



RATING RATIONALE

13 March 2024

IIFL Finance Limited

Brickwork Ratings places the Long Term Ratings of the Non-Convertible Debentures (NCDs) of IIFL Finance Ltd. on a rating Watch with Negative Implications.

Particulars:

Instrument **	Amount (Rs. Crs.)		Tenure	Rating*	
	Previous	Present		Previous (01 Dec 2023)	Present
NCDs Public Issue	1134.88	1134.88	Long Term	BWR AA + / Stable /Reaffirmation with revision in outlook	BWR AA + /Rating Watch with Negative Implications
NCDs	78.18	78.18	Long Term	BWR AA + / Stable /Reaffirmation with revision in outlook	
Total	1,213.06	1,213.06	Rupees One Thousand Two Hundred and Thirteen Crores and Six Lakhs Only		

*Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings

**Details of rated instruments are provided in Annexures II

RATING ACTION/OUTLOOK

Brickwork Ratings places the Long Term Ratings of the Non-Convertible Debentures (NCDs) of IIFL Finance Ltd. on a rating Watch with Negative Implications on account of a material event - Regulatory action by Reserve Bank of India as detailed below.

Material Event

Action against IIFL Finance Limited under Section 45L(1)(b) of the Reserve Bank of India Act, 1934 through Press Release dated 4th March 2024. The Reserve Bank of India, in the exercise of its powers under Section 45L(1)(b) of the Reserve Bank of India Act, 1934, directed IIFL Finance Ltd. (“the company”)

- a. To cease and desist, with immediate effect, from sanctioning or disbursing gold loans or,
- b. Assigning/ securitising/ selling any of its gold loans.
- c. The company can, however, continue to service its existing gold loan portfolio through the usual collection and recovery processes.



The RBI carried out the inspection of the company with reference to its financial position as on March 31, 2023. Certain material supervisory concerns were observed in the gold loan portfolio of the company, including serious deviations in

- a. assaying and certifying purity and net weight of the gold at the time of sanction of loans and, at the time of auction upon default;
- b. Breaches in Loan-to-Value ratio;
- c. Significant disbursal and collection of loan amount in cash far in excess of the statutory limit;
- d. Non-adherence to the standard auction process; and lack of transparency in charges being levied to customer accounts, etc.

As per the RBI, these practices, apart from being regulatory violations, also significantly and adversely impact the interests of the customers. Over the last few months, the RBI has been engaging with the senior management and the statutory auditors of the company on these deficiencies; however, no meaningful corrective action has been evidenced so far. This has necessitated the imposition of business restrictions with immediate effect, in the overall interest of customers. These supervisory restrictions will be reviewed upon completion of a special audit to be instituted by the RBI and after rectification by the company of the special audit findings and the findings of RBI Inspection, to the satisfaction of RBI. This business restriction is without prejudice to any other Regulatory or Supervisory action, that may be initiated by the RBI against the company.

Development

As per the discussions held with the IIFL Finance Ltd management team, the company has informed that they have corrected the identified gaps (related to policy, process, or technology) and have submitted their response to RBI. Considering the issues and the concerns raised by the regulator and the likely special audit by RBI, the developments with respect to RBI's action on operations of the company on co-lendings, impact on growth in the other segments, its fundraising capacity, liquidity and financial profile will be closely monitored by BWR.

Impact

The restriction in the Gold Loan business might lead to a reduction in the overall Loan Portfolio and Assets Under Management (AUM). While there is less likelihood of an impact on other segments viz., Loan Against Property, Home Loan, Microfinance and others as per the management, the same remains monitorable. The issues highlighted by the regulator have raised concerns on the operational side of the compliance on the process, policy and technology used. This also raises concerns about financial flexibility and further fundraising for the group including an increase in interest rates or a debt acceleration and will be a key monitorable. The ability of the company to grow and improve its performance in the non-gold business will also be a key rating monitorable. In case the restrictions get prolonged the group's business risk profile, earnings and profitability could be impacted in the near medium term. Clarity is expected once RBI comes up with their subsequent reports.



BWR keeps all its outstanding ratings under continuous surveillance. Any further unfavorable regulatory action on IIFL Finance Ltd shall be the key rating sensitivity.

