



RATING RATIONALE

30 Sep 2024

IIFL Finance Limited

Brickwork Ratings reaffirms the long term ratings of the non-convertible debentures (NCDs) amounting to Rs. 1,203.23 crores of IIFL Finance Ltd and removes the Rating Watch with Negative Implications

Particulars:

Instruments#	Amount Rs Crs		Tenure	Rating*	
	Previous	Present		Previous (13 Mar 2024)	Present
NCDs Public Issue**	1134.88	1125.05	Long Term	BWR AA+/ Rating Watch with Negative Implications (Reaffirmed and placed on Rating Watch)	BWR AA+/Stable (Reaffirmed and removed Rating Watch with Negative Implications)
NCDs	78.18	78.18	Long Term		
Total	1,213.06	1,203.23		Rupees One Thousand Two Hundred Three Crores and Twenty Three Lakhs only	

*Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings

#Details of rated instruments are provided in Annexures II

**NCDs outstanding as confirmed by the Debenture Trustee

RATING ACTION/OUTLOOK

Brickwork Ratings reaffirms the long term ratings of the non-convertible debentures (NCDs) of IIFL Finance Ltd. **at BWR AA+/Stable and removed the Rating Watch with Negative Implications**, post lifting of the restrictions on the gold loan business imposed on the company by the regulator - Reserve Bank of India.

Material Event

IIFL Finance Ltd in its notification to the stock exchange on 19 September 2024, informed that the regulator has lifted the restrictions imposed on the gold loan business of IIFL Finance Limited. These restrictions were earlier imposed on March 04, 2024, which prohibited the Company from sanctioning, disbursing, or assigning/securing/selling any of its gold loans. The lifting of the restrictions is effective immediately which allows the Company to resume the sanctioning, disbursement, assignment, securitization, and sale of gold loans in compliance with all relevant laws and regulation. These restrictions were imposed on 04 March 2024 by the regulator prohibiting the company from sanctioning, disbursing, or assigning/securing/selling any of its gold loans. However, it could continue to service its existing gold loan portfolio through the usual collection and recovery processes. These restrictions were placed after the RBI



carried out the inspection of the company with reference to its financial position as on March 31, 2023. It had observed certain material supervisory concerns in the gold loan portfolio of the company. These supervisory restrictions were to be reviewed upon completion of a special audit to be instituted by the RBI and after rectification by the company of the special audit findings and the findings of RBI Inspection, to the satisfaction of RBI. Citing this, BWR had placed the Rating on Rating Watch with Negative Implications.

Development

On 19 September 2024, the restrictions imposed on the gold loan business of the company were lifted allowing the Company to resume the sanctioning, disbursement, assignment, securitization, and sale of gold loans in compliance with all relevant laws and regulation. BWR, takes note of this material event, and has removed the ratings of the company from Rating Watch with Negative Implications. While any further supervisory action by the regulator on the company impacting its operations in the near term, will be key rating sensitivity. The stable outlook factors in the ability of the company to meet its near to medium term estimates/ projections, and shortfall in achieving them shall be a rating sensitivity.

Impact

The overall impact on the business caused by the gold loan book was decline in its disbursements, reduced borrowings and moderation in the profitability on standalone basis for Q1FY25. During 1HFY25 till mid Sep 2024, the gold loan business decreased by more than 50%. Since the restrictions on the gold loan disbursements, the AUM of the Company which stood at Rs.78,960 Crs as of 31 March 2024, was at Rs. 69,610 Crs as on 30 June 2024. The share of gold loan to the total AUM was at 30% in March 2024 and at 21% in June 2024. For Q1FY25, the AUM book continued to be supported by other segments led by home loans with 40% share. The other segments contributing to the AUM were microfinance with 17% share, LAP with 12% and Digital Loans with 6%, and balance from others. Though the business resumed immediately since the day of lifting of the ban by RBI on gold loan business, the ability of the company to revive on its gold loan business and grow the overall AUM of the Company, in line with its estimates over the near term shall remain the key monitorable. The investor support through Fairfax's capital infusion had strengthened the capitalization levels of the company. The total CRAR stood strong at 28% and is expected to be maintained above 25% on a forward looking basis. Further, marginal weakening of asset quality may be expected which will be mainly on account of the denominator effect, while incremental rate of slippages shall be monitorable. BWR shall monitor the company's performance for a faster revival of business through increased disbursements and improved collections from its loan book. The business from other segments will continue to support the growth trajectory, except from the MFI segment whose collection in the near term shall be monitorable. The Company's liquidity however is adequate, with positive cumulative mismatches across the ALM buckets as of 30 June 2024 to meet the near term repayment obligations. BWR keeps all its outstanding ratings under continuous surveillance. Any further unfavorable regulatory action on IIFL Finance Ltd shall be the key rating sensitivity. BWR shall monitor the developments, both on growth terms and regulatory aspects, and shortfall in meeting its expected growth plans or regulatory concerns, if any, shall lead to an appropriate rating action.



KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED:

The rated NCD raised by the Company are in the nature of unsecured/ secured rated listed redeemable non convertible debentures. It comprises two sets. One set of ISINs is for public issues while the other set of ISINs were privately placed. Other details of these rated instruments is as per Annexure II

KEY RATING DRIVERS:

Credit Strengths-:

- **Diversified portfolio with a shift towards asset-light model:** The group has a diversified portfolio spread across 27 states and 5 Union Territories of India consisting of different asset classes. As on June 30th, 2024 AUM consisted of Home loans (40%), Gold loans (21%), Microfinance (17%), Loan against property (12%), Digital loans (7%), CRE & Others (2%) and Capital Markets (0%).

Strong Ownership: The promoters of the group held ownership of (25%) of the shareholding. The majority of ownership as June 30th, 2024 was held by institutional investors (53%) including Fairfax (15%), Foreign Institutions (30%), Domestic Institutions (8%), and Retain /Non Institutions (22%)

- **Adequate and improving profitability in the operations and profitability at consolidated level :**
 - Home Loans : At the end of June 2024, retail home loan assets grew to Rs 28,089 Cr. The primary focus in this segment is on affordable and non-metro housing loans. It operates out of 390 dedicated home loan branches PAN India. IIFL Home finance is one of the few housing finance companies in the sub Rs.20 lakhs ticket size.
 - Gold Loans: As of June 30, 2024, the gold loan AUM was Rs. 14,727 Crs. Gold loans are provided through their widespread presence in 2,775 branches across 25 states and 4 Union territories to salaried, self-employed and MSME customer segments.
 - Microfinance: The microfinance loan AUM stood at Rs. 12,011 Crs, as at June 30, 2024. The microfinance customer base stood at 29.8 lakh customers operating out of 1,645 dedicated microfinance branches across India.
 - Loan against property: Loan against property AUM grew to Rs. 8,415 as at June 30, 2024.
 - Digital loans: Digital loans AUM grew to Rs. 4,610 as at June 30, 2024.
 - Construction and Real Estate: Construction and real estate AUM stood at Rs. 1,464 Cr, as at June 30, 2024.
 - The company's annualized ROE and ROA as on June 30th, 2024 stood at 10.3% and 2.3% respectively.



Credit Risks:-

- **Limited resource profile:** Consolidated resource profile consisted of term loans (55%), bonds (25%), refinancing (17%) and others (3%) as on 30th June 2024. There has been a rise in the cost of borrowings over the years to keep up with the growing AUM levels. Cost of borrowings has risen to 9.10% in Q1FY25 from 9.00% in Q2FY24. The company's ability to diversify its resource profile while lowering the credit cost would remain a key rating monitorable.
- **Moderate Asset Quality, albeit remains monitorable:** GNPA ratio stood at 2.2% and NNPA ratio stood at 1.1% as at 30 June 2024. With implementation of Expected Credit Loss under Ind AS, provision coverage on NPAs stands at 128%. The consolidated AUM of the group grew from Rs. 64,638 Crs as on 31 March 2023 to Rs. 78,960 Crs as on 31 March 2024. The same however stood at Rs. 69,610 Crs as on June 30th 2024 due to imposition of restrictions by RBI on gold loan business of the group. Recouping the AUM to FY24 levels and above from the gold loan book and steady growth in the AUM of other segments of loan book shall be monitorable on the overall asset quality of the company. An incremental decline in the collections from its key loan book segments, microfinance and home loans impacting the asset quality, shall remain monitorable

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

To arrive at its ratings, BWR has taken a consolidated view of IIFL Finance Limited and its subsidiaries as detailed in Annexure III. BWR has applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES:

Factors likely to lead to rating actions

Positive factors

- Substantial Improvement in the financial risk profile of the company, specially gold loan business
- Ability to increase the share of retail business along with sustained growth in all segments while maintaining borrowing at reasonable costs.
- Ability to generate business from its gold and non-gold business
- Maintaining strong liquidity for business operations and repayment of debt.
- Improvement in asset quality and other financial parameters

Negative factors :

- Deterioration in the Financial flexibility and ability to raise resources at the reasonable cost of funding
- Shortfall in meeting its AUM estimates by more than 10% in the near term and a substantial decline in other key performance indicators, especially the asset quality and profitability shall be rating sensitivity
- Negative impact of the RBI action on its operations, liability franchise and liquidity.



