

Rating changed from HOLD to Neutral !!!

IIFL Finance posted poor set of Q1FY25 numbers – PAT (pre-NCI) stood at INR 338.2 cr, down by 28% yoy & 21% qoq. While PAT (post NCI) was at INR 288.1 cr, down by 32% yoy & 23% qoq led by contraction in the AUM post embargo on gold loans. NII / Other income / Operating profit declined by 10% / 40% / 35% on qoq basis respectively. Post the RBI’s embargo on the gold loan portfolio, AUM declined by 12% qoq to INR 69610 cr (+2 yoy). Assigned + Co-lending assets declined by 16.5% qoq to INR 24141 cr. Ex-gold loans, AUM growth slowed down to 19.2% yoy vs. 25-30% growth seen in the previous quarters (declined by 1.3% qoq to INR 54883 cr). Overall, consol entity had GNPL of 2.25% levels and PCR at 51.3% with rise in the GNPL in MFI & LAP loans. We are changing our rating on the stock from HOLD to NEUTRAL with revised TP of INR 365, giving us downside of 15% from current levels

Valuations – RBI’s special audit for FY23 period is over, however, outcome is yet to come on the same. While the previous embargo was based on FY23 audit and FY24 RBI annual audit is likely to start soon.

Till the time, embargo is lifted on gold loans, uncertainty looms large on the company’s future growth outlook. In our view, at current pricing, we see more downside risk to the stock than upside and possibly the stock can go for long time correction as well. In this backdrop, we change our rating on IIFL Finance from HOLD to NEUTRAL with revised TP of INR 365 (valuing @1.1x FY26e ABV), giving us downside of 15% from current levels . It is currently, trading at 1.4x/1.2x FY25e/FY26e ABV

Financial Summary

Y/E Mar (Rs Bn)	FY23	FY24	FY25E	FY26E
NII	41,474	59,557	66,345	70,745
Adjusted net profit	16,075	19,742	16,317	16,533
Adj BVPS	218	259	298	332
EPS (Rs)	40	46	32	32
P/ABV (x)	2.0	1.7	1.4	1.3
P/E (x)	11	9	13	13
RoA (%)	3.3	3.4	2.6	2.4
RoE (%)	19.3	17.7	12.1	10.5

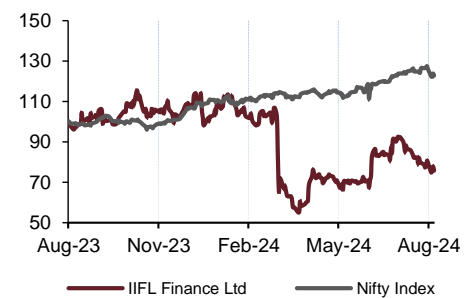
Source: Dalal & Broacha Research, Con

Rating	TP (Rs)	Up/Dn (%)
NEUTRAL	365	-15

Market data

Current price	Rs	429
Market Cap (Rs.Bn)	(Rs Bn)	182
Market Cap (US\$ Mn)	(US\$ Mn)	2,170
Face Value	Rs	2
52 Weeks High/Low	Rs	684.03 / 304.28
Average Daily Volume	('000)	1,713
BSE Code		543308
Bloomberg		IIFL.IN

Source: Bloomberg

One Year Performance


Source: Bloomberg

% Shareholding	Jun-24	Mar-24
Public	25	25
Others	75	75
Total	100	100

Source: Bloomberg

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Key Financial Highlights

- IIFL Finance posted Q1FY25 numbers – PAT (pre-NCI) stood at INR 338.2 cr, down by 28% yoy & 21% qoq. While PAT (post NCI) was at INR 288.1 cr, down by 32% yoy & 23% qoq led by contraction in the AUM post embargo on gold loans
- NII / Other income / Operating profit declined by 10% / 40% / 35% on qoq basis respectively.
- Total non-fund based income reduced by 22% yoy & 40% qoq to INR 380.8 cr mainly due to lesser quantum of co-lending & securitization done during the quarter.
- Post the RBI's embargo on the gold loan portfolio, AUM declined by 12% qoq to INR 69610 cr (+2 yoy). Assigned + Co-lending assets declined by 16.5% qoq to INR 24141 cr.
- Within AUM, on sequential basis, only home loans & digital loans posted positive growth while gold, LAP and MFI witnesses negative growth trajectory. Gold loans declined by staggering 37% qoq (19.6% share), MFI loans 8% qoq (24.5% share), LAP loans 2% qoq (18.9% share). Ex-gold loans, AUM growth slowed down to 19.2% yoy vs. 25-30% growth seen in the previous quarters (declined by 1.3% qoq to INR 54883 cr).
- Rise in GNPLs in home loans, LAP & MFI loans – On qoq basis, GNPL rose marginally in home loan segment from 1.2% in Q4FY24 to 1.3% in Q1FY25, LAP loans from 2.7% to 3.6%, MFI loans 1.9% to 2.3% for the same period; management highlighted that states like Punjab, MP, Orissa are more impacted where their relative exposure is less. While on gold loans, GNPL came down from 3.8% to 2.9%. Overall, consol entity had GNPL of 2.25% levels and PCR at 51.3%.
- IIFL Finance standalone entity turned into losses to INR 23 cr vs. INR 165 cr profit in Q4FY24 mainly due to contraction in gold loan AUM and resultant fall in interest income/other income. CAR for standalone entity increased to 27.8% vs. 18.8% due to capital raised via rights issue
- Profitability subdued for home finance subsidiary due to rise in GNPL – PAT stood at INR 241 cr, declined by 13% qoq (+5% yoy) largely due to rise in GNPL & credit cost & opex cost too.

