August 01, 2023(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
Subordinated debt programme	115	-	[ICRA]AA(Stable); reaffirmed & withdrawn
Subordinated debt programme	238	238	[ICRA]AA(Stable); reaffirmed
Long-term bank lines	5,000.00	5,000.00	[ICRA]AA(Stable); reaffirmed
LT – Market linked debenture	200	200	PP-MLD[ICRA]AA(Stable); reaffirmed
Total	**13,296.75**	**13,181.75**	

**Instrument details are provided in Annexure I*

Rationale

To arrive at the ratings, ICRA has carried out a consolidated analysis of IIFL Finance Limited and its subsidiaries, referred to as IIFL/the Group/the company, given their common senior management team and strong financial and operational synergies. Among Group entities, since IIFL Home Finance Limited is highly important for meeting IIFL Finance Limited's strategic objectives, ICRA has assigned the same ratings to both entities while following the consolidated view approach, as described in ICRA's methodology on consolidation.

The ratings favourably factor in the Group's diversified lending portfolio with assets under management (AUM) of Rs. 64,638 crore as on March 31, 2023 (retail portfolio constituting 95%) and its widespread presence across 25 states with 4,267 branches. The ratings also consider the Group's adequate capitalisation with a consolidated net worth of Rs. 10,202 crore and on-book and managed gearing of 4.0x and 6.4x, respectively, as on March 31, 2023. The capitalisation has been supported by the equity infusion of Rs. 2,200 crore by Abu Dhabi Investment Authority (ADIA) in FY2023 in IIFL Home Finance. It is further supported by the increasing share of the off-balance sheet portfolio.

Partly supported by higher write-offs and the sale of the loan book to asset reconstruction companies (ARC), the reported gross and net stage 3 declined to 1.8% and 1.1%, respectively, as on March 31, 2023 (3.2% and 1.8%, respectively, as on March 31, 2022). The company's profitability remained adequate with a return on managed assets of 2.2% in FY2023, supported by the higher volume of loan assignment and the consequent gains. IIFL's ability to manage the asset quality and control the credit costs would remain critical for maintaining the profitability.

Although the company has diversified its on-balance sheet funding to long-term bank loans, retail non-convertible debentures (NCDs), foreign currency bonds and refinance in the last 2-3 years, its reliance on assignment/securitisation/co-lending remains high.

ICRA has reaffirmed and withdrawn the rating outstanding on the subordinated debt programme of Rs. 115 crore as the instrument has been redeemed in full with no dues outstanding against the same. The rating has been withdrawn in accordance with ICRA's policy on the withdrawal 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. 64,638 crore as on March 31, 2023 (year-on-year (YoY) growth of 24%; 5-year compound annual growth rate (CAGR) of

16%). With a focus on growing its assigned book and AUM under co-lending, the off-balance sheet book has increased significantly and stood at Rs. 24,536 crore (38% of AUM) as on March 31, 2023 (Rs. 11,076 crore; 25% of AUM as on March 31, 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 is diversified with home loans accounting for 34% of the portfolio, followed by gold loans (32%), business loans (14%), microfinance (15%), developer and construction finance (4%) and capital market (1%). The growth in the AUM is largely driven by the home loan, gold loan and microfinance portfolios. With the transfer of ~Rs. 1,300 crore of the book to Alternative Investment Funds (AIFs; ~Rs. 900 crore was received as investment in the units of AIFs and the balance was in cash) in FY2022, the share of construction finance and real estate declined. As on March 31, 2023, the Group had an extensive network of 4,267 branches across 25 states, 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 March 31, 2023 – including investment in AIF).

Adequate capitalisation – IIFL Finance's consolidated net worth stood at Rs. 10,202 crore as on March 31, 2023 with on-book gearing of 4.0x (managed gearing, including off-book, of 6.4x) compared to 5.6x (managed gearing, including off-book, of 8.3x) as on March 31, 2022. The capitalisation has been supported by the equity infusion of Rs. 2,200 crore in IIFL Home Finance by ADIA in FY2023. The Group's on-book leverage is further supported by the increasing share of the off-balance sheet portfolio.

On a standalone basis, the company reported a capital-to-risk weighted assets ratio (CRAR) of 20.4% with a Tier I of 12.9% as of March 31, 2023 against 23.9% and 16.0%, respectively, as on March 31, 2022. With the growth in the on-balance sheet loan book and increase in investment in subsidiaries, IIFL Finance's Tier I declined in FY2023. IIFL Home Finance's capitalisation remains strong with a Tier I of 39.2% and managed gearing of 4.5x as on March 31, 2023. IIFL Samasta Finance Limited's (IIFL Samasta) capitalisation has been supported by regular equity infusions by the Group to meet its growth plans. IIFL Samasta reported a CRAR and Tier I of 17.1% and 13.5%, respectively, as on March 31, 2023 (17.8% and 15.9%, respectively, as on March 31, 2022).