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: Provided in Annexure II

KEY RATING DRIVERS:

Credit Strengths-:

Diversified portfolio with a shift towards asset-light model: The group has a diversified portfolio spread across 27 states and 5 Union Territories of India consisting of different asset classes. At 9MFY24, AUM consisted of Home loans (33%), Gold loans (32%), Microfinance (16%), Loan against property (10%), Digital loans (5%), CRE & Others (4%) and Capital Markets (1%).

Strong Ownership: The promoters of the group and the public investors held ownership of 24.8% and 21.2% respectively. The majority of ownership as of Q3FY24 was held by institutional investors (54.0%) including Fairfax (15.1%), Capital group (7.9%), DSP MF (3.8%) and the rest 7 institutional investors representing holding less than 3% each. As disclosed by the company on the stock exchange, Fairfax India agrees to invest up to US\$200 million in liquidity as a support to IIFL Finance Limited.

Adequate and improving profitability in the operations and profitability: On a consolidated level, the total income of the company grew by 20.70% to Rs. 8,477Crs for FY23 from Rs.7,023Crs for FY22. For 9MFY24, it grew by 25% y-o-y and stood at Rs. 7588Crs primarily attributable to substantial NII growth benefited from the post-RBI liberalization. NII rose by 41% in 9M24 over 9M23 to Rs 3033Crs benefitted by its loan AUM growth and better yields. Consequently, Cost to income remained stable despite the increase in operating expenses (+25%, y-o-y) as a result of operating income growth. The company registered a net profit after tax of Rs. 1,608 Crs in FY23 as against Rs. 1188Crs for FY22. For 9MFY24, the company recorded a PAT of Rs 1543.6Crs as against Rs. 1150Crs at 9MFY23. However, keeping in view the action by the RBI, maintaining the earnings capacity and profitability of the company remains key monitorable.

Moderate and improving Asset Quality supported by its good market position: At 9MFY24, Asset quality has improved as indicated by improvement in GNPA ratio to 1.71% from 2.8% in 9MFY23 and from 1.84% in Q2FY24. Net NPA ratio improved to 0.87% in 9MFY24 from 1.06% in 9MFY23 and from 1.02% in Q2FY24. The improvement in the ratios were primarily due to lower slippages and a reduction in outstanding GNPA as a result of recoveries. The AUM of the company is reflecting upward movements with group AUM increasing from Rs. 64,638Crs for FY23 to Rs.77,444Crs as at Q3FY24 (Q2FY24: Rs. 73,066Crs).

Credit Risks:-

- **Non Compliance with Regulatory Guidelines:** Regulatory Action against IIFL Finance Limited under Section 45L(1)(b) of the Reserve Bank of India Act, 1934, to cease and desist, with immediate effect, from sanctioning or disbursing gold loans or assigning/ securitising/ selling any of its gold loans. This may lead to deterioration in the financial risk profile of the company in parameters such as earnings capacity, asset quality, borrowing capacity and AUM etc.
- **Limited resource profile:** Resource profile consisted of term loans (57%), bonds(23%), refinancing (16%) and others (2%) as on 31st December 2023. There has been a rise in cost of borrowings over the years to keep up with the growing AUM levels. Cost of borrowings has risen to 9.07% in Q3FY24 from 8.79% in Q3FY23. It stood at 8.93% for FY23. The company's ability to diversify its resource profile while lowering the credit cost would remain a key rating monitorable.
- **Risk of Refinancing and Restriction of Existing Lines of Credit -** The facilities extended may be reviewed by the lenders in view of any breach in any covenants (rating adherence, operational, financial) and may have a likely impact in the form of an increase in interest rates and requiring repayment of full debt. Upon failure to meet the covenants and to get waivers from the lenders/investors or in lieu of lenders not extending due time for payment to arrange for any alternative funding, the resources would be under stress.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

To arrive at its ratings, BWR has taken a consolidated view of IIFL Finance Limited and its subsidiaries as detailed in Annexure III. BWR has applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES: Factors likely to lead to rating actions

