

IIFL Finance

Estimate changes

TP change

Rating change



Bloomberg	IIFL IN
Equity Shares (m)	424
M.Cap.(INRb)/(USD\$b)	186.9 / 2.2
52-Week Range (INR)	684 / 304
1, 6, 12 Rel. Per (%)	-16/-36/-47
12M Avg Val (INR M)	924

Financials Snapshot (INR b)

Y/E March	FY24	FY25E	FY26E
NII	59.6	53.9	63.4
Total Income	62.9	58.3	74.8
PPoP	34.8	26.8	40.2
PAT (pre-NCI)	19.7	12.0	23.0
PAT (post-NCI)	17.6	10.0	20.5
EPS (INR)	46.2	23.6	48.3
EPS Gr. (%)	17	-49	104
BV (INR)	279	299	343

Ratios (%)

NIM	8.3	6.9	7.4
C/I ratio	44.6	53.9	46.3
Credit cost	2.0	2.1	1.7
RoA	3.4	1.9	3.2
RoE	18.0	8.6	15.0

Valuations

P/E (x)	9.5	18.6	9.1
P/BV (x)	1.6	1.5	1.3

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	24.9	24.8	24.8
DII	7.4	8.6	5.5
FII	30.3	29.1	28.6
Others	37.4	37.5	41.0

FII Includes depository receipts

CMP: INR441

TP: INR560 (+27%)

Buy

Accelerated rundown in gold loan; other segments also slowed

Earnings miss due to elevated provisions and lower other income

- NII grew 10% YoY but declined ~13% QoQ to ~INR14.4b (in line) in 1QFY25. The loss due to the unwinding of prior assignments was ~INR1.6b. Other income loss stood at INR43m (PY: +INR1.3b).
- Opex grew 18% YoY to INR7.5b (in line), with the cost-to-income ratio of 52% (PY: 44%). PPOp declined ~15% YoY to INR6.9b (15% miss).
- PAT (post-NCI) declined 32% YoY/23% QoQ to ~INR2.9b (34% miss). RoA/RoE stood at 2.3%/10.3%, with IIFL's (standalone) CRAR at ~28% (T1: ~22%). During the quarter, IIFL raised ~INR29b through term loans, bonds, and refinance. Additionally, ~INR18b was raised through direct assignment.

Higher credit costs and calibration in MFI segment

- Consol. AUM grew 2% YoY but declined ~12% QoQ to INR696b. On-book loans grew ~10% YoY. Off-book formed ~35% of the AUM mix, including co-lending, which formed ~14% of the AUM mix.
- The sequential AUM decline was led by gold loans (-37%), wholesale CRE book (-22%) and microfinance (-8%). Home loans rose ~2% QoQ and digital loans grew ~7% QoQ.
- Gold loan AUM declined to ~INR147b as of Jun'24 and further to ~INR122b as on 5th Aug'24. Disbursements (core products) declined ~71% YoY to ~INR43b, mainly due to the ban on gold loans and a deceleration in MFI and LAP disbursements.
- MFI business was affected by a squeeze in funding and Samasta's own calibration in the context of industry headwinds. It has already implemented the guardrails proposed by MFIN. Samasta had sensed customer over-leveraging, early in Jan'24 itself and had started looking at the credit scores of customers while approving/sanctioning loans.
- We estimate consolidated AUM to decline ~3% YoY in FY25 and grow ~23% YoY in FY26, resulting in consol. AUM CAGR of ~9% over FY24-26E.

NIMs compression due to ~60bp QoQ decline in yields

- Consolidated yields and CoB declined ~60bp and ~20bp QoQ to ~13.3% and ~9.5%, respectively. Calculated NIMs contracted ~70bp QoQ.

Cost ratios to remain elevated; no rationalization in gold business opex

- Opex grew 18% YoY to INR7.5b (in line), with the cost-income ratio of 52%. This increase was attributable to a decline in the gold loan business. The management shared that the cost ratios are expected to remain elevated until gold loan operations resume and normalize.
- IIFL Finance has not done any employee layoffs and has not shut down any branch during the quarter. The management sounded confident that it expects the RBI embargo on its gold loans business to be revoked in the near future.
- We expect opex-to-avg AUM of 4.0%/4.1% for FY25/FY26.

