

March 12, 2024

## IIFL Home Finance Limited: Long-term ratings placed on rating Watch with Negative Implications

### Summary of rating(s) outstanding

| Instrument*                         | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Outstanding  |
|-------------------------------------|-----------------------------------|----------------------------------|---|
| Non-convertible debenture programme | 2,743.75                          | 2,743.75                         | [ICRA]AA; placed on Rating Watch with Negative Implications       |
| Subordinated debt programme         | 238.00                            | 238.00                           | [ICRA]AA; placed on Rating Watch with Negative Implications       |
| Long-term bank lines                | 5,000.00                          | 5,000.00                         | [ICRA]AA; placed on Rating Watch with Negative Implications       |
| LT – Market linked debenture        | 200                               | 200                              | PP-MLD[ICRA]AA; placed on Rating Watch with Negative Implications |
| Commercial paper programme          | 5,000.00                          | 5,000.00                         | [ICRA]A1+; outstanding  |
| <b>Total</b>                        | <b>13,181.75</b>                  | <b>13,181.75</b>                 |   |

\*Instrument details are provided in Annexure I

### Rationale

#### Material event

The Reserve Bank of India (RBI), vide its press release dated [March 04, 2024](#), directed IIFL Finance Limited (IIFL Finance) to stop sanctioning or disbursing gold loans or assigning, securitising, or selling any of its gold loans. The company can, however, continue to service its existing gold loan portfolio through the usual collection and recovery process. This move came after the RBI's inspection of the company for FY2023, wherein it observed certain material supervisory concerns in the gold loan portfolio. These include serious deviations in the assaying and certifying purity and net weight of gold used as collateral for loans and at the time of auctions upon default, breaches in the loan-to-value (LTV) ratio, significant disbursement and collection of the loan amount in cash far in excess of the statutory limit, non-adherence to the standard auction process and lack of transparency in charges being levied to customer accounts. As per the RBI, apart from being regulatory violations, these adversely impacted the interest of the customers. The RBI had been engaging with IIFL Finance's senior management and statutory auditors regarding these deficiencies over the last few months. However, as the company did not take any meaningful corrective action, restrictions were imposed by the regulatory authority. The RBI added that the supervisory restrictions will be reviewed upon the completion of a special audit initiated by it and after the company rectifies the findings of the special audit and the findings of the RBI inspection to the satisfaction of the regulatory authority.

As indicated by IIFL Finance, the LTV breach was due to discrepancies in the net weight and quality of gold at the time of reassessment during internal audit and/or before auction, as a more prudent approach is followed by the branches at the time of disbursement. In terms of cash disbursements beyond the statutory level of Rs. 20,000, the company would start complying with the same once the restrictions are lifted by the RBI. IIFL Finance has also started complying with the standard auction procedure of auctioning at the branch level instead of an earlier e-auction.

As per ICRA's discussions with the management, the RBI's observations are process-related and operational and the company has already taken corrective actions and complied with these observations. Further, it has strengthened its processes and can resume the gold loan business as soon as the ban is lifted by the RBI.

## Impact of material event

Gold loans accounted for 32% (Rs. 24,692 crore) of the overall consolidated assets under management (AUM) of the IIFL Finance Group and 79% of the standalone AUM of IIFL Finance as on December 31, 2023. Of the Rs. 24,692 crore, the on-balance sheet portfolio was 35% (Rs. 8,577 crore) with off-balance sheet, in the form of direct assignment and co-lending arrangements with other lenders, accounting for the balance (65%). Considering the ban on disbursing fresh gold loans and the short tenor of these loans, the overall AUM will decline. IIFL Finance's ability to recover the gold loans on a timely basis will be a monitorable as these loans are typically rolled over on maturity. Nonetheless, it has been allowed to continue the collection and recovery process and its ability to maintain the asset quality, while running down the loan book, shall be a monitorable if the ban on disbursements continues for some time. Further, any impact on IIFL Finance's financial flexibility and ability to raise funds could have a bearing on the growth in the other segments, including fund-raising by the Group companies, i.e. IIFL Home Finance Limited and IIFL Samasta Finance Limited. With the restrictions on lending in the gold segment, the Group's profitability is likely to be negatively impacted, depending on the duration of the ban.

