IIFL Finance

Mastering the asset-light model for sustained profitability

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- IIFL Finance (IIFL) is a diversified NBFC with a strong presence in various retail business segments. Its core products include gold loans, home loans, microfinance, LAP and unsecured business loans. IIFL's consolidated AUM stood at ~INR731b as on Sep'23 and it delivered an AUM CAGR of 22% over FY21-1HFY24.
- IIFL is present in ~26 states/UTs and has a distribution network of ~4,600 branches.
- The company has an asset-light business model with co-lending and assignments contributing ~15% and ~25% to the AUM mix, respectively.

IIFL Finance

BSE Sensex	S&P CNX
71,848	21,659

CMP: INR635 TP: INR800 (+26%) Buy

Stock Info

Bloomberg	IIFL IN
Equity Shares (m)	381.1
M.Cap.(INRb)/(USDb)	242 / 2.9
52-Week Range (INR)	704 / 408
1, 6, 12 Rel. Per (%)	-4/14/17
12M Avg Val (INR M)	482
Free float (%)	75.2

Financial Snapshot (INR b)

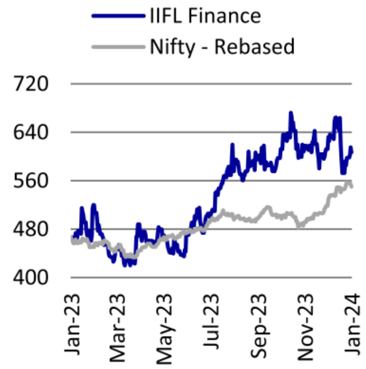
Y/E March	FY24E	FY25E	FY26E
NII	55.4	70.6	86.8
Total Income	66.7	83.0	100.2
PPoP	38.5	49.0	60.0
PAT (pre-NCI)	22.0	27.5	34.2
PAT (post-NCI)	19.9	25.0	31.2
EPS (INR)	52.1	65.6	81.9
EPS Gr. (%)	32	26	25
BV (INR)	280	341	418
Ratios (%)			
NIM	7.5	7.6	7.5
C/I ratio	42.3	41.0	40.2
Credit cost	2.1	2.3	2.2
RoA	3.8	4.0	4.1
RoE	20.2	21.1	21.6
Valuations			
P/E (x)	12.2	9.7	7.7
P/BV (x)	2.3	1.9	1.5

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	24.8	24.8	24.9
DII	7.3	5.5	3.4
FII	28.3	28.6	25.6
Others	39.6	41.0	46.1

FII Includes depository receipts

Stock Performance (1-year)



Mastering the asset-light model for sustained profitability

Off-book strategy: Helping build granular and scalable retail businesses

IIFL Finance (IIFL) is a diversified NBFC with a strong presence in various retail business segments. Its core products include gold loans, home loans, microfinance, LAP and unsecured business loans. IIFL's consolidated AUM stood at ~INR731b as on Sep'23 and it delivered an AUM CAGR of 22% over FY21-1HFY24. IIFL is present in ~26 states/UTs and has a distribution network of ~4,600 branches. The company has an asset-light business model with co-lending and assignments contributing ~15% and ~25% to the AUM mix, respectively.

- **Strengthened franchise: IIFL has strengthened its retail product segments through aggressive expansion in its branch distribution network (37% of branches have <2-year vintage), investments in technology and digital processes/partnerships.**
- **Firm positioning: The company has gained a first-mover advantage in co-lending, a strategy known for its capital efficiency, risk mitigation, and positive impact on RoE. This has positioned IIFL for a strong AUM CAGR of ~25% over FY23-FY26E.**
- **Effective decision making: IIFL's strategic decisions of: 1) exiting the CV finance business, 2) downsizing the wholesale construction finance (CRE) and capital markets segment, and c) transitioning towards lower-ticket LAP and business loans have helped it find its niche in the granular retail businesses.**
- **Credit costs to stay in the comfort zone: Asset quality has recovered after the Covid stress with GS3 at 1.8% as of Sep'23 (peak of 3.2% in Mar'22), led by the sale of stressed portfolio to AIFs and ARCs. With wholesale CRE and capital market loans now at <5% of AUM (vs. ~16% in FY19), secured product segments such as Gold/Housing/LAP loans contributing ~75%, and unsecured digital loans at only ~5% of the AUM mix, we project credit costs to remain benign at ~2.2%-2.3% over FY25-FY26.**
- **Multiple growth levers at play; initiate with a BUY: IIFL's evolution from inception to the current state depicts a thoughtful adaptation to the changing landscape for NBFCs. The company's commitment to sustainable growth, robust risk management practices, and technological innovation position it favorably for a PAT CAGR of 28% over FY23-FY26E and an RoA/RoE of ~4.1%/22% by FY26E. IIFL trades at 1.9x/1.5x FY25E/FY26E P/BV. We initiate coverage on the stock with a BUY rating and a TP of INR800 (based on SOTP valuation).**
- **Key risks: 1) potential adverse regulations reducing the demand for co-lending/ assignments; 2) a sharp decline in gold prices, 3) regulatory limitations on pricing within the Microfinance sector, and d) cyclicality in MFI and gold loan growth.**

Thrust on off-book strategy and phygital distribution a big enabler

- Over the last 2-3 years, IIFL has expanded its branch network across gold, MFI, and home loans to ~4,600 branches (vs. ~2,600 as of Mar'21). The improvement in productivity across ~37% of its branches (each with <2-year vintage) and the expansion of partnerships for loan originations, are poised as key growth drivers.

- To optimize capital utilization, IIFL has strategically intensified its attention on assignments and co-lending, which will also contribute to higher profitability. This shift is evident in the higher share of off-book loans, constituting ~40% of AUM (including ~14% co-lending). This approach has granted leadership to IIFL in co-lending and will enable a strong AUM CAGR of ~25% over FY23-FY26E.

Efficient liability management; credit rating upgrade on the cards

- IIFL significantly enhanced its liability management by reducing its short-term borrowings (post-IL&FS default), which declined sharply to ~2% of the borrowing mix as of 1HFY24 vs. ~34% in FY19.
- A combination of all the strategic initiatives has made IIFL's balance sheet more robust and these will render confidence to the rating agencies to consider a credit rating upgrade for IIFL. The company has a credit rating of AA (Positive) and an upgrade to AA+ will give it better access to debt markets. This upgrade can also potentially reduce its cost of borrowings by 20-25bp.

Levers present to mitigate the rise in borrowing costs; NIM outlook stable

- IIFL has managed the rising interest cycle effectively with ~40-50bp increase in average CoB to ~9% as of Sep'23. This was partly aided by the maturity of higher cost foreign borrowings, which offset the rise in the borrowing costs. Shifting the mix toward higher-yielding MFI can help mitigate the impact of an increase in CoB on NIM.
- Further, IIFL will benefit from any decline in repo rates, since ~53% of the AUM (gold loans, MFI, and digital loans) are on fixed rate.
- NIM (as a % of total AUM) for IIFL is likely to improve to ~7.5% in FY24E from 6.2% in FY19, driven by an improvement in product mix and a decline in the borrowing costs. We expect IIFL to be able to maintain its NIM at similar levels in FY25/FY26 with a potential upside from any credit rating upgrade.

