IIFL Finance Limited

September 28, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	400.00	CARE AA; Stable	Reaffirmed
Long Term Long Term Instruments	100.00	CARE AA; Stable	Reaffirmed
Non Convertible Debentures	537.50	CARE AA; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the various long-term debt instruments and bank facilities of IIFL Finance Limited (IIFL) continues to factor in the linkages of the company with the IIFL group along with a shared brand name. CARE Ratings Limited (CARE Ratings) continues to factor in the comfortable solvency position at the consolidated level, strong institutional ownership (with shareholding of the Fairfax group of 20.90% as on June 30, 2023), diversified loan portfolio, experienced management team, improving profitability parameters, and diversified resource base.

However, these rating strengths are partially offset on account of the moderate asset quality parameters and exposure to wholesale segment.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Factors that could individually/collectively lead to a review for positive rating action/ upgrade.

- Significant scale-up in the retail business along with reduced exposure in the wholesale segment including investments.
- Improvement in profitability with return on total asset (ROTA) exceeding 3% on a consolidated level with stable asset quality parameters on a sustained basis.
- Improvement in the overall consolidated gearing profile (including Direct Assignments and securitisation).

Negative factors: **Factors that could individually/ collectively lead to a review for negative rating action/downgrade.**

- Deterioration in asset quality with gross non-performing asset (GNPA) on consolidated level exceeding 4% on a sustained basis.
- Significant deterioration in the asset quality of developer and construction book impacting the capital and earning profile of the company.
- Deterioration in profitability with ROTA falling below 1% on a sustained basis.
- Challenges in plans of the company to curtail a reasonable part of the developer finance portfolio, which is in the form of both, loans as well as investments.

Analytical approach:

CARE Ratings has analysed the consolidated credit profile along with factoring linkages with the IIFL Group in terms of shared brand name and common promoters.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Subsidiaries/JV considered as a part of consolidated financials:

- IIFL Home Finance- 79.59% holding.
- IIFHL Sales Ltd- 100% subsidiary of IIFL Home Finance.
- IIFL Samasta Finance Ltd- 99.51% holding.
- IIFL OPEN Fintech Private Ltd- 51.02% holding.

Outlook: Stable

The 'Stable' outlook reflects CARE Ratings' expectation of continued financial performance of the company while maintaining diversification in the retail lending portfolio. Also, the capitalisation level is expected to remain comfortable.

Detailed description of the key rating drivers:

Key strengths

Strong institutional ownership and experienced management team

As on June 30, 2023, the promoters of IIFL held 24.84% stake, Fairfax group held 20.93% stake, Institutional investors (other than Fairfax group) held 34.18% and remaining 20.05% of the stake is held by the public. IIFL continues to have experienced professionals on its board and key management team with strong experience in respective business segment. The management team is headed by the promoters, i.e., Nirmal Jain and R Venkatraman. With effect from October 31, 2022, Rajesh Rajak, stepped down as CFO of IIFL Finance, and Kapish Jain joined as CFO with effect from November 01, 2022. He has over two decades of experience in the financial sector and has been associated with companies like PNB Housing, AU Finance, ICICI Prudential, Deutsche bank, etc. With effect from April 01, 2022, A.K. Purwar has been appointed as the Chairman of the company. He was the Chairman of State Bank of India and has also worked as the Chairman of Indian Bank Association. He has held several other important positions in his extensive career in the financial sector. Monu Ratra is the CEO of IIFL Home Finance Limited, and N. Venkatesh is the CEO of Samasta Microfinance Limited.

Diversified loan portfolio, with retail assets dominating the loan book

IIFL, on a consolidated level, has a diversified customer base with retail products of average ticket size ranging between ₹0.30 lakh and ₹14 lakh, comprising 96% of the total assets under management (AUM) as on June 30, 2023. During FY19, the retail assets were 86% of the total portfolio which has been increasing Y-o-Y since then in line with the company's aim of having a retail-focused lending. The AUM of the company as on June 30, 2023, is well diversified across segments like home loan which constitutes 33% of the AUM, gold loan-32%, business loan-14%, microfinance (MFI)-15%, developer & construction finance (DCF)- 4%, and capital market finance-1%. The AUM of the company grew by 26% Y-o-Y and stood at ₹64,638 crore (FY22: ₹51,210 crore). This growth was supported by key segments like MFI, gold loan, and home loan. These three segments continue to be the key focus area which will contribute to the company's growth. The trend continued during Q1FY24 as well with Y-o-Y growth of 29% reporting its AUM at ₹68,178 crore as on June 30, 2023.