Asset quality largely stable despite seasonality; MFI GS3 deteriorated

- GS3/NS3 declined ~5bp QoQ each to 2.25%/1.1%. During the quarter, the company also sold stressed loans of ~INR4.3b from the CRE book to ARCs. Total SRs stood at ~INR35.3b as of Jun'24. IIFL reported a deterioration in its MFI asset quality, with MFI GS3 increasing to 2.3% (PQ: 1.9%).
- Consolidated credit costs rose to ~2.1% (PQ and PY at ~1.9% each). The higher provisioning during the quarter was led by increase in PCR on Stage 2 and Stage 3 loans. The company also increased the ECL provisioning on its CRE portfolio. We expect credit costs to increase to ~2.1% in FY25 and then gradually decline to ~1.7% in FY26.

Highlights from the management commentary

- The company has guided that within digital loans, the focus is on MSME. The digital loans business has been growing well.
- Both Home Finance and LAP recorded >20% YoY growth in AUM.
- The management shared that once the embargo on gold loans is lifted, it can restart its gold loans offering quickly, but it is difficult to guide how long it will take to reach pre-ban levels.
- IIFL has made hiring at CXO level and is in the process of hiring a few more people, so that audit and compliance (entire risk assurance) functions are strengthened.

Valuation and view

- IIFL management shared that the company is now compliant with all the RBI observations, which led to the ban on gold loans. The company has completed the special audit required by the RBI. IIFL will focus on making its assurance functions across risk management, audit and compliance more robust for better-quality AUM growth.
- The stock trades at 1.3x FY26E P/BV and ~9x P/E for a PAT CAGR of ~8% over FY24-FY26E. We estimate RoA/RoE to decline to 1.9%/8.6% in FY25 (impact of gold loan ban) but recover to 3.2%/15% in FY26. Our estimates are based on the assumption that the gold loan ban will be revoked by end-Aug'24 and IIFL will regain gold business momentum in 2HFY25. We have a BUY rating on the stock and a TP of INR560 (based on SOTP valuation; refer table below).

IIFL Finance: SOTP - Mar'26E

Particulars	Stake	Value (INR B)	Value (USD B)	INR per share	% To Total	Target Multiple(x)	Basis
IIFL Finance (Standalone)	100	100	1.2	236	42	1.4	PBV
IIFL Home Finance (HFC)	80	113	1.3	266	48	2.0	PBV
IIFL Samasta Finance (MFI)	100	25	0.3	58	10	1.1	PBV
Target Value		237	2.8	560	100		
Current market cap.		187	2.2	440			
Upside (%)		27	27	27			

IIFL Finance (Consolidated): Quarterly Performance (INR m)