Concall Highlights

- During the quarter, it closed 37 branches taking total count of the branches to 4774
- **Update on gold loans** – Gold Loans in last 5-6 months time have come down from INR 23354 cr to 14727 cr – down by 37%. Management highlighted that it has successfully closed >1 mn accounts without any hassles. Also, so far ~INR 13500 cr has been paid to the banks / financial institutions without any single issue.
- **Update on RBI's embargo on gold loans** – RBI has conducted the special audit which concluded on May 27, 2024 while the final outcome or review on the same is pending. Also, the NBFC has taken all the remedial actions to fully adhere to RBI's directives. Also, it has submitted compliance certificate to RBI.
- **Management Strengthening** - The company is in the process of hiring to strengthen the senior management and the entire assurance organization of risk, audit, and compliance
- The main objective of the company currently is to become more fully compliant, strengthen the board and not prioritize growth.
- It has cash & cash equivalent of INR 6853 cr, including all committed credit lines. It raised INR 2886 cr in Q1 through term loans, bonds, refinance (where it got funding from Bank of India, Bank of Maharashtra, SBI, LIC Housing Finance) and additional INR 1769 cr through direct assignment of the loans
- **Asset quality side** – In home loans segment, it did not witness any asset quality pressures. On the MFI segment, relative performance on the asset quality side was better than the peers.
- Proportion of the MFI borrowers who have exposure to less than 4 lenders are <15%

Valuations

RBI's special audit for FY23 period is over, however, outcome is yet to come on the same. While the previous embargo was based on FY23 audit and FY24 RBI annual audit is likely to start soon.

Till the time, embargo is lifted on gold loans, uncertainty looms large on the company's future growth outlook. In our view, at current pricing, we see more downside risk to the stock than upside and possibly the stock can go for long time correction as well. In this backdrop, we change our rating on IIFL Finance from HOLD to NEUTRAL with revised TP of INR 365 (valuing @1.1x FY26e ABV), giving us downside of 15% from current levels. It is currently, trading at 1.4x/1.2x FY25e/FY26e ABV

Quarterly Financials (Q1FY25)

(Rs.mn) (Consol)	Q1FY24	Q4FY24	Q1FY25	y-o-y (%)	q-o-q (%)
Interest Earned	18,252	21,950	20,466	12.1	-6.8
Interest Expended	8,878	10,744	10,340	16.5	-3.8
NII	9,374	11,206	10,126	8.0	-9.6
<i>growth y-o-y (%)</i>	<i>4.0</i>	<i>-5.4</i>	<i>8.0</i>		
Other Income	4,878	6,382	3,808	-21.9	-40.3
Total Income	14,252	17,588	13,934	-2.2	-20.8
<i>growth y-o-y (%)</i>	<i>18.8</i>	<i>24.3</i>	<i>-2.2</i>		
Operating expenses	6,332	7,691	7,461	17.8	-3.0
<i>growth y-o-y (%)</i>	<i>22.6</i>	<i>25.4</i>	<i>17.8</i>		
PPoP	7,920	9,897	6,473	-18.3	-34.6
<i>growth y-o-y (%)</i>	<i>16.0</i>	<i>23.4</i>	<i>-18.3</i>		
Provisions & Contingencies	1,736	4,360	2,112	21.6	-51.6
Profit Before Tax	6,184	5,537	4,361	-29.5	-21.2
<i>growth y-o-y (%)</i>	<i>42.5</i>	<i>-6.8</i>	<i>-29.5</i>		
Tax	1,455	1,231	980	-32.6	-20.4
Net Profit (Pre-NCI)	4,729	4,306	3,381	-28.5	-21.5
<i>Net profit (y-o-y %)</i>	<i>43.4</i>	<i>-5.9</i>	<i>-28.5</i>		
<i>Net profit (q-o-q %)</i>	<i>3.4</i>	<i>-351.6</i>	<i>-21.5</i>		
Net Profit (Post -NCI)	4,254	3,734	2,881	-32.3	-22.8

