



Financials & Valuation (INR b)

Y/E March	FY21	FY22	FY23
NII	28.1	31.4	41.5
Total Income	33.6	40.3	52.3
PPoP	21.7	24.4	29.8
PAT	7.6	11.9	16.1
EPS (INR)	20.1	31.3	42.3
EPS Gr. (%)	50.7	56.1	35.0
BV (INR)	142	170	236
Ratios (%)			
NIM	6.8	6.6	7.2
C/I ratio	35.4	39.5	43.0
Credit cost	3.8	2.7	2.4
RoA	2.0	2.7	3.3
RoE	15.0	20.0	19.3
Valuations			
P/E (x)	30.1	19.3	14.3
P/BV (x)	4.2	3.5	2.6

Strong execution in core products to sustain

Minor impact of the increase in risk weights on unsecured consumer credit

We attended IIFL Finance's (IIFL) Analyst Day, where its management highlighted how it has strengthened its customer acquisition capabilities by expanding its phygital footprint through partnerships with banks (for co-lending) and fintechs (for lead generation). IIFL has one of the most extensive branch network (~4,600 branches as of Sep'23) among its peers. The company has a balance sheet, which is strong (high CRAR) and capital light (due to higher proportion of off-book including assignments and co-lending). IIFL is dominant in the co-lending space through its partnerships with Banks for 'sourcing and servicing' retail and priority loans. AUM growth in its core product segments has been healthy (~23% CAGR over FY19-FY23) supported by digital processes and small- ticket granular loans. The total addressable opportunity is huge in its core products of Home Loans, Gold Loans, MFI, LAP and Digital Business Loans. This, along with expectations of sustained economic growth and improvement in credit penetration in the middle of the pyramid customer segment, firmly positions IIFL to deliver a healthy RoA and RoE over the medium term.

Here are the key takeaways from the meet:

Co-lending partnership model is a key competitive advantage

- IIFL has ~40% mix of off-book loans in its consolidated AUM and guided for it to rise to 40-45%, predominantly driven by a higher proportion of co-lending in the off-book mix. Within its off-book AUM, ~36% comes from co-lending (up from 17% as of Mar'22) and ~64% is from direct assignment (which has declined from ~83% in Mar'22).
- IIFL uses an in-house co-lending system for Gold Loans and Home Loans and is in active discussions with bank partners about co-lending its other core products such as Business Loans and LAP. Dominance in the co-lending ecosystem offers a key competitive advantage for IIFL to keep delivering a ~25% AUM CAGR in the near to medium term.

Home Loans and LAP: Expansion in distribution has been the biggest enabler

- IIFL Home Loans operates in the suburbs of Tier 1 and Tier 2 cities (the hub markets) and also has a presence in Tier 3 and 4 cities (which are the expansion markets). It has a sweet spot with an average ticket size of ~INR1.4m, which is much lower than that of banks and marginally higher than the ~INR1.0m ATS for a host of low-ticket, affordable HFCs. This has enabled it to command portfolio yields of ~11% (as % of AUM) as of Sep'23.
- Within the off-book AUM for IIFL Home Loans, ~65% is DA and ~35% is co-lending. It has a completely in-house captive system in its technology stack.
- Over the last 30 months, IIFL Home Finance has invested in the expansion of its distribution capabilities by adding ~285 branches. While this has aided disbursement growth, it has also delivered a decline in its operating expenses as a proportion of its disbursements, which declined to ~3.6% in FY23 (~4.1% in FY21) and is expected to decrease further in FY24/FY245.

Gold Loans: Improvement in branch productivity helping gold loan growth

- IIFL has 2,700+ dedicated gold loan branches across 25 states and Union Territories (UTs), and it now offers doorstep gold loans in 35+ cities. It has ~70% repeat customers, with MSME/farmers being the key customer segment.
- All loans (except ones done under co-lending with banks) have a contracted tenor of two years, while the behavior tenor is about nine months since the company does not levy any foreclosure charges.
- IIFL's gold loan branches have fully digitized tablet-based processes for paperless onboarding and servicing of customers. It has significantly invested in security and controls across its branches. Going forward, it will further build its co-lending partnerships, expand its branch network in Tier-IV cities/under-penetrated markets, and focus on SME and insurance cross-selling to its customers.

Microfinance: Strong loan growth to sustain even as branch expansion moderates

- Samasta MFI delivered an AUM CAGR of ~68% over FY19-FY23, with MFI loans constituting ~85% of its overall portfolio and Micro LAP, Unsecured Business Loans, and Dairy Cattle Loans contributing ~15% of the AUM mix.
- Samasta has a wide geographic reach and contiguous expansion strategy with its pan-India presence across 22 states.
- Despite having a presence in Assam, it has managed its asset quality well and now has a separate collection vertical to focus on hard bucket collections.
- While a large number of the newer branches will now come from the splitting of branches, it will continue to drive higher productivity from the existing branches. It will focus on improving the non-MFI mix by offering income-assessment-based higher ticket retail products for its MFI customers, who are moving up the pyramid.

