

IIFL Finance Limited

April 13, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	400.00	CARE AA (RWN)	Revision in credit watch from (Rating Watch with Developing Implications) to (Rating Watch with Negative Implications)
Long Term Long Term Instruments	100.00	CARE AA (RWN)	Revision in credit watch from (Rating Watch with Developing Implications) to (Rating Watch with Negative Implications)
Non Convertible Debentures	537.50	CARE AA (RWN)	Revision in credit watch from (Rating Watch with Developing Implications) to (Rating Watch with Negative Implications)

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the various long-term debt instruments and bank facilities of IIFL Finance Limited (IIFL) have been put on 'Rating watch with negative implications' on account of continued uncertainty on the restoration of gold loan operations of the company with uncertainty on the timelines for completion of the scheduled special audit which is to be done as per RBI's directive. This follows the RBI order dated March 04, 2024, which directed to cease and desist, with immediate effect, from sanctioning or disbursing gold loans or assigning/ securitising/ selling any of its gold loans.

CARE has taken into account the RBI's special audit tender notification dated March 22, 2024, as per which the selection of the auditor for the special audit will be done by April 12, 2024. However, the timelines for completion of the process along with the final outcome of the special audit remains uncertain and will remain a key monitorable. If the said restrictions prolong, the gold book is expected to run down in next 2-3 quarters which currently constitute 79% of the IIFL's standalone AUM and 32% of the consolidated AUM as on Dec 31, 2023. The continuation of the restriction on gold loan segment is expected to have negative impact on the overall liability franchise across segments with moderation in its financial flexibility.

CARE will continue monitor the impact of these developments on its business operations, liability franchise and liquidity profile. CARE will also continue to monitor the progress on the scheduled special audit and the course of action taken by the company including the required corrective steps.

CARE Ratings has also taken note of Rs. 500 crores raised through NCDs in March 2024 and the proposed rights issue plan of Rs.1,500 crores which is expected to get completed by mid-May 2024; this along with the collection on the gold loan book as its runs down, is expected to help the company in maintaining healthy liquidity.

The detailed press release on IIFL Finance Limited is available here: [click here](#)

Detailed rating rationale is available on www.careratings.com

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- 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.

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

- Improvement in the overall consolidated gearing profile (including DA & securitisation).

Negative factors

- Any adverse impact of the RBI action on its business operations, liability franchise and/or liquidity.
- 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 return on total asset (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.

Subsidiaries/JV considered as a part of consolidated financials (Refer Annexure-6):

- IIFL Home Finance- 79.59% holding.
- IIFHL Sales Ltd- 100% subsidiary of IIFL Home Finance.
- IIFL Samasta Finance Ltd- 99.56% holding.
- IIFL OPEN Fintech Private Ltd- 51.02% holding.

Outlook: Not applicable.

Liquidity: Strong

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

On a consolidated basis, as on March 31, 2024, the company had a total liquidity (Provisional figure) of ₹6,408 crores (including undrawn bank lines of Rs. 2,779 crores) as against the debt obligations of Rs. 3,953 crores for the next three months. With Fairfax India agreeing to provide liquidity support upto US\$ 200 Mn, and the proposed rights issue, the liquidity is expected to remain comfortable in the medium term.

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.

Applicable criteria

[Definition of Default](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios - Financial Sector](#)

[Non Banking Financial Companies](#)

[Factoring linkages in ratings- Sub JV Group](#)

[Rating methodology- consolidation](#)

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.

The company is engaged in providing gold loans and unsecured personal loans to individuals and loan against property to small and medium businesses. Further it provides housing loans and micro finance loans through its subsidiaries. Abu Dhabi Investment Authority (ADIA) has taken 20.41% stake in the housing finance subsidiary in June 2022.

The ratings for the company have been put on 'Rating watch with negative implications' on account continued uncertainty on the restoration of gold loan operations of the company with uncertainty on the timelines for completion of the scheduled special audit which is to be done as per RBI's directive. . This follows the RBI order dated March 04, 2024, which directed to cease and desist, with immediate effect, from sanctioning or disbursing gold loans or assigning/ securitising/ selling any of its gold loans. RBI has allowed the company for usual collection and recovery processes of existing gold loans. The supervisory restrictions will be reviewed by the RBI post a special audit and after rectification by the company of the special audit findings and the findings of RBI inspection, to the satisfaction of RBI.

CARE Ratings has also taken note of announcement by Fairfax of providing liquidity support of \$ 200mn dated March 6, 2024.

RBI's action restricting the company from disbursing and sanctioning gold loans is expected to adversely affect the financial profile as the gold loan constituted 32% of the consol book (79% of standalone), in case the issue is not resolved in the near future.

Consolidated

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	9MFY24 (UA)
Total income	7,006	8,447	7,588
PAT	1,188	1,608	1,544
Total assets*	45,622	52,875	58,860
Net NPA (%)	1.83	1.08	0.87
ROTA (%)^	2.76	3.26	3.68 [#]

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.

[#]Annualised.

[^] Ratios have been computed based on average of annual opening and closing balances.

Standalone

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	9MFY24 (UA)
Total income	4,089	4,089	3,251
PAT	745	805	420
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.

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

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; (RWN)
Bank facilities- Fund-based- Long term- Proposed	-	-	-	-	225.00	CARE AA; (RWN)
Subordinated debt	INE866I08246	21-Nov-17	8.70%	19-Nov-27	100.00	CARE AA; (RWN)
Non-convertible debenture- Proposed	-	-	-	-	537.50	CARE AA; (RWN)

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 2024-2025	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
1	Debt-Subordinate Debt	LT	100.00	CARE AA (RWN)	-	1)CARE AA (RWD) (12-Mar-24)	1)CARE AA; Stable (06-Oct-22)	1)CARE AA; Stable (07-Oct-21)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	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
						2)CARE AA; Stable (28-Sep-23)		
2	Debentures-Non Convertible Debentures	LT	537.50	CARE AA (RWN)	-	1)CARE AA (RWD) (12-Mar-24) 2)CARE AA; Stable (28-Sep-23)	1)CARE AA; Stable (06-Oct-22)	1)CARE AA; Stable (07-Oct-21)
3	Fund-based-Long Term	LT	400.00	CARE AA (RWN)	-	1)CARE AA (RWD) (12-Mar-24) 2)CARE AA; Stable (28-Sep-23)	1)CARE AA; Stable (06-Oct-22)	1)CARE AA; Stable (07-Oct-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Not applicable

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](#)

Annexure-6: List of all the entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	IIFL Home Finance Ltd	Full	Subsidiary
2	IIFHL Sales Ltd	Full	Step-down subsidiary

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
3	IIFL Samasta Finance Ltd	Full	Subsidiary
4	IIFL OPEN Fintech Private Ltd	Full	Subsidiary

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.

Contact us

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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.

Disclaimer:

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