Other Details	Q1FY24	Q4FY24	Q1FY25	y-o-y (%)	q-o-q (%)
AUMs (Rs.mn)	681,780	789,600	696,100	2.1	-11.8
<i>Loan Book - On Book</i>	<i>415,150</i>	<i>508,330</i>	<i>454,700</i>	<i>9.5</i>	<i>-10.6</i>
<i>Loan Book - Off Book</i>	<i>266,630</i>	<i>281,270</i>	<i>241,410</i>	<i>-9.5</i>	<i>-14.2</i>
<i>-Assigned Assets</i>	<i>177,000</i>	<i>164,880</i>	<i>146,090</i>	<i>-17.5</i>	<i>-11.4</i>
<i>-Co-lending Assets</i>	<i>89,630</i>	<i>116,390</i>	<i>95,320</i>	<i>6.3</i>	<i>-18.1</i>
GOLD	221,420	233,540	147,270	-33.5	-36.9
HOME LOANS	228,380	274,380	280,890	23.0	2.4
BUSINESS LOANS	97,350	129,090	130,250	33.8	0.9
<i>-LAP</i>	<i>68,360</i>	<i>86,070</i>	<i>84,150</i>	<i>23.1</i>	<i>-2.2</i>
<i>-Digital Loans</i>	<i>28,990</i>	<i>43,020</i>	<i>46,100</i>	<i>59.0</i>	<i>7.2</i>
MICROFINANCE	102,550	130,940	120,110	17.1	-8.3
CONSTRUCTION AND REAL ESTATE	27,320	18,470	14,640	-46.4	-20.7
Capital market finance	4,770	3,080	2,940	-38.4	-4.5

Y-o-Y growth (%)	Q1FY24	Q4FY24	Q1FY25
AUMs	29.2	22.2	2.1
<i>Loan Book - On Book</i>	<i>28.2</i>	<i>29.1</i>	<i>9.5</i>
<i>Loan Book - Off Book</i>	<i>30.9</i>	<i>11.3</i>	<i>-9.5</i>
<i>GOLD</i>	<i>29.3</i>	<i>12.6</i>	<i>-33.5</i>
<i>HOME LOANS</i>	<i>22.7</i>	<i>25.9</i>	<i>23.0</i>
<i>BUSINESS LOANS</i>	<i>27.4</i>	<i>40.6</i>	<i>33.8</i>
<i>MICROFINANCE</i>	<i>63.4</i>	<i>33.8</i>	<i>17.1</i>
<i>CONSTRUCTION AND REAL ESTATE</i>	<i>9.9</i>	<i>-31.4</i>	<i>-46.4</i>
<i>Capital market finance</i>	<i>-21.4</i>	<i>-30.3</i>	<i>-38.4</i>

Disbursements (Rs.mn)	Q1FY24	Q4FY24	Q1FY25	y-o-y (%)	q-o-q (%)
GOLD	93,040	82,644	-	-100.0	-100.0
HOME LOANS	18,800	21,310	15,510	-17.5	-27.2
BUSINESS LOANS	15,510	25,880	15,910	2.6	-38.5
-Digital Loans	9,110	15,710	13,440	47.5	-14.4
-LAP Loans	6,400	10,170	2,470	-61.4	-75.7
MICROFINANCE	22,770	33,450	11,390	-50.0	-65.9
Total disbursements	150,120	163,284	42,810	-71.5	-73.8

% Share	Q1FY24	Q4FY24	Q1FY25
GOLD	32.5	29.6	21.2
HOME LOANS	33.5	34.7	40.4
BUSINESS LOANS	14.3	16.3	18.7
MICROFINANCE	15.0	16.6	17.3
CONSTRUCTION AND REAL ESTATE	4.0	2.3	2.1
Capital market finance	0.7	0.4	0.4

% Share of	Q1FY24	Q4FY24	Q1FY25
On book AUMs	60.9	64.4	65.3
Off Book AUMs	39.1	35.6	34.7