Positive factors

- Restoration of the status of the normal business and profile and clearance by the Reserve Bank of India coupled with substantial improvement in the financial profile of the company.
- Ability to increase the share of retail business along with sustained growth in all segments while maintaining borrowing at reasonable costs.
- Ability to generate business from its non-gold business
- Maintaining adequate liquidity for business operations and repayment of debt.
- Improvement in asset quality and other financial parameters

Negative factors

- Continuation of the restrictions imposed by RBI and further regulatory restrictions and deterioration in the financial profile of the company



- Deterioration in the Financial flexibility and ability to raise resources at the reasonable cost of funding
- Negative impact of the RBI action on its operations, liability franchise and liquidity.
- Significant impact on asset quality with notable deterioration in the asset quality of developer and construction book impacting the capital and earning profile of the company.
- Deterioration in the liquidity and profitability of the company.

LIQUIDITY POSITION: STRONG

As of 31 Dec 2023, the consolidated liquidity has no mismatches across the buckets. As of 31 Dec 2023, the Consolidated available liquidity was Rs 10,081 Crs (Cash & Bank Balance was Rs 4,223Crs) and the LCR remained strong and compliant at 106.88% at Q3FY24 as against the CPLTD of Rs. 2300 Crs in FY24 and Rs. 13000 Crs in FY25. Furthermore, the liquidity is also supported by the recent announcement that Fairfax India agrees to invest up to US\$200 million in liquidity as a support to IIFL Finance Limited. At this point, the short tenure and swift liquidating nature of the gold loans will act as a catalyst to support the liquidity.

Link to Previous Detailed Rationale: [Detailed Rationale of IIFL Finance Ltd dated December 01, 2023](#)

About the Company

Macro Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Non Banking Financial Company (NBFC)

IIFL Finance Limited is the holding company for lending businesses of IIFL Group. IIFL Finance Limited is a Systemically Important Non-Banking Financial Company not accepting public deposits registered with the RBI. IIFL Finance Ltd is a retail-focused diversified NBFC, engaged in the business of loans and mortgages along with its subsidiaries - IIFL Home Finance Limited and IIFL Samasta Finance Limited. IIFL Finance, through its subsidiaries, offers a wide spectrum of products such as Home loans, Gold loans, Business loans, Microfinance, Capital Market finance and Developer & Construction finance to a vast customer base of over 8 million customers. IIFL Finance has widened its pan-India reach through an extensive network of branches spread across the country and various digital channels. However, the Reserve Bank of India vide press release dated 04 March 2024 has ordered the company to cease and desist, with immediate effect, from sanctioning or disbursing gold loans or, assigning/ securitising/ selling any of its gold loans. The company can, however, continue to service its existing gold loan portfolio through the usual collection and recovery processes.

Key Financial Performance - IIFL Finance Ltd. (Consolidated)

Particulars	Units	FY22	FY23	9MFY24
		Audited	Audited	Unaudited
AUM	Rs.in Crores	51,210	64,638	77,444
Total Income	Rs.in Crores	7,023	8,447	7,588
PAT	Rs.in Crores	1,188	1,608	1,544
Total Debt	Rs.in Crores	35,725	39,603	42,973
Net Worth	Rs.in Crores	6,469	10,202	11,787
Gearing Ratio	Times	5.52	3.88	3.30
GNPA	%	3.15	1.84	1.70
NNPA	%	1.83	1.08	0.87

Key Financial Performance - IIFL Finance Ltd. (Standalone)

Particulars	Units	FY22	FY23	9MFY24
		Audited	Audited	Unaudited
Total Income	Rs. in Crore	4,106	4,089	3,251
PAT	Rs. in Crore	745	806	420
Total Debt	Rs. in Crore	16,246	17,380	18,099
Net Worth	Rs. in Crore	4,427	5,114	5,459
Total Debt/NW	Times	3.67	3.40	3.25

COMPLEXITY LEVELS OF THE INSTRUMENTS

NCDs bearing ISINs INE866I07CD6; INE866I07CF1; INE866I08279 and INE866I08295:

Complex

Other NCDs: **Simple**

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY: There is no outstanding Rating under Non-Cooperation from other CRAs

RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]