The company will continue to focus on retail and small ticket size loans in order to have a granular loan book so as to ensure a healthy portfolio. CARE Ratings expects the loan book to remain largely diversified within the existing retail segments, and will continue to monitor the performance of the same.

On a standalone basis, the AUM of IIFL stood at ₹25,573 crore as on March 31, 2023, as against ₹21,109 crore as on March 31, 2022, constituting gold loans, business loans, developer & construction finance and capital markets.

Improving profitability metrics

The improvement in profitability on a consolidated level continued to gain traction as a result of strong revenue growth driven by improved business volumes as well as continued off-balance sheet growth. The profit after tax (PAT) during FY23 stood at ₹1,608 crore as against the PAT of ₹1,188 crore during FY22. Given the increase in portfolio yields across segments (except gold loan), the average yield on advances improved to 18.57% during FY23 as against 17.18% during FY22. On the other hand, average cost of funds declined by 25 bps to 8.55% during FY23 supported by prepayments of external commercial borrowing (ECB) worth US$ 130 million during FY23. As a result, net interest margins (NIMs) improved by 97 bps to 8.42% during FY23. For the past 2 years, the company has been expanding its branch presence across various states in every core product segments due to which opex has been on an increasing trend and during FY23 it increased by 86 bps to 4.56%. Furthermore, the improvement in other sources of revenue like income from co-lending and assignment transactions, fees and commission income, etc. coupled with marginally improved credit cost in FY23 also supported the overall improvement in the profitability profile of the company. As a result, the on-balance sheet ROTA stood at 3.26% during FY23 against 2.76% during FY22. Considering, the off-balance sheet (which forms 38% of the AUM as on March 31, 2023), ROTA stands at 2.82% during FY23 as against 2.08% during FY22. During Q1FY24, the consolidated profitability further improved as PAT increased by 43% Y-o-Y to ₹473 crore with on-balance sheet ROTA of 3.91%. Considering the off-balance sheet AUM, ROTA stood at 2.67%.

Similarly, on a standalone basis, the company reported a PAT of ₹805 crore in FY23 as against the PAT of ₹745 crore in FY22 as a result of increase in business revenue. Consequently, the on-balance sheet ROTA improved and stood at 3.43% during FY23 (FY22: 3.31%) and off-balance sheet ROTA stood at 2.40% (FY22: 2.57%). During Q1FY24, standalone PAT stood at ₹151 crore as against a PAT of ₹157 crore during Q1FY23.

As the company further scales up, especially in opex heavy segments like Gold loans and MFI, the operating leverage is expected to stabilise as new branches become productive. Given that the company is focusing on increasing its share of co-lending book; the proportion of DA book is expected to come down thereby reducing the upfront income currently booked on DA transactions which may impact the ROTA marginally for near term. CARE Ratings observes that the improving opex along with stable NIMs and credit cost should offset the upfronting impact on ROTA, and will continue to monitor the same.

Adequate capitalisation levels

At the standalone level, IIFL reported CRAR of 20.6% as on June 30, 2023 (CRAR: 22.8% as on June 30, 2022) as against the regulatory CRAR requirement of 15% indicating adequate capital cushion. Also, the subsidiaries remained adequately capitalised as IIFL Home Finance reported CRAR of 51.2% as on June 30, 2023, (CRAR- 30.6% as on June 30, 2022) and Samasta Microfinance reported CRAR of 20% as on June 30, 2023 (CRAR- 17.6% as on June 30, 2022).

On a consolidated level, the on-book gearing witnessed improvement from 5.78 times as on March 31, 2022 to 3.93 times as on March 31, 2023, on account of increase in the tangible net worth by 63% to ₹10,076 crore. The increase in the net worth was as a result of stake purchase by Abu-Dhabi Investment Authority (ADIA) in IIFL Home worth ₹2,200 crore, investment in rights issue of IIFL Samasta by IIFL Finance of ₹200 crore, and internal accruals at consolidated level. Considering the off-balance sheet AUM, as on March 31, 2023 the AUM to tangible net worth at consolidated level stood at 6.41x (as on March 31, 2022- 8.28x). As on June 30, 2023, on book gearing stood at 3.61x and AUM to tangible net worth increased to 6.39x.

