IIFL Finance Limited

October 07, 2021

Ratings

Facilities/Instruments	Volume (Rs. Cr)	Rating[1]	Rating Action
Non-convertible Debentures (NCD)	825.0 (Rs. Eight hundred twenty-five crore only)	CARE AA; Stable (Double A; Outlook: Stable)	Rating reaffirmed and outlook revised from “Negative” to “Stable”
Subordinated Debt	100.0 (Rs. One hundred crore only)	CARE AA; Stable (Double A; Outlook: Stable)	
Long-term Bank Facilities	400.0 (Rs. Four hundred crore only)	CARE AA; Stable (Double A; Outlook: Stable)	

[1]*Details of instruments/facilities in Annexure-1*

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 strong operational, managerial, and financial linkages of the company with the IIFL group along with a shared brand name. CARE Ratings continues to factor in the comfortable solvency position at the consolidated level, strong institutional ownership (with shareholding of the Fairfax group of 29.82% as on June 30, 2021), 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 in vulnerable segments and limited portfolio seasoning under Home Loans and Business loans segment. The ratings also reflect adequate liquidity profile of the company at the consolidated level and with 93% of its portfolio being retail in nature and nearly 65% PSL compliant loans.

The outlook has been revised to “Stable” from “Negative” on account of stable profitability and asset quality parameters reported in segments like home loan, gold loans & microfinance. The company has been able to reduce its exposure in the wholesale segment, i.e., developer and construction book as the company transferred Rs.1,400 crore of the book to the AIF. However, it continues to hold majority of the units in the AIF and therefore, the performance of this segment will continue to remain a key monitorable.

Rating Sensitivities:

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

- Improvement in profitability with return on total asset (ROTA) exceeding 3% on sustained basis.
- Sustained improvement in overall asset quality parameters
- Improvement in leverage profile

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 1.00% 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.

Detailed description of the key rating drivers

Key Rating Strengths

Strong institutional ownership and experienced managed team

As on June 30, 2021, majority shareholding of IIFL Finance Limited was held by the Fairfax group at 29.82%, Promoters (24.95%), Foreign portfolio Investors (14.38%), CDC Group PLC (15.44%), NRI (6.94%) and Public & Others (8.47%). However, after June 30, 2021, there was a stake sale by the CDC group where it sold around 7.64% of its stake in open market consequent to which its stake has come down to 7.78%. 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., Mr Nirmal Jain and Mr R Venkatraman. Mr Chandran Ratnaswami is a nominee director from Fairfax group. Mr Rajesh Rajak, CFO of IIFL Finance, has over 22 years of experience in the financial sector.

Mr Monu Ratra is the CEO of IIFL Home Finance Limited and Mr 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 Rs.0.2 lakh to Rs.17 lakh, comprising 93% of the Total AUM as on June 30, 2021. The share of retail assets has increased from 86% during FY19 to 91% during FY21 (refers to the period April 1 to March 31). The AUM of the company grew by 18% Y-o-Y during FY21 and stood at Rs.44,688 crore (FY20: Rs.37,951 crore). The key products that supported the company's AUM growth during FY21 were gold loans, which grew by 44% YoY, MFI loans which grew by 40% and small ticket home loans which grew by 16%. The trend continued during Q1FY22 as well with the company reporting its AUM at Rs.43,160 crore as on June 30, 2021.

The proportion of the wholesale segment in the total AUM, i.e., the construction and real estate segment, has been declining Y-o-Y from 14% during FY19 to 7% during Q1FY22, in line with the company's strategy to transfer the wholesale segment in the AIF in order to have a complete retail-oriented loan book. The company has already transferred a portion of this book to the AIF; however, it still holds a part of this book through investments in this AIF. Overall, the company continues to have a significant exposure in the wholesale segment. 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. 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.

Along with having a retail-oriented loan book, the portfolio is diversified within the different retail segments of home loan, gold loan, micro-finance loan, LAP and unsecured business loan as well as capital market finance. As on June 30, 2021, the proportion of home loan to AUM was 34%, gold loan- 31%, micro-finance- 10%, LAP-13%, unsecured business loan-4% and capital market finance-2%. Home loans and gold loans will continue to dominate the portfolio of the company.

On a standalone basis, the AUM of IIFL Finance Ltd stood at Rs.19,199 crore as on March 31, 2021, as against Rs.16,057 crore as on March 31, 2020, constituting gold loans, business loans and developer & construction finance. As on June 30, 2021, the AUM for IIFL finance on standalone basis stood at Rs.18,103 crore.

Stable profitability metrices

For FY21, the PAT reported on a consolidated level, stood at Rs.761 crore as against Rs.504 crore in FY20 as a result of strong revenue growth basis higher volumes, benefit from low cost of funds and cost optimization. NIM (Net interest income/Avg. total assets) improved as a result of lower cost of funds and stood at 7.48% in FY21 as against 6.63% in FY20. Due to increase in the proportion of high yielding segments like micro-finance and gold loans, average yields have also increased by 98 bps to 17.22% during FY21. ROTA stood at 2.04% (FY20: 1.50%) and RONW stood at 15.85% (FY20: 11.73%).