Y/E March	FY24				FY25E				FY24	FY25E	1QFY25E	v/s Est.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Interest Income	21,989	23,576	25,630	27,200	24,721	22,249	22,694	24,920	98,386	94,584	25,840	-4
Interest Expenses	8,878	9,321	9,885	10,744	10,340	9,823	9,921	10,619	38,829	40,702	10,905	-5
Net Interest Income	13,111	14,255	15,745	16,456	14,381	12,426	12,773	14,302	59,557	53,882	14,935	-4
YoY Growth (%)	48.9	44.7	44.7	38.9	9.7	-12.8	-18.9	-13.1	43.6	-9.5	13.9	
Other Income	1,306	1,878	1,120	-873	-43	-260	1,830	2,847	3,342	4,374	550	-108
Total Income	14,417	16,134	16,865	15,584	14,338	12,166	14,603	17,148	62,899	58,255	15,485	-7
YoY Growth (%)	20	26	26	10	-1	-25	-13	10	20.4	-7.4	7.4	
Operating Expenses	6,332	6,772	7,272	7,691	7,461	7,559	7,826	8,583	28,067	31,429	7,428	0
Operating Profit	8,085	9,361	9,593	7,893	6,877	4,607	6,777	8,565	34,832	26,827	8,057	-15
YoY Growth (%)	18.4	29.0	24.9	-1.6	-14.9	-50.8	-29.4	8.5	16.9	-23.0	-0.3	
Provisions & Loan Losses	1,901	2,526	2,430	2,356	2,516	2,465	2,835	2,964	9,113	10,780	1,885	33
Profit before Tax	6,184	6,835	7,163	5,537	4,362	2,141	3,942	5,601	25,719	16,046	6,173	-29
Tax Provisions	1,455	1,580	1,711	1,231	980	673	905	1,463	5,977	4,021	1,224	-20
PAT (Pre NCI)	4,729	5,255	5,452	4,306	3,382	1,468	3,037	4,138	19,742	12,025	4,949	-32
NCI	475	513	548	572	501	476	452	571	2,107	2,000	572	-12.4
PAT (Post NCI)	4,254	4,743	4,904	3,734	2,881	992	2,585	3,568	17,635	10,025	4,377	-34.2
YoY Growth (%)	29	25	30	-10	-32	-79	-47	-4	18	-43	3	
Key Parameters (%)												
Yield on AUM	13.2	13.4	13.6	13.9	13.31							
Cost of funds	9.1	9.5	9.5	9.7	9.46							
Spread	4.1	3.9	4.1	4.3	3.8							
NIM (on AUM)	7.9	8.1	8.4	8.4	7.7							
Credit cost	1.9	2.4	2.1	1.9	2.1							
Cost to Income Ratio (%)	43.9	42.0	43.1	49.4	52.0							
Tax Rate (%)	23.5	23.1	23.9	22.2	22.5							
Balance Sheet Parameters				2.0	-11.8							
Consol. AUM (INR B)	682	731	774	790	696							
Change YoY (%)	29	32	34	22	2							
Disbursements - Core (INR B)	150	159	166	163	43							
Change YoY (%)	30	32	27	-15	-71							
Borrowings (INR B)	385	404	430	460	414							
Change YoY (%)	11	16	19	16	8							
Borrowings/AUM (%)	56.4	55.3	55.5	58.2	59.5							
Debt/Equity (x)	4.1	4.1	4.1	4.4	3.4							
Asset Quality (%)												
GS 3 (INR M)	7,639	7,931	8,026	11,692	10,231							
G3 %	1.8	1.8	1.7	2.30	2.25							
NS 3 (INR M)	4,400	4,402	4,045	5,951	4,982							
NS3 %	1.1	1.0	0.9	1.18	1.11							
PCR (%)	42.4	44.5	49.6	49.1	51.3							
ECL (%)	2.9	2.9	2.6	2.4	2.9							
Return Ratios - YTD (%)												
ROA (Rep)	3.6	3.9	3.8	3.4	2.3							
ROE (Rep)	19.1	20.1	19.7	18.4	10.3							

E: MOFSL Estimates



Highlights from the management commentary

Update on RBI ban on gold loans

- Supervisory concerns from the RBI led to a ban on IIFL's gold loan business.
- Ensured that there is full compliance and all remedial actions have been taken.
- Adherence to not just the RBI's observations but all the directions which are there in the Master Guidelines
- Hired a few people at CXO level and in the process of hiring a few more, so that risk, audit and compliance (entire risk assurance) functions are strengthened
- Committed to ensuring full compliance in letter and spirit. Expects that the RBI will lift the restrictions within a short time from now - there is no certainty when this will happen but should happen at an early date.

Business Update

- Impact on business has been very significant - Gold Loan AUM has declined to ~INR122b and has more than halved since the RBI ban was put in place.
- Co-lending/DA with Banks: Paid about INR135b from the liquidity and realization of these gold loans to the Banks
- Within digital loans, the entire focus is on MSME; the digital loan business has been growing well.
- MFI business has been impacted because of squeeze of liquidity. Provisions and losses have been elevated in this quarter as well.
- Consolidated AUM grew by ~2% YoY because of rundown in the gold loan book and calibration in MFI; Both Home Finance and LAP recorded >20% YoY growth in AUM.
- Company has done DA and co-lending in its other businesses (ex of Gold).

Gold Loans

- It has not shut down any branch and has not fired any employee.
- Natural attrition is there and when the embargo is lifted, IIFL can come back very quickly.
- Employee base would have declined by 4-5% since the time the RBI embargo was put in force.
- Once the embargo is lifted, it can restart very quickly but difficult to guide how long it will take to reach pre-ban levels.

