IIFL Finance Limited(Revised)

September 20, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	-	-	Withdrawn
Long Term Instruments	-	-	Reaffirmed at CARE AA-; Stable and Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Ltd. has reaffirmed and withdrawn the outstanding rating of 'CARE AA-; Stable' [Double AA Minus; Outlook: Stable] assigned to the Subordinate Debt and has withdrawn the outstanding rating of 'CARE AA-; Stable' [Double AA Minus; Outlook: Stable] assigned to the Bank facilities of IIFL Finance Limited with immediate effect. The above action related to subordinate debt has been taken at the request of IIFL Finance Limited post receiving No Objection Certificate from the investors of the said instrument. Further, the above action related to bank facilities has been taken at the request of IIFL Finance Limited post receiving No Dues Certificate from the bank. The action taken is in line with the withdrawal policy of the CARE. The rating prior to withdrawal primarily considered the decline in its Gold Loan book on account of the earlier restriction on the Gold loan business by RBI on IIFL Finance Ltd which has resulted in Gold Loan AUM shrinking to Rs. 14,727 crores as on June 30, 2024, from Rs. 23,354 crores as on March 31, 2024. This has led to moderation in the financial flexibility of the group and has also impacted the profitability of the company and its liability franchisee.

However, IIFL in its exchange filing dated September 19, 2024, intimated that RBI through its communication dated September 19, 2024, has lifted the said restrictions and has allowed IIFL to resume the gold loan business, although the company's ability to profitably rescale the business and regain its lost market share amidst the competitive landscape was a key monitorable. Gold loan AUM currently constitutes 72% of the IIFL's standalone AUM and 21% of the consolidated AUM as on June 30, 2024.

CARE Ratings (CARE) also factor in the comfortable capital structure at the consolidated level, strong institutional ownership (with shareholding of the Fairfax group of 15.22% as on June 30, 2024), diversified loan portfolio and experienced management team. However, these rating strengths are partially offset on account of moderate asset quality and profitability parameters. On standalone basis, the company also has reported losses of Rs. 22.66 crores during Q1FY25.

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. (Refer Annexure-6)

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- 99.56% holding.
- IIFL OPEN Fintech Private Ltd- 51.02% holding.

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

Outlook: Stable

The 'Stable' outlook reflects CARE Ratings' expectation of improvement in 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 key rating drivers:

Key strengths

Strong institutional ownership and experienced management team

As on June 30, 2024, the promoters of IIFL held 24.91% stake, Fairfax group held 15.22% stake, Institutional investors (other than Fairfax group) held 37.74% and remaining 22.13% of the stake is held by the public. Further, Fairfax group has articulated its support to the IIFL group through the announcement of liquidity lines and infusion of equity of Rs. ~192 crores through rights issue in May 2024 and through subscriptions of NCDs of Rs. 500 crores in March 2024.

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. Kapish Jain is the group CFO and 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. in the past. A.K. Purwar has been re-appointed as the Chairperson of the company's Board. 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. Apart from them, Monu Ratra is the CEO of IIFL Home Finance Limited, and N. Venkatesh is the CEO of IIFL Samasta Finance Limited.

Diversified loan portfolio, with retail assets dominating the loan book

IIFL, on a consolidated level, had a diversified customer base with retail products of average ticket size ranging between ₹0.76 lakh and ₹16 lakh, comprising 98% of the total assets under management (AUM) as on March 31, 2024. 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 March 31, 2024, is well diversified across segments like home loan which constitutes 34.7% of the AUM followed by gold loan-29.6%, microfinance (MFI)-16.6%, business loan-16.3%, commercial real estate (CRE)- 1.3%, construction finance (CF)- 1.0%%, and capital market finance- 0.4%. The AUM of the company grew by 22% Y-o-Y and stood at ₹78,960 crore (March-23: ₹64,638 crore). The growth during FY24 was supported by key segments like MFI, gold loan, and home loan.

