IIFL Finance Limited

October 06, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	400.00	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Total Bank Facilities	**400.00 (₹ Four Hundred Crore Only)**		
Subordinate Debentures	100.00	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Non-Convertible Debentures	537.50 (Reduced from 825.00)*	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Total Long-Term Instruments	**637.50 (₹ Six Hundred Thirty-Seven Crore and Fifty Lakhs Only)**		

Details of instruments/facilities in Annexure-1.
**The reduction is on account of instrument being repaid and matured.*

Detailed rationale and key rating drivers

The reaffirmation of the ratings assigned to the various 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 22.29% as on June 30, 2022), diversified loan portfolio, experienced management team, stable profitability parameters and diversified resource base. However, these rating strengths are partially offset on account of moderate asset quality parameters, exposure to wholesale segment and limited seasoning in few segments.

Rating sensitivities:

Positive factors- Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Significant scale-up in 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 sustained basis.
- Improvement in the overall consolidated gearing profile (including DA & securitization)

Negative factors- Factors that could, individually or collectively, lead to negative rating action/downgrade

- Deterioration in asset quality with gross non-performing asset (NPA) on consolidated level exceeding 4% on 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.

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

Detailed description of the key rating drivers

Key rating strengths

Strong institutional ownership and experienced managed team

As on June 30, 2022, majority shareholding of IIFL Finance Limited was held by the Fairfax group at 22.29%, Promoters-24.90%, Foreign portfolio Investors-23.07%, CDC Group PLC-3.56%, NRI-7.42% and Public & Others-18.76%.

During FY22, the CDC group sold around 7.64% stake and in Q1FY23 it further sold 4.21% stake in open market consequent to which its stake has come down to 3.56%.

IIFL Finance Limited 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. Rajesh Rajak, CFO of IIFL Finance, has over 22 years of experience in the financial sector. 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 Chairman of Indian Bank Association. He has held several other important positions in his long career in the financial sector. Kapish Jain has joined the company as Deputy CFO with effect from September 29, 2022. He has more than 25 years of experience in the financial services industry and has in the past been associated with companies like PNB Housing, AU Finance, ICICI Prudential, Deutsche bank etc.

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 Finance Limited, on a consolidated level, has a diversified customer base with retail products of average ticket size ranging between ₹0.2 lakh to ₹17 lakh, comprising 95% of the total AUM as on June 30, 2022. 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 is well diversified across segments like home loan which constitutes 35% of the AUM, gold loan-32%, business loan- 15%, microfinance (MFI)-12%, developer & construction finance (DCF)- 5% and capital market finance-1%. The AUM of the company grew by 15% Y-o-Y during FY22 and stood at ₹51,210 crore (FY21: ₹44,688 crore). This growth was supported by key segments like home loan, gold loan and MFI. These three segments continue to be the key focus area which will contribute to the company's growth. The trend continued during Q1FY23 as well with Y-o-Y growth of 22% reporting its AUM at ₹52,761 crore as on June 30, 2022.

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.

On a standalone basis, the AUM of IIFL Finance Ltd stood at ₹21,109 crore as on March 31, 2022, as against ₹19,199 crore as on March 31, 2021, constituting gold loans, business loans and developer & construction finance, Capital Markets.

Stable profitability metrices

For FY22, the PAT reported on a consolidated level improved and stood at ₹1,188 crore as against ₹761 crore in FY21 as a result of strong revenue growth on the basis of higher volumes and income from assignment transactions further supported by improvement in credit cost. Total credit cost (provisions + write-off) improved to ₹887 crore during FY22 as against₹1,169 crore in FY21. Consequently, ROTA improved and stood at 2.76% during FY22 as against 2.04% during FY21.

The profitability further improved during Q1FY23 and stood at ₹330 crore as against ₹266 crore during Q1FY22 on account of revenue growth. As a result, ROTA improved and stood at 3.14% during Q1FY23 as against 2.88% during Q1FY22. NIM improved and stood at 8.57% during Q1FY23 as against 7.96% during Q1FY22 driven by improvement in yields. During Q1FY23, the company had a provision reversal of ₹105 crore and write-offs of ₹353 crore.

