August 05, 2022(Revised)

IIFL Home Finance Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	5,000.00	5,000.00	[ICRA]A1+; reaffirmed
Non-convertible Debenture Programme	2,743.75	2,743.75	[ICRA]AA(Stable); reaffirmed
Non-convertible Debenture Programme	111.25	-	[ICRA]AA(Stable); reaffirmed and withdrawn
Subordinated Debt Programme	353.00	353.00	[ICRA]AA(Stable); reaffirmed
Subordinated Debt Programme	20.00	-	[ICRA]AA(Stable); reaffirmed and withdrawn
Long-term Bank Lines	5,000.00	5,000.00	[ICRA]AA(Stable); reaffirmed
LT- market Linked Debenture	200.00	200.00	PP-MLD[ICRA]AA(Stable); reaffirmed
Total	**13,428.00**	**13,296.75**	

**Instrument details are provided in Annexure I*

Rationale

To arrive at the ratings, ICRA has considered the combined business of IIFL Finance Limited and its subsidiaries (IIFL Home Finance Limited and IIFL Samasta Microfinance Limited), referred to as IIFL/the Group/the company, given their common senior management team and strong financial and operational synergies.

The ratings favourably factor in the Group's diversified lending portfolio with assets under management (AUM) of Rs. 52,761 crore as on June 30, 2022 (retail portfolio constituting 95%) and its widespread presence across 25 states with 3,296 branches. The ratings also consider the Group's adequate capitalisation. With the off-balance sheet portfolio largely driving the growth, the company's capitalisation has remained stable with a consolidated net worth of Rs. 6,470 crore and on-book gearing of 5.7x as on March 31, 2022. IIFL Home Finance has entered into a definite agreement with Abu Dhabi Investment Authority (ADIA) for raising Rs. 2,200 crore of primary capital for a 20% stake, which is likely to support the company's growth plans. Further, given the increasing share of the off-balance sheet portfolio, the capitalisation is expected to remain adequate.

The ratings are constrained by the impact of the Covid-19 pandemic on the Group's profitability and asset quality. The asset quality has moderated on account of pandemic-related issues and slippages in the real estate book. With high slippages and write-offs, the credit costs remained high in FY2022 and FY2021, thereby impacting the profitability. IIFL's ability to manage the asset quality and control the credit costs would remain critical for maintaining the profitability. During the liquidity crisis post September 2018, the company had primarily been relying on the assignment/securitisation of its portfolio. However, since then, it has raised long-term bank loans, retail non-convertible debentures (NCDs), foreign currency bonds and National Housing Bank (NHB) and National Bank for Agriculture and Rural Development (NABARD) refinance in the last two years, which has helped improve the funding profile. A further improvement in the Group's ability to raise funds from diverse sources at competitive rates will also remain a key monitorable.

ICRA has reaffirmed and withdrawn the rating outstanding on the NCD programme and subordinated debt programme of Rs. 111.25 crore and Rs. 20.00 crore, respectively, as these instruments have been redeemed in full and there are no dues outstanding against the same. The rating has been withdrawn in accordance with ICRA's policy on the withdrawal and suspension of credit ratings.

Key rating drivers and their description

Credit strengths

Diversified lending book with focus on retail lending provides comfort – The Group has a diversified lending book with AUM of Rs. 52,761 crore as on June 30, 2022. Home loans accounted for 35% of the portfolio, followed by gold loans, (32%), business loans (15%), microfinance (12%), developer and construction finance (5%) and capital market (1%). The total AUM grew by 22% YoY. With a focus on growing its assigned book and the AUM under co-lending, the off-balance sheet book has increased significantly and stood at Rs. 18,418 crore (35% of AUM) as on June 30, 2022 (Rs. 10,259 crore; 24% of AUM as on June 30, 2021). The company has tie-ups with various banks and this is likely to further increase the share of the off-balance sheet book in the medium term.

The AUM growth was largely led by a 29% YoY growth in gold loans, 26% in home loans while microfinance loans grew by 43% (albeit on a relatively smaller base). With the transfer of ~Rs. 1,300 crore of the book to Alternative Investment Funds (AIFs) in Q1 FY2022, construction finance and real estate witnessed a decline (of this, ~Rs. 900 crore was received as investment in the units of AIFs and the balance in cash). Further, unsecured business loans have been declining steadily.

ICRA takes note of the Group's extensive network of 3,296 branches across 25 states as on March 31, 2022, which is likely to support future growth. Going forward, the management intends to focus on retail mortgage loans and other high-yielding loans such as gold loans and microfinance loans and reduce incremental exposure to the wholesale segment (6% of the AUM as on June 30, 2022 – including investment in AIF).