Co-lending improves the quality of earnings; partnerships leveraged well

- We expect the proportion of off-book loans to improve to ~43% by FY26. Within off-book, we anticipate the proportion of co-lending to rise to ~50%. While co-lending is capital efficient and RoA accretive, it also reduces the volatility and brings more predictability to the earnings profile.
- IIFL has forged partnerships with multiple digital platforms and fintech firms to facilitate loan originations, particularly in the digital loans (personal loans and business loans) segment. Additionally, the company has developed strong digital capabilities, enabling quicker TAT, enhanced productivity/efficiencies, and offers customers a seamless and paperless journey.

Operating leverage beginning to play out; credit costs likely to remain benign

- The opex-to-average-AUM, at ~3.9% in FY23, was elevated as IIFL aggressively invested in branch expansion across its home loan, gold loan, and MFI businesses that gave it a strong distribution edge. We now expect its branch expansion strategy to take a back seat and higher productivity across branches to result in improved opex-to-average AUM ratio of ~3.5% by FY26.
- Gold loans and home loans (which contribute ~65% to the AUM mix) exhibit through-cycle robust asset quality and low credit costs. They help to mitigate the relatively higher vulnerability of the MFI and digital loan businesses. We model a minor improvement in GS3 to 1.4% by FY26E and estimate credit costs to remain rangebound at 2.2%-2.3% over FY25-FY26.

Franchise primed for a 25% AUM CAGR with 20%+ RoE; initiate with a BUY

- IIFL has morphed into a franchise, which enjoys distribution strength, strong presence in co-lending, and superior digital loan origination and underwriting capabilities, and can effectively leverage fintech partnerships to deliver a ~25% AUM CAGR over FY23-FY26E.
- The company trades at 1.5x FY26E P/BV and can sustainably deliver a RoE of 20%+ in the medium term. We believe IIFL can see further re-rating as investors get more confidence in its sustained execution prowess through strengths that it has built in its core retail businesses. **We initiate coverage on the stock with a BUY rating and a TP of INR800 (based on SOTP valuation; refer table below).**

Valuation summary

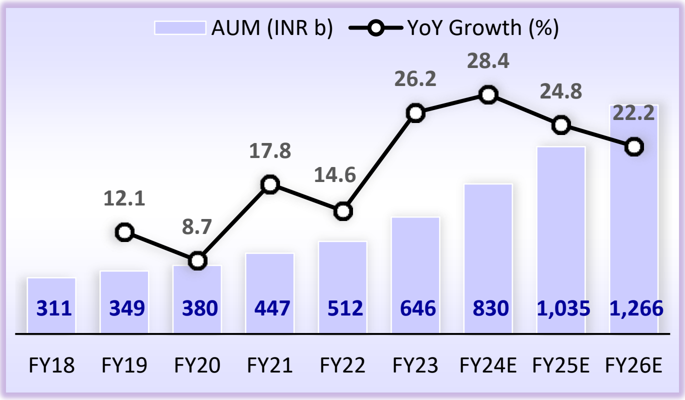
	Rating	CMP (INR)	MCap (INR b)	EPS (INR)		BV (INR)		RoA (%)		RoE (%)		P/E (x)		P/BV (x)	
				FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Diversified															
IIFL Finance	**Buy**	**635**	**242**	**65.6**	**81.9**	**341**	**418**	**4.0**	**4.1**	**21.1**	**21.6**	**9.7**	**7.7**	**1.9**	**1.5**
BAF	Buy	7,704	4,412	306.3	389.4	1,510	1,846	4.6	4.7	22.4	23.2	25.2	19.8	5.1	4.2
Poonawalla	Buy	450	336	18.8	26.2	124	145	5.1	5.1	16.2	19.5	24.0	17.2	3.6	3.1
ABCL	Buy	174	431	13.9	17.5	110	125	0.0	2.3	13.5	14.9	12.5	10.0	1.6	1.4
LTFH	Buy	172	404	11.7	15.5	101	111	2.5	2.7	11.9	14.6	14.7	11.1	1.7	1.5
PIEL	Buy	951	223	78.0	106.3	1,376	1,450	1.9	2.1	5.8	7.5	12.2	8.9	0.7	0.7
MAS Financial	Buy	886	47	58.2	71.3	362	429	2.9	3.0	17.3	18.0	15.2	12.4	2.4	2.1
Housing Finance															
LIC HF	Buy	572	309	84.1	92.2	623	695	1.5	1.5	14.3	14.0	6.8	6.2	0.9	0.8
PNB HF	Buy	797	204	70.7	86.5	640	714	2.3	2.4	11.6	12.8	11.3	9.2	1.2	1.1
Aavas	Neutral	1,570	122	76.4	95.9	553	649	3.4	3.5	14.8	16.0	20.6	16.4	2.8	2.4
HomeFirst	Buy	942	82	41.6	53.5	275	325	3.6	3.7	16.3	17.9	22.7	17.6	3.4	2.9
CanFin	Neutral	785	104	62.3	73.9	384	453	2.1	2.1	17.6	17.7	12.6	10.6	2.0	1.7
Repco	Neutral	420	26	64.8	71.4	522	590	2.8	2.8	13.2	12.8	6.5	5.9	0.8	0.7
Vehicle Finance															
CIFC	Buy	1,297	1,004	55.4	68.8	286	370	2.7	2.8	21.4	21.2	23.4	18.9	4.5	3.5
MMFS	Buy	278	340	22.2	27.8	156	174	2.2	2.4	14.9	16.8	12.5	10.0	1.8	1.6
Shriram Finance	Buy	2,148	769	222.8	268.5	1,493	1,714	3.2	3.3	15.9	16.7	9.6	8.0	1.4	1.3
Indostar	Buy	173	21	17.6	29.1	255	284	1.8	2.4	7.1	10.8	9.9	6.0	0.7	0.6
Gold Finance															
Muthoot	Neutral	1,518	589	115.0	130.9	695	801	5.2	5.4	17.7	17.5	13.2	11.6	2.2	1.9
Manappuram	Buy	176	145	30.1	35.9	163	194	4.9	4.9	20.1	20.1	5.9	4.9	1.1	0.9
Microfinance															
CreditAccess	Buy	1,596	253	113.3	135.6	527	663	5.6	5.5	24.1	22.8	14.1	11.8	3.0	2.4
Fusion Micro	Buy	605	59	72.1	88.7	358	446	5.6	5.7	22.4	22.1	8.4	6.8	1.7	1.4
Spandana	Buy	1,142	80	92.6	110.9	603	714	4.7	4.4	16.6	16.9	12.3	10.3	1.9	1.6

IIFL Finance: SOTP - March 2026 (%)