Ratios	Q1FY24	Q4FY24	Q1FY25
ROA (%) (reported)	3.6	2.9	2.3
ROE (%) (reported)	18.1	14.6	10.3
Cost/Income ratio	44.4	43.7	53.5
GNPAs (%) (reported)	1.8	2.3	2.2
Net NPAs (%) (reported)	1.2	1.2	1.1

Segment-wise GNPA breakup	Q1FY24	Q4FY24	Q1FY25
Home Loans	1.94	1.19	1.29
Gold Loans	0.82	3.83	2.93
LAP	2.72	2.68	3.59
Digital Loans	3.38	3.47	3.26
Micro-finance	2.11	1.91	2.32
Construction Finance	0.38	3.15	1.45
Capital Market	0	0	0

Segment-wise PCR (%)	Q1FY24	Q4FY24	Q1FY25
Home Loans	28.8	32.8	32.8
Gold Loans	15.8	34.6	28.4
LAP	23.1	29.1	30
Digital Loans	69.3	78	79.8
Micro-finance	71.1	82.5	87.9
Construction Finance	67.7	51.6	54.4
Capital Market	0	0	0

Source: Dalal & Broacha Research, Company

Financials

P&L (Rs Mn)	FY23	FY24e	FY25e	FY26e
Interest income	73693	98386	108131	114773
Interest expense	32218	38829	41786	44028
NII	41474	59557	66345	70745
Non-interest incon	10778	4709	1954	4278
Net revenues	52253	64266	68300	75022
Operating expense	22,466	28,067	33,382	39,354
PPOP	29786	36199	34918	35669
Provisions	8661	10481	13103	13566
PBT	21125	25718	21815	22103
Tax	5,050	5,977	5,497	5,570
PAT	16075	19742	16317	16533
<i>growth (%)</i>	35	23	-17	1
Non-Controlling Intere	1057	2092	1736	1736
Net Profit (post NCI)	15018	17650	13808	13521
<i>Other Comprehensive</i>	322	-173	0	0
Consol PAT (post NCI)	15340	17477	13808	13521
<i>growth (%)</i>	28	14	-21	-2

Balance Sheet

(Rs.mn)	FY23	FY24e	FY25e	FY26e
Share capital	761	761	850	850
Reserves & surplus	89,160	105,610	134,646	149,054
Non-controlling Intere	12,101	14,190	14,190	14,190
Net worth	102,021	120,561	149,686	164,094
Borrowings	400,174	466,990	466,213	545,932
Other liability	27,818	36,660	30,763	35,894
Total liabilities	530,013	624,211	646,662	745,919
Fixed assets	8,896	9,580	11,113	12,891
Investments	35,110	40,590	46,679	52,280
Loans	400,010	509,520	499,335	586,877
Cash	58,390	42,461	62,192	58,364
Other assets	27,607	22,060	27,344	35,508
Total assets	530,013	624,211	646,662	745,919

Ratios

Ratios	FY23	FY24e	FY25e	FY26e
Growth (%)				
NII	32	44	11	7
PPOP	22	22	-4	2
PAT	28	14	-21	-2
Advances	19	27	-2	18
Spread (%)				
Advances yield on avg. AUM	12.4	13.4	14.2	14.9
Spread on Avg. AUMs	3.9	4.5	5.3	6.2
NIMs on avg. AUMs	7.2	8.4	9.1	9.6
Advances yield on On B/S advance	19.3	20.9	20.7	20.4
Yield on funds	16.0	18.1	18.0	17.6
Cost of Funds	8.5	9.0	9.0	8.7
Spreads (on B/S assets)	7.5	9.2	9.1	8.9
NIMs (on B/S assets)	9.0	11.0	11.1	10.8
Asset quality (%)				
<i>Gross NPAs</i>	<i>2.3</i>	<i>2.3</i>	<i>2.6</i>	<i>2.5</i>
Net NPAs	1.3	1.2	1.5	1.4
Provisions	41	49	45	43
Return ratios (%)				
RoE	19.3	17.7	12.1	10.5
RoA	3.3	3.4	2.6	2.4
Per share (Rs)				
EPS	40.3	45.9	32.5	31.8
BV	236	280	319	353
ABV	218	259	298	332
Valuation (x)				
P/E	10.6	9.3	13.2	13.5
P/BV	1.8	1.5	1.3	1.2
P/ABV	2.0	1.7	1.4	1.3
Other Ratios				
C/I Ratio	43.0	43.7	48.9	52.5
C/I ratio (incl. other income)	35.6	40.7	47.5	49.6
Opex to AuM	11.0	9.2	7.6	6.4
Opex to Avg. AUM (%)	3.9	4.0	4.6	5.3

Source: Dalal & Broacha Research, Company

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