- Significant impact on asset quality with notable deterioration in the asset quality impacting the capital and earning profile of the company.
- Deterioration in the liquidity and profitability of the company.

LIQUIDITY POSITION: ADEQUATE

The Company had unencumbered Cash and cash equivalents of Rs. 4,832 Crs as of 30 June 2024. It also had committed credit lines from banks and institutions of Rs 2020 Cr as on June 30, 2024. During the quarter, the company raised Rs 2,886 Cr through term loans, bonds and refinance. Including, Rs 1,769 Cr was raised through direct assignment of loans. The Company had average quarterly collections of Rs.11, 000 Crs till Q4FY24, and it was lower for Q1FY25. The company's repayment obligations for the 12 month period completing 30 June 2025 were Rs.15,046 Crs. With the continued quarterly total collections of ~Rs.11,000 crs and availability of unencumbered cash and equivalents of Rs.4832 Crs, the liquidity seems adequate to meet its near term obligation. Any decline in the collections over the near to medium term shall remain monitorable.

Link to Previous Detailed Rationale:

[Detailed Rationale of IIFL Finance Ltd dated March 13th, 2024](#)

ABOUT THE COMPANY

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

IIFL Finance Limited is the holding company for lending businesses of IIFL Group. IIFL Finance Limited is a Systemically Important Non-Banking Financial Company not accepting public deposits registered with the RBI. IIFL Finance Ltd is a retail-focused diversified NBFC, engaged in the business of loans and mortgages along with its subsidiaries - IIFL Home Finance Limited and IIFL Samasta Finance Limited. IIFL Finance, through its subsidiaries, offers a wide spectrum of products such as Home loans, Gold loans, Business loans, Microfinance, Capital Market finance and Developer & Construction finance to a vast customer base of over 8 million customers. IIFL Finance has widened its pan-India reach through an extensive network of branches spread across the country and various digital channels. However, the Reserve Bank of India vide press release dated 04 March 2024 has ordered the company to cease and desist, with immediate effect, from sanctioning or disbursing gold loans or, assigning/ securitising/ selling any of its gold loans. The company can, however, continue to service its existing gold loan portfolio through the usual collection and recovery processes.

Key Financial Performance - IIFL Finance Ltd. (Consolidated)

Particulars	Units	FY22	FY23	FY24
		Audited	Audited	Audited
AUM	Rs.in Crores	51,210	64,638	78,960
Total Income	Rs.in Crores	7,023	8,447	10,490
PAT	Rs.in Crores	1,188	1,608	1,974
Total Debt	Rs.in Crores	35,725	39,603	46,699
Net Worth	Rs.in Crores	6,469	10,202	12,056
Gearing Ratio	Times	5.52	3.88	3.87
GNPA	%	3.15	1.84	2.32
NNPA	%	1.83	1.08	1.20

Key Financial Performance - IIFL Finance Ltd. (Standalone)

Particulars	Units	FY22	FY23	FY24
		Audited	Audited	Audited
Total Income	Rs.in Crores	4,106	4,089	4,649
PAT	Rs.in Crores	745	806	585
Total Debt	Rs.in Crores	16,246	17,380	20,011
Net Worth	Rs.in Crores	4,427	5,114	5,596
Total Debt/NW	Times	3.67	3.40	3.58

COMPLEXITY LEVELS OF THE INSTRUMENTS:

NCDs bearing ISINs INE866I08279 and INE866I08295: **Complex**

Other NCDs: **Simple**

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY: There is no outstanding Rating under Non-Cooperation from other CRAs

RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]