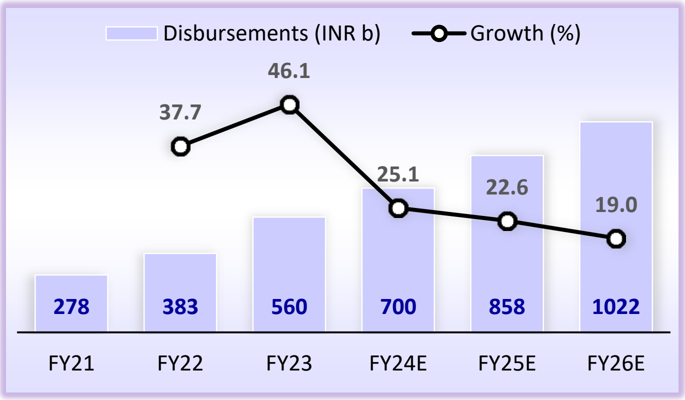
Particulars	Stake	Value (INR B)	Value (USD B)	INR per share	% To Total	Target Multiple (x)	Basis
IIFL Finance (Standalone)	100	133	1.6	350	44	1.8	PBV
IIFL Home Finance (HFC)	80	118	1.4	310	39	2.0	PBV
IIFL Samasta Finance (MFI)	100	53	0.6	140	18	1.7	PBV
Target Value		**305**	**3.6**	**800**	**100**		
Current market cap.		242	2.9	635			
Upside (%)				**26**			

STORY IN CHARTS

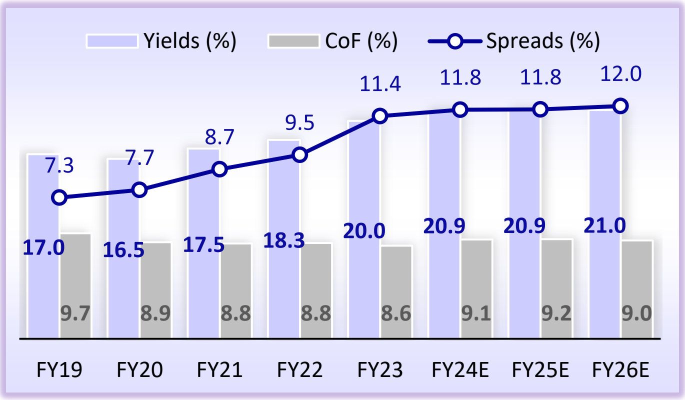
Expect AUM CAGR of ~25% over FY23-FY26E



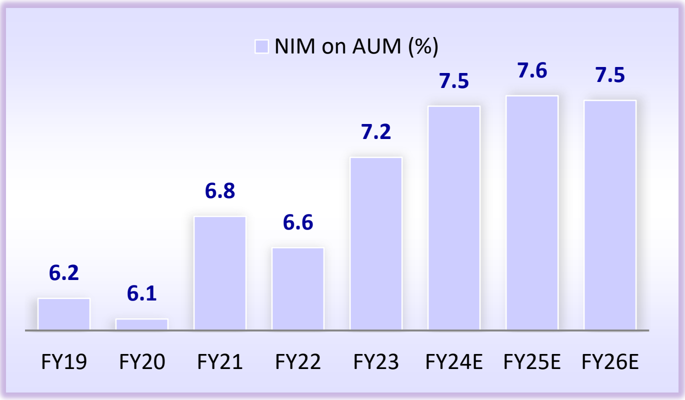
Core product disbursements to post a 22% CAGR



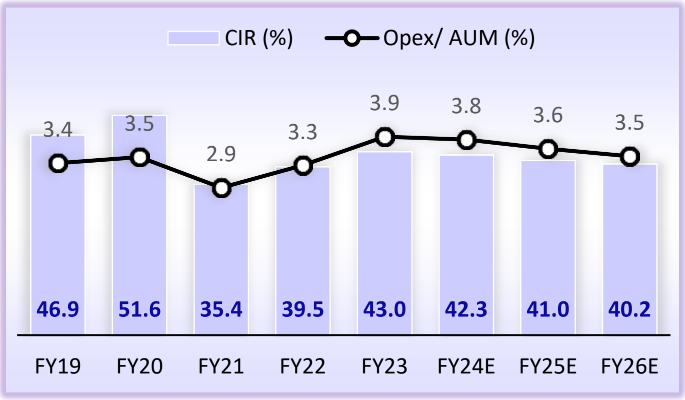
Estimate ~20bp expansion in spreads by FY26



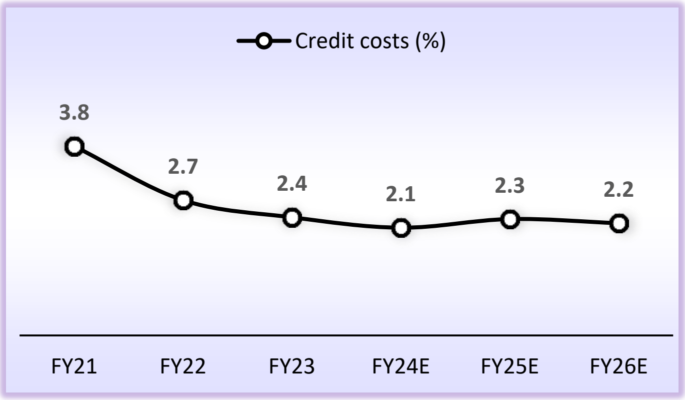
NIMs to stay broadly stable at 7.5%-7.6%



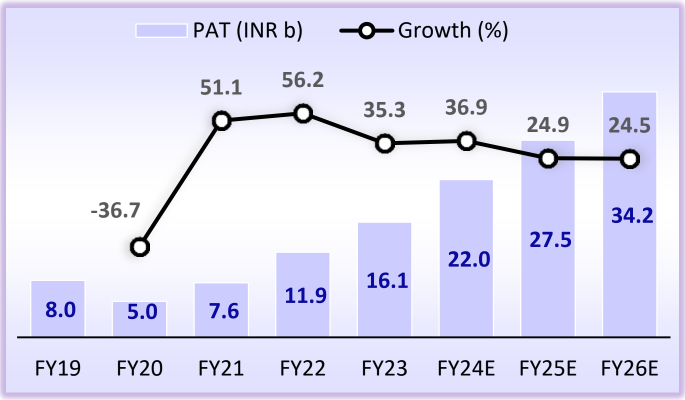
Cost ratios to stay modest, led by better productivity