IIFL, on a consolidated level, has its funding from various sources. In line with the company's strategy to increase its off-book, the funding through assignment has been increasing Y-o-Y and constituted 34% of the total borrowings as on June 30, 2023 and securitisation has been coming down Y-o-Y and formed 2% as on June 30, 2023. Other than this, 34% is in the form of term loans, followed by bonds-18%, NHB refinance- 10%, OD/WCDL 2% and commercial paper 0.61%. 67% of the company's eligible retail loans comply for priority sector lending (PSL) standards. These chunks of PSL compliant loans will help the company to raise long-term resources by selling these loans to banks.

Key weaknesses

Moderate asset quality parameters

The company is exposed to asset quality challenges given its exposure to the risky real estate sector and other riskier segments like MFI and unsecured business loan. As on March 31, 2023, the GNPA ratio on a consolidated level improved to 1.84% (net NPA [NNPA]- 1.08%) as against 3.15% (NNPA- 1.83%) as on March 31, 2022. This improvement was largely supported by net write-offs amounting to ₹936 crore during FY23. Including these write-offs, the GNPA would have been 4.08%. The write-offs were majorly towards segments of MFI (5.50% of loan book), unsecured business loan (6.76% of loan book) and wholesale segment (5.69% of loan book). In segments like home loan and gold loan (which forms 65% of AUM as on June 30, 2023), there is no significant deterioration in asset quality.

On a consolidated level, the investment in security receipts (SRs) increased from ₹445 crore as on March 31, 2022 to ₹1,209 crore as on March 31, 2023 (₹1,049 crore in IIFL Finance and ₹160 crore in IIFL Samasta).

Of the total AUM, around 19% of the portfolio is unsecured (MFI + unsecured business loan). The company has adequately provided for each segment and provision coverage ratio (PCR) on stage 3 assets stood at 42.36% as on June 30, 2023.

The collection efficiency for Q1FY24 improved to 93% as against 89% for Q1FY23. Furthermore, segment-wise GNPAs during the quarter were: business loan-2.97%%, Microfinance- 2.11%, home loan- 1.95%, gold loan-0.82%, DCF book-0.38% and NIL GNPA in the capital market segment.

CARE Ratings expects the consolidated GNPA for FY24 to remain below 2% and will continue to remain a key monitorable.

Exposure to wholesale book

The proportion of the wholesale segment in the total AUM, i.e., the DCF book, continues to remain at 4% of the total AUM as on June 30, 2023 (5% as on June 30, 2022), in line with the company's strategy to reduce its wholesale exposure and have a retail-focused loan book. However, it continues to hold majority of the units in the AIF, wherein wholesale book worth ₹1,400 crore were transferred, which are in the form of investments, and therefore, the performance of this segment will continue to remain a key monitorable. The investments in AIF on consolidated level have further increased to ₹1,133 crore as on March 31, 2023, as against ₹1,099 crore as on March 31, 2022. The total wholesale book (including investment in AIF) constituted 38% of the tangible net worth as on March 31, 2023 (65% as on March 31, 2022).

The wholesale book on standalone level (including investments in AIF) stood at ₹2,859 crore and forms 90% of the adjusted tangible net worth (tangible net worth adjusted for investments in subsidiaries).

CARE Ratings will continue to monitor the company's ability to further bring down the developer funding exposure.

Liquidity: Strong

The liquidity profile of the company is comfortable at the consolidated level. As per the asst liability maturity (ALM) statement for June 2023, there were no negative cumulative mismatches in any of the time brackets.

On a standalone basis, as on June 30, 2023, the company had a total liquidity of ₹2,561 crore by way of cash and cash equivalents as against the debt obligations of ₹1,016 crore for the next three months. In addition, it had undrawn committed bank lines of ₹546 crore and unutilised cash credit lines of ₹255 crore. It also has access to securitisation/ assignment and co-lending route to meet its funding requirements.

Environment, social, and governance (ESG) risks

IIFL maintains transparency in its business ethics practices as can be inferred from the entity's disclosures regarding its grievance redressal, related party transactions, fair practice code, whistle blower policy, and prevention of sexual harassment policy. The company being in a service industry, is not significantly exposed to environmental risks. However, the company has various initiatives towards environmental risks like adoption of renewable energy, reduced usage of papers, installing rainwater harvesting system, funding to affordable green housing, etc. The company has also formulated ESG policy to address the climate risk.