While the overall consolidated capitalisation remains adequate, IIFL Finance and IIFL Samasta could require capital to meet their growth plans in the medium term, a part of which is likely to be supported by internal accruals and growth in the off-balance sheet AUM.

Credit challenges

Asset quality and profitability exposed to portfolio vulnerability – The IIFL Group's reported gross and net stage 3 declined to 1.8% and 1.1%, respectively, as on March 31, 2023 (3.2% and 1.8%, respectively, as on March 31, 2022). The decline was supported by significant write-offs (especially in the microfinance, real estate book and the unsecured micro, small & medium enterprise (MSME) portfolio) and sale to ARCs.

IIFL's net stressed book (net stage 3 and net security receipts) stood at 3.3% of the loan book and 12.9% of the net worth as on March 31, 2023. While the real estate book declined to 4% of the AUM and 26% of the net worth as on March 31, 2023 (6% and 37%, respectively, including the investment in AIFs) from 8% and 78%, respectively, as on March 31, 2022, these exposures remain vulnerable to slippages. Further, the extent of recovery from the AIF units and security receipts would be a key monitorable for future profitability.

IIFL Samasta's asset quality is expected to improve as ~90% of its AUM of Rs. 10,552 crore, as on March 31, 2023 (of which 8% was secured retail book), belonged to post-Covid-19 pandemic disbursements, i.e. after October 2021. Moreover, the pandemic-induced stress has been largely recognised and provided for.

The Group's ability to maintain its asset quality through business cycles, given the moderate seasoning of home loans, will remain a monitorable. However, the losses on default are expected to be limited, considering the secured nature of the portfolio with moderate loan-to-value (LTV) ratios.

The company's credit costs moderated in FY2023 to 1.8% of the average total assets (ATA) from 2.1% in FY2022, supported by the reduction in the expected credit loss. Operating expenses were higher at 3.1% of the average managed assets (AMA) in FY2023 (2.7% in FY2022) as the company is expanding its presence and focusing on growing lower ticket size loans. The profitability was partly supported by the higher volume of loan assignment and the consequent gains with IIFL reporting a profit after tax (PAT) of 2.2% of AMA in FY2023 (2.0% in FY2022). However, excluding the upfront gain on assignment, the PAT stood at 1.7% of AMA in FY2023 compared to 1.5% in FY2022. With the increase in the share of co-lending in the off-balance sheet AUM, the upfront gain on assignment could reduce, thereby impacting the return on managed assets. However, this is likely to be partly offset by the operating efficiency with the growth in the AUM. The company's ability to manage the asset quality and control the credit costs would remain critical for its profitability.

Environmental and social risks

Given the service-oriented business of IIFL Finance, its direct exposure to environmental risks as well as those emanating from regulations or policy changes is not material. While lending institutions can be exposed to environmental risks indirectly through their portfolio of assets, IIFL Finance's exposure to environmentally sensitive segments remains moderate. This is on account of the borrowers, who get impacted by climate change. Hence, moderate indirect transition risks arise from changes in regulations or policies concerning the underlying assets.

With regard to social risks, data security and customer privacy are among the key sources of vulnerability for lending institutions as material lapses could be detrimental to their reputation and could invite regulatory censure. IIFL Finance has not faced such lapses over the years, which highlights its sensitivity to such risks.

Liquidity position: Adequate

As on March 31, 2023, IIFL (consolidated) had an unencumbered cash and liquid balance of around Rs. 6,911 crore along with and undrawn cash credit limits of Rs. 347 crore. Further, it had sanctioned but unutilised bank lines of Rs. 859 crore. The liquidity profile remains adequate to meet its debt obligations of Rs. 8,646 crore over the next six months along with collections due of Rs. 11,195 crore over the same time frame.

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 further 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 or a deterioration in the profitability with PAT/AMA of less than 1.25% or a substantial increase in the 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	Non-Banking Finance Companies Policy on Withdrawal of Credit Ratings Rating Approach – Consolidation
Parent/Group support	Not Applicable

Analytical Approach	Comments
Consolidation/Standalone	For arriving at the ratings, ICRA has carried out a consolidated analysis of IFL 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 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 17 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. 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 PAT of Rs. 1,188 crore in FY2022 on total assets of Rs. 45,910.

