years, highlighting the balance between onboarding new clients each year while ensuring high continuity on existing ones. For the year, our client attrition both in numbers and AUM remains very low – at 1.2% and 1.7%, respectively.

Currently, we have around 64 team leaders and 140+ relationship managers. To give an idea about the productivity

metrics, while the average count of families managed per team leader is 110+. Further, the high continuity of our senior relationship managers – 72% of our Team Leaders have been with the company for over 5 years – gives us a distinct advantage over our peers. Not only does this drive client continuity, but it also allows for significant improvement in productivity and AUMs – a testimony of high stickiness of clients and TLs alike.

### FUTURE BUSINESS OUTLOOK

The global economic outlook faces uncertainties fuelled by the ongoing geopolitical tensions and policy actions taken by central banks in response to a higher inflationary environment. Most global markets, including India, ended FY23 with a negative bias and high volatility. India, however, continues to be a bright spot attracting flows both globally and locally driven by strong local macros trends and consumer demand.

As our Company completes 15 years, we are committed to achieving sustained value creation for all stakeholders through transparent, consistent, and high-quality revenues. Our holistic and innovative product offering (including the market-leading wealth advisory model and comprehensive alternates platform), superior human capital aligned with client's interests, robust digital and technology framework are key drivers of this strategy.

We strongly believe that India's long-term macroeconomic tailwinds and sustained monetisation events will be an impetus to the wealth and alternates asset management industry that will enable 360 ONE deepen its existing clients' wallet share and make deep inroads into new geographies. We also believe there is tremendous potential to broaden the wealth management industry's addressable market beyond the traditional base of Tier-I cities. We place particular emphasis on expanding our operations in these domestic geographies and selective offshore locations.

On the asset management front, we continue to enhance our alternative investments' (AIF/PMS) strategy coverage and capabilities. This space has seen impressive evolution over the past decade and is estimated to deliver stronger growth in the future. We are well positioned to benefit from this opportunity, given our industry-leading position, continual product innovation, increasing traction with global institutions and, responsive product development attuned to shifts in the investment landscape.

Our overall retentions remained healthy with aggregate ARR retention at 69 bps. The wealth management ARR retention was at 70 bps, while asset management ARR retention was at 69 bps. Also, our cost-to-income during the year stood at 45.8% vs. 51.1% in FY22 with a successful transition towards steady cost structures. As a result, the profitability stood at ₹668 Cr in FY23, up 15% YoY.



## Management Discussion and Analysis

**For 2024, 360 ONE remains well poised to achieve sustained, profitable growth owing to the following factors:**

### Best positioned in one of the most attractive global markets and sectors

- India remains one of the brightest spots in the global economy for the next decade
- Financialisation and growing share of managed investments are clear trends that are expected to create strong tailwinds
- Leadership in wealth, and alternate asset management, places us in pole position to benefit from these macro factors

### Best-in-industry recurring revenue book and pioneering shift to fee-based advice

- Focused execution to achieve best-in-industry recurring revenues and best shift to ARR-generating assets
- Clear market leader in the value proposition delivery, and breadth and depth of offerings to wealthy families
- Disciplined and unique process for fund management showing results in our performance and with our institutional clients

### Disciplined capital management and shareholder focus

- Relentless focus on high-quality revenue, cost discipline, and capital efficiency to deliver leading RoE
- Capital-efficient business model across wealth and asset management
- Consistent track record of prudent capital management and dividend pay-outs

**We are strongly on course to execute our three-pronged strategy of Growth, Resilience and Agility**



### Growth

- Deepen existing relationships, expand our footprint, and build the next segment with our industry-leading advisory and differentiated propositions
- Build on India's most comprehensive alternates platform offerings, and deepen our penetration with global institutional segment



### Resilience

- Consolidate our leadership position in recurring revenue by further strengthening our advisory to discretionary range and fund proposition
- Maintain our organisational DNA of long-lasting client relationships, and a strong and unique values-driven culture



### Agility

- Accelerate our digital transformation and technology investment journey to provide best-in-class tools and automation to our clients and advisors