Adequate capitalisation – IIFL Finance's consolidated net worth stood at Rs. 6,470 crore as on March 31, 2022 with on-book gearing of 5.7x (managed gearing, including off-book, of 8.5x). ICRA takes note of the definitive agreement between IIFL Home Finance and ADIA for raising Rs. 2,200 crore of primary capital for a 20% stake. The equity infusion is likely to support the company's growth plans in the medium term. The capitalisation is further supported by the increasing share of the off-balance sheet portfolio. The company's solvency profile remained comfortable with consolidated net stage 3/net worth at 7.3% as on June 30, 2022 (6.0% as on June 30, 2021).

On a standalone basis, the company reported a capital-to-risk weighted assets ratio (CRAR) of 23.9% with a Tier I of 16.0% as of March 31, 2022 (25.4% and 17.5%, respectively, as on March 31, 2021). IIFL Home Finance remained adequately capitalised with a CRAR and Tier I of 30.5% and 21.1%, respectively, as on March 31, 2022 (23.0% and 19.6%, respectively, as on March 31, 2021). Samasta's capitalisation has been supported by regular equity infusions by IIFL Finance and IIFL Home Finance. Samasta reported a CRAR and Tier I of 17.8% and 15.9%, respectively, as on March 31, 2022 (18.5% and 15.1%, respectively, as on March 31, 2021).

Credit challenges

Credit costs remain high; exposed to slippages from real estate and microfinance books – The IIFL Group's reported asset quality indicators were comfortable with the gross and net stage 3 at 2.57% and 1.48%, respectively, as on June 30, 2022 (2.20% and 0.80%, respectively, as on June 30, 2021). While slippages remained high in FY2022 and Q1 FY2023, the company's reported asset quality has been supported by significant write-offs, especially in the real estate book and the unsecured micro, small & medium enterprise (MSME) portfolio. IIFL's collections, like other non-banking financial companies (NBFCs), were impacted by pandemic-related issues. It has seen increased slippages in the unsecured MSME segment and the microfinance institution (MFI) portfolio. While the share of the unsecured MSME segment has been reducing and stood at 4% of the AUM as on June 30, 2022 (8% as on March 31, 2020), the company's ability to control slippages from its MFI segment (12% of the AUM) in light of the impact of the pandemic on the borrower profile will be a key monitorable.

Further, IIFL's asset quality is exposed to slippages from the concentrated wholesale lending portfolio. The wholesale lending portfolio largely comprises higher ticket size real estate loans (funding for the relatively initial stages of the project). ICRA, however, takes note of the decline in the real estate book to 5% of the AUM and 36% of the net worth as on June 30, 2022 (6% and 49%, respectively, including the investment in AIFs) from 9% and 79%, respectively, as on March 31, 2021. Given the delays in project execution, the company had extended the date of commencement of commercial operations (DCCO) for ~58% of its real estate portfolio as on June 30, 2021. While the projects have now come out of the DCCO, the Group's ability to control slippages remains a key monitorable.

Given the moderate seasoning of home loans, the Group's ability to maintain its asset quality through the current business cycles will remain a monitorable. Additionally, MFI loans are given to marginal borrower segments, which have been impacted by the pandemic. Microfinance remains susceptible to the risks associated with unsecured lending to marginal borrowers with limited ability to absorb income shocks and the rising borrower leverage levels owing to an increase in multiple lending in the areas of operations. Further, political and operational risks associated with microfinance may result in high volatility in the asset quality indicators.

With increased slippages, credit costs remained high at 1.5% of the average managed assets (AMA) in FY2022 though lower than FY2021 (2.4% of AMA). The profitability was largely supported by the higher upfront gain on assignment with IIFL reporting a profit after tax (PAT) of 2.1% of AMA in FY2022 (1.6% in FY2021). However, excluding the upfront gain on assignment, the PAT stood at 1.5% of AMA in FY2022 compared to 1.4% in FY2021. The company's ability to manage the asset quality and control the credit costs would remain critical for improving its profitability.

Limited diversification in funding profile despite improvement – The resource profile, as on June 30, 2022, consisted of bank loans of ~37%, assignment and securitisation of ~34%, debentures of ~20%, and refinance facility of ~10%. While the company has been raising long-term bank loans, retail NCDs, foreign currency bonds and NHB refinance in the past two years, the reliance has largely been on banks in terms of the investor profile. ICRA draws comfort from the significant retail exposures (~94% of the AUM) with priority sector loans accounting for 36%, which could be securitised/assigned to generate liquidity. An improvement in the Group's ability to raise diversified funds at competitive rates will remain a key monitorable.