With regards to social risks, the company undertakes various Corporate Social Responsibilities (CSR) activities for the development of rural and semi-urban areas.

The entity has the necessary Audit Committee, Nomination and Remuneration committee and Corporate Social Responsibility (CSR) committee in place. It has also constituted an ESG committee consisting of eight members.

Applicable criteria

Policy on default recognition
Consolidation
Factoring Linkages Parent Sub JV Group
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Non Banking Financial Companies

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Non Banking Financial Company (NBFC)

IIFL Finance Limited (IIFL; erstwhile "IIFL Holdings Limited") is one of the leading players in the Indian financial services space. Prior to the Composite Scheme of Arrangement, IIFL was engaged in the business of financing, asset and wealth management, retail and institutional broking, financial products distribution and investment banking through its various subsidiaries.

Post obtaining a non-banking finance company (NBFC) license (NBFC-ND-SI) and merger of India Infoline Finance Limited with the company in March 2020, IIFL became a systematically-important, non-deposit accepting NBFC (NBFC-ND-SI) and continues to cater to the credit requirements of underserved markets through its diversified offerings which include core products: home loans, gold loans, small business loans and microfinance; and other products: Developer and Construction Finance and Capital Market Finance. As on June 30, 2023, the company reported AUM of ₹68,178 crore.

Consolidated

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	Q1FY24 (UA)
Total income	7,006	8,447	2,371
PAT	1,188	1,608	473
Total assets*	45,622	52,875	52,905
Net NPA (%)	1.82	1.08	1.06
ROTA (%)^	2.76	3.26	3.91

A: Audited, UA: Unaudited. Note: The above results are the latest financial results available.
*Total assets are net of intangibles and Deferred Tax Assets (DTA). All ratios are as per CARE Ratings' calculations.
^ Ratios have been computed based on average of annual opening and closing balances.

Standalone

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	Q1FY24 (UA
Total income	4,089	4,089	1,022
PAT	745	805	151
Total assets*	22,976	24,047	NA
ROTA (%)^	3.31	3.43	NA

A: Audited, UA: Unaudited. Note: The above results are the latest financial results available.
NA: Not available
*Total assets are net of intangibles and Deferred Tax Assets (DTA). All ratios are as per CARE Ratings' calculations.
^ Ratios have been computed based on average of annual opening and closing balances.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable
Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Bank facilities- Fund-based- Long term	-	-	-	-	175.00	CARE AA; Stable
Bank facilities- Fund-based- Long term-Proposed	-	-	-	-	225.00	CARE AA; Stable
Subordinate debt	INE866I08246	21-Nov-17	-	19-Nov-27	100	CARE AA; Stable
Non-convertible debenture	INE530B07252	24-Jan-23	-	24-Jan-25	46	CARE AA; Stable
Non-convertible debenture	INE530B07286	24-Jan-23	-	24-Jan-26	24	CARE AA; Stable
Non-convertible debenture	INE530B07278	24-Jan-23	-	24-Jan-28	38	CARE AA; Stable
Non-convertible debenture-Proposed	-	-	-	-	429.50	CARE AA; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type*	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Preference shares-Non-convertible Redeemable Preference share	LT	-	-	-	-	-	1)Withdrawn (21-May-20)
2	Debt-Subordinate debt	LT	100.00	CARE AA; Stable	-	1)CARE AA; Stable (06-Oct-22)	1)CARE AA; Stable (07-Oct-21)	1)CARE AA; Negative (05-Jan-21)

								2)CARE AA; Negative (21-May-20)
3	Debentures-Non-convertible debentures	LT	537.50	CARE AA; Stable	-	1)CARE AA; Stable (06-Oct-22)	1)CARE AA; Stable (07-Oct-21)	1)CARE AA; Negative (05-Jan-21) 2)CARE AA; Negative (21-May-20)
4	Fund-based-Long term	LT	400.00	CARE AA; Stable	-	1)CARE AA; Stable (06-Oct-22)	1)CARE AA; Stable (07-Oct-21)	1)CARE AA; Negative (05-Jan-21) 2)CARE AA; Negative (21-May-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: NA

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non Convertible Debentures	Simple
2	Debt-Subordinate Debt	Complex
3	Fund-based-Long Term	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in