As on March 05, 2024, IIFL Finance had an unencumbered cash and liquid balance of around Rs. 4,035 crore on a consolidated basis along with Rs. 1,767 crore of undrawn bank lines in relation to the debt repayment of Rs. 10,767 crore in the next six months. On a standalone basis, the company has liquidity of Rs. 883 crore (in the form of cash and unencumbered fixed deposits) and undrawn bank lines of Rs. 130 crore in relation to debt repayments of Rs. 5,173 crore in the next six months. The statement of structural liquidity, as of December 31, 2023, had positive cumulative mismatches in the less than 1 year bucket on a standalone as well as consolidated basis. Inflows from the repayment of the shorter-tenor gold loans are likely to support IIFL Finance's liquidity. On [March 06, 2024](#), one of its shareholders, Fairfax India, agreed to provide up to \$200 million (~Rs. 1,656 crore) as liquidity support on terms to be mutually agreed upon and subject to the applicable laws, including regulatory approvals (if any), thus providing comfort.

IIFL Finance's standalone Tier 1 capital stood at 12.5% as on December 31, 2023. ICRA notes that the company already has board approval to raise equity capital of Rs. 3,000 crore through a qualified institutional placement (QIP). Further, it has a board meeting scheduled on March 13, 2024 to evaluate the raising of funds through various avenues, including equity, which could help shore up its Tier 1 capital. IIFL Home Finance Limited's Tier 1 capital stood at 40.08% as on December 31, 2023.

Given the uncertainty pertaining to the period of the ban and the likely impact of the same, ICRA has placed the long-term ratings on Watch with Negative Implications. ICRA will continue to monitor the developments closely and will take appropriate rating action based on the resolution of the regulatory directives and its impact on the Group's credit risk profile.

Please refer to the following link for the previous detailed rationale that captures the key rating drivers and their description, liquidity position and rating sensitivities: [Click here](#)

## Analytical approach

| Analytical Approach             | Comments   |
|---------------------------------|--|
| Applicable rating methodologies | <a href="#">Non-banking Finance Companies</a>  |
| Parent/Group support            | Not Applicable   |
| Consolidation/Standalone        | For arriving at the ratings, ICRA has carried out a consolidated analysis of IIFL Finance Limited and its subsidiaries, including IIFL Home Finance Limited (enlisted in Annexure II), given their common senior management team and strong financial and operational synergies. |

## 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 reported a profit after tax (PAT) of Rs. 790 crore in FY2023 on a total asset base of Rs. 21,785 crore compared to Rs. 578 crore and Rs. 18,010 crore, respectively, in FY2022. It has 386 branches in 20 states.

### IIFL Finance Limited

Following the receipt of a non-banking financial company (NBFC) licence, IIFL Finance, a listed non-operating holding company, merged with its subsidiary – India Infoline Finance Limited {a systemically important, non-deposit accepting non-banking financial company (NBFC-ND-SI)} – under a merger scheme, with effect from March 30, 2020. IIFL Finance, along with its subsidiaries, IIFL Home Finance (registered as a housing finance company) and Samasta Microfinance Limited (registered as an NBFC-microfinance institution) offers home loans, loan against property, micro, small and medium enterprise (MSME) loans, gold loans, microfinance and real estate loans.

IIFL Finance Limited's consolidated net worth stood at Rs. 10,202 crore as on March 31, 2023. It reported a PAT of Rs. 1,608 crore in FY2023 on total assets of Rs. 53,001 crore compared to Rs. 1,188 crore and Rs. 45,910 crore, respectively, in FY2022.

### Key financial indicators (audited)

| IIFL Finance Limited – Consolidated  | FY2022 | FY2023 | 9M FY2024 |
|--------------------------------------|--------|--------|-----------|
| Total income                         | 7,024  | 8,447  | 7,540     |
| Profit after tax                     | 1,188  | 1,608  | 1,544     |
| Total managed assets                 | 64,477 | 78,854 | 90,473    |
| Return on managed assets             | 2.0%   | 2.2%   | 2.4%      |
| Reported gearing (times)             | 5.6    | 4.0    | 3.6       |
| Managed gearing <sup>^</sup> (times) | 8.3    | 6.4    | 6.2       |
| Gross stage 3                        | 3.2%   | 1.8%   | 1.7%      |

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

<sup>^</sup>Including off-balance sheet portfolio

| IIFL Home Finance Limited – Standalone | FY2022 | FY2023 | 9M FY2024 |
|--|--------|--------|-----------|
| Total income                           | 2,218  | 2,702  | 2,395     |
| Profit after tax                       | 578    | 790    | 744       |
| Total managed assets                   | 26,532 | 32,797 | NA        |
| Return on managed assets               | 2.4%   | 2.7%   | NA        |
| Reported gearing (times)               | 5.3    | 2.7    | NA        |
| Managed gearing <sup>^</sup> (times)   | 8.3    | 4.5    | NA        |
| Gross stage 3                          | 3.6%   | 2.5%   | NA        |
| CRAR                                   | 30.5%  | 47.3%  | 45.83%    |