Liquidity position: Adequate

As on June 30, 2022, the company had on-balance sheet liquidity (in the form of cash and unencumbered fixed deposits) of Rs. 2,384 crore and undrawn cash credit limits of Rs. 1,273 crore. Further, it had sanctioned but unutilised bank lines of Rs. 330 crore. The liquidity profile remains adequate in relation to the near-term debt maturities (debt obligations of ~Rs. 3,241 crore due till December 2022 for IIFL Finance consolidated).

Rating sensitivities

Positive factors – ICRA could revise the outlook to Positive or upgrade the ratings if the company reports a substantial and sustained improvement in its business performance, characterised by well-diversified growth and improvement in the profitability, asset quality and funding diversity.

Negative factors – ICRA could downgrade the ratings or change the outlook if there is a weakening in the asset quality, with the reported gross stage 3 increasing to more than 5%, or a deterioration in the profitability with PAT/AMA of less than 1.25% or a substantial increase in the on-book leverage on a sustained basis. Any deterioration in the funding flexibility would also be a key negative.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies Rating Approach - Consolidation Policy on Withdrawal of Credit Ratings
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has done a combined analysis of IIFL Finance Limited and its subsidiaries (IIFL Home Finance Limited and IIFL Samasta Microfinance Limited), given their common senior management team and strong financial and operational synergies, enlisted in Annexure II

About the company

IIFL Home Finance Limited is a wholly-owned subsidiary of IIFL Finance Limited and is registered with National Housing Bank (NHB) as a housing finance company. Incorporated in 2006, it offers home loans, loan against property and construction finance loans.

IIFL Home Finance Limited reported a PAT of Rs. 578 crore in FY2022 on a total asset base of Rs. 18,010 crore compared to Rs. 401 crore and Rs. 15,978 crore, respectively, in FY2021. The company operates with 225 branches across 16 states.

IIFL Finance Limited

IIFL Finance, a listed non-operating holding company had India Infoline Finance Limited {a systematically important, non-deposit accepting non-banking financial company (NBFC-ND-SI)} as its subsidiary. As a part of a merger scheme, India Infoline Finance was merged with IIFL Finance with effect from March 30, 2020 following the receipt of an NBFC licence by IIFL Finance. IIFL along with its subsidiaries, IIFL Home Finance (registered as a housing finance company) and Samasta Microfinance Limited (registered as an NBFC-MFI) offers home loans, loan against property, MSME loans, gold loans, microfinance and real estate loans.

IIFL Finance Limited's consolidated net worth stood at Rs. 6,880 crore as on June 30, 2022. It reported a PAT of Rs. 1,188 crore in FY2022 on total assets of Rs. 45,910 crore compared to Rs. 761 crore and Rs. 40,667 crore, respectively, in FY2021. The company reported a PAT of Rs. 330 crore in Q1 FY2023 on total assets of Rs. 44,130 crore as on June 30, 2022.

Key financial indicators (audited)

IIFL Home Finance Limited	FY2020	FY2021	FY2022
Profit after tax	245	401	578
Net worth	1,780	2,124	2,681
Loan book (AUM)	18,495	20,694	23,617
Gross NPA	1.60%	1.97%	2.10%
Net NPA	1.22%	1.24%	1.31%
Capital adequacy ratio	23.71%	22.98%	30.5%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Key financial indicators (audited)

IIFL Finance Limited (Consolidated)	FY2020	FY2021	FY2022
Total revenues	4,844	5,840	6,470
Profit after tax	503	761	1,188
Net worth	4,766	5,393	6,470
Loan book (AUM)	37,951	44,688	51,210
Total assets	34,341	40,667	45,910
PAT/AMA	1.2%	1.6%	2.1%
Return on average equity	11.0%	15.0%	20.0%
Gross stage 3	2.0%	2.0%	3.2%^
Net stage 3	0.8%	0.9%	1.8%
Gearing (times)	5.8	6.1	5.7
Solvency (Net stage 3/Net worth)	5.7%	6.0%	9.6%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