Credit cost to remain range-bound over FY25-FY26

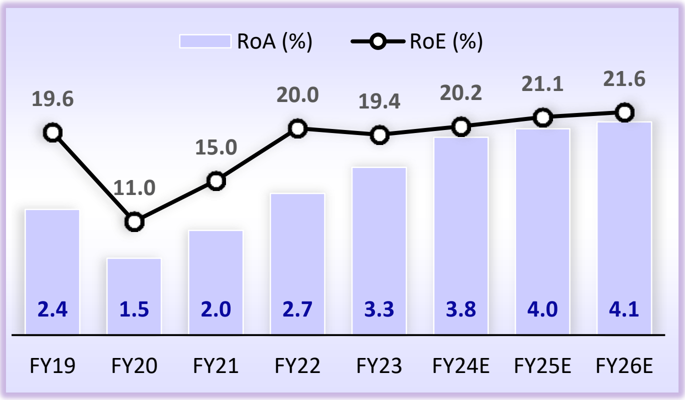


Expect PAT CAGR of ~28% over FY23-FY26E



Source: Company, MOFSL

Model RoA/RoE to improve to 4.1%/22% by FY26E



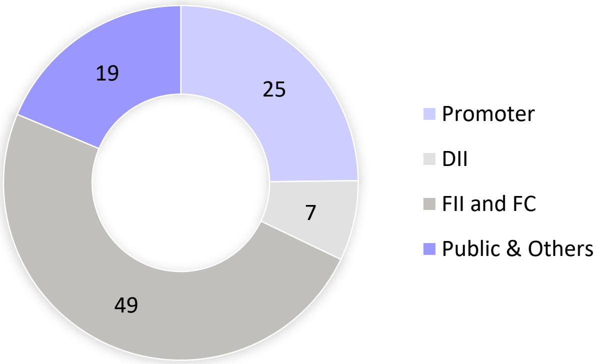
Source: Company, MOFSL

Company Overview

IIFL has a consolidated AUM of ~INR731b with an off-book mix of ~40%

- IIFL is an integral part of the IIFL Group, a leading financial services conglomerate in India. Through its subsidiaries, such as IIFL Home Finance, IIFL Samasta Finance, and IIFL Open Fintech, the company delivers a diverse array of lending products across mortgages, gold loans, Microfinance, LAP, and unsecured business/personal loans.
- IIFL Finance is promoted by Mr. Nirmal Jain and Mr. R. Venkataraman who are the co-founders of the IIFL Group and together own ~25% in the company. Fairfax is the largest institutional shareholder with a ~21% stake in IIFL Finance.
- As of Sep'23, the company had a wide distribution with ~4,600 branches spread predominantly across western, northern, and southern India. IIFL has a diversified product mix and reported a consolidated AUM of ~INR731b as of 1HFY24 with an off-book mix of ~40%.

Exhibit 1: Shareholding pattern (%)



Source: Company, MOFSL;
Note: Data as on Sep'23; Fairfax classified as FC

Exhibit 2: Top 10 institutional investors

Investor	%
Fairfax*	15.1
Capital Group	7.9
DSP MF	3.5
Bank Muscat India	3.3
Vanguard	**2.9**
Nomura	**1.7**
Abbakus	**1.5**
Bavaria Industries AG	**1.5**
Ward Ferry	**1.4**
Morgan Stanley	**1.0**

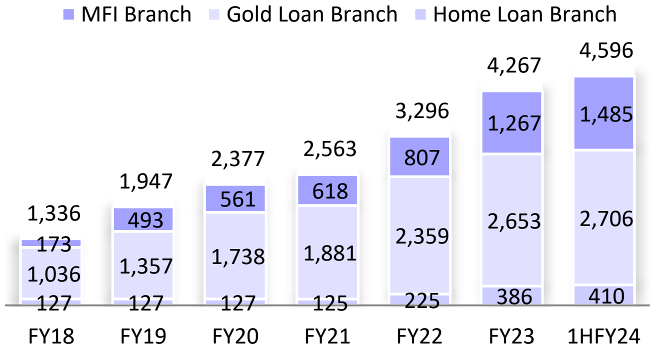
Source: Company, MOFSL;
Note: Data as on Sep'23; *Fairfax shareholding as on Dec'23

Exhibit 3: Key business parameters

AUM (INR b)	CRAR/Tier 1 *	GNPA/NNPA/	Branches/ State
731	20.5%/13.1%	1.8%/ 1.0%/	4,596 / 25
Off-book Mix	**Co-lending Mix**	**Interest spread (1HFY24)**	**RoA/RoE (1HFY24)**
~40%	~15%	8.1%	3.7%/19.5%

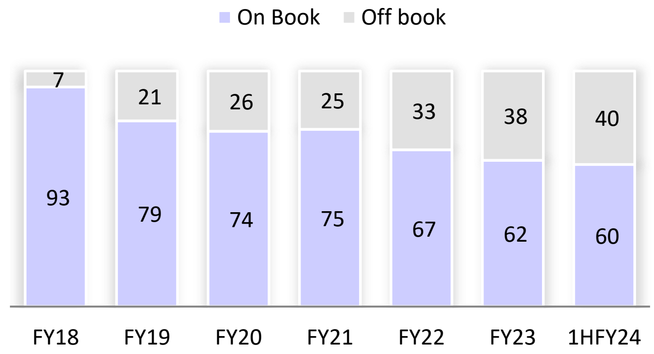
Source: MOFSL, Company; Note: Data as on Sep'23
*Standalone