Key financial indicators (audited)

IIFL Finance Limited – consolidated	FY2022	FY2023
Total income	7,024	8,447
Profit after tax	1,188	1,608
Net worth	6,470	10,202
Loan book	35,116	41,318
AUM	51,210	64,638
Total assets	45,910	53,001
Return on managed assets	2.0%	2.2%
Return on net worth	20.0%	19.3%
Reported gearing	5.6	4.0
Managed gearing^	8.3	6.4
Gross stage 3	3.2%	1.8%
Net stage 3	1.8%	1.1%
Solvency (Net stage 3/Net worth)	9.6%	4.2%

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

^including off balance sheet portfolio

IIFL Home Finance Limited – Standalone	FY2022	FY2023
Total income	2,218	2,702
Profit after tax	578	790
Net worth	2,681	5,553
Loan book	15,863	18,284
AUM	23,617	28,512
Total assets	18,010	21,785

IIFL Home Finance Limited – Standalone	FY2022	FY2023
Return on managed assets	2.4%	2.7%
Return on net worth	24.0%	19.2%
Reported gearing (times)	5.3	2.7
Managed gearing^ (times)	8.2	4.5
Tier I	21.1%	39.2%
CRAR	30.5%	47.3%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore
^Including off-balance sheet portfolio

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)			Chronology of Rating History for the Past 3 Years			
		Type	Rated Amount (Rs. crore)	Amount Outstanding (Rs. crore) As of Jun 30, 2023	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Aug-01-23	Aug-05-22	Oct-06-2021	Jan-22-2021
1	**Commercial paper programme**	Short term	5,000.00	-	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**
2	**Non-convertible debenture programme**	Long term	2,743.75	309.00	**[ICRA]AA(Stable)**	**[ICRA]AA(Stable)**	**[ICRA]AA(Stable)**	**[ICRA]AA(Negative)**
3	**Non-convertible debenture programme**	Long term	-	-	-	**[ICRA]AA (Stable); withdrawn**	**[ICRA]AA (Stable)**	**[ICRA]AA (Negative)**
4	**Non-convertible debenture programme**	Long term	-	-	-	-	**[ICRA]AA (Stable); withdrawn**	**[ICRA]AA (Negative)**
5	**Non-convertible debenture programme**	Long term	-	-	-	-	-	**[ICRA]AA(Negative); withdrawn**
6	**Subordinated debt programme**	Long term	238.00	125.00	**[ICRA]AA(Stable)**	**[ICRA]AA(Stable)**	**[ICRA]AA(Stable)**	**[ICRA]AA(Negative)**
7	**Subordinated debt programme**	Long term	115.00	-	**[ICRA]AA(Stable); withdrawn**	**[ICRA]AA(Stable)**	**[ICRA]AA(Stable)**	**[ICRA]AA(Negative)**
8	**Subordinated debt programme**	Long term	-	-	-	**[ICRA]AA (Stable); withdrawn**	**[ICRA]AA (Stable)**	**[ICRA]AA (Negative)**
9	**Subordinated debt programme**	Long term	-	-	-	-	**[ICRA]AA (Stable); withdrawn**	**[ICRA]AA (Negative)**
10	**Subordinated debt programme**	Long term	-	-	-	-	-	**[ICRA]AA(Negative); withdrawn**
11	**Long-term bank lines**	Long term	5,000.00	2,299.81	**[ICRA]AA(Stable)**	**[ICRA]AA(Stable)**	**[ICRA]AA(Stable)**	**[ICRA]AA(Negative)**
12	**Long-term principal protected market linked debenture programme**	Long term	200.00	-	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^
Subordinated debt programme	Very Simple/Moderately Complex*
LT – Market linked debenture	Complex
Commercial paper programme	Very Simple

^ 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

**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-11-21	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)
INE477L08071	Subordinated debt programme	May-30-16	9.30%	May-29-23	15.00	[ICRA]AA(Stable); withdrawn
INE477L08097	Subordinated debt programme	Jul-27-17	8.93%	Apr-14-23	100.00	[ICRA]AA(Stable); withdrawn
INE477L08089	Subordinated debt programme	Jul-27-17	8.85%	Jul-27-27	75.00	[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)
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)
NA	Commercial paper – Unallocated	NA	NA	7-365 days	5,000.00	[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
IIFL Samasta Finance Limited	99.51%	Full consolidation
IIHFL 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

Corrigendum

Document dated August 01, 2023, has been corrected with revisions as detailed below:

- The table from 'Rating history for past three years' section on page No. 6 is revised.

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Anil Gupta
+91 124 4545 314
anilg@icraindia.com

Neha Parikh
+91 22 6114 3426
neha.parikh@icraindia.com

Jui J. Kulkarni
+91 22 6114 3427
jui.kulkarni@icraindia.com

Harsh Mange
+91 22 6114 3400
harsh.mange@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited

Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches