

In consolidation phase; revise rating to HOLD !!!

IIFL Finance reported Q4 numbers – Net Profit (post non-controlling interest & OCI) is at INR 3677 mn, down by 24.3% qoq and 12% yoy. As expected, post embargo on its gold loan portfolio by RBI, net profit has come down on sequential basis. Total income reported growth of 28% yoy (4% qoq) to INR 1759 cr. During the quarter, it made a fair value loss of ~INR 200 cr that came from liquidation of AIF assets and revaluations of SRs investments. Total AUM growth has slowed down to 22% yoy growth to INR 790 bn vs. avg. 29-30% growth seen in last few quarters due to lower growth in gold loans. Gold loans declined by 5.4% qoq to INR 233.5 bn. GNPA/NNPA has increased to 2.3%/1.2% in Q4FY24 vs. 1.7%/0.9% in Q3FY24 due to rise in gold loans NPAs to 3.8% in Q4 vs. 0.8% in Q3. All the corrective actions required has been done by the company in terms of strengthening board, management team and deficiencies found in the gold loan portfolio, however, RBI outcome on the special audit is still awaited. The management has refrained to give growth guidance for the company till the RBI's verdict comes.

Valuations – Consol AUM is expected to grow by ~8% in FY25e led by lower growth in gold, MFI and business loans while there will be only silver lining in the home loan segment. Profit growth over the next 2 years FY24-26e will grow at muted pace of 9% CAGR led by higher opex & credit cost and lower AUM growth. In this backdrop, in our view, IIFL is not likely to trade at higher multiples as expected before RBI's embargo. It is trading at 1.5x/1.3x FY25e/FY26e ABV on ROE of 16-17%/ROA of 3.3-3.5%. Taking all these factors into consideration, we revise our rating on the stock from BUY to HOLD with TP of INR 518, upside of 9% from the current levels.

Financial Summary

Y/E Mar (Rs Bn)	FY21E	FY22E	FY23	FY24	FY25E	FY26E
NII	27,954	31,435	41,474	59,593	66,263	71,395
Adjusted net profit	7,608	11,883	16,075	19,778	22,594	23,759
Adj BVPS	134	155	218	259	311	370
EPS (Rs)	19	32	40	46	53	55
P/ABV (x)	3.6	3.1	2.2	1.8	1.5	1.3
P/E (x)	24	15	12	10	9	9
RoA (%)	2.0	2.7	3.3	3.4	3.5	3.3
RoE (%)	15.0	20.0	19.3	17.8	17.3	15.6

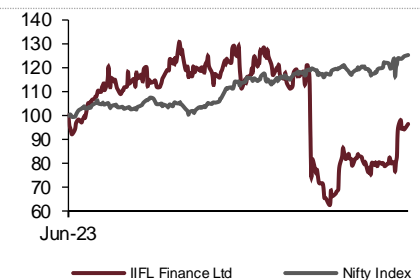
Source: Company, Dalal & Broacha Research

Rating	TP (Rs)	Up/Dn (%)
HOLD	518	10

Market data

Current price	Rs	473
Market Cap (Rs.Bn)	(Rs Bn)	200
Market Cap (US\$ Mn)	(US\$ Mn)	2,380
Face Value	Rs	2
52 Weeks High/Low	Rs	538 / 283
Average Daily Volume	('000)	2,012
BSE Code		532636
Bloomberg		IIFL.IN

Source: Bloomberg

One Year Performance


Source: Bloomberg

% Shareholding	Apr-24	Dec-23
Promoters	-	-
Public	25	25
Others	75	75
Total	100	100