## 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 depend on the appropriateness of the investment options provided and the performance of our client portfolios and funds. Good investment performance increases the attractiveness of our products among clients resulting in higher inflows and a consequent increase in our revenues. Hence, events that impact 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 offered to clients. We also have a Product Approval Committee for complex/structured products. That apart, a detailed Risk Appetite assessment of the client is conducted, based on which an Investment Policy Statement (IPS) is prepared for the client. Hence, actual asset allocation can be checked against this and corrective action can taken. That apart, our Internal Auditors check that investment rationales are maintained and regularly updated. We also have Investment and Valuation Committees and a Risk Management team that monitors portfolios managed by us internally.

### General Economic and Financial Services Industry Conditions in India

Our Company is in the business of providing wealth management services, and with a majority of our operations in India, our results of operations are highly dependent on the overall economic conditions of the domestic market, 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 (omitting blips like 2019 and 2020), which, together with the increasing financialisation 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 if unforeseen events negatively impact our clients' investment portfolios, it could impact the demand

for investment services. Consequently, our financial condition and operational results may be significantly and unfavorably affected.

### Competition and Market

We face significant competition 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 an 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 factors could reduce our market share and profitability.

There is also a fundamental change happening in the distribution of financial products, with the industry gradually transitioning from a commission-based model to a fee-based model. This has an effect on the revenues of asset allocators like our Company. The 360 ONE Plus product platform has been launched to address this change and it will attract clients who prefer the fee-based model.

We believe our wide product offerings, 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, RBI, IRDAI, the various stock/currency/commodity exchanges and depositories.

In the recent years, existing rules and regulations have been modified, new rules and regulations have been enacted and reforms have been implemented. The intention has been to provide tighter control and more transparency in the various regulations and policies. Such changes in government and regulatory policies may demand changes to our business operations, products and pricing, and technological processes, resulting in additional costs and management time.

While it may be possible that certain regulatory changes would be positive for some of our business operations, the possibility of these changes adversely affect our financial condition and results of operations exists.

We have a dedicated Compliance team to interpret regulations, submit regulatory returns and interface with

## Management Discussion and Analysis

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 are part of an 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 form a significant proportion of our total expenses. 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 opens up the possibility of frauds and errors. To mitigate these risks, we have written procedures, maker-checker controls and approval of all exception requests by Risk Management team. The efficacy of these are checked by Internal Audit.

Our business operations heavily rely on Information Technology (IT) systems, which play a vital role in enhancing our productivity. However, these systems also present significant risks, including potential system failures, information security breaches, and the vulnerability to 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. There is 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 encourages users to save working files on a company-administered OneDrive. While emails are accessible on mobile phones, no files/attachments can be saved on these devices. A Chief Information Security Officer (CISO) is responsible for information security.

Additionally, we have a comprehensive Business Continuity and Disaster Recovery plan that includes storing data on a cloud server. This has been thoroughly tested to ensure its effectiveness. 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

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 may affect us.

### Development and Implementation of Risk Management System

We have a central Risk Management department that reports to the Chief Operating Officer and the Boards and/or Audit Committees of 360 ONE WAM LIMITED and its subsidiaries. There are also separate Risk Management heads for 360 ONE Prime (NBFC) and 360 ONE Asset Management to focus on the risks pertaining specifically to those businesses. 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 Mutual Fund (MF) Risk Management Policy, 360 ONE Prime Policies pertaining to 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 Alternative Investment Fund (AIF) portfolios. There is representation from the Risk Management team on Investment, Valuation and Risk Management Committees (RMCs) of the various businesses. Key risk metrics that track the principal risks faced by the various businesses are reported to the RMC at a group level, on the basis of certain pre-approved thresholds. This enables the Board level RMC to monitor that risks are being managed at an acceptable level and prompt the Management to take action whenever things start going out of line.

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.

Our Company has ensured our internal audit and control systems are adequate and commensurate with the nature of business, regulatory prescriptions and the size of our operations.