During Q1FY22, the company reported a PAT of Rs.265 crore as against Rs.32 crore during Q1FY21; a growth of 728% Y-o-Y, on account of good revenue growth, lower base of Q1FY21 due to Covid-19 disruptions and also due to reversal of provisions in Q1FY22. During Q1FY21, the company had made a provision of Rs.162 crore in order to provide adequately for any unforeseen asset quality issues arising due to the pandemic and write-offs of Rs.89 crore. For Q1FY22, there was a reversal in provisions of around Rs.18 crore and write-offs of Rs.184 crore. NIM improved and stood at 7.96% as against 6.95% during Q1FY21. ROTA stood at 2.88% (Q1FY21: 0.40%) and RONW stood at 20.77% (Q1FY21: 2.91%).

On a standalone basis, the company reported a PAT of Rs.343 crore in FY21 as against a PAT of Rs.149 crore in FY20 as result of increase in business revenue. ROTA stood at 1.66% (FY20: 0.81%) and RONW stood at 9.76% (FY20: 4.48%). During Q1FY22, standalone PAT reported stood at Rs.104 crore as against a PAT of Rs.16 crore during Q1FY21.

Diversified resource profile, with increase in funding through securitization/assignments.

IIFL Finance Limited, on a consolidated level, has a diversified resource profile with declining reliance on short-term funding and increasing its funding through securitization/assignment (mostly assignment). The company's share of funding through securitization/assignment increased from 14% as on March 31, 2017, to 36% as on March 31, 2021, out of which securitization was 9% and direct assignment was 27%. As on March 31, 2021, IIFL's Funding mix was well diversified including 35% through term loans, 23% from bonds, NHB Refinance was 6% and 36% from securitization/ assignment. Over the years, the company has reduced its reliance on funding from CPs which used to be 18% during FY17 and 30% during FY18 is now NIL as on June 30, 2021.

The company raised around Rs.1,822 crore in Q1FY22, of which, Rs.831 crore was raised through term loans, Rs.671 crore through bonds and Rs.320 crore in the form of NHB refinance. In addition, Rs.1,804 crore was raised through securitized/assigned loans. The company plans to further increase its share of securitization/assignment transactions and mainly earn spread income, i.e., the difference between the rate at which an asset is sold and the rate at which the customer is charged along with the cross-sell income. Given that overall, 65% of the loans are Priority sector compliant (PSL) and retail in nature, company can sell them off to banks in order to raise long-term resources.

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.

Comfortable Solvency Parameters with adequate capitalization
At the standalone level, IIFL Finance Ltd reported CRAR of 25.6% with Tier I of 17.8% as of June 30, 2021 (CRAR: 19.30% Tier I: 15.30% as on June 30, 2020) as against the regulatory CRAR requirement of 15% and Tier-1 requirement of 10% indicating sufficient capital cushion. The company's consolidated net-worth increased to Rs.5,645 crore as on June 30, 2021, as compared with a net-worth of Rs.4,553 as on June 30, 2020, due to internal accruals. Also, the subsidiaries remained adequately capitalized as IIFL Home Finance reported CRAR and Tier I of 24.1% and 20.9%, respectively, as on June 30, 2021, (22% and 17.1%, respectively, as on June 30, 2020) and Samasta Microfinance reported CRAR and Tier I of 23.7% and 21.4%, respectively, as on June 30, 2021 (26.90% and 22%, respectively, as on June 30, 2020). During FY21, the company's overall gearing at a consolidated level stood at 6.41 times as against 5.54 times in FY20. During Q1FY22, the gearing improved and stood at 5.69 times however it still remains elevated vis-à-vis some of the peers in the industry

Key Rating Weaknesses
Moderate asset quality; albeit stable in most of the segments
The company is exposed to asset quality challenges given its exposure to the risky real estate sector and stressed MSME and LAP portfolio. As on June 30, 2021, the company had exposure to risky asset segments like construction and real estate segment (7% of AUM), Microfinance loans (10% of AUM) and Business Loans (16% of AUM) which are more likely to face asset quality pressure as a fallout of COVID-19 disruption. The business loans constitute of both secured and unsecured loans, of which unsecured portion constitutes 4% of the AUM as on June 30, 2021. Of the total AUM, around 14% of the portfolio is unsecured (MFI + unsecured business loan).
As on March 31, 2021, there was marginal improvement in the asset quality as Gross NPA (including healthcare business) stood at 2.14% as against 2.31% as on March 31, 2020. During the year, loans worth Rs.648 crore were written off.
However, as on June 30, 2021, Gross NPA stood at 2.21% as against 1.95% as on June 30, 2020, due to Covid-19 second wave impact on collections; although collections were better than Q1FY21 but there was no moratorium during Q1FY22 unlike Q1FY21. Segment-wise Gross NPAs during the quarter were: business loan-6%, Microfinance- 2%, home loan- 1.60%, DCF book-1.50%, gold loan-0.90% and capital market-0%. In segments like home loan, gold loan and microfinance, there is no significant deterioration in asset quality. On account of reduction in the overall loan size, the Gross NPA in construction book has come down from 3.80% in FY20 to 1.10% in FY21. As on June 30, 2021, it stood at 1.50%. Major asset quality issue lies in the business loan segment, where Gross NPA (excluding healthcare business) has increased from 3.68% in FY20 to 5.65% in FY21 and further to 6.00% as on June 30, 2021, given the continued stress in the MSME sector due to the prevailing pandemic.
Provision coverage for stage 3 assets (Gross NPA/ provisions for stage 3 assets) during the quarter ended June 30, 2021 stood at 53.60% and Rs.183 crore of loans were written off during the quarter.