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

<sup>^</sup>Including off-balance sheet portfolio

### Status of non-cooperation with previous CRA: Not applicable

**Any other information:** Many of the borrowing facilities of IIFL Home Finance provide the lenders the option to review the facilities (including increase in interest rates and debt acceleration) upon the breach of covenants, including financial, operating and rating linked covenants. Upon failure to meet the covenants, if the company is unable to get waivers from the lenders/investors or the lenders/investors do not provide it with adequate time to arrange for alternative funding to pay off the accelerated loans, the ratings would face pressure.

### Rating history for past three years

| Instrument  | Type       | Rated Amount (Rs. crore) | Amount Outstanding (Rs. crore) As of Feb 29, 2024 | Current Rating (FY2024)                                 |                         | Chronology of Rating History for the Past 3 Years |                         |                         |                           |
|---|------------|--------------------------|---|---|-------------------------|---|-------------------------|-------------------------|---------------------------|
|   |            |                          |   | Date & Rating in FY2024                                 | Date & Rating in FY2023 | Date & Rating in FY2022                           | Date & Rating in FY2021 | Date & Rating in FY2024 |                           |
|   |            |                          |   |   |                         |   |                         | Mar-12-24               | Dec-29-23                 |
| 1 Commercial paper programme                                      | Short term | 5,000.00                 | -   | [ICRA]A1+   | [ICRA]A1+               | [ICRA]A1+   | [ICRA]A1+               | [ICRA]A1+               | [ICRA]A1+                 |
| 2 NCD programme   | Long term  | 2,743.75                 | 1,129.00  | [ICRA]AA; Rating Watch with Negative Implications       | [ICRA]AA (Stable)       | [ICRA]AA (Stable)                                 | [ICRA]AA (Stable)       | [ICRA]AA (Stable)       | [ICRA]AA (Negative)       |
| 3 Subordinated debt programme                                     | Long term  | 238.00                   | 125.00  | [ICRA]AA; Rating Watch with Negative Implications       | [ICRA]AA (Stable)       | [ICRA]AA (Stable)                                 | [ICRA]AA (Stable)       | [ICRA]AA (Stable)       | [ICRA]AA (Negative)       |
| 4 Subordinated debt programme                                     | Long term  | -                        | -   | -   | -                       | [ICRA]AA (Stable); withdrawn                      | [ICRA]AA (Stable)       | [ICRA]AA (Stable)       | [ICRA]AA (Negative)       |
| 5 Long-term bank lines  | Long term  | 5,000.00                 | 2,647.75  | [ICRA]AA; Rating Watch with Negative Implications       | [ICRA]AA (Stable)       | [ICRA]AA (Stable)                                 | [ICRA]AA (Stable)       | [ICRA]AA (Stable)       | [ICRA]AA (Negative)       |
| 6 Long-term principal protected market linked debenture programme | Long term  | 200.00                   | 126.30  | PP-MLD[ICRA]AA; Rating Watch with Negative Implications | PP-MLD[ICRA]AA (Stable) | PP-MLD[ICRA]AA (Stable)                           | PP-MLD[ICRA]AA (Stable) | PP-MLD[ICRA]AA (Stable) | 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 <sup>^</sup>             |
| Subordinated debt programme         | Very Simple/Moderately Complex <sup>*</sup> |
| LT – Market linked debenture        | Complex                                     |
| Commercial paper programme          | Very Simple                                 |

<sup>^</sup> The applicable indicator is 'Very Simple' for ISINs with a fixed rate payout and 'Simple' for ISINs with a fixed rate payout and a call option

<sup>\*</sup> The applicable indicator is 'Very Simple' for ISINs with a fixed rate payout and 'Moderately Complex' for ISINs with a fixed rate payout and a call option

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         | Instrument Name                                   | Date of Issuance / Sanction | Coupon Rate | Maturity    | Amount Rated (Rs. crore) | Current Rating and Outlook                              |
|--------------|---|-----------------------------|-------------|-------------|--------------------------|---|
| INE477L07AG3 | Non-convertible debenture programme               | Feb-11-2021                 | 8.60%       | Feb-11-2028 | 18.00                    | [ICRA]AA; Rating Watch with Negative Implications       |
| INE477L07AH1 | Non-convertible debenture programme               | Mar-12-2021                 | 8.62%       | Mar-12-2028 | 19.00                    | [ICRA]AA; Rating Watch with Negative Implications       |
| INE477L07AI9 | Non-convertible debenture programme               | Apr-16-2021                 | 8.70%       | Apr-16-2029 | 36.00                    | [ICRA]AA; Rating Watch with Negative Implications       |
| INE477L07AJ7 | Non-convertible debenture programme               | May-14-2021                 | 8.70%       | May-14-2030 | 21.00                    | [ICRA]AA; Rating Watch with Negative Implications       |
| INE477L07AJ7 | Non-convertible debenture programme               | Jun-01-2021                 | 8.70%       | May-14-2030 | 15.00                    | [ICRA]AA; Rating Watch with Negative Implications       |
| INE477L07AJ7 | Non-convertible debenture programme               | Jun-16-2021                 | 8.70%       | May-14-2030 | 23.00                    | [ICRA]AA; Rating Watch with Negative Implications       |
| INE477L07982 | Non-convertible debenture programme               | Dec-20-2018                 | 10.33%      | Dec-19-2025 | 15.00                    | [ICRA]AA; Rating Watch with Negative Implications       |
| INE477L07AJ7 | Non-convertible debenture programme               | Sep-13-2021                 | 8.70%       | May-14-2030 | 35.00                    | [ICRA]AA; Rating Watch with Negative Implications       |
| INE477L07AJ7 | Non-convertible debenture programme               | Sep-24-2021                 | 8.70%       | May-14-2030 | 15.00                    | [ICRA]AA; Rating Watch with Negative Implications       |
| INE477L07AK5 | Non-convertible debenture programme               | Sep-28-2021                 | 8.20%       | Sep-28-2026 | 112.00                   | [ICRA]AA; Rating Watch with Negative Implications       |
| INE477L07AX8 | Non-convertible debenture programme               | Aug-18-2023                 | 8.36%       | Aug-15-2029 | 820.00                   | [ICRA]AA; Rating Watch with Negative Implications       |
| NA           | Non-convertible debenture programme – Unallocated | NA                          | NA          | NA          | 1,614.75                 | [ICRA]AA; Rating Watch with Negative Implications       |
| INE477L08089 | Subordinated debt programme                       | Jul-27-2017                 | 8.85%       | Jul-27-2027 | 75.00                    | [ICRA]AA; Rating Watch with Negative Implications       |
| INE477L08105 | Subordinated debt programme                       | Feb-28-2018                 | 9.05%       | Feb-28-2028 | 10.00                    | [ICRA]AA; Rating Watch with Negative Implications       |
| INE477L08113 | Subordinated debt programme                       | Jun-18-2018                 | 9.85%       | Jun-16-2028 | 40.00                    | [ICRA]AA; Rating Watch with Negative Implications       |
| NA           | Subordinated debt programme – Unallocated         | NA                          | NA          | NA          | 113.00                   | [ICRA]AA; Rating Watch with Negative Implications       |
| INE477L08139 | LT-Market linked debenture                        | Jun-18-2018                 | 9.02%       | Aug-11-2028 | 126.30                   | PP-MLD[ICRA]AA; Rating Watch with Negative Implications |
| NA           | LT – Market linked debenture unallocated          | NA                          | NA          | NA          | 73.70                    | PP-MLD[ICRA]AA; Rating Watch with Negative Implications |
| NA           | Long-term bank lines – Fund based                 | NA                          | NA          | NA          | 5,000.00                 | [ICRA]AA; Rating Watch with Negative Implications       |
| INE530B14CB3 | Commercial paper                                  | Feb-02-2024                 | NA          | Jan-31-2025 | 250.00                   | [ICRA]A1+   |
| NA           | Commercial paper – Unallocated                    | NA                          | NA          | 7-365 days  | 4,750.00                 | [ICRA]A1+   |

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure II: List of entities considered for consolidated analysis**

| Company Name              | Ownership | Consolidation Approach |
|---------------------------|-----------|------------------------|
| IIFL Home Finance Limited | 79.59%    | Full consolidation     |

| Company Name                      | Ownership | Consolidation Approach |
|-----------------------------------|-----------|------------------------|
| IIFL Samasta Finance Limited      | 99.56%    | Full consolidation     |
| IIFHL Sales Limited^              | 100%      | Full consolidation     |
| IIFL Open Fintech Private Limited | 51.02%    | Full consolidation     |

Source: IIFL Finance Limited

^Step-down subsidiary, fully owned by IIFL Home Finance Limited

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