The Internal Audit of our Company and subsidiaries is conducted by KPMG Assurance and Consulting Services LLP (KPMG), as per the scope suggested by Audit Committee(s) of the Company and its subsidiaries and approved by the respective Boards. In the case of 360 ONE Prime Limited, from FY2022-23, this is being conducted by a Head-Internal Audit who is part of the central Risk Management team, as per RBI guidelines, and he will be assisted in this by KPMG.

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. Our internal audit team conducts risk-based audits across various processes. They also assess the state of internal financial controls and provide their opinions. The internal audit reports are directly presented to the respective Boards' Audit Committees by our Internal Auditors. In addition, we comply with the 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 identifies 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 whistle blower mechanism (backed by a policy that promises that no action will be taken against the whistleblower), and providing multiple channels (email/ website/ phone) managed by an external service provider (for complete independence). Employees (and other stakeholders) can record complaints and grievances, anonymously, if they choose to remain so, and all whistleblowing complaints are tracked and investigated by a Vigilance Committee, with representation from Human Resources, Risk Management, Compliance and Business.

This mechanism is meant to facilitate reporting of unethical behaviour, actual or suspected fraud, or violation of our Company's Code of Conduct and ethics.

Another key aspect of governance is managing and resolving conflicts of interest, if they arise. We have a Conflict of Interest Policy under which a Conflict Resolution Advisory Board (CRAB), comprising senior executives, has been formed. 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, beyond certain thresholds, is also submitted to the Risk Management Committee of the Board.

## Internal Financial Controls and their Adequacy

Our Company has 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 design and effectiveness of the key controls were tested by Internal Auditors and no material weaknesses were observed. Further, Statutory Auditors have verified the systems and processes and confirmed that the Internal Financial Controls system over financial reporting are adequate and operating effectively.

## Management Discussion and Analysis

## REVIEW OF FINANCIAL PERFORMANCE

360 ONE WAM Limited, earlier known as IIFL Wealth & Asset Management (360 ONE) is one of the largest wealth and asset management firms in India. Founded in 2008, 360 ONE has grown steadily and now manages assets of more than ₹3,40,834 Cr, as on 31<sup>st</sup> March 2023. We operate out of 28 offices spread across the world and have an employee strength of more than 1,000 members.

### Assets Under Management and Profitability

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

Particulars	(All figures in ₹ Cr)		
	2022-23	2021-22	YoY Growth (%)
Annual Recurring Revenue Assets	1,67,174	1,44,432	16
360 ONE Plus* Assets	42,307	32,724	29
Funds Managed by 360 ONE Asset**	58,298	55,574	5
Distribution Assets Earnings Trail Fees	61,203	51,815	18
Lending Book (Net Interest Margin on Loans previously)	5,367	4,318	24
<b>Transactional Assets</b>	<b>1,07,169</b>	<b>1,17,313</b>	<b>-9</b>
Brokerage	97,591	99,856	-2
Distribution assets not earning trail fees	9,578	17,458	-45
<b>Total AUM</b>	<b>2,74,343</b>	<b>2,61,745</b>	<b>5</b>
Add: Custody Assets	66,491	65,493	2
<b>Total AUM including Custody</b>	<b>3,40,834</b>	<b>3,27,237</b>	<b>4</b>

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

Particulars	(All figures in ₹ Cr)		
	2022-23	2021-22	% I / (D)
Gross Revenues from Operations	2,064	2,078	-0.7
Less: Direct Costs	495	543	-8.8
Net Revenue	1,569	1,535	2.2
Less: Other Income	4	137	-97.3
Net Operating Income	1,565	1,398	12.0
<b>Annual Recurring Revenues</b>	<b>1,050</b>	<b>912</b>	<b>15.1</b>
360 ONE Plus Assets	94	90	5.0
Funds Managed by 360 ONE Asset	393	359	9.5
Distribution Assets Earnings Trail Fees	305	242	25.7
Lending Book	257	221	16.6
<b>Transactional and Brokerage Income</b>	<b>515</b>	<b>486</b>	<b>6.0</b>
<b>Costs</b>	<b>718</b>	<b>784</b>	<b>-8.4</b>
Employee Costs	520	602	-13.5
Admin and Other Expenses	198	183	8.5
<b>Profit Metrics</b>			
Operating Profit Before Tax (OPBT)	847	614	37.9
Profit Before Tax (PBT)	850	751	13.2
Profit After Tax (PAT) including OCI and FCTR	668	582	14.8
Cost to Income	46%	51%	
ROE	22%	20%	
ROE Ex Goodwill & Intangible	27%	25%	