Sr No	Name of Instrument	Current Rating (Sept 2024)			Rating History for the past 3 years				
		Type	Amount (Rs. Crs)	Rating	2024 13 Mar 2024	2023 01 Dec 2023	2022		
1	NCDs ^	Long Term	1125.05	BWR AA +/ Stable (Reaffirmed and removed Rating Watch With Negative Implications)	BWR AA +/ /Rating Watch with Negative Implications (Long Term - 1134.88 crs)	BWR AA +/ Stable /Reaffirmation with revision in outlook (01.12.2023)	05.04.2022		
							Long Term	1513.84#	BWR AA+/ Negative (reaffirmed)
							28.06.2022		
							Long Term	1513.84	BWR AA+/ Negative (reaffirmed)
		05.08.2022		Long Term	1513.84	BWR AA+/ Negative (reaffirmed)			
2	NCDs	Long Term	78.18	BWR AA +/ Stable (Reaffirmed and removed Rating Watch With Negative Implications)	BWR AA +/ /Rating Watch with Negative Implications (Long Term - 78.18 crs)	BWR AA +/ Stable /Reaffirmation with revision in outlook (01.12.2023)	05.04.2022		
							Long Term	842.26	BWR AA+/ Negative (reaffirmed)
							28.06.2022		
							Long Term	493.43#	BWR AA+/ Negative (reaffirmed)
		05.08.2022		Long Term	493.43	BWR AA+/ Negative (reaffirmed)			
3	Secured NCDs	Long Term	0.00	-		Withdrawn	05.04.2022		
							Long Term	5.00	BWR AA+/ Negative (reaffirmed)
							28.06.2022		
							Long Term	5.00	BWR AA+/ Negative (reaffirmed)
		05.08.2022		Long Term	5.00	BWR AA+/ Negative (reaffirmed)			
4	Proposed NCD	-	-	-	-	-	28.06.2022		
							Long Term	5000.00	BWR AA +/ Negative (Assigned)
							05.08.2022		
		Long Term	5000.00	Withdrawn					
Total			1,203.23	Rupees One Thousand Two Hundred Three Crores and Twenty Three Lakhs only					



^Public Issue; Interchangeable between secured and subordinated debt.
#reduction in amount is due to redemptions

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Banks and Financial Institutions](#)
- [Consolidation of Companies](#)
- [Policy For Placing Ratings On Rating Watch](#)

For any other criteria obtain hyperlinks from website

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ANNEXURE I
Details of Bank Loan Facilities rated by BWR: N.A.

ANNEXURE II
Details of NCDs rated by BWR and COVENANTS

Instrument	Issue Date	Previous Rated Amount (Rs. Crs.)	Current Rated Amount (Rs in Crs)	Coupon Rate/Yield	Maturity Date	ISIN Particulars	Complexity
NCD Public Issue	24-Mar-21	274.69	274.69	10.00%, annually	24-Jun-28	INE530B08094	Simple
NCD Public Issue	24-Mar-21	328.02	328.02	9.60%, monthly	24-Jun-28	INE530B08102	Simple
NCD Public Issue	24-Mar-21	68.14	68.14	Zero Coupon	24-Jun-28	INE530B08110	Simple
NCD Public Issue** #	14-Oct-21	94.08	92.77	8.50%, annually	14-Oct-24	INE530B07146	Simple
NCD Public Issue** #	14-Oct-21	57.31	56.71	Zero Coupon	14-Oct-24	INE530B07153	Simple
NCD Public Issue** #	14-Oct-21	147.25	144.01	8.42%, monthly	14-Oct-26	INE530B07161	Simple
NCD Public Issue** #	14-Oct-21	136.08	134.04	8.75%, annually	14-Oct-26	INE530B07179	Simple
NCD Public Issue** #	14-Oct-21	29.31	26.92	Zero Coupon	14-Oct-26	INE530B07187	Simple
NCD**	7-Feb-19	31.02	30.77	10.00%, monthly	7-Feb-29	INE866I08279	Complex
NCD	7-Feb-19	15.45	15.45	10.50%, annually	7-Feb-29	INE866I08295	Complex
NCD	6-Sep-19	25.93	25.93	10.00%, Monthly	6-Jun-25	INE866I08303	Simple
NCD	6-Sep-19	5.78	5.78	10.50%, payable on maturity	6-Jun-25	INE866I08311	Simple
Total		1213.06	1203.23	Rupees One Thousand Two Hundred Three Crores and Twenty Three Lakhs only			

** NCDs amount outstanding as confirmed by the debenture trustee

These are secured NCDs; and remaining are unsecured



ANNEXURE III
List of Entities Consolidated in IIFL Finance Ltd.

Sr. No.	Name of Subsidiaries/ Associate	Rationale for Consolidation	Extent of Consolidation
1	IIFL Home Finance Limited	Subsidiary	Full
2	IIFL Samasta Finance Limited (Formerly, Samasta Microfinance Limited)	Subsidiary	Full
3	IIFL Sales Limited	Step-Down Subsidiary	Full
4	IIFL Open Fintech Private Limited (w.e.f 17 May 2022)	Subsidiary	Full

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