LAP

- Significant part of the micro-LAP is also done by the MFI company, and MFI in particular has faced a relatively higher resistance from banks to disburse on the existing lines.
- In HFCs, the co-lending and DA continue and the Home Loans business has not been impacted as much. Micro-LAP, even in the HFC, was impacted.

CRE

- Transferred some of the large CRE cases to the ARC. 90-day asset recognition norms for a real estate developer become difficult. These exposures will be better managed under the ARC structure.

MFI

- MFIN guardrails have already been put in place - Samasta picked up build-up of higher customer leverage very early in January itself and started looking at the credit scores of customers to lend to a customer.
- It also started leveraging rule-based engines, which has actually helped it underwrite better.
- There was stress in certain pockets because of overleveraging, elections and heatwaves. Rajasthan, MP and Odisha have been impacted more than other states.
- All the MFI players are religiously following the four lender rule with a maximum capping of INR200k, put in place by MFIN.
- There was a spike in July and there was difficulty in collections because of higher rainfall. Samasta also gave some room to the customers whose incomes were impacted during this period.
- Liquidity is easing slowly but MFI growth has also been impacted by its own calibration and sector/industry trends
- April/May were impacted by heatwaves and there could have been income shocks for 10-15 days. In July, given the rains there was a minor spike in delinquencies but nothing significant.
- Samasta has <14% of the customers who have more than four lender relationships.
- Stage 3 stood at ~2.32% as of June and it did ~INR1b of write-offs in 1QFY25.
- Samasta acknowledged that it has even come across a few states where it has seen some impact from customer and/or borrower frauds.
- In MFI, for the industry as a whole, credit cost guidance might increase from 2% to 3%.

Liquidity tightness

- Bank is holding back on the credit for the other businesses (ex of gold) as well. HFC AUM growth of ~20% is in line with expectations even though 1Q was slightly muted because of seasonality.
- AUM growth in non-gold businesses was impacted by banks holding up the funding lines on the other businesses as well. However, it is slowly seeing that resources are becoming available.

Asset Quality and ECL Provisioning

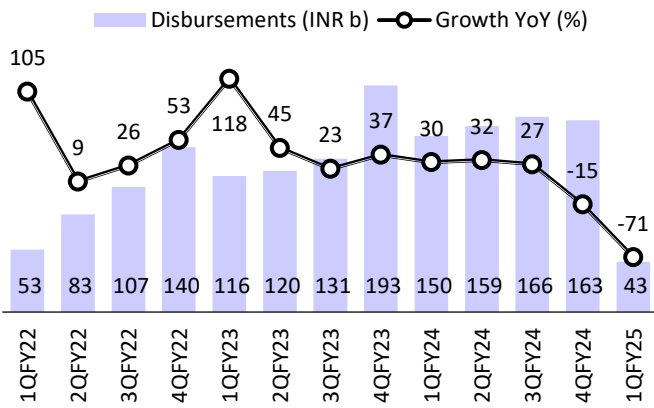
- Company has increased the provisioning requirement for Stage 2 and 3 customers. This led to higher provisioning. It has also increased the ECL provisioning in the CRE portfolio. As recommend by the auditors, it has increased the provisioning.

Others

- Focus will be on compliance and risk assurance and the AUM growth will gradually follow.
- Company has taken a number of steps to ensure that such things (like in VF business and Gold Loans) do not recur in any of its other lending products.

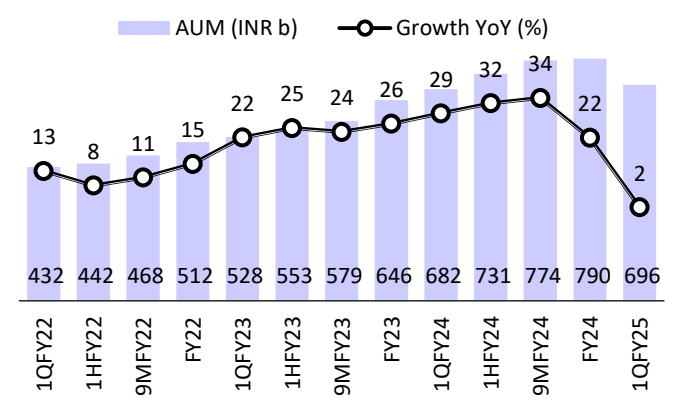
Key exhibits

Exhibit 1: Disbursement declined 71% YoY



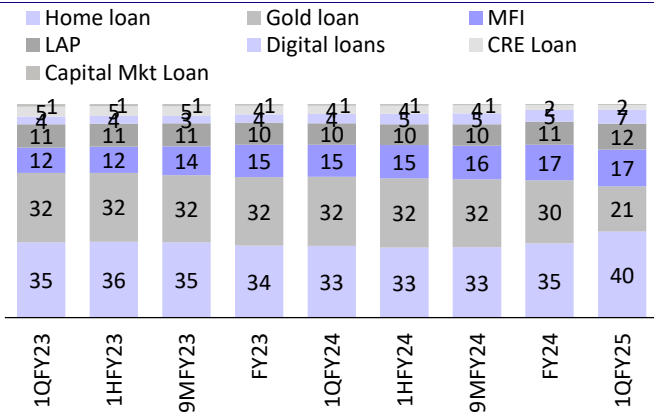
Source: MOFSL, Company

Exhibit 2: Consol. AUM grew 2% YoY



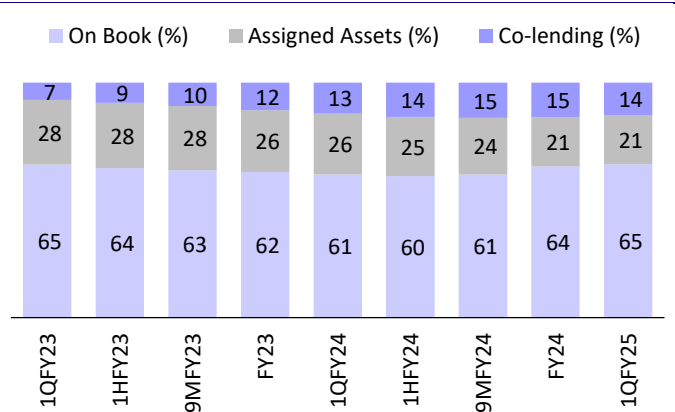
Source: MOFSL, Company

Exhibit 3: Gold loan AUM declined (%)



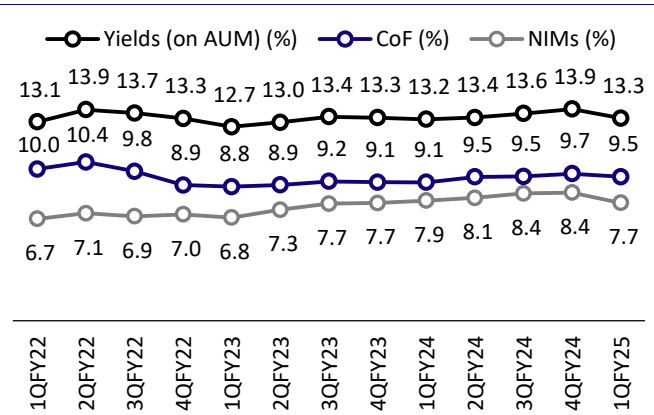
Source: MOFSL, Company

Exhibit 4: Off-book loans constituted 36% of AUM mix (%)