Source: Bloomberg

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Key Financial Highlights

- Total AUM growth has slowed down to 22% yoy growth to INR 790 bn vs. avg. 29-30% growth seen in last few quarters due to lower growth in gold loans. Gold loans declined by 5.4% qoq to INR 233.5 bn and on yoy basis growth reduced to 13% vs. avg. 30% growth seen in last few quarters. While growth momentum has sustained in all other segments viz. home loans (26% yoy), LAP (29% yoy) and MFI loans (34% yoy) and digital loans (71% yoy). And non-core segments viz. commercial real estate & capital market segment (4% share) declined by 30% on qoq basis.
- Additionally, incremental fresh co-lending was negligible and assigned assets declined by 12% qoq. And hence, share of both declined from 39% last quarter to 35.6% in Q4
- **Pace of NII growth slowed down during the quarter** – the same grew by 4.5% qoq to INR 16456 mn (while 38.9% growth seen on yoy basis). Total income reported growth of 28% yoy (4% qoq) to INR 1759 cr.
- **Rise in the gold loan NPAs** – Gross NPAs in the gold loans surged to 3.8% mark in Q4 vs. 0.8% in Q3. Alongwith this, there was also rise in commercial real estate segment NPAs to 3.2% in Q4 vs. 0.4% last quarter; however, contribution of this segment in overall AUM is at 2.3%. This pushed up the overall gross NPA/net NPA to 2.3%/1.2% in Q4 from 1.7%/0.9% in Q3.
- Total CAR position is maintained at 19.7% in Q4 largely similar to last quarter levels despite total capital infusion of INR 1770 cr i.e. capital was consumed for growth.
- It added 120 branches during the quarter taking total count to 4801 branches
- **Appointment of independent directors to strengthen the board** - IIFL Finance appointed Mr. Bijou Kurien (Former COO, Titan) and Mr. Nihar Niranjana Jambusaria, (Past President, ICAI) as Independent directors to the board. IIFL Samasta Finance appointed Mr. Govinda Rajulu Chintala (Former Chairman, NABARD) and Mr. Kalengada Mandanna Nanaiah (Former MD, Equifax) as Independent directors to the board.
- **Further strengthened the management team of the company** - Appointed Mr. Shivalingam Pillai as Chief Compliance Officer who has 25 yrs of experience and worked with companies like HDFC Sales, Mahindra & Mahindra Financial Services. Also, redesignated Mr. Abhiram Bhattacharjee as Chief Operating Officer (COO) who has 29 yrs of experience and worked earlier with Kotak Group, Morgan Stanley, E&Y.

➤ **Update on RBI Order**

- **Cash disbursement & collection within statutory limit of INR 20,000** – System restriction now in place to ensure compliance
- **Issue of certificate of gold purity & LTV parity for auction cases** - The purity certificate issued at the time of loan disbursement is used to determine the maximum permissible loan and to set the reserve price for the auction. As the purity is not subject to any change after disbursement, the LTV difference would cease to exist and shall be within the statutory limit of 75%.
- **Standard auction process (taluka level)** - The initial auction now happens in the same taluka or town using e-auction platform. When it fails to get suitable response from bidders, the venue of auction is shifted to district level
- Transparency in charges levied to customer accounts
- **Update on action taken by RBI** – RBI special audit conducted to review the shortfalls with respect to gold loan book has been concluded. The Board has roughly reviewed these deviations & non-compliances, forming a team to implement corrective actions & revise policies & procedures as needed. Management is confident that these actions will resolve all issues raised by RBI.
- Also in order to ensure there is sufficient liquidity post embargo, it raised equity capital via rights issue tuning to INR 1271.8 cr in May'24 and NCD amounting to INR 500 cr.
- Also, alongwith results, the board has passed enabling resolution for raising of funds via NCD upto a limit of INR 10000 cr.
- Additionally, it has appointed M/s G. M. Kapadia & Co. as the Joint Statutory Auditor of the Company along with the existing Joint Statutory Auditor M/s Sharp & Tannan Associates. And it has appointed Mr. Shubham Khare as Head - Legal of the Company effective June 15, 2024 based on the recommendation of Nomination and Remuneration Committee

Concall Highlights

- **During the quarter, the company made the fair value loss of ~INR 200.4 cr** – this includes ~INR 100 cr loss made on AIF investments which got liquidated (under-line assets were CRE loans) and balance ~INR 100 cr revaluation loss on the SRs (worth INR 700-800 cr, underline assets includes SME loans, CRE and personal loans).
- **Also, the company is likely to do concurrent compliance audit to ensure to plug if there are any further loopholes**
- **Rise in the gold loans/CRE NPAs** – Gold loans worth INR 270-280 cr were not renewed during the quarter and these are accounts where either principal or interest payments were overdue. This resulted in the rise in the GNPA to 3.8% in Q4 from 0.8% in Q3 and the provisioning made is 34.6% while ultimate loss in this segment is not more 10%. In CRE segment, there was one account amounting to INR 60-70 cr that slipped into NPLs which management is confident to revive in coming quarters
- Gold loans have come off AUMs have come down to ~INR 16000 cr vs. 23354 cr as on FY24.
- **Management highlighted that priority is for improving compliance side than focusing on the growth for the current fiscal** – Management refrained from giving any guidance for the current fiscal growth till the time RBI's verdict comes. Gold loans will witness natural run-down due to embargo on fresh lending by RBI. Also, MFI loans growth is expected to be lower due to liquidity concerns. And non-core segments i.e. CRE & capital market finance book is already on consolidation phase. However, housing loans will continue to witness decent growth in the range of ~25%+ in FY25.
- During the quarter, management acquired NSE shares which is also likely to sell off in Q1 itself.