Digital Loans: Improved business model with much lower focus on personal loans

- Under digital loans, IIFL largely does unsecured loans with its fraud checks and risk models, which are now much more robust. Key products are Business Loans and Supply Chain Finance with much less emphasis on Personal Loans (PL; ~10% of incremental disbursements under digital loans).
- IIFL has discontinued partnerships with many fintech firms that used to source INR5-15K ticket-sized PL under the FLDG model. While this led to a moderation in the customer count for IIFL, it also enabled the company to have a better control over customer data and cut down the risk in small-ticket PLs.
- IIFL offers digital loans with >10,000 pin codes and ~60% are in Tier 3 and 4 markets.
- The veracity of the document shared by the user is verified at the second stage with tools like Perfios (for Banking) and Karza (for GST). Post-disbursement checks are in place to monitor early warning signals (EWS) and customers' performance with other lenders with the help of bureau checks.
- It currently has 1.5-1.6x products per customer (PPC) and targets to improve it to 2+ with a repeat rate of >20% to lower the cost of customer acquisition.
- Supply Chain Finance has a potential market size of INR14t. Banks are not keen on entering this segment, and the CoB remains prohibitive for MSMEs.

Impact from the RBI circular on higher risk weights for consumer credit and bank lending to NBFCs

- Management shared that it believes the government (or the RBI) has not disincentivized unsecured business loans, and it does not expect any increase in competition from banks in secured product segments such as gold loans or home loans because of the higher risk weights on unsecured consumer credit.
- PL is ~14% of the standalone loan mix and ~4% of the consolidated mix. The company shared that it expects a ~20bp impact on Tier 1 and ~10bp impact on Tier 2, leading to a total impact of ~40bp on CRAR.
- Management also shared that it expects its weighted average consolidated CoB to increase 5-6bp because of a rise in risk weight to 125% (from 100% earlier) on bank terms loans to NBFCs (excluding HFCs and MFIs).

25-25-25: Guidance for 25% AUM CAGR over FY23-FY25, ~INR25b PAT and CRAR of ~25% in FY25

- Management guided for a loan AUM CAGR of 25% over FY23-FY25, PAT of INR25b and capital adequacy of ~25% in FY25.
- IIFL, along with its Home Finance and MFI subsidiaries, also recently received an improvement in outlook on its credit rating to Positive (from Stable) from CRISIL. This could be a precursor to a credit rating upgrade within the next 6-9 months. At IIFL, the capital market borrowings are currently lower, and it is already making inroads into debt capital markets by borrowing through NCDs/CPs.
- The company is also exploring the opportunity of borrowing through Commercial Papers (CPs) but will keep CPs within 4-5% of the liability mix. This will help keep the CoB under check in a rising/stable interest rate environment.

Key takeaways from the management commentary

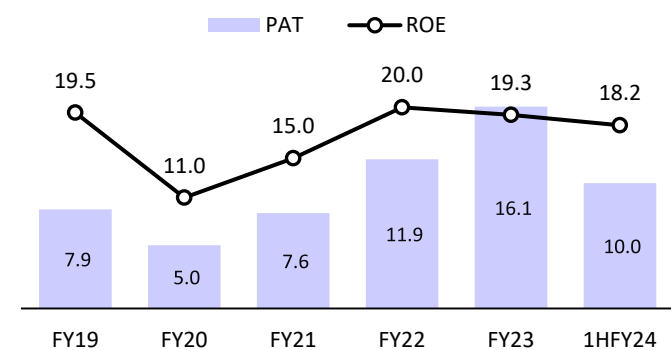
Exhibit 1: Key highlights

MD and CEO session	❖ IIFL's competitive advantage lies in small-ticket loans and in regions where banks are not effectively extending their lending services.
	❖ 12% of Indian Households get ~70% of the credit. The per capita income of the middle of the pyramid customers will expand and credit penetration will improve in this segment.
	❖ Digital First company – Partners with Banks for the balance sheet and partners with Fintechs for leads and customer acquisitions
	❖ Loan AUM CAGR of 25% over FY23-FY25 PAT of INR25b and Capital adequacy of ~25%
Guidance	❖ Capital market borrowings are lower and it is now making inroads into NCDs/CPs
RBI Circular Impact	❖ Government has not disincentivized unsecured business loans and it does not expect any increase in competition from Banks in secured products like gold loans or home loans.
	❖ PL is ~14% of the standalone AUM and ~4% of the consolidated mix. ~20bp impact on Tier 1 and ~10bp impact on Tier 2 - Leading to a total impact of ~40bp on CRAR.
Home loans	❖ Average ticket size of ~INR1.4m
	❖ Operating Expenses as % of disbursement will be moderate hereon (from current levels of 3.6% as on FY23)
	❖ LAP product is more concentrated in the Hub markets rather than the expansion markets. However, going forward, it expects growth from the expansion markets.
Digital Loans	❖ Largely into unsecured loans: Frauds checks and risk models are now more robust
	❖ Operating in more than 10,000 pincodes and ~60% are in Tier 3 and 4 markets.
	❖ Supply Chain Finance: Potential market size of INR14t - Banks are not keen on entering this segment - so the CoB is prohibitive for the MSMEs - Existing players do not have underwriting models for this segment.
	❖ Post-disbursement checks in place to monitor early warning signals (EWS)
Gold loans	❖ About 30-35% of the gold loan disbursements are in co-lending; Focus will be on SME cross-sell including cross-sell of insurance;
	❖ IIFL Finance seeks approval from RBI before opening gold loan branches. During COVID, it took a call to expand the branch network very aggressively; New branches are contributing to the faster growth (v/s peers in gold loans).
	❖ Portfolio yields improved ~1pp in 1HFY24, since it has clearly remained shy of high-ticket gold loans and teaser-rate gold loans.
MFI loans	❖ In Samasta MicroFinance, MFI loans constitute ~85% of the total AUM and ~15% non-MFI loans.
	❖ Once a branch reaches an AUM of ~INR170m (v/s INR120m earlier), it splits the branch
	❖ Separate vertical to focus on hard bucket collections, drive productivity from existing branches (now it will only have a marginal new branch increase and most of this will come from splitting of existing branches), retail products for MFI customers (income assessment based higher ticket loans) and selective expansion into newer markets.