Exhibit 4: Pan India presence with ~4,600 branches



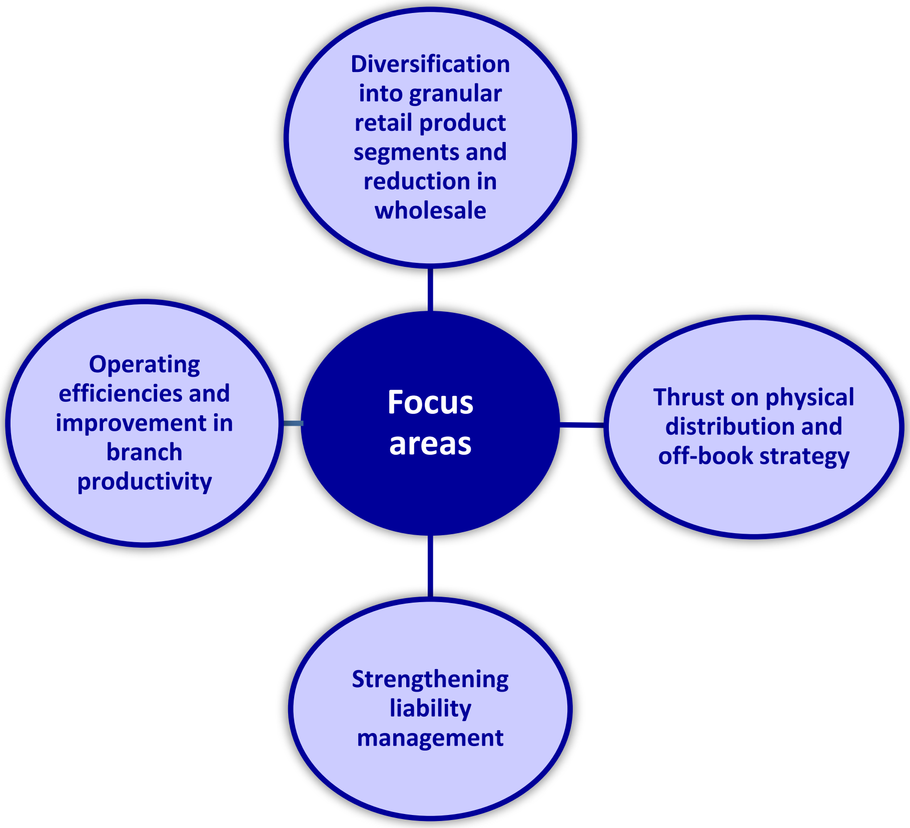
Source: Company, MOFSL

Exhibit 5: IIFL has the highest off-book mix among peers



Source: Company, MOFSL

Exhibit 6: Strategic choices in IIFL's transformational journey



Source: MOFSL

Strategic choices in its transformational journey

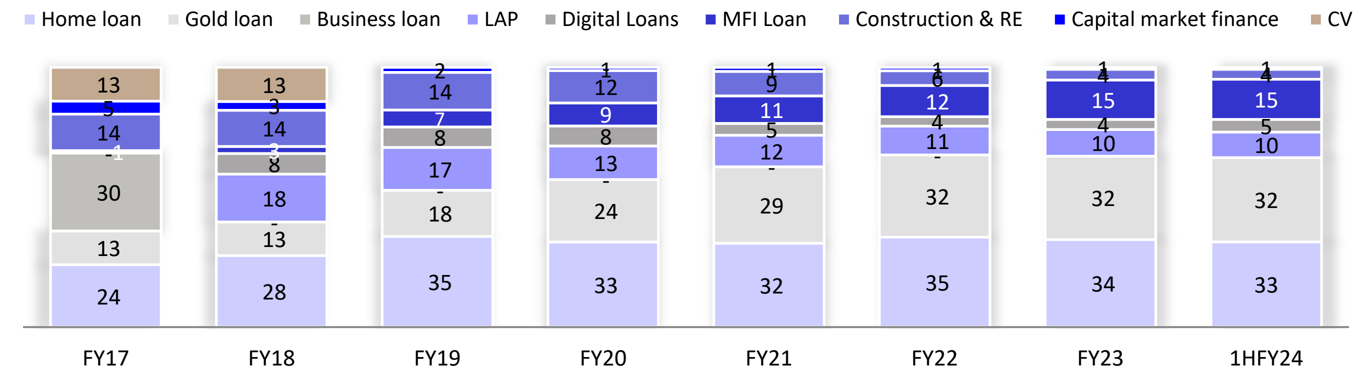
IIFL has come a long way since the IL&FS crises, wherein the company faced multiple challenges, including ALM mismatch, higher asset quality stress in its business loans and wholesale loans, and tighter funding availability. The company has had its share of peaks and troughs but what is commendable is that IIFL learned from the past disruptions, made adjustments to business practices (by cutting risks) and emerged stronger than ever before.

Morphed into a diversified and granular retail franchise

Downsized the wholesale business and built a diversified suite of retail products

Back in FY17, Commercial & Real Estate (CRE), Capital Markets (CM) and Commercial Vehicles (CV), which have all either been divested or classified as non-core product segments, contributed ~32% to IIFL's Loan AUM mix. Subsequently, in FY19, as a conscious strategy to de-risk its balance sheet, IIFL sold its CV business to Indostar. After the IL&FS crises, the company took a series of measures to downsize the wholesale business and increase granularity by building a diversified suite of retail products.

Exhibit 7: IIFL has a presence across granular retail product segments (%)

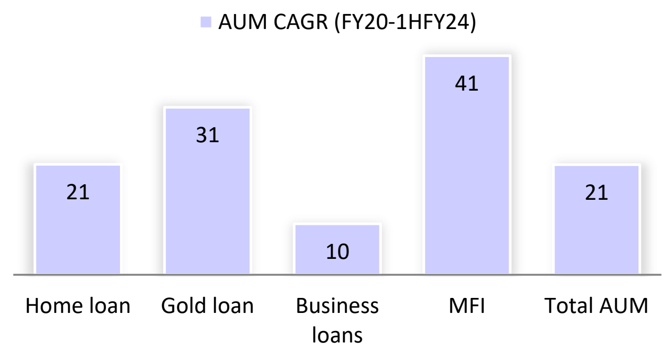


Source: Company, MOFSL; Note: data exhibits AUM mix for IIFL over the years

Samasta MFI was acquired by IIFL in 2017 but the MFI growth accelerated only from FY20 onwards with the MFI subsidiary now contributing ~17% (including its non-MFI products) to the AUM mix. IIFL downsized its wholesale businesses with CRE and CM now contributing <5% to the AUM mix (vs. ~19% in FY17). These are categorized as synergistic products for supporting the core retail product segments.

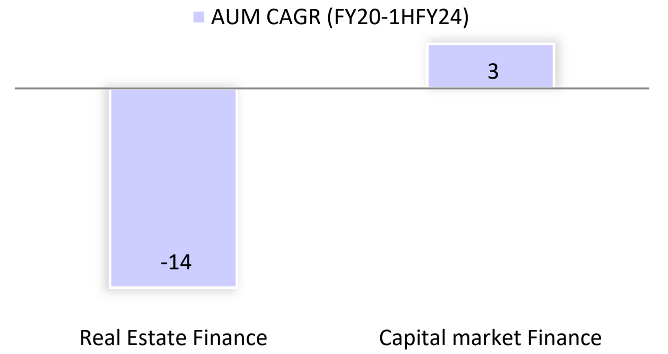
Over FY20-1HFY24, core products such as gold loans registered a CAGR of ~31%, home loans reported ~20% CAGR, MFI posted ~41% CAGR, and business loans (including both LAP and digital loans) registered a ~10% CAGR.

Exhibit 8: Strong AUM growth across core products (%)



Source: Company, MOFSL

Exhibit 9: Non-core products moderated (%)

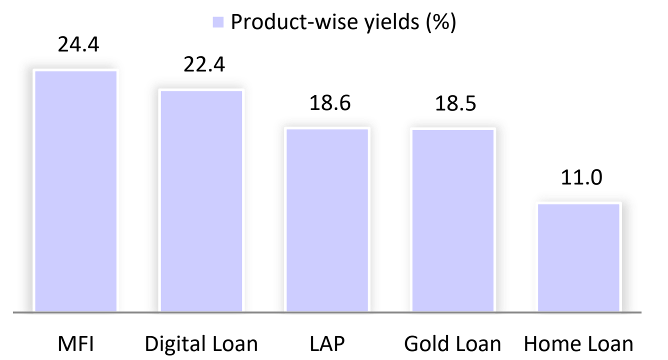


Source: Company, MOFSL

Home loans and gold loans form ~65% of its AUM mix, which exhibit superior asset quality

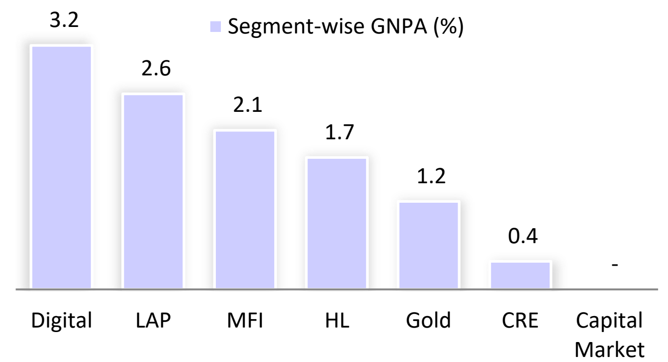
Except for home loans, the other retail product segments where IIFL has presence are higher-yielding products such as microfinance, digital loans, gold loans, and micro-LAP. Further, ~65% of its AUM mix includes home loans and gold loans, which exhibit pristine asset quality and relatively benign credit costs.