^Including impact of RBI Circular of Nov-21; excluding the same gross Stage 3 % stood at 2.3%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
		Type	Rated Amount (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Aug-05-22	Oct-06-2021	Jan-22-2021	Nov-29-2019
1	Commercial Paper Programme	Short Term	5,000.00	0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	NCD Programme	Long Term	2,743.75	309.00	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Negative)	[ICRA]AA(negative)
3	NCD Programme	Long Term	111.25	-	[ICRA]AA(Stable); withdrawn	[ICRA]AA(Stable)	[ICRA]AA(Negative)	[ICRA]AA(negative)
4	Subordinated Debt Programme	Long Term	353.00	240.00	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Negative)	[ICRA]AA(negative)
5	Subordinated Debt Programme	Long Term	20.00	-	[ICRA]AA(Stable); withdrawn	[ICRA]AA(Stable)	[ICRA]AA(Negative)	[ICRA]AA(negative)
6	Long-term Bank Lines	Long Term	5,000.00	2,766.29	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Negative)	[ICRA]AA(negative)
7	Long-term Principal Protected Market Linked Debenture Programme	Long Term	200.00	0	PP-MLD[ICRA]AA(Stable)	PP-MLD[ICRA]AA(Stable)	PP-MLD[ICRA]AA(Negative)	PP-MLD[ICRA]AA(Negative)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Bank Lines	Very Simple
Non-convertible Debenture Programme	Very Simple/Simple/Moderately Complex
Subordinated Debt Programme	Simple/Moderately Complex
Long-term Principal Protected Market Linked Debenture Programme	Complex
Commercial Paper Programme	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN/ Banker Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE477L07AG3	Non-convertible Debenture Programme	Feb-11-21	8.60%	Feb-11-28	18.00	[ICRA]AA(Stable)
INE477L07AH1	Non-convertible Debenture Programme	Mar-12-21	8.62%	Mar-12-28	19.00	[ICRA]AA(Stable)
INE477L07AI9	Non-convertible Debenture Programme	Apr-16-21	8.70%	Apr-16-29	36.00	[ICRA]AA(Stable)
INE477L07AJ7	Non-convertible Debenture Programme	May-14-21	8.70%	May-14-30	21.00	[ICRA]AA(Stable)
INE477L07AJ7	Non-convertible Debenture Programme	Jun-01-21	8.70%	May-14-30	15.00	[ICRA]AA(Stable)
INE477L07AJ7	Non-convertible Debenture Programme	Jun-16-21	8.70%	May-14-30	23.00	[ICRA]AA(Stable)
INE477L07982	Non-convertible Debenture Programme	Dec-20-18	10.33%	Dec-19-25	15.00	[ICRA]AA(Stable)
INE477L07AJ7	Non-convertible Debenture Programme	Sep-13-21	8.70%	May-14-30	35.00	[ICRA]AA(Stable)
INE477L07AJ7	Non-convertible Debenture Programme	Sep-24-21	8.70%	May-14-30	15.00	[ICRA]AA(Stable)
INE477L07AK5	Non-convertible Debenture Programme	Sep-28-21	8.20%	Sep-28-26	112.00	[ICRA]AA(Stable)
NA	Non-convertible Debenture Programme – Unallocated	NA	NA	NA	2,434.75	[ICRA]AA(Stable)
INE477L07701	Non-convertible Debenture Programme	Nov-03-16	8.90%	Nov-03-21	5.00	[ICRA]AA(Stable); withdrawn
INE477L07AC2	Non-convertible Debenture Programme	May-15-18	8.96%	Nov-15-21	28.13	[ICRA]AA(Stable); withdrawn
INE477L07AC2	Non-convertible Debenture Programme	May-15-18	8.96%	May-13-22	28.13	[ICRA]AA(Stable); withdrawn
INE477L07909	Non-convertible Debenture Programme	Jul-24-18	9.38%	Jan-24-22	50.00	[ICRA]AA(Stable); withdrawn
INE477L08071	Subordinated Debt Programme	May-30-16	9.30%	May-29-23	15.00	[ICRA]AA(Stable)
INE477L08089	Subordinated Debt Programme	Jul-27-17	8.85%	Jul-27-27	75.00	[ICRA]AA(Stable)
INE477L08097	Subordinated Debt Programme	Jul-27-17	8.93%	Apr-14-23	100.00	[ICRA]AA(Stable)
INE477L08105	Subordinated Debt Programme	Feb-28-18	9.05%	Feb-28-28	10.00	[ICRA]AA(Stable)
INE477L08113	Subordinated Debt Programme	Jun-18-18	9.85%	Jun-16-28	40.00	[ICRA]AA(Stable)
NA	Subordinated Debt Programme – Unallocated	NA	NA	NA	113.00	[ICRA]AA(Stable)
INE477L08055	Subordinated Debt Programme	Jan-21-16	9.30%	Jan-25-22	10.00	[ICRA]AA(Stable); withdrawn
INE477L08063	Subordinated Debt Programme	Feb-12-16	9.30%	Feb-11-22	10.00	[ICRA]AA(Stable); withdrawn
NA	LT – Market Linked Debenture Unallocated	NA	NA	NA	200.00	PP-MLD[ICRA]AA (Stable)
NA	Long-term Bank Lines – Fund Based	NA	NA	NA	5,000.00	[ICRA]AA(Stable)
INE477L14FO2	Commercial Paper	Apr-25-22	5.75%	Oct-27-22	50.00	[ICRA]A1+
NA	**Commercial Paper – Unallocated**	NA	NA	7-365 days	4,950.00	[ICRA]A1+