\*Earlier known as IIFL-ONE

\*\*Earlier known as IIFL Asset Management

## Reclassified Segment-wise Performance is as under:

(All figures in ₹ Cr)

	For the year ended 31 <sup>st</sup> March 2023			For the year ended 31 <sup>st</sup> March 2022		
	Wealth Management	Asset Management	Total	Wealth Management	Asset Management	Total
Gross Revenue from Operations	1501	563	2064	1614	464	2078
Net Operating Revenue	1110	455	1565	1038	360	1398
Operating Profit Before Tax (OPBT)	583	263	847	425	189	614

### Key factors to consider are as follows:

1. Total AUM including custody assets are ₹3,40,834 Cr as on 31<sup>st</sup> March 2023.
2. The wealth management business has client assets of ₹2,16,045 Cr, excluding custody assets. Custody assets were an additional ₹66,491 Cr while the Asset Management business has ₹58,298 Cr of assets under management as on 31<sup>st</sup> March 2023 of which ₹34,770 Cr are AIF Assets, ₹18,642 Cr are PMS (Portfolio Management Services) and SMA (Separately Managed Accounts) Assets and ₹4,886 Cr are Mutual Fund assets.
3. Continuing focus on increasing Recurring Revenues has resulted in an increase in ARR generating assets by 15.7% to ₹1,67,174 Cr and an increase in Recurring revenues by 15.1% YoY to ₹1,050 Cr.
4. 360-ONE Plus has been well received by clients with Assets Under Management increasing by 29.3% YoY to ₹42,307 Cr and Revenues increasing 5% YoY to ₹94 Cr.
5. Total Net flows during the year were ₹25,177 Cr. Net Flows in Wealth Management were ₹19,742 Cr and ₹5435 Cr in Asset Management.
6. Total Consolidated Revenue for the year was up 2.2% YoY at ₹1,569 Cr, as compared to ₹1,535 Cr for FY22, while Revenue from Operations, was up 11.9% YoY at ₹1,565 Cr.
7. Overall Retention on Total Revenue stood at 60 bps and Retention on Revenue from Operations was 60 bps. Retention on Wealth Management Assets was 54 bps and Retention on Asset Management Assets was 80 bps.
8. Overall Costs for the year were down 8.4% to ₹718 Cr. Employee Costs were down 13.5% YoY at ₹520 Cr, of which, Fixed Employee costs were at ₹367 Cr and Variable Employee costs were at ₹154 Cr.
9. Admin and Other expenses increased 8.5% YoY to ₹198 Cr. Operating PBT (OPBT) was up 37.9% YoY to ₹847 Cr. Profit before tax (PBT) for the year was up 13.2% YoY to ₹850 Cr.
10. Profit After Tax (PAT) for FY23 was up 14.8% at ₹668 Cr from ₹582 Cr in FY22. Average Net Worth in FY23 stood at ₹3,043 Cr in FY23 vs ₹2,882 Cr in FY22.
11. Return on Equity (RoE) for the year was at 22.0% and RoE Ex-Goodwill & Intangibles was 26.7%.
12. Net profit margin in FY23 has increased to 32% from 28% in FY22, due to increase in profit during the year.
13. Interest service coverage ratio increased from 3.04 in FY22 to 3.14 in FY23, due to increase in profit during the year.
14. The Company prepares the financial statements as per Division III of Schedule III of Companies Act, 2013 which does not require the assets and liabilities to be bifurcated into Current / Non-current assets and liabilities. Hence Current ratio is not applicable.