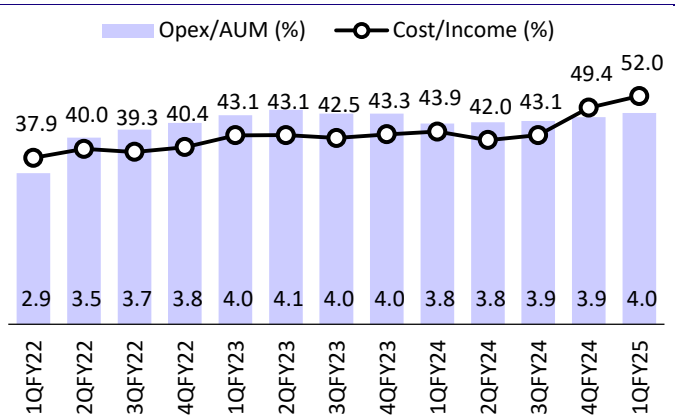
Source: MOFSL, Company

Exhibit 5: Yields declined ~60bp QoQ



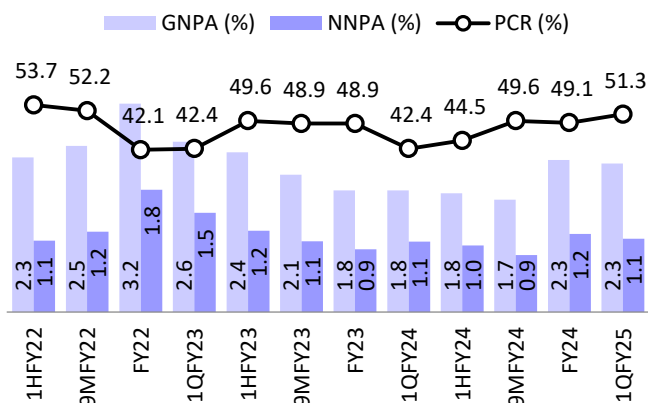
Source: MOFSL, Company

Exhibit 6: Cost/Income ratio rose to 52%



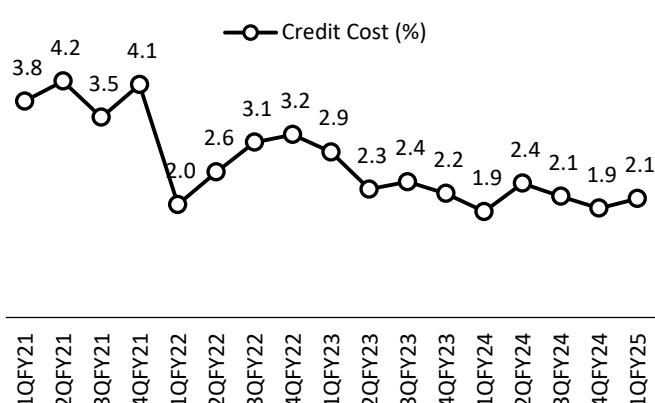
Source: MOFSL, Company

Exhibit 7: Asset quality was largely stable QoQ (%)



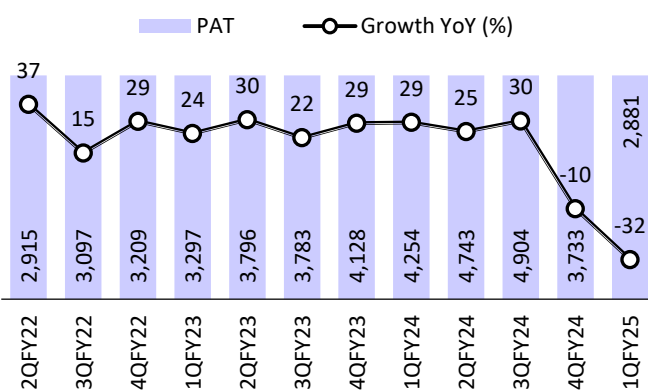
Source: MOFSL, Company

Exhibit 8: Credit Costs rose to ~2.1%



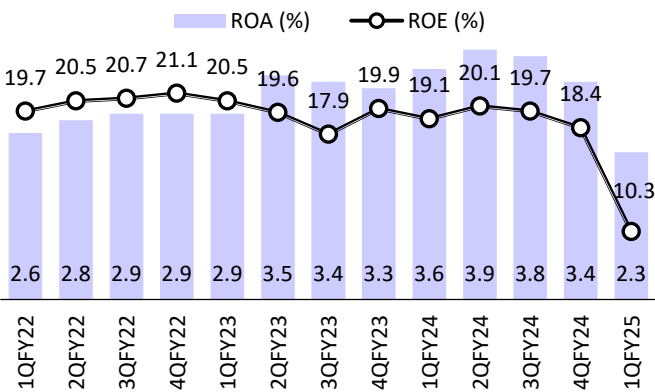
Source: MOFSL, Company

Exhibit 9: 1QFY25 PAT declined 32% YoY (INR m)



Source: MOFSL, Company

Exhibit 10: Return ratios declined QoQ (%)



Source: MOFSL, Company

Exhibit 11: We cut our FY25/FY26 EPS estimates by ~37%/14% to factor in lower Loan growth, non-interest income and higher provisions in MFI

INR B	Old Est.		New Est.		% change	
	FY25	FY26	FY25	FY26	FY25	FY26
NII	60,661	72,941	53,882	63,356	-11.2	-13.1
Other Income	7,237	12,386	4,374	11,487	-39.6	-7.3
Total Income	67,898	85,327	58,255	74,843	-14.2	-12.3
Operating Expenses	32,009	38,081	31,429	34,625	-1.8	-9.1
Operating Profits	35,888	47,246	26,827	40,218	-25.3	-14.9
Provisions	11,744	12,132	10,780	9,878	-8.2	-18.6
PBT	24,144	35,114	16,046	30,341	-33.5	-13.6
Tax	5,782	8,434	4,021	7,368	-30.5	-12.6
PAT (pre-NCI)	18,362	26,680	12,025	22,972	-34.5	-13.9
NCI	2,500	3,000	2,000	2,500	-20.0	-16.7
PAT (post-NCI)	15,862	23,680	10,025	20,472	-36.8	-13.5
AUM	8,40,209	10,55,520	7,64,394	9,37,947	-9.0	-11.1
Borrowings	4,94,368	6,32,246	4,49,242	5,63,295	-9.1	-10.9
RoA	2.8	3.5	1.9	3.2	-31.8	-6.0
RoE	13.3	16.5	8.6	15.0	-35.2	-8.8

Financials and Valuation

Income Statement						(INR M)
Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E
Interest Income	54,212	61,345	73,693	98,386	94,584	1,08,094
Interest Expenses	26,258	29,910	32,218	38,829	40,702	44,738
Net Interest Income	27,954	31,435	41,474	59,557	53,882	63,356
Change (%)	26	12	32	44	-10	18
-NII on on-book	20,934	23,713	30,183	41,538	41,635	51,913
-NII on off-book	7,020	7,722	11,291	18,019	12,247	11,443
Other Operating Income	4,186	7,202	8,896	931	2,579	8,832
Other Income	1,499	1,689	1,883	2,410	1,795	2,655
Total Income	33,639	40,326	52,253	62,899	58,255	74,843
Change (%)	37	20	30	20	-7	28
Total Operating Expenses	11,904	15,918	22,466	28,067	31,429	34,625
Change (%)	-6	34	41	25	12	10
Employee Expenses	7,231	9,307	13,295	16,849	19,167	21,225
Depreciation	1,057	1,217	1,526	1,808	1,949	2,238
Other Operating Expenses	3,617	5,394	7,645	9,410	10,313	11,163
Operating Profit	21,734	24,408	29,787	34,832	26,827	40,218
Change (%)	82	12	22	17	-23	50
Provisions and write-offs	11,686	9,048	8,661	9,113	10,780	9,878
PBT	10,048	15,359	21,125	25,719	16,046	30,341
Tax Provisions	2,440	3,477	5,050	5,977	4,021	7,368
Tax Rate (%)	24.3	22.6	23.9	23.2	25.1	24.3
PAT (pre-NCI)	7,608	11,882	16,076	19,742	12,025	22,972
Change (%)	51	56	35	23	-39	91
Non Controlling Interest (NCI)	-7	-4	-1,072	-2,107	-2,000	-2,500
PAT (post-NCI)	7,601	11,879	15,003	17,635	10,025	20,472
Change (%)	51	56	26	18	-43	104

Balance Sheet						(INR M)
Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	758	759	761	763	848	848
Reserves & Surplus	53,177	63,879	89,160	1,05,607	1,25,976	1,44,541
Non-controlling interest		59.0	12,101	14,195	16,195	18,695
Net Worth	53,934	64,697	1,02,021	1,20,564	1,43,019	1,64,083
Borrowings	3,22,645	3,57,255	3,96,040	4,66,992	4,49,242	5,63,295
Change (%)	16.4	10.7	10.9	17.9	-3.8	25.4
Other Liabilities	30,090	37,150	31,951	36,655	43,775	50,983
Total Liabilities	4,06,669	4,59,102	5,30,012	6,24,212	6,36,035	7,78,361
Cash and Bank	47,841	81,569	58,390	42,457	43,774	43,083
Investments	316	11,922	35,110	40,590	48,320	55,317
Loans	3,35,332	3,36,929	4,00,011	5,09,523	5,06,485	6,36,051
Change (%)	17.5	0.5	18.7	27.4	-0.6	25.6
Fixed Assets	4,102	4,777	5,708	6,569	7,450	8,689
Other Assets	19,079	23,908	30,794	25,072	30,006	35,220
Total Assets	4,06,669	4,59,104	5,30,013	6,24,212	6,36,035	7,78,361

E: MOFSL Estimates

Financials and Valuation

Ratios

Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E
Spreads Analysis (%)						
Avg. Yield on Loans	17.5	18.3	20.0	21.6	18.6	18.9
Avg Cost of Funds	8.8	8.8	8.6	9.0	8.9	8.8
Spread of loans	8.7	9.5	11.4	12.6	9.7	10.1
NIM (as % of total AUM)	6.8	6.6	7.2	8.3	6.9	7.4
On-book NIM (% of on-book AUM)	6.8	7.0	8.1	9.1	8.2	9.2

Profitability Ratios (%)

RoE	15.0	20.0	19.4	18.0	8.6	15.0
RoA	2.0	2.7	3.3	3.4	1.9	3.2
Int. Expended / Int.Earned	48.4	48.8	43.7	39.5	43.0	41.4
Other Inc. / Net Income	16.9	22.0	20.6	5.3	7.5	15.3

Efficiency Ratios (%)

Op. Exps. / Avg AUM	2.9	3.3	3.9	3.9	4.0	4.1
Op. Exps. / Net Income	35	39	43	45	54	46
Empl. Cost/Op. Exps.	61	58	59	60	61	61

Asset-Liability Profile (%)

Debt-Equity Ratio	6.0	5.5	4.4	4.4	3.5	3.9
Assets/Equity	7.5	7.1	5.9	5.9	5.0	5.4

Asset Quality (%)

GNPA (INR m)	6,620	10,740	7,380	11,692	9,431	10,132
GNPA (%)	2.1	3.2	1.8	2.3	1.9	1.6
NNPA (INR m)	2,986	6,218	3,771	5,951	4,325	4,534
NNPA (%)	1.0	1.8	1.1	1.2	0.9	0.7
PCR (%)	55	42	49	49	54	55
Credit costs	3.8	2.7	2.4	2.0	2.1	1.7

Valuations

	FY21	FY22	FY23	FY24	FY25E	FY26E
Book Value (INR)	142	170	236	279	299	343
BV Growth (%)	13	20	39	18	7	15
P/BV	3.1	2.6	1.9	1.6	1.5	1.3
EPS (INR)	20	31	39	46	24	48
EPS Growth (%)	51	56	26	17	-49	104
P/E	21.9	14.1	11.2	9.5	18.6	9.1
Dividend	3.0	3.5	4.0	4.0	4.5	5.0
Dividend yield	0.7	0.8	0.9	0.9	1.0	1.1

Du-Pont (% of avg. assets)

	FY21	FY22	FY23	FY24	FY25E	FY26E
Interest Income	14.4	14.2	14.9	17.0	15.0	15.3
Interest Expended	7.0	6.9	6.5	6.7	6.5	6.3
NIM	7.5	7.3	8.4	10.3	8.6	9.0
Other income	1.5	2.1	2.2	0.6	0.7	1.6
Total income	9.0	9.3	10.6	10.9	9.2	10.6
Operating cost	3.2	3.7	4.5	4.9	5.0	4.9
PPOP	5.8	5.6	6.0	6.0	4.3	5.7
Provision	3.1	2.1	1.8	1.6	1.7	1.4
PBT	2.7	3.5	4.3	4.5	2.5	4.3
Tax	0.7	0.8	1.0	1.0	0.6	1.0
ROA (pre-NCI)	2.0	2.7	3.3	3.4	1.9	3.2
NCI	0.0	0.0	0.2	0.4	0.3	0.4
ROA (post-NCI)	2.0	2.7	3.0	3.1	1.6	2.9
Avg. leverage (x)	7.4	7.3	6.4	5.9	5.4	5.2
RoE	15.0	20.0	19.4	18.0	8.6	15.0

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NOTES

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BUY	>=15%
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