Limited portfolio seasoning under Home Loans and Business loans segment.
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, have witnessed complete cycles, however products like home loans and business loans where the average tenure is around 18 years and around 12 years is yet to see a complete cycle. Since March 31, 2017, Gold loans have increased from around 13% to 31% of AUM, Microfinance loans increased from 1% to 10%, whereas Business loans segment which consists of LAP and SME decreased from 30% to 16% of AUM as on June 30, 2021.

Liquidity Profile: Adequate
The liquidity profile of the company is quite comfortable at the consolidated level. As per the ALM Statement for June 2021, 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 Rs.1,561 crore and Unutilized credit lines of Rs.527 as on June 30, 2021, along with undrawn sanction of Rs.650 crore as against the debt obligations of Rs.385 crore for next 3 months. It also has access to securitization/assignment route to meet its funding requirements.

Analytical Approach:
CARE Ratings had earlier rated various debt instruments of India Infoline Finance Limited by considering the consolidated financials of below-mentioned subsidiaries. After the merger of India Infoline finance limited with IIFL Finance Limited we continue the approach and consider the consolidated financials of IIFL Finance Limited (including merged subsidiary India Infoline Finance Limited). Furthermore, we also factor in the synergies that IIFL Finance Limited will have with other IIFL group companies in terms of shared brand name and common promoters.
Subsidiaries considered as a part of consolidated financials:
- IIFL Home Finance Limited (100% holding)
- Samasta Microfinance Limited (74.34% held by IIFL Finance and 25% held by IIFL Home Finance)

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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.
IIFL Finance has wholly-owned subsidiary, IIFL Home Finance Limited (housing finance company registered with NHB), engaged in retail mortgage finance. During FY17, IIFL ventured into the microfinance segment with the acquisition of Bengaluru-based microlender Samasta Microfinance Ltd (NBFC-MFI) registered with RBI.

Brief Financials – IIFL Finance Limited (Consolidated) **(Rs. crore)**

Particulars	FY20 (A)	FY21 (A)
Total Income	4,821	5,989
PAT	503	761
Total Assets*	34,097	40,355
Net NPA (%)	0.97	0.97
ROTA (%)	1.50	2.04

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.

Brief Financials – IIFL Finance Limited (Standalone) **(Rs. crore)**

Particulars	FY20 (A)	FY21 (A)
Total Income	2,630	3,436
PAT	149	343
Total Assets*	19,159	22,003
ROTA (%)	0.81	1.66

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.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure II

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 for this company: Annexure 4

Annexure 1: Instrument Details

Instrument Type	ISIN No	Date Of Maturity	Amount (Rs. Cr)	Coupon (%)	Existing Rating
Non-Convertible Debenture (NCD)	INE866I07750	02-Nov-21	287.5	10.20%	CARE AA; Stable
Proposed Non-Convertible Debenture (NCD)	-	-	537.5	-	CARE AA; Stable
Total			**825.0**		
Subordinated Debt	INE866I08246	19-Nov-27	100.0	8.70%	CARE AA; Stable
Total			**100.0**		
Fund-based- LT	-	-	175.0	-	CARE AA; Stable
Proposed Fund-based- LT	-	-	225.0	-	CARE AA; Stable
Total			**400.0**		

Annexure 2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
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; Negative (05-Jan-21) 2)CARE AA; Negative (21-May-20)	-	-
3	Debentures-Non-Convertible Debentures	LT	825.00	CARE AA; Stable	-	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; Negative (05-Jan-21) 2)CARE AA; Negative (21-May-20)	-	-

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

Annexure 4: Complexity level of instrument

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

Note on complexity levels of the rated instrument
CARE Ratings has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Contact us

Analyst Contact
Name - Mr. Gaurav Dixit
Contact no.- +91-11-4533 3237
Email ID – gaurav.dixit@careratings.com

Business Development Contact
Name: Mr. Saikat Roy
Contact no.: +91-22-6754 3404
Email ID – saikat.roy@careratings.com

Media Contact
Name - Mr. Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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