## Management Discussion and Analysis

**Balance Sheet and Capital Development****1. Statement of Consolidated Assets and Liabilities as at 31st March 2023**

(₹ in Cr)

Sr. No	Particulars	Notes	As at March 31, 2023	As at March 31, 2022
<b>ASSETS</b>				
<b>1</b>	<b>Financial Assets</b>			
	(a) Cash and cash equivalents	4	509.49	488.57
	(b) Bank balance other than (a) above	5	216.07	533.63
	(c) Derivative financial instruments	6	0.82	0.13
	(d) Receivables			
	(I) Trade receivables	7	319.60	268.16
	(II) Other receivables	7	135.76	245.02
	(e) Loans	8	4,910.08	3,916.95
	(f) Investments	9	3,609.17	4,072.39
	(g) Other financial assets	10	285.51	188.46
<b>2</b>	<b>Non-Financial Assets</b>			
	(a) Current tax assets (net)		155.75	131.80
	(b) Deferred tax assets (net)	11	1.35	9.87
	(c) Property, plant and equipment	12	285.01	277.78
	(d) Capital work-in-progress	13	0.04	0.27
	(e) Intangible assets under development	14	39.12	-
	(f) Goodwill on acquisition	15	417.55	373.39
	(g) Other intangible assets	16	144.17	149.91
	(h) Right to use	17	33.02	14.91
	(i) Other non-financial assets	18	129.55	72.88
	<b>Total Assets</b>		<b>11,192.06</b>	<b>10,744.12</b>
<b>LIABILITIES AND EQUITY</b>				
<b>LIABILITIES</b>				
<b>1</b>	<b>Financial Liabilities</b>			
	(a) Derivative financial instruments	6	95.67	140.57
	(b) Payables			
	(I) Trade payables			
	(i) total outstanding dues of micro enterprises and small enterprises		-	-
	(ii) total outstanding dues of creditors other than micro enterprises and small enterprises	19	135.57	176.26
	(II) Other payables			
	(i) total outstanding dues of micro enterprises and small enterprises		-	-
	(ii) total outstanding dues of creditors other than micro enterprises and small enterprises	19	389.29	497.56
	(c) Finance Lease Obligation	17	36.38	17.41
	(d) Debt securities	20	6,423.42	5,453.33
	(e) Borrowings (other than debt securities)	21	201.40	100.06
	(f) Subordinated liabilities	22	122.47	254.19
	(g) Other financial liabilities	23	547.82	922.90

(₹ in Cr)

Sr. No	Particulars	Notes	As at March 31, 2023	As at March 31, 2022
<b>2</b>	<b>Non-Financial Liabilities</b>			
	(a) Current tax liabilities (net)		51.38	35.67
	(b) Provisions	24	10.25	7.41
	(c) Deferred tax liabilities (net)	11	24.60	67.15
	(d) Other non-financial liabilities	25	27.37	48.08
<b>3</b>	<b>EQUITY</b>			
	(a) Equity share capital	26	35.61	17.74
	(b) Other equity	27	3,086.34	3,005.79
	(c) Minority Interest		4.49	-
	<b>Total Liabilities and Equity</b>		<b>11,192.06</b>	<b>10,744.12</b>

### Key Considerations as on March 2023:

1. Consolidated Average Net Worth stood at ₹3,043 Cr in FY23 vs ₹2,882 Cr in FY22. Average Net Worth Ex-Goodwill and Intangibles stood at ₹2,503 Cr in FY23 vs ₹2,356 Cr in FY22.
2. ROE Ex-Goodwill & Intangibles has increased to 27% in FY23 from 25% in FY22 primarily driven by the increase in PAT YoY.
3. Debt/Equity ratio increased from 1.92 on 31<sup>st</sup> March 2022, to 2.16 on 31<sup>st</sup> March 2023; due to increase in overall outstanding debt of Group by less than ₹940 Cr.
4. Debtors' turnover ratio moved from 6.98 in FY22 to 6.73 in FY23, due to increase in revenue from operations and average debtors during the year.
5. Inventory turnover ratio is not applicable as the Company does not hold any inventory.