Source: Company

Annexure II: List of entities for combined analysis with consolidated analysis

Company Name	Ownership	Consolidation Approach
IIFL Home Finance Limited	100%	Combined Analysis
Samasta Microfinance Limited^	99.34%	Combined Analysis
IIHFL Sales Limited	100%	Combined Analysis
IIFL Open Fintech Private Limited	51%	Combined Analysis

^ IIFL Finance's stake stood at 74.41% while the balance is held by IIFL Home Finance

Corrigendum

Document dated August 05, 2022, has been corrected with revisions as detailed below:

- The link for 'Rating Approach – Consolidation' is added to the Applicable rating methodologies of the Analytical approach section on Page No. 4 of the document.

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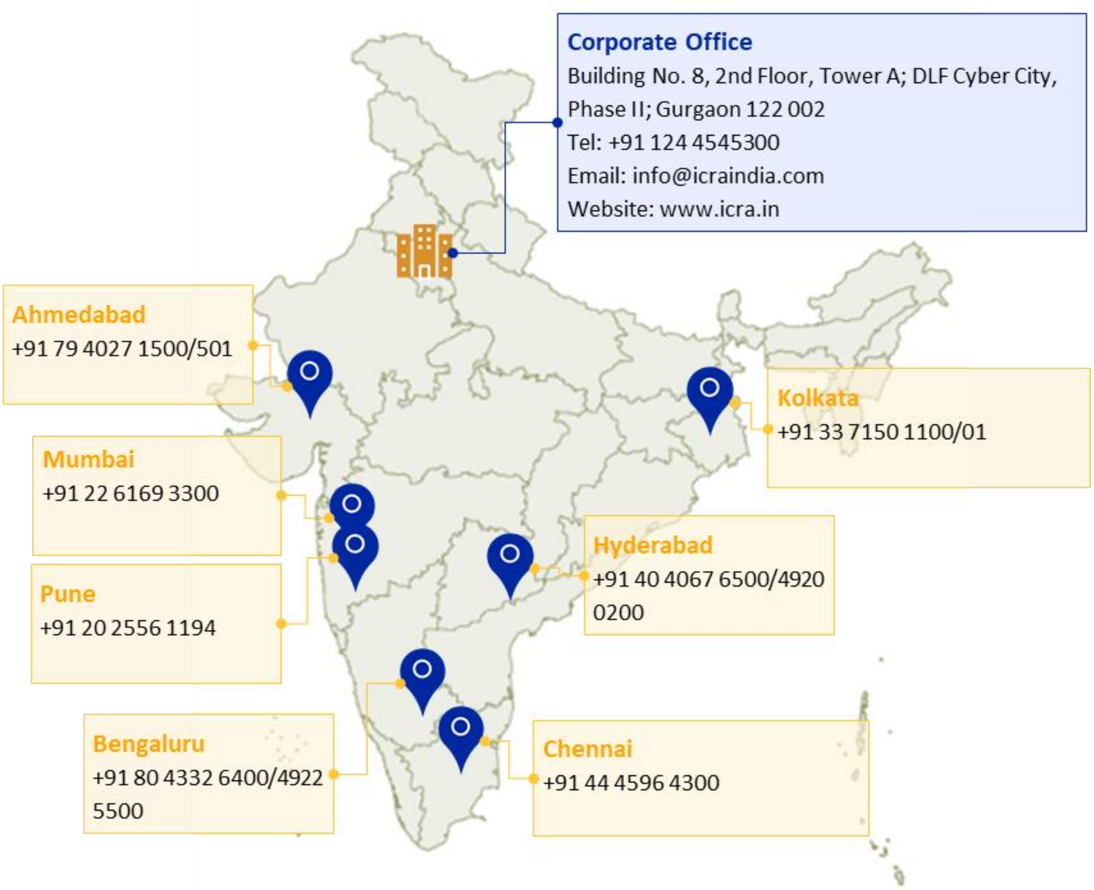

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