Valuations

Consol AUM is expected to grow by ~8% in FY25e led by lower growth in gold, MFI and business loans while there will be only silver lining in the home loan segment. Profit growth over the next 2 years FY24-26e will grow at muted pace of 9% CAGR led by higher opex & credit cost and lower AUM growth. In this backdrop, in our view, IIFL is not likely to trade at higher multiples as expected before RBI's embargo. It is trading at 1.5x/1.3x FY25e/FY26e ABV on ROE of 16-17%/ROA of 3.3-3.5%. Taking all these factors into consideration, we revise our rating on the stock from BUY to HOLD with TP of INR 518, upside of 9% from the current levels.

Quarterly Financials (Q3FY24)

IIFL Finance - Results Highlights - Q4FY24					
(Rs.mn) (Consol)	Q4FY23	Q3FY24	Q4FY24	Y-O-Y (%)	Q-O-Q (%)
Interest Earned	20,454	25630	27200	33.0	6.1
Interest Expended	8,606	9885	10744	24.8	8.7
NII	11,848	15,745	16,456	38.9	4.5
<i>growth y-o-y (%)</i>	<i>36.5</i>	<i>41.9</i>	<i>38.9</i>		
Other Income	2,306	1,314	2,021	-12.4	53.8
Total Income	14,154	17,059	18,477	30.5	8.3
<i>growth y-o-y (%)</i>	<i>23.7</i>	<i>27.8</i>	<i>30.5</i>		
Operating expenses	6,132	7,466	10,584	72.6	41.8
<i>growth y-o-y (%)</i>	<i>30.9</i>	<i>31.7</i>	<i>72.6</i>		
PPoP	8,023	9,593	7,893	-1.6	-17.7
<i>growth y-o-y (%)</i>	<i>18.7</i>	<i>24.9</i>	<i>-1.6</i>		
Provisions & Contingencies	2,083	2,430	2,356	13.1	-3.0
Profit Before Tax	5,940	7,163	5,537	-6.8	-22.7
<i>growth y-o-y (%)</i>	<i>41.6</i>	<i>29.0</i>	<i>-6.8</i>		
Tax	1,365	1711	1231	-9.8	-28.1
Net Profit (Pre-NCI)	4,576	5,452	4,306	-5.9	-21.0
<i>Net profit (y-o-y %)</i>	<i>42.6</i>	<i>28.8</i>	<i>-5.9</i>		
<i>Net profit (q-o-q %)</i>	<i>8.1</i>	<i>3.8</i>	<i>-21.0</i>		
Minority Interest	448	547	572		
Net Profit (Post -NCI)	4,127	4,905	3,734	-9.5	-23.9
<i>Net Profit (Post OCI & NCI)</i>	<i>4177</i>	<i>4857</i>	<i>3677</i>	<i>-12.0</i>	<i>-24.3</i>
Other Details					
AUMs (Rs.mn)	646,380	774,440	789,600	22.2	2.0
<i>Loan Book - On Book</i>	<i>393,660</i>	<i>472,100</i>	<i>508,330</i>	<i>29.1</i>	<i>7.7</i>
<i>Loan Book - Off Book</i>	<i>252,720</i>	<i>302,340</i>	<i>281,270</i>	<i>11.3</i>	<i>-7.0</i>
GOLD	207,330	246,920	233,540	12.6	-5.4
HOME LOANS	218,000	255,190	274,380	25.9	7.5
BUSINESS LOANS	91,830	117,670	129,090	40.6	9.7
-LAP	66,710	78,620	86,070	29.0	9.5
-Digital Loans	25,120	39,050	43,020	71.3	10.2
MICROFINANCE	97,860	120,900	130,940	33.8	8.3
CONSTRUCTION AND REAL ESTATE	26,940	28,890	18,470	-31.4	-36.1
Capital market finance	4,420	4,870	3,080	-30.3	-36.8
Y-o-Y growth (%)					
AUMs	26.2	33.7	22.2		
<i>Loan Book - On Book</i>	<i>24.3</i>	<i>34.0</i>	<i>29.1</i>		
<i>Loan Book - Off Book</i>	<i>29.3</i>	<i>33.2</i>	<i>11.3</i>		
GOLD	27.8	35.0	12.6		
HOME LOANS	23.0	25.2	25.9		
BUSINESS LOANS	21.5	43.8	40.6		
MICROFINANCE	59.0	54.3	33.8		
CONSTRUCTION AND REAL ESTATE	-7.1	6.8	-31.4		
Capital market finance	-31.2	-10.8	-30.3		