Exhibit 10: Higher-yielding retail products except home loans (%)



Source: Company, MOFSL; Note: Yields for 2QFY24

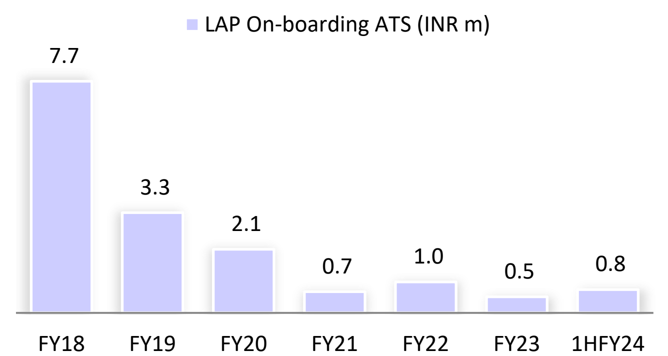
Exhibit 11: Segment-wise GNPA (%)



Source: Company, MOFSL; Note: GNPA as on 1HFY24

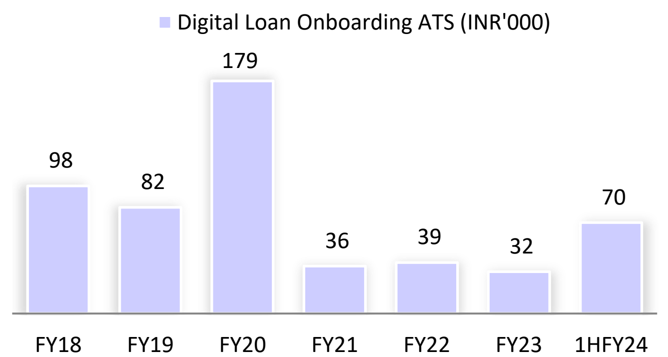
The company consistently adjusted its strategies whenever outcomes did not align with its expectations. Initially, the higher-ticket LAP by IIFL exhibited poor asset quality, prompting a swift shift to lower-ticket LAP. As a result, the average onboarding ticket size decreased to INR770K in 1HFY24 from ~INR3.3m in FY19.

Exhibit 12: LAP ATS has moderated relative to FY18-19 levels



Source: Company, MOFSL

Exhibit 13: Digital loans ATS (INR'000)



Source: Company, MOFSL

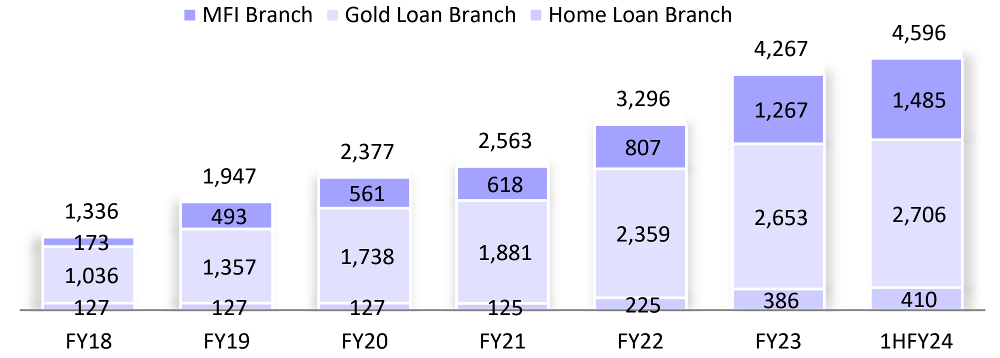
Likewise, given that at the sectoral level there has been a rise in delinquencies in lower ticket unsecured personal loans, IIFL has reduced the proportion of personal loans in incremental digital loan originations. Additionally, the company has increased its onboarding ticket size to INR70K in 1HFY24 from INR30-40K over FY21-FY23.

Thrust on expanding distribution and leveraging off-book strategy

Two of the important strengths that will aid IIFL sustain its strong AUM growth trajectory over the medium term are: 1) aggressive expansion of physical distribution across gold, housing, and MFI along with investments in partnerships, technology and building digital capabilities, and 2) establishing a first-mover advantage in co-lending with banks, complemented by an effective direct assignment strategy.

Aggressive branch expansions and co-lending advantage have positioned IIFL for sustained growth

Exhibit 14: Aggressive branch expansions over the last 2-3 years with a total of ~4,600 branches



Source: Company, MOFSL

Exhibit 15: Housing subsidiary expansion in branches

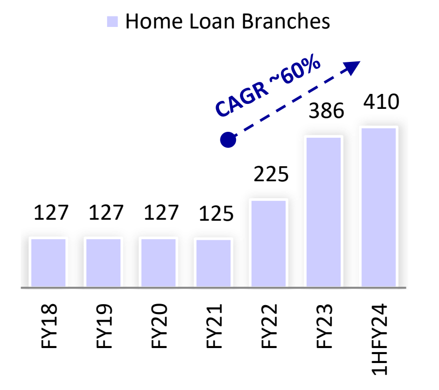


Exhibit 16: Gold loan branches crossed ~2,700 as of Sep'23

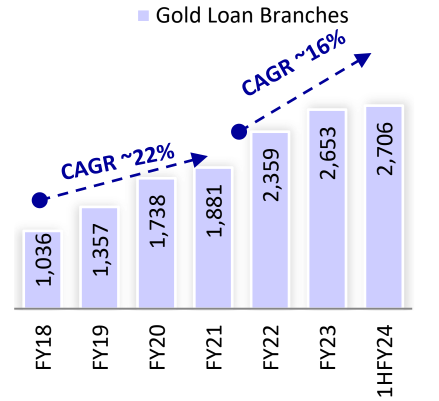
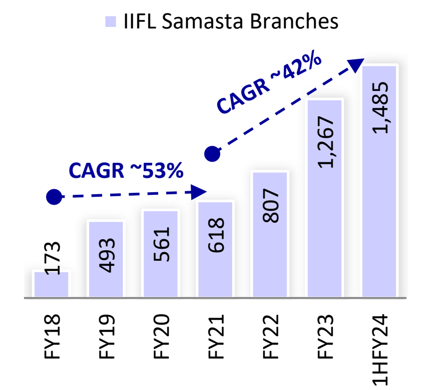


Exhibit 17: Deeper penetration through MFI branch additions



IIFL's branches reported ~26% CAGR over FY21-1HFY24

Post-Covid, IIFL has aggressively invested in branch expansion across its gold, housing, and MFI businesses that have registered a CAGR of 16%, 60%, and 42% over FY21-1HFY24, respectively. IIFL's total branch count of ~4,600 as of Sep'23 posted a CAGR of ~26% over the same period. This distribution has given IIFL the firepower to tap into the huge untapped credit demand in its core product segments and has also made it the co-lending partner of choice for its partner banks.