However, post RBI's earlier order on restricting the Gold loan business, the Gold loan book has been continuously declining and it stood at ₹14,727 crores as on June 30, 2024, which was ₹23,354 as on March 31, 2024. Gold loan being one of the highest share contributing segment, its decrease has reduced the total AUM and has changed the proportional dynamics of other segments in the total AUM during Q1FY25. As of June 30, 2024, the total AUM came down by 12% q-o-q to ₹69,610, however, the retail portion continued to be 98% of the total AUM. Segment wise as on June 30, 2024, Home loan constituted 40.4% of the total AUM, followed by Gold loan-21.2%, microfinance (MFI)-18.9%, business loan-17.1%, commercial real estate (CRE)- 0.9%, construction finance (CF)- 1.2%, and capital market finance- 0.4%. Apart from decline in gold loan book, the company has also reported decline of 8% q-o-q in the microfinance book due to squeeze of credit lines by the banks in the wake of orders on the gold loan business, and sluggish growth of 2% q-o-q in home loan.

On a standalone basis, the AUM of IIFL stood at ₹29,250 crore as on March 31, 2024, as against ₹25,573 crore as on March 31, 2023, which constituted gold loans, business loans, commercial real estate and capital market finance. Further, in Q1FY25, the

AUM reported a degrowth of 30% q-o-q due to Gold book run down and stood at ₹20,498 crore. The on-book portfolio has declined across all the segments in Q1FY25 except for business loan.

Adequate capitalisation levels

At the standalone level, IIFL reported CRAR of 27.81% as on June 30, 2024 (CRAR: 18.85% as on March 31, 2024) as against the regulatory CRAR requirement of 15% indicating adequate capital cushion. However, the increase in CRAR ratio on standalone level is primarily due to the decrease in AUM witnessed by the company post RBI's earlier action on its Gold Loan business and by fresh capital raise by way of rights issue of equity shares.

Further, the subsidiaries remained adequately capitalised as IIFL Home Finance reported CRAR of 46.54% as on June 30, 2024, (CRAR- 42.84% as on March 31, 2024) and IIFL Samasta Finance reported CRAR of 27.04% as on June 30, 2024 (CRAR- 23.99% as on March 31, 2024).

On a consolidated level, the on-book gearing as on March 31, 2024, remained at similar levels as that of March 31, 2023. The on-book gearing was 3.92 times as on March 31, 2024 (March 31, 2023: 3.93 times). However, during Q1FY25, the on-book gearing improved significantly and stood at 3.06* times as on June 30, 2024. This was on account of increase in net worth post rights issue coupled with decline in borrowing levels. As on June 2024, the net worth and total borrowings on a consolidated level stood at Rs. 13,701 crores and Rs. 41,944 crores, respectively.

Considering the off-balance sheet AUM, as on March 31, 2024, the AUM to tangible net worth at consolidated level stood at 6.64 times (as on March 31, 2023- 6.41 times). As on June 30, 2024, the AUM to tangible net worth declined to 5.08* times, due to decline in total AUM in-line with the decline in Gold loan and Microfinance segment during Q1FY25.

Further, on the standalone level the exposures to wholesales segment (incl. investments in AIFs) as a % of net worth adjusted for investments in subsidiaries improved during FY24, however, remained high at 31% as on March 2024 (March 2023: 90%).

Key weaknesses

Decline in the profitability and impact on its overall liability franchisee

Post RBI's earlier order to restrict Gold Loan business, reduction in gold loan AUM and overall disbursements have affected the overall profitability. IIFL on consolidated level reported a PAT of Rs. 338 crores during Q1FY25 which is 28% less than the PAT of Rs. 473 crores reported during Q1FY24. Further, during Q1FY25, the company reported PAT Margin of 12.88% which was 18.82% for FY24. The company's RoTA (annualized) for Q1FY25 was 2.27*%, which was 3.43% for FY24.

Further, post RBI's earlier action, with moderation in financial flexibility, the group had also faced certain challenges on its liability franchisee which is reflected in the degrowth of its Microfinance book. Overall, the microfinance sector is also facing certain headwinds with increased levels of indebtedness at the borrower's level, which may impact the profitability of the company in the short to medium term.

*calculated using reported figure.

However, prior to RBI's earlier action, the company had posted improved profitability numbers. On consolidated level, it reported a PAT of Rs. 1,974 crores during FY24, which is 23% higher than the PAT of Rs. 1,608 crores for FY23. The RoTA improved during FY24 and stood at 3.43% which was 3.26% for FY23.

Moderate asset quality

The company is exposed to asset quality challenges given its exposure to the risky real estate sector, other riskier segments like MFI and unsecured business loan. As on March 31, 2024, on a consolidated level, the Gross NPA ratio deteriorated to 2.32% (Net NPA- 1.20%) as against 1.84% (Net NPA- 1.08%) as on March 31, 2023. This deterioration was largely on account of increased GNPA under the gold loan segment and construction & developer finance segment. Under gold loan segment, the GNPA increased to 3.83% as on March 2024 from 0.80% as on March 2023, and under construction & real estate finance segment the GNPA increased to 3.15% as on March 2024, from 0.39% as on March 2023.

Further as on June 2024, the Gross NPA and Net NPA stood at, 2.25% and 1.11%, respectively, with segment-wise GNPAs as follows: home loan-1.29%, gold loan-2.93%, LAP-3.59%, Business loan-3.26%, Microfinance- 2.32%, CRE book-1.45% and NIL GNPA in the capital market segment.

IIFL on consolidated basis reported net write-offs of Rs. 911 crores during FY24 (FY23: Rs. 935 crores), including these write-offs, the Gross NPA would have been 4.08%. Also, the company's exposure towards security receipts (SRs) on consolidated level increased from Rs. 1,210 crores as on March 31, 2023, to Rs. 3,191 crores as on March 31, 2024 (IIFL Finance: Rs. 2,911 crores, IIFL Home Finance: Rs. 110 crores and IIFL Samasta Finance: Rs. 171 crores).

As on June 30, 2024, of the total AUM, around 24% 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 51.3% as on June 30, 2024.

Liquidity: Adequate

The liquidity profile of the company is comfortable at the consolidated level. On a consolidated basis, as on June 30, 2024, the company had a total liquidity of ₹6,890 crores (including unutilised cash credit lines and undrawn bank lines of Rs. 2,020 crores) as against the debt obligations of Rs. 6,500 crores for the next six months (as per consolidated ALM dated June 30, 2024). The company as on June 30, 2024, expected repayments of Rs. 11,637 crores in the next six months (as per consolidated ALM dated June 30, 2024) which will further support its liquidity.

Further, as per the consolidated as well as standalone ALM dated June 30, 2024, the company did not report cumulative mismatch in any of the buckets.

Additionally, post equity infusion through rights issue, the liquidity of the company is expected to remain comfortable in the medium term. CARE has taken into consideration the liquidity support Fairfax India has agreed upon.

*calculated using reported figure.

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 seven members.

Applicable criteria

Definition of Default
Rating Outlook and Rating Watch
Financial Ratios - Financial Sector
Withdrawal Policy
Non Banking Financial Companies
Consolidation

About the company and industry

Industry classification

Macroeconomic 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. As on June 30, 2024, the overall AUM on consolidated level stood at Rs. 69,610 crores.

Brief Financials (₹ crore)- IIFL Finance Ltd (Consolidated)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total income	8,447	10,490	2,625
PAT	1,608	1,974	338
Total Assets*	52,875	62,264	57,789#
Net NPA (%)	1.08	1.20	1.11
ROTA (%)	3.26	3.43	2.27
PAT Margin (%)	19.03	18.82	12.88

A: Audited UA: Unaudited; Note: these are latest available financial results
*Adjusted for intangibles and DTA
#Reported figure.

Brief Financials (₹ crore)- IIFL Finance Ltd (Standalone)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total income	4,089	4,649	1,015
PAT	806	585	(23)
Total Assets*	23,101	27,508	NA
Net NPA (%)	0.60	1.90	1.48
ROTA (%)	3.50	2.31	NA
PAT Margin (%)	19.71	12.59	-2.20

A: Audited UA: Unaudited; Note: these are latest available financial results
*Adjusted for intangibles and DTA
#Reported figure.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based-Long Term	-	-	-	-	0.00	Withdrawn
Subordinate Debt	INE866I08246	21-Nov-2017	8.70%	19-Nov-2027	0.00	Withdrawn

Annexure-2: Rating history for 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	-	-	1)CARE AA-; Stable (20-Sep-24) 2)CARE AA-; Stable (19-Sep-24) 3)CARE AA (RWN) (13-Apr-24)	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)
2	Debentures-Non Convertible Debentures	LT	-	-	1)Withdrawn (19-Sep-24) 2)CARE AA (RWN) (13-Apr-24)	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	-	-	1)CARE AA-; Stable (19-Sep-24) 2)CARE AA (RWN) (13-Apr-24)	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 rated instruments/facilities:

Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debt-Subordinate Debt	Complex
2	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 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
3	IIFL Samasta Finance Ltd	Full	Subsidiary
4	IIFL OPEN Fintech Private Ltd	Full	Subsidiary

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