Source: MOFSL, Company

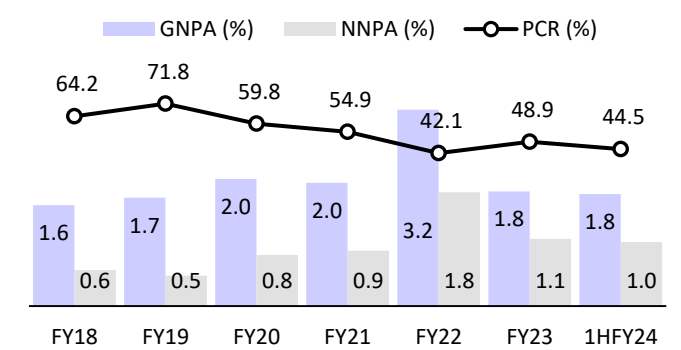
Company overview

Exhibit 2: RoE witnessed a gradual improvement



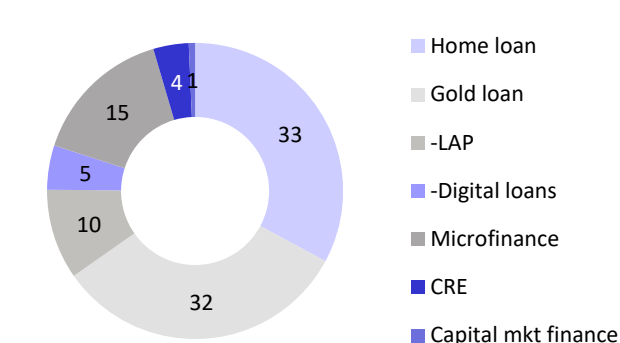
Source: MOFSL, Company

Exhibit 3: Healthy asset quality with GNPA at 1.8%



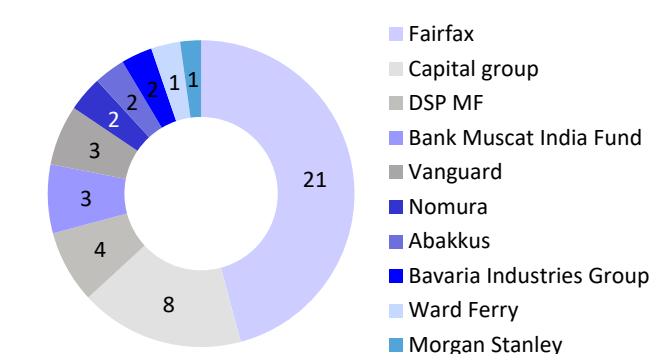
Source: MOFSL, Company

Exhibit 4: AUM mix (%)



Source: MOFSL, Company

Exhibit 5: Top 10 institutional shareholders (%)



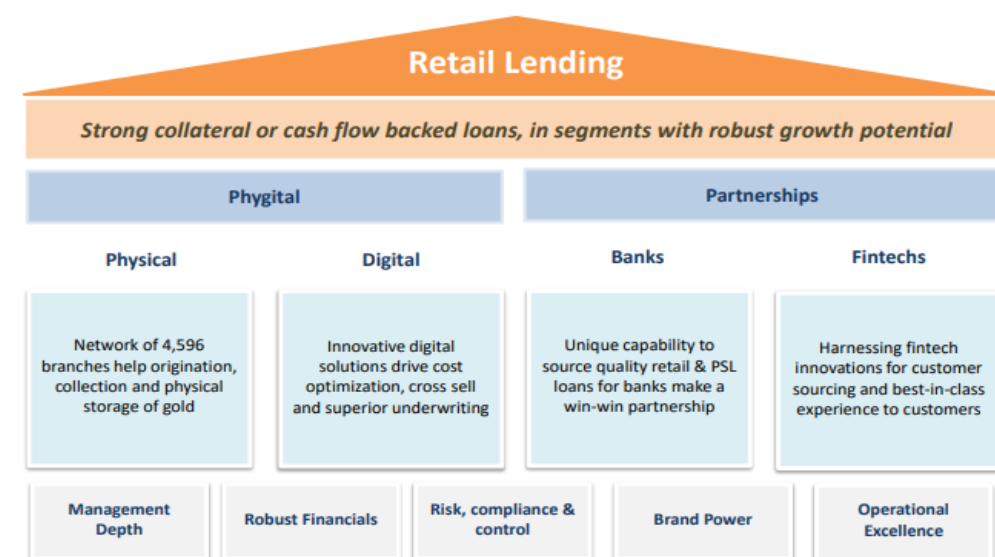
Source: MOFSL, Company

Exhibit 6: Addressing the vast opportunity with strong execution capabilities

Particulars	Home Loan	LAP	MFI	Business Loan	Gold Loan
	< 25 lakh ATS	NBFC-LAP Credit	NBFC- MFI Credit	MSME Credit	Gold Tonnage
Industry (INR b)	11,000	3,300	1,383	27,700	28,000
YoY Growth (%)	2,200	300	379	4,400	800
IIFL AUM (INR b)	218	67	98	25	59 (Gold in Stock)