Sr. No.	Name of Instrument	Current Rating (2024)			Rating History for the past 3 years						
		Type	Amount (Rs. Crs)	Rating	2023	2022		2021			
1	NCDs ^	Long Term	1134.88*	BWR AA + /Rating Watch with Negative Implications	BWR AA + / Stable /Reaffirmation with revision in outlook (01.12.2023)	05.04.2022			31.03.2021		
						Long Term	1513.84*	BWR AA+/ Negative	Long Term	5000	BWR AA+/ Negative
						28.06.2022					
						Long Term	1513.84	BWR AA+/ Negative			
						05.08.2022					
Long Term	1513.84	BWR AA+/ Negative									
2	NCDs	Long Term	78.18*	BWR AA + /Rating Watch with Negative Implications	BWR AA + / Stable /Reaffirmation with revision in outlook (01.12.2023)	05.04.2022			31.03.2021		
						Long Term	842.26	BWR AA+/ Negative	Long Term	1340	BWR AA+/ Negative
						28.06.2022					
						Long Term	493.43*	BWR AA+/ Negative			
						05.08.2022					
Long Term	493.43	BWR AA+/ Negative									
3	Secured NCDs	Long Term	0.00	-	Withdrawn	05.04.2022			31.03.2021		
						Long Term	5.00	BWR AA+/ Negative	Long Term	50	BWR AA+/ Negative
						28.06.2022					
						Long Term	5.00	BWR AA+/ Negative			
						05.08.2022					
Long Term	5.00	BWR AA+/ Negative									
4	Proposed NCD	-	-	-	-	28.06.2022			NA		
						Long Term	5000.00	BWR AA + / Negative (Assigned)			
						05.08.2022					
						Long Term	5000.00*	Withdrawn			
Total			1,213.06	Rupees One Thousand Two Hundred Thirteen Crores and Six Lakhs Only							

^Public Issue; Interchangeable between secured and subordinated debt.



Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Banks and Financial Institutions](#)
- [Consolidation of Companies](#)
- [Policy For Placing Ratings On Rating Watch](#)

For any other criteria obtain hyperlinks from website

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ANNEXURE I
Details of Bank Loan Facilities rated by BWR: N.A.

ANNEXURE II
Details of NCDs rated by BWR and COVENANTS

Instrument	Issue Date	Rated Amount (Rs. Crs.)*	Coupon Rate/Yield	Maturity Date	ISIN Particulars
NCD Public Issue	24-Mar-21	274.69	10.00%, payable annually	24-Jun-28	INE530B08094
NCD Public Issue	24-Mar-21	328.02	9.60%, payable monthly	24-Jun-28	INE530B08102
NCD Public Issue	24-Mar-21	68.14	ZCB	24-Jun-28	INE530B08110
NCD Public Issue	14-Oct-21	94.08	8.50%, payable annually	14-Oct-24	INE530B07146
NCD Public Issue	14-Oct-21	57.31	ZCB	14-Oct-24	INE530B07153
NCD Public Issue	14-Oct-21	147.25	8.42%, payable monthly	14-Oct-26	INE530B07161
NCD Public Issue	14-Oct-21	136.08	8.75%, payable annually	14-Oct-26	INE530B07179
NCD Public Issue	14-Oct-21	29.31	ZCB	14-Oct-26	INE530B07187
NCD	7-Feb-19	31.02	10.00%, payable monthly	7-Feb-29	INE866I08279
NCD	7-Feb-19	15.45	10.50%, payable annually	7-Feb-29	INE866I08295
NCD	6-Sep-19	25.93	10.00%, payable monthly	6-Jun-25	INE866I08303
NCD	6-Sep-19	5.78	10.50%, payable on maturity	6-Jun-25	INE866I08311
		1213.06	Rupees Twelve Hundred Thirteen Crores and Six Lakh Only		

*outstanding as on 13 March 2024

ANNEXURE III
List of Entities Consolidated in IIFL Finance Ltd.

Sr. No.	Name of Subsidiaries/ Associate	Rationale for Consolidation	Extent of Consolidation
1	IIFL Home Finance Limited	Subsidiary	Full
2	IIFL Samasta Finance Limited (Formerly, Samasta Microfinance Limited)	Subsidiary	Full
3	IIHFL Sales Limited	Step-down Subsidiary	Full
4	IIFL Open Fintech Private Limited (w.e.f 17 May 2022)	Subsidiary	Full



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