On a standalone basis, the company reported a PAT of ₹745 crore in FY22 as against a PAT of ₹343 crore in FY21 as a result of increase in business revenue. ROTA improved and stood at 3.31% during FY22 (FY21: 1.66%). During Q1FY23, standalone PAT reported stood at ₹157 crore as against a PAT of ₹104 crore during Q1FY22.

Adequate capitalisation levels

At the standalone level, IIFL Finance Ltd reported CRAR of 22.8% as on June 30, 2022 (CRAR: 25.60% as on June 30, 2021) as against the regulatory CRAR requirement of 15% indicating sufficient capital cushion. The company's consolidated net-worth increased to ₹6,880 crore as on June 30, 2022, as compared with a net-worth of ₹5,645 as on June 30, 2021, on account of internal accruals. Also, the subsidiaries remained adequately capitalised as IIFL Home Finance reported CRAR of 30.74% as on June 30, 2022, (CRAR- 24.10% as on June 30, 2021) and Samasta Microfinance reported CRAR of 17.83% as on March 31, 2022 (CRAR- 18.54% as on March 31, 2021). During FY22, the company's overall gearing (considering on-book fund-based borrowings) at a consolidated level stood at 5.78 times as against 6.41 times in FY21. During Q1FY23, the gearing further improved and stood at 5.05 times, however, it still remains elevated vis-à-vis some of the peers in the industry. Gearing when adjusted for off book borrowings stood at 7.16 times as on June 30, 2022.

IIFL Finance Limited, on a consolidated level, has its funding from various sources. The funding through securitisation/assignment has been increasing Y-o-Y and constituted 35% of the total borrowings as on June 30, 2022. Other than this, 40% is in the form of term loans, followed by bonds-19%, NHB Refinance- 5% and WCDL 1%. During FY22, the company raised funds worth ₹29,686 crore on a consolidated level (NBFC/HFC/Samasta) through various sources. The company plans to further increase its share of securitisation/assignment transactions given that overall 67% of the eligible loans (mainly home loans and MFI) are Priority sector compliant (PSL) and retail in nature, company can sell them off to banks in order to raise long-term resources. In addition to the fund-based borrowings, the company also has non-fund-based borrowings in the form of Bank Guarantees amounting to Rs.845 crore as on March 31, 2022.

On September 07, 2021, NSE International Exchange (NSE IFSC), has listed IIFL Finance's foreign currency notes on its Debt Securities Market Platform which will enable the company to raise funds from foreign markets as well. As on March 31, 2022, 9% of the total borrowings were in the form of External Commercial Borrowings (ECBs).

Key rating weaknesses

Moderate asset quality parameters

The company is exposed to asset quality challenges given its exposure to the risky real estate sector and other stressed segments like MFI and business loan. The business loans constitute of both secured and unsecured loans, of which unsecured portion constitutes 4% of the AUM as on June 30, 2022. Of the total AUM, around 16% of the portfolio is unsecured (MFI + unsecured business loan).

As on March 31, 2022, the company reported Gross NPA as per the new Income Recognition, Asset Classification and Provisioning pertaining to Advances (IRACP) on NPA recognition and upgradation norms issued by the Reserve Bank of India (RBI) on November 12, 2021. As a result, Gross NPA increased to 3.15% as against 1.98% as on March 31, 2021. Without considering the new IRACP norms, Gross NPA would have been 2.30%. As on June 30, 2022, Gross NPA improved and stood at 2.58% supported by technical write-offs. During Q1FY23, the company wrote-off loans worth ₹354 crore majorly in the wholesale segment and MFI. In segments like home loan, gold loan and microfinance, there is no significant deterioration in asset quality. The company has adequately provided for each segment and Provision Coverage Ratio (PCR) on stage 3 assets stood at 42.40% as on June 30, 2022. The collection efficiency for Q1FY23 was stable at 89%.

Segment-wise Gross NPAs during the quarter were: business loan-5.27%, Microfinance- 3.66%, home loan- 2.41%, gold loan-0.88%, DCF book-0.20% and capital market-0%.

Exposure to wholesale book; albeit declining

The proportion of the wholesale segment in the total AUM, i.e., the DCF book, has been declining Y-o-Y from 14% during FY19 to 5% as on June 30, 2022, in line with the company's strategy to reduce its wholesale exposure and have a complete retail-oriented loan book. The company has been able to achieve that on AUM basis as the company transferred ₹1,400 crore of the book to the AIF. However, it continues to hold majority of the units in the AIF which are in the form of investments and therefore, the performance of this segment will continue to remain a key monitorable. As on March 31, 2022, the wholesale book (including investments) constituted 63% of the total tangible net-worth.

The company plans to discontinue the developer funding segment over a period of time and deal only in the construction finance segment which is expected to be maintained at around 5% of the AUM going forward.

Limited portfolio seasoning under few segments

Over the years, the company has increased its share of high yielding products, i.e., gold loans, business loans and microfinance. Out of this, shorter-tenure products like gold loans and microfinance loans, though have witnessed few complete cycles, it is still relatively unseasoned as the growth in AUM has started to happen in the last four years only. The housing finance and LAP segment was commenced in 2009 and since than the portfolio has been growing, though the seasoning has been low given the longer tenure of the loans, it has been on an improving trend.

Liquidity: Adequate

The liquidity profile of the company is quite comfortable at the consolidated level. As per the ALM Statement for June 2022, there was no negative cumulative mismatches in any of the time brackets.

On a standalone level as well, the ALM profile was comfortable with no negative cumulative mismatches in any of the time brackets. It had free cash and bank balances of ₹173 crore and Unutilized credit lines of ₹1,221 as on July 31, 2022, along with undrawn sanction of ₹338 crore as against the debt obligations of ₹589 crore for the next three months. It also has access to securitisation/assignment route to meet its funding requirements.

Analytical approach

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

Subsidiaries/JV considered as a part of consolidated financials:

- IIFL Home Finance- 80% holding
- IIFHL Sales Ltd- 100% subsidiary of IIFL Home Finance
- IIFL Samasta Finance Ltd- 99.41% holding
- IIFL OPEN Fintech Private Ltd- 51% holding.

Applicable Criteria:

CARE's Criteria on assigning Outlook and Credit Watch to Credit Ratings

CARE's policy on default recognition

Factor Linkages in Ratings

Rating Methodology- Non-Banking Finance Companies

Financial ratios – Financial Sector

Rating methodology: Consolidation

About the company

IIFL Finance Limited (Erstwhile "IIFL Holdings Limited") is one of the leading players in the Indian financial services space. Prior to the Composite Scheme of Arrangement, IIFL Finance Limited 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 an NBFC license (NBFC-ND-SI) and merger of India Infoline Finance Limited with the company in March 2020, IIFL Finance Limited became a systematically important, non-deposit accepting non-banking financial company (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.

Consoldiated

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	Q1FY23 (UA
Total Income	5,989	7,006	1,975
PAT	761	1,188	330
Total Assets*	40,355	45,622	43,904
Net NPA (%)	0.89	1.82	1.48
ROTA (%)^	2.04	2.76	3.14

A: Audited
**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)	FY21 (A)	FY22 (A)	Q1FY23 (UA
Total Income	3,436	4,089	969
PAT	343	745	157
Total Assets*	22,003	22,976	NA
ROTA (%)^	1.66	3.31	NA

**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 the last three years: Please refer Annexure-2

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

Complexity level of various instruments rated for this company: Annexure-4

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- LT	-	-	-	-	175.00	CARE AA; Stable
Bank facilities- Fund based- LT- Proposed	-	-	-	-	225.00	CARE AA; Stable
Non-Convertible debenture- Proposed	-	-	-	-	537.50	CARE AA; Stable
Subordinated debt	INE866I08246	21-11-2017	8.70%	19-11-2027	100.00	CARE AA; Stable

ISIN INE866I07750 has been repaid and matured.

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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
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 (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 (07-Oct-21)	1)CARE AA; Negative (05-Jan-21) 2)CARE AA; Negative (21-May-20)	-
4	Fund-based - LT-Term Loan	LT	400.00	CARE AA; Stable	-	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 the covenants of the rated instruments/facilities: NA

Annexure-4: Complexity level of various instruments rated for this company

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

Annexure-5: Bank lender details for this company

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

Note on 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.

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