Note: Data as on Mar'23

Exhibit 7: Retail business is built on the phygital and partnership model



Source: MOFSL, Company

Home loans

Exhibit 8: IIFL is among the few affordable housing finance companies to have scaled up so well

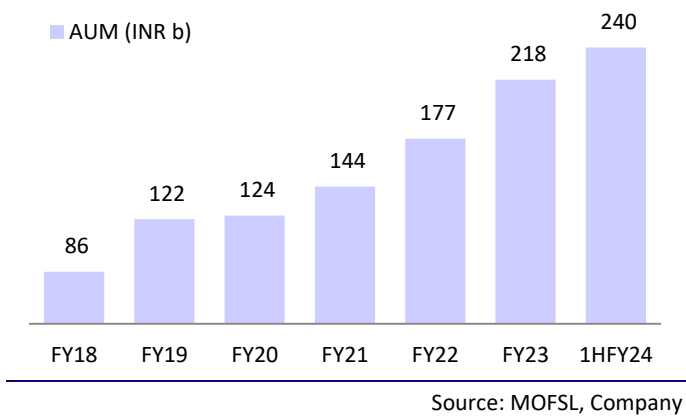


Exhibit 9: Yields stood at 11% in 2QFY23

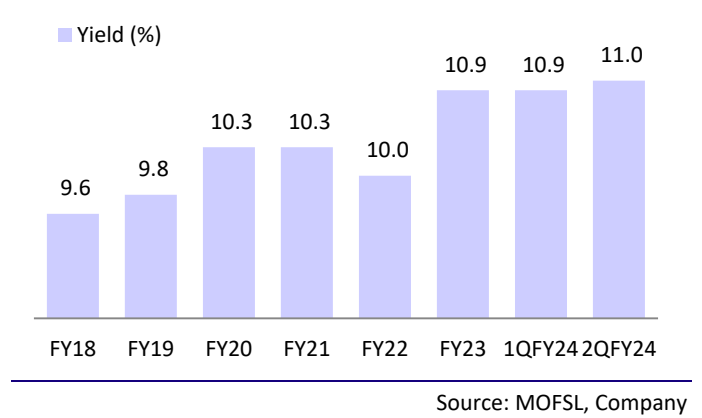


Exhibit 10: Proliferation of home loan branches post-Covid

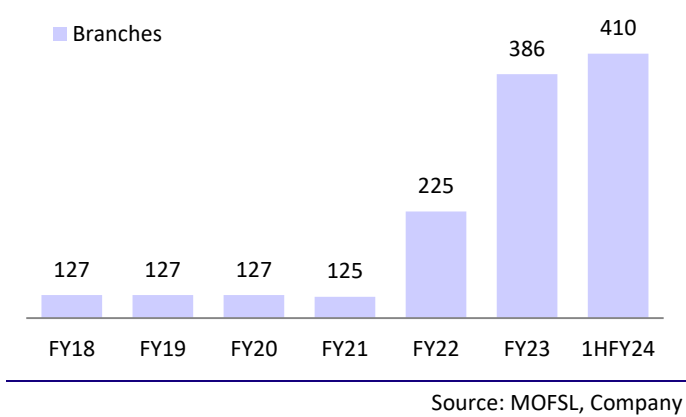
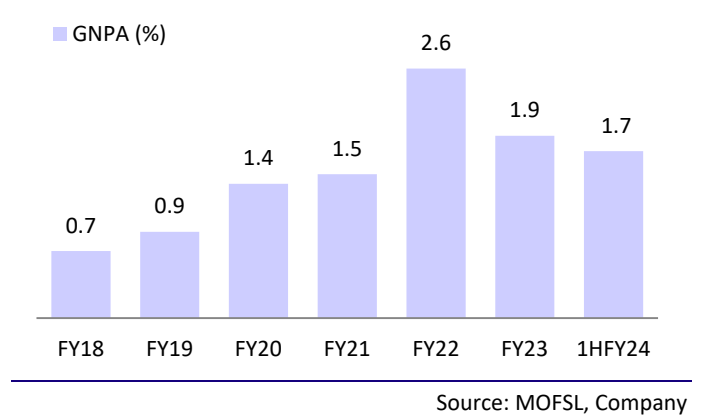
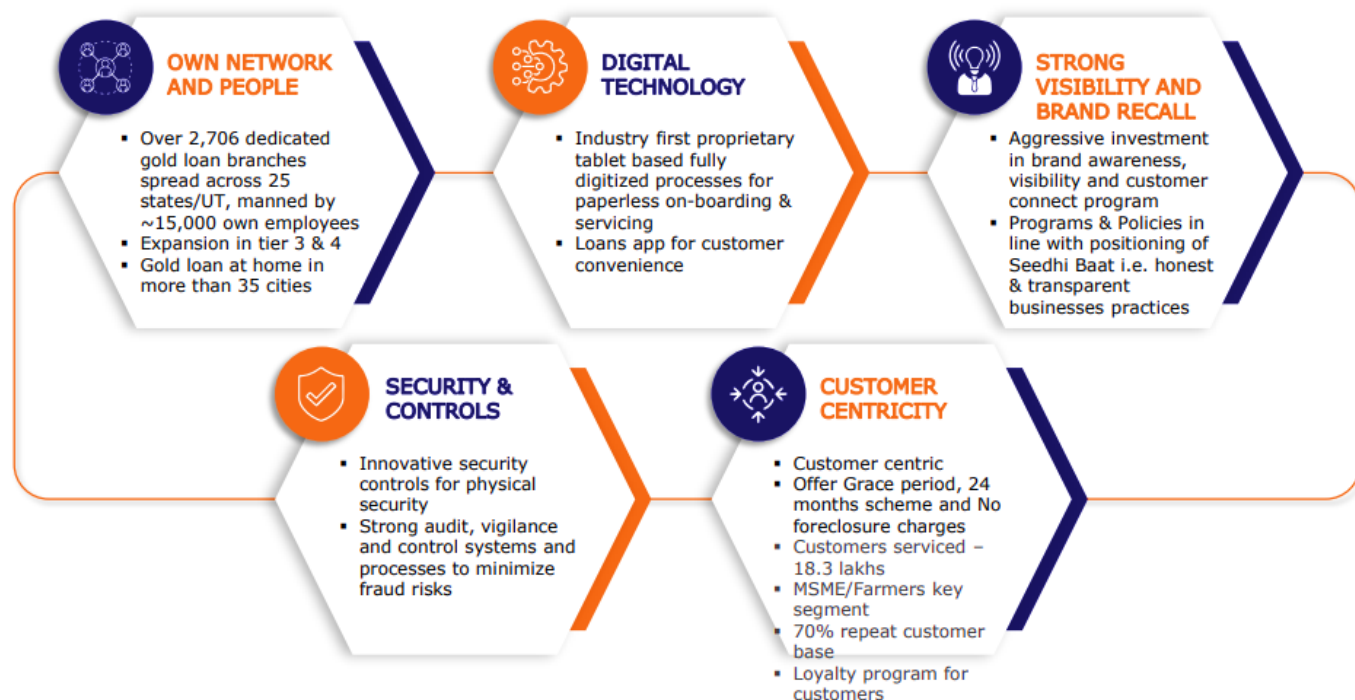