Financial

Profit & Loss Account

P&L (Rs Mn)	FY22	FY23	FY24e	FY25e	FY26e
Interest income	61,345	73,693	98,422	109,355	117,421
Interest expense	29,910	32,218	38,829	43,092	46,026
NII	31,435	41,474	59,593	66,263	71,395
Non-interest income	8,891	10,778	4,709	10,197	11,505
Net revenues	40,327	52,253	64,302	76,459	82,900
Operating expenses	15,918	22,466	28,067	33,382	39,354
PPOP	24,409	29,786	36,235	43,077	43,547
Provisions	9,048	8,661	10,481	12,871	11,783
PBT	15,360	21,125	25,754	30,206	31,763
Tax	3,477	5,050	5,977	7,612	8,004
PAT	11,883	16,075	19,778	22,594	23,759
<i>growth (%)</i>	56	35	23	14	5
Non-Controlling Intere	4	1057	2092	2510	3012
Net Profit (post NCI)	11,880	15,018	17,686	20,085	20,747
<i>Other Comprehensive</i>	92	322	-173	0	0
Consol PAT (post NCI &	11,972	15,340	17,513	20,085	20,747
<i>growth (%)</i>	63	28	14	15	3

0.088424

Balance Sheet

(Rs.mn)	FY22	FY23	FY24e	FY25e	FY26e
Share capital	759	761	761	761	761
Reserves & surplus	63,879	89,160	105,610	126,302	148,159
Non-controlling Intere	59	12,101	14,190	14,190	14,190
Net worth	64,697	102,021	120,561	141,253	163,110
Borrowings	360,858	400,174	466,990	495,386	562,683
Other liability	33,549	27,818	36,660	37,935	44,845
Total liabilities	459,104	530,013	624,211	674,573	770,638
Fixed assets	7,810	8,896	9,580	11,867	12,891
Investments	11,922	35,110	40,590	46,679	52,280
Loans	336,929	400,010	509,520	521,108	602,071
Cash	81,569	58,390	42,886	68,529	67,888
Other assets	20,875	27,607	22,060	27,344	35,508
Total assets	459,104	530,013	624,636	675,526	770,638

Ratios	FY22	FY23	FY24e	FY25e	FY26e	FY27e
Growth (%)						
NII	12	32	44	11	8	14
PPOP	12	22	22	19	1	11
PAT	63	28	14	15	3	9
Advances	0	19	27	2	16	14
Spread (%)						
Advances yield on avg. AUMs	12.4	12.4	13.4	13.0	12.3	11.5
Spread on Avg. AUMs	3.7	3.9	4.5	4.0	3.6	3.5
NIMs on avg. AUMs	6.6	7.2	8.4	8.2	7.8	7.5
Advances yield on On B/S advance	17.7	19.3	20.9	20.5	20.2	19.5
Yield on funds	15.1	16.0	18.1	17.8	17.3	16.7
Cost of Funds	8.7	8.5	9.0	9.0	8.7	8.0
Spreads (on B/S assets)	6.4	7.5	9.2	8.8	8.6	8.7
NIMs (on B/S assets)	7.7	9.0	11.0	10.8	10.5	10.5
Asset quality (%)						
Gross NPAs	2.5	2.3	2.3	2.6	2.5	2.5
Net NPAs	1.4	1.3	1.2	1.4	1.4	1.5
Provisions	43	41	49	45	43	42
Return ratios (%)						
RoE	20.0	19.3	17.8	17.3	15.6	14.9
RoA	2.7	3.3	3.4	3.5	3.3	3.1
Per share (Rs)						
EPS	31.5	40.3	46.0	52.8	54.5	59.2
BV	170	236	280	334	391	455
ABV	155	218	259	311	370	455
Valuation (x)						
P/E	15.1	11.8	10.3	9.0	8.7	8.0
P/BV	2.8	2.0	1.7	1.4	1.2	1.0
P/ABV	3.1	2.2	1.8	1.5	1.3	1.0
Other Ratios						
C/I Ratio	39.5	43.0	43.6	43.7	47.5	48.9
C/I ratio (incl. other income)	32.3	35.6	40.7	38.5	41.7	42.8
Opex to AuM	10.8	11.0	9.2	7.6	6.4	5.5
Opex to Avg. AUM (%)	3.3	3.9	4.0	4.1	4.3	4.2
AUMs	512,100	634,690	781,310	842,991	996,548	1,186,949

Source: Company, Dalal & Broacha Research

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