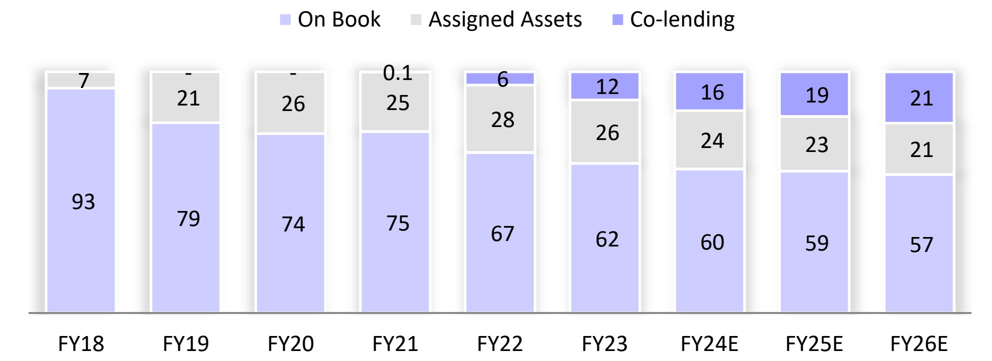
The company has increased its workforce by onboarding ~14K employees (on net basis) over FY21-FY23, resulting in an employee strength of ~34K as of Mar'23.

Pivot to asset-light model capital efficient and RoE accretive

Expect the proportion of off-book loans to improve to ~43% by FY26.

IIFL had its share of liquidity tightness and higher funding costs post the IL&FS crisis. As a response to the funding challenges, IIFL increased its focus on assignments and co-lending (more recently) with the share of off-book loans rising to ~40% in 1HFY24 from ~7% as of FY18 (pre-IL&FS default). We expect the proportion of off-book loans to further improve to ~43% by FY26.

Exhibit 18: IIFL will continue to effectively leverage the off-book strategy (%)



Source: Company, MOFSL; Note: Data above represents on-book/off-book mix for IIFL

Off-book is composed of both direct assignments as well as co-lending. The company's investments in digital capabilities and the co-lending platform have given it the first-mover advantage in co-lending with banks.

Investments in digital capabilities has given it a first-mover advantage in co-lending

IIFL has taken a pioneering approach in co-lending, a strategy unmatched by its peer NBFCs. Currently, co-lending contributes ~14% to the total AUM mix and forms ~36% of IIFL's off-book loans. By FY26, we expect co-lending to contribute ~21% to the AUM mix and form ~50% of the off-book loans.

Exhibit 19: Co-lending and direct assignment leveraged extensively in Gold and Home Loans

	AUM (INR b)				AUM mix (%)			
On/off book Mix (1HFY24)	**On-book**	**DA**	**Co-lending**	**Total**	**On-book**	**DA**	**Co-lending**	**Total**
Home loan	147	58	35	240	61	24	15	100
Gold loan	82	89	66	237	35	38	28	100
LAP	53	14	5	72	74	19	7	100
Digital loans	43	-7	-	35	-	-	-	-
Microfinance	82	31	-	113	73	27	-	100
Real Estate Finance	28	-	-	28	100	-	-	100
Capital market finance	5	-	-	5	100	-	-	100
Total AUM	441	184	106	731	60	25	14	100

Source: Company; MOFSL

Has cracked the co-lending juggernaut in both the gold loans and home loans segment

Strategically leveraging co-lending as a tool to amplify AUM growth

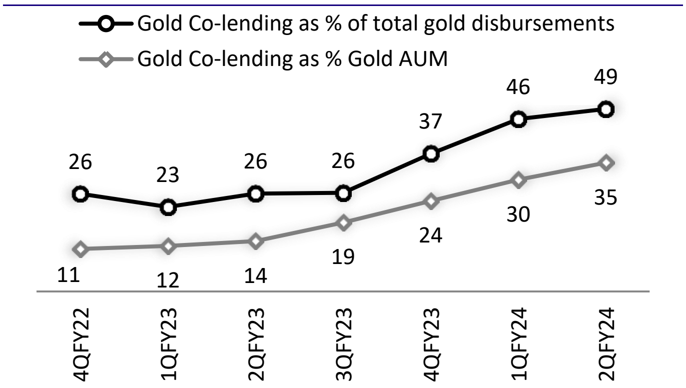
Exhibit 20: IIFL has the highest co-lending, co-origination partnerships with banks

Bank Partnership	Gold Loan	Home Loan	LAP	MFI
DBS	Yes			
DCB Bank	Yes			
Canara Bank	Yes			Yes
UCO Bank	Yes			
Shivalik	Yes			
South Indian Bank	Yes			
Karur Vysya Bank	Yes			
SBI		Yes		
Union Bank	Yes	Yes		
ICICI Bank		Yes	Yes	
PNB		Yes	Yes	
Central Bank of India		Yes	Yes	
Punjab & Sind Bank		Yes	Yes	
Indian Bank			Yes	

Source: Company, MOFSL; Note: Data as on Mar'23

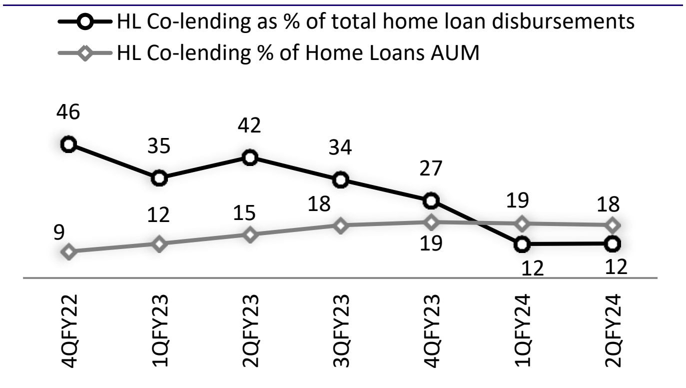
IIFL has comprehensively cracked the co-lending juggernaut in both its gold loan (~28% of gold AUM) and home loan businesses (~15% of home loan AUM) and continued to evaluate co-lending propositions in LAP/business loans/MFI loans.

Exhibit 21: Gold Co-lending continues to gain momentum (%



Source: Company, MOFSL

Exhibit 22: HL co-lending has exhibited a gradual slowdown



Source: Company, MOFSL

IIFL operates within a co-lending framework using an 80:20 model, wherein only ~20% of the loan resides on the company's balance sheet (B/S). In this setup, IIFL handles loan servicing, and any asset quality risks are proportionally shared. The company also makes an interest spread on ~80% of the loan, which resides on the bank's B/S and receives a fee income for servicing the loan. Despite incurring operating costs, this model yields a higher RoE compared to traditional lending approaches due to reduced credit costs and capital requirements.