Exhibit 11: GNPA stood at 1.7% in the home loans business



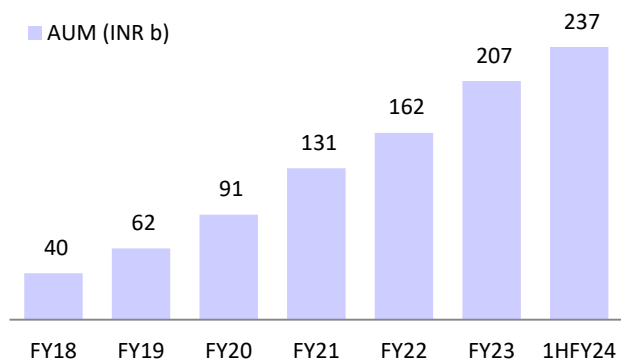
Gold loans

Exhibit 12: Golden edge in the gold loan space



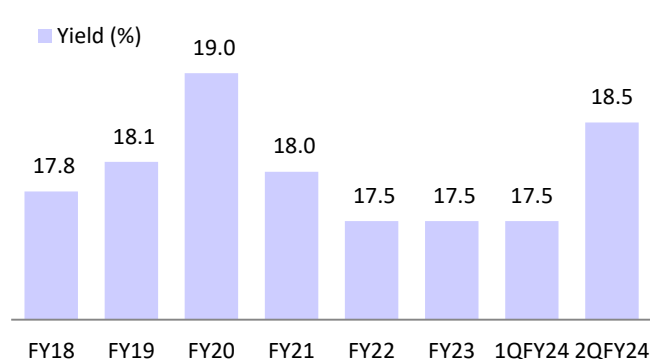
Source: MOFSL, Company

Exhibit 13: Growth driven by co-lending arrangements



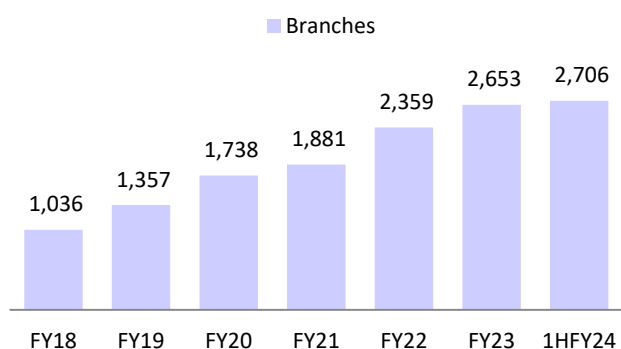
Source: MOFSL, Company

Exhibit 14: Yields rose ~1pp in 1HFY24



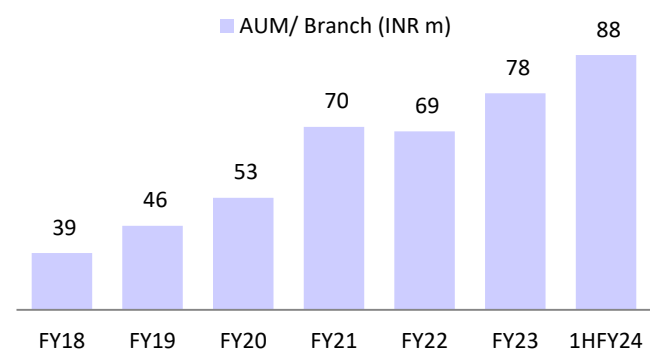
Source: MOFSL, Company

Exhibit 15: Steady branch expansion and improvement in branch productivity aiding gold loan growth



Source: MOFSL, Company

Exhibit 16: Focus on scaling up the newly opened gold loan branches



Source: MOFSL, Company

MFI loans

Exhibit 17: Healthy growth in MFI GLP

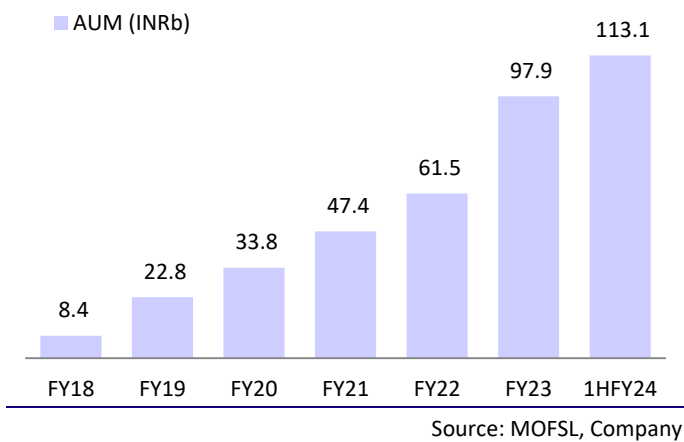


Exhibit 18: Samasta ROA and ROE improved significantly

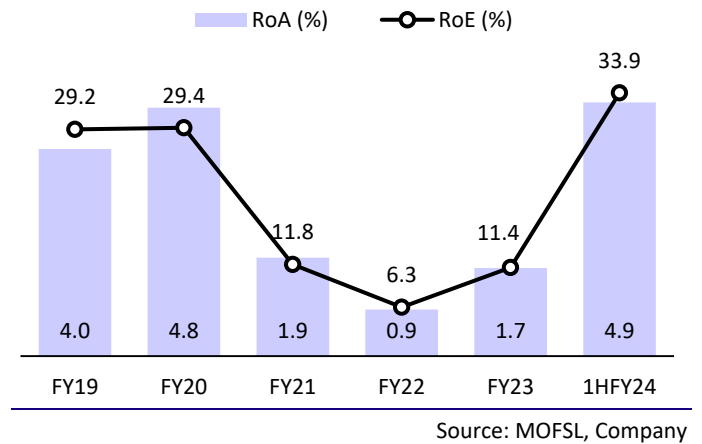


Exhibit 19: MFI lending yields improved to 24.4%

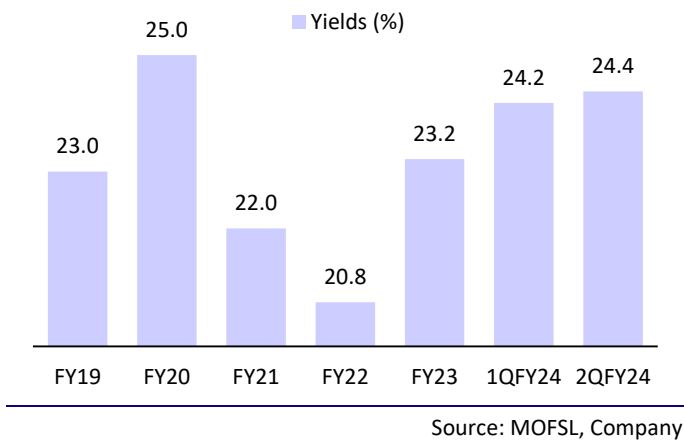
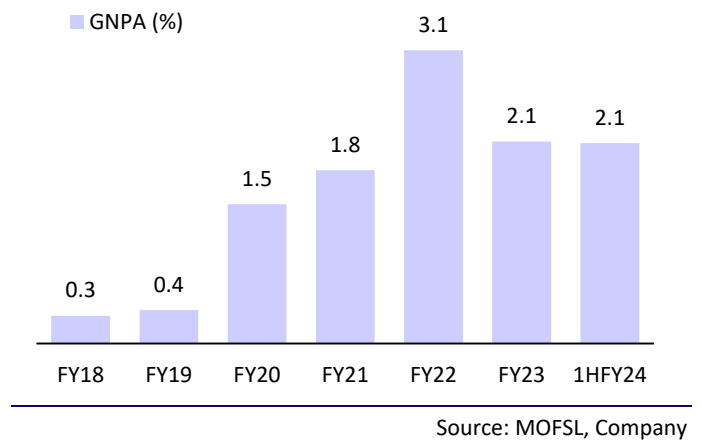
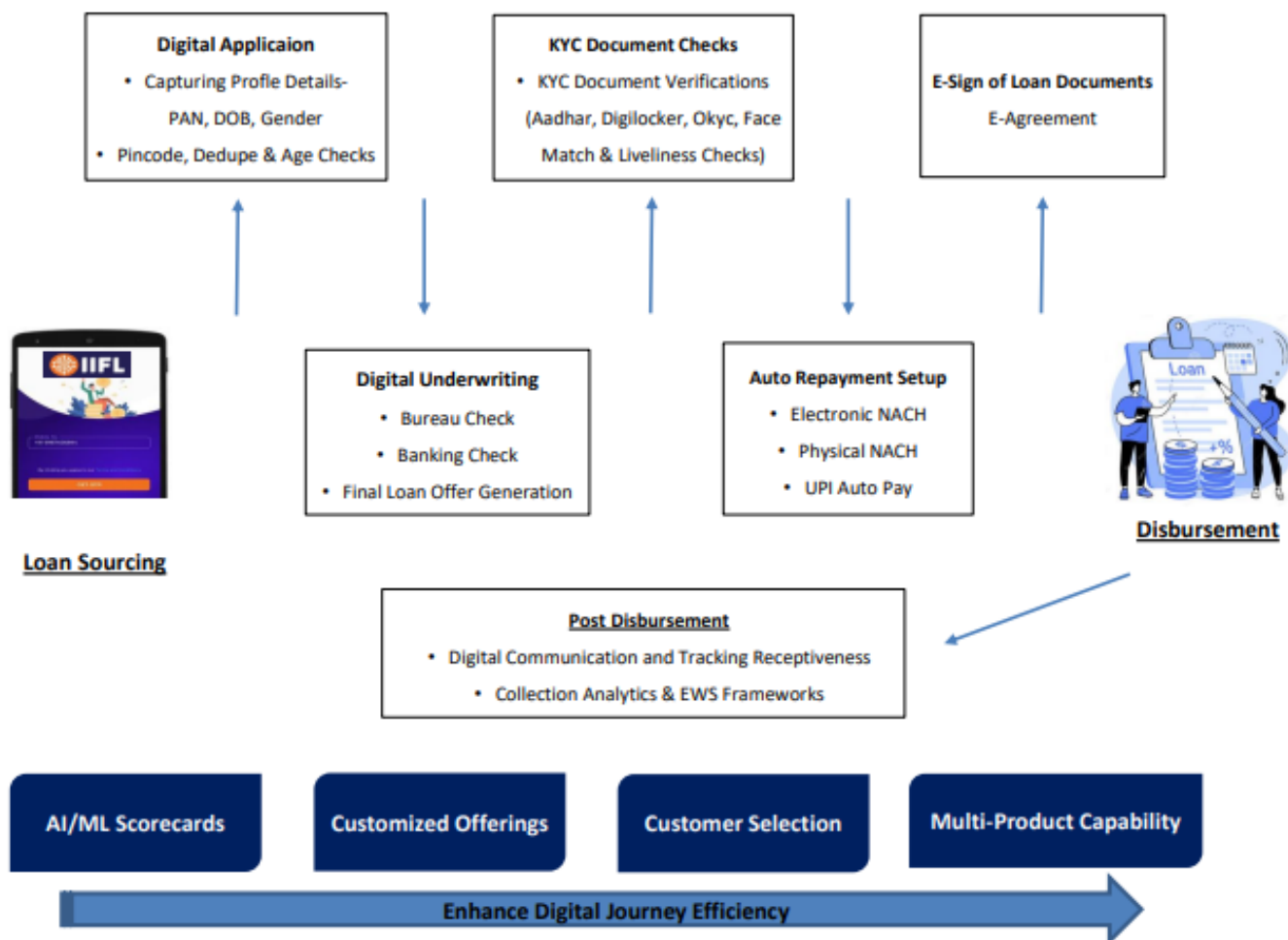


Exhibit 20: Asset quality in MFI book – best in class for IIFL



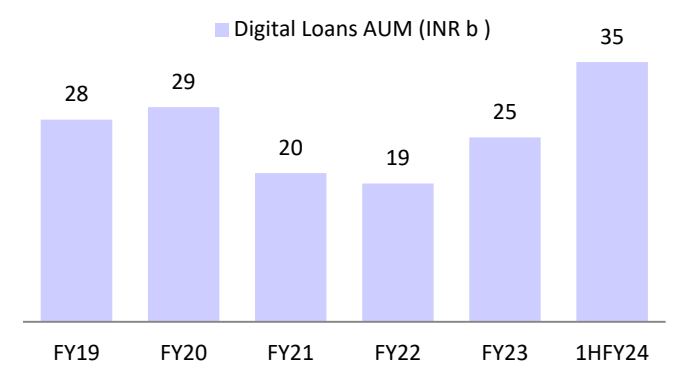
Digital loans

Exhibit 21: Robust mechanism in place for digital lending



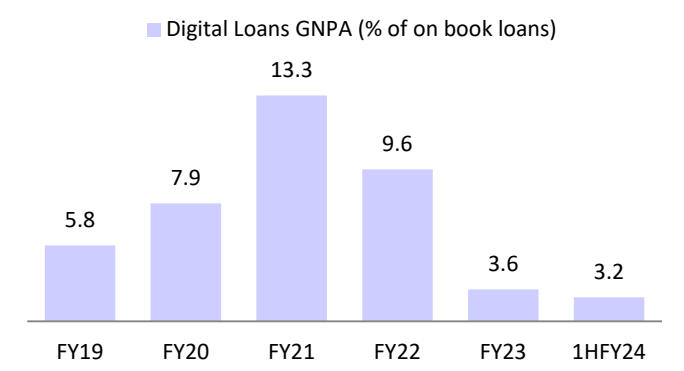
Source: MOFSL, Company

Exhibit 22: IIFL has plans to grow digital loans in a risk-calibrated manner



Source: MOFSL, Company

Exhibit 23: Asset quality improved due to run down of legacy stressed book and improvement in new originations



Source: MOFSL, Company

Financials and valuations

Consolidated Income Statement

Y/E March	FY19	FY20	FY21	FY22	FY23
Interest Income	47,507	46,189	54,212	61,345	73,693
Interest Expenses	25,876	24,050	26,083	29,910	32,218
Net Interest Income	21,631	22,139	28,129	31,435	41,474
Change (%)		2.3	27.1	11.8	31.9
Other Operating Income	2,912	1,635	4,186	7,202	8,896
Other Income	1,070	818	1,310	1,689	1,883
Total Income	25,613	24,591	33,624	40,326	52,253
Change (%)		-4.0	36.7	19.9	29.6
Total Operating Expenses	11,734	12,677	11,902	15,918	22,466
Change (%)		8.0	-6.1	33.7	41.1
Employee Expenses	6,901	7,461	7,231	9,307	13,295
Depreciation	318	1,056	1,053	1,217	1,526
Other Operating Expenses	4,514	4,160	3,617	5,394	7,645
Operating Profit	13,879	11,914	21,723	24,408	29,787
Change (%)		-14.2	82.3	12.4	22.0
Total Provisions	3,693	4,662	11,686	9,048	8,661
PBT	11,232	7,252	10,036	15,359	21,125
Tax Provisions	3,341	2,217	2,440	3,477	5,050
Tax Rate (%)	0.3	0.3	0.2	0.2	0.2
PAT	7,891	5,035	7,597	11,882	16,076
Change (%)		-36.2	50.9	56.4	35.3

Balance Sheet

Y/E March	FY19	FY20	FY21	FY22	FY23
Equity Share Capital	756	757	758	759	761
Reserves & Surplus	42,831	46,899	53,177	63,938	101,261
Non-controlling interest					
Net Worth	43,587	47,656	53,934	64,697	102,021
Borrowings	265,171	277,177	322,645	357,255	396,040
Change (%)		4.5	16.4	10.7	10.9
Other Liabilities	23,631	18,901	30,090	37,150	31,951
Total Liabilities	332,389	343,734	406,669	459,104	530,012
Cash and Bank	25,216	32,159	47,841	81,569	58,390
Investments	2,124	7,704	316	11,922	35,110
Loans	273,775	285,347	335,332	336,929	400,011
Change (%)		4.2	17.5	0.5	18.7
Fixed Assets	3,754	6,093	6,817	7,810	8,896
Other Assets	27,520	12,432	16,365	20,874	27,606
Total Assets	332,389	343,734	406,669	459,104	530,013

Financials and valuations

Ratios					(%)
Y/E March	FY19	FY20	FY21	FY22	FY23
Spreads Analysis (%)					
Yield on loans	16.9	16.5	17.5	18.3	20.0
Cost of funds	9.7	8.9	8.7	8.8	8.6
Spread	7.2	7.7	8.8	9.5	11.4
Net Interest Margin	6.2	6.1	6.8	6.6	7.2

Profitability Ratios (%)					
RoE	19.5	11.0	15.0	20.0	19.3
RoA	2.4	1.5	2.0	2.7	3.3
C/I ratio	45.8	51.6	35.4	39.5	43.0

VALUATION					
Book Value (INR)	115	126	142	170	268
Price-BV (x)	5.2	4.8	4.2	3.5	2.2
EPS (INR)	21	13	20	31	42
EPS Growth YoY		-36	51	56	35
Price-Earnings (x)	28.9	45.3	30.1	19.3	14.3

DuPont Analysis (% of assets)

Y/E March	FY20	FY21	FY22	FY23
Interest Income	13.7	14.4	14.2	14.9
Interest Expended	7.1	7.0	6.9	6.5
Net Interest Income	6.5	7.5	7.3	8.4
Other Income	0.7	1.5	2.1	2.2
Total Income	7.3	9.0	9.3	10.6
Operating Expenses	3.8	3.2	3.7	4.5
Operating Profit	3.5	5.8	5.6	6.0
Provisions/write offs	1.4	3.1	2.1	1.8
PBT	2.1	2.7	3.5	4.3
Tax	0.7	0.7	0.8	1.0
PAT	1.5	2.0	2.7	3.3
Leverage	7.4	7.4	7.3	5.9
RoE	11.0	15.0	20.0	19.3

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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