Co-lending yields a higher RoE due to reduced credit costs and capital

Beyond the well-known benefits of co-lending (capital efficiency and RoE accretion), it also allows the company to retain customers who merit lower interest rates based on their credit profile. IIFL strategically leverages co-lending as a tool to amplify its AUM growth compared to the on-book growth, especially within specific product segments.

Exhibit 23: Off-book dominant in gold loans (%)

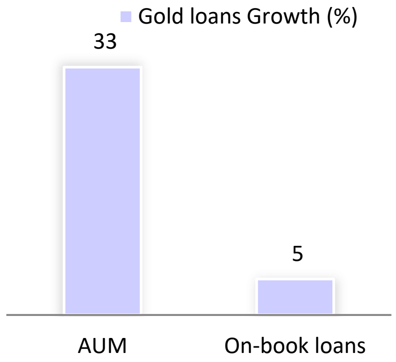


Exhibit 24: Strong growth in on-book loans in HL (%)

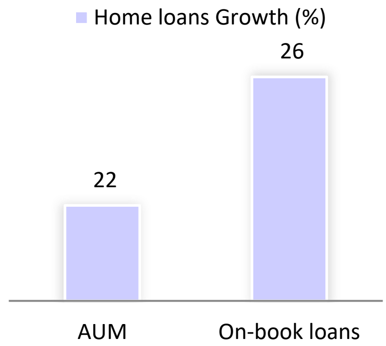
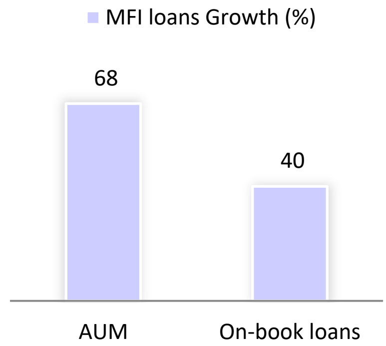


Exhibit 25: Balanced on-book/off-book growth in Microfinance (%)



Source: Company, MOFSL; **Note: YoY Growth as on 1HFY24**

Exhibit 26: Contribution to P&L in 1HFY24 from on-book/assignment/co-lending (%)

IIFL Consolidated	1HFY24			
INR m	On-book	Assignment	Co-lending	Total
Net Interest Income (NII)	19,385	5,065	2,938	**27,388**
as a % of avg. AUM	9.2%	5.7%	6.5%	**8.0%**
Non-Interest Income	1,932	813	416	**3,161**
Opex	8,009	3,370	1,726	**13,104**
PPOP	13,308	2,508	1,629	**17,445**
Credit Cost	4,427	-	-	**4,427**
PBT	8,881	2,508	1,629	**13,018.4**
PAT (pre-NCI)	6,811	1,924	1,249	**9,984**
Non-Controlling Interest (NCI)	603	254	130	987
Final PAT (post-NCI)	6,208	1,670	1,119	**8,996**
RoAuM (post-NCI) (%)	3.0	1.9	2.5	2.6
RoA (post-NCI) (%)	**2.3**	**0.6**	**0.4**	**3.3**
RoE (post-NCI) (%)	**13.1**	**3.5**	**2.4**	**19.0**

Source: Company, MOFSL

Exhibit 27: RoA tree in 1HFY24 from each of on-book, assignment and co-lending (%)

Dupont (1HFY24)	On-book	Assignment	Co-lending	Total
Net Interest Income	9.2	5.7	6.5	8.0
Non-Interest Income	0.9	0.9	0.9	0.9
Net Income	10.1	6.6	7.4	8.9
Operating Expenses	3.8	3.8	3.8	3.8
Operating Income	6.3	2.8	3.6	5.1
Provisions/write offs	2.1	-	-	1.3
PBT	4.2	2.8	3.6	3.8
Tax	1.0	0.7	0.8	0.9
RoAuM (Pre- NCI)	3.2	2.2	2.8	2.9
Non-Controlling Interest	0.3	0.3	0.3	0.3
RoAuM (Post- NCI)	3.0	1.9	2.5	2.6
Leverage	4.5	1.9	1.0	7.3
RoE	13.1	3.5	2.4	19.0

Source: Company, MOFSL

Building digital capabilities and partnerships for loan originations

First to launch loan-to-disbursal journey on WhatsApp with digital fraud checks

IIFL's strategic investments in technology and digital initiatives across various business segments have helped it to improve customer experience and credit underwriting.

'My Money' app provides paperless instant unsecured business loans and personal loans ranging from INR40K to INR3m. IIFL was the first to launch an end-to-end loan-to-disbursal journey on WhatsApp with digital fraud checks and verification. Within home loans, ~99% of the customers are on-boarded and decisioned through the digital platform by leveraging its strong data analytics capability for decision-making.

Exhibit 28: Embracing technology across its diverse suite of retail products

Gold loans	Home loan & LAP	Unsecured Business loan	Microfinance
❖ Comprehensive tablet based app for loan onboarding, supported by mobile app for monitoring.	❖ Jhatpat application provides loan approvals within 30 minutes at the customer place	❖ Has a comprehensive tool for IIFL finance channel partners and DSAs to onboard loans.	❖ Partnered with Leegality for eSign and Document workflow management for Microfinance loans
❖ AI tools like GL image audit helped in increasing accuracy of gold evaluations, reduced gold loan discrepancies, improved gold loan, approval rates et al.	❖ IIFL HFC has centralized legal and technical validations as well. The documents are also digital signed.	❖ IIFL works with Finbox for credit underwriting engine for business loans	❖ Extensive focus on implementing technology across processes and decision making; cashless disbursements.
❖ In-house credit engine	❖ 100% in-house collections powered by a customized software for end to end legal and follow-up process		❖ In-house credit engine
			❖ IIFL Samasta leverages BR.net stack for loan onboarding and management

Source: Company; MOFSL

Strengthened liability management; potential credit rating upgrade within a year

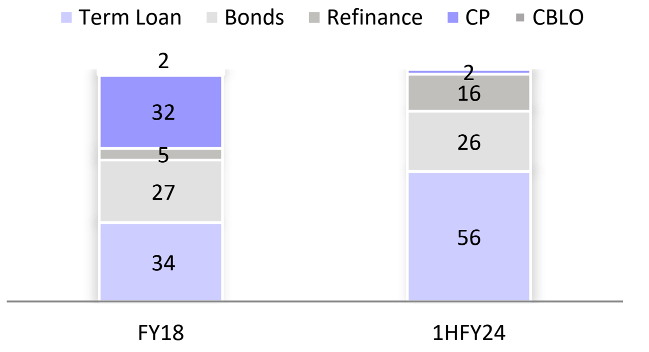
Post-IL&FS crisis, IIFL recalibrated its liability strategy, which now commands confidence from its lenders and the credit rating agencies alike.

Reduced exposure to short-term instruments and increased reliance on term loans

Like several other NBFCs, IIFL had a much higher proportion of short-term borrowing instruments back in FY18 with Commercial Papers (CP) and Collateralized Borrowing and Lending Obligations (CBLOs) forming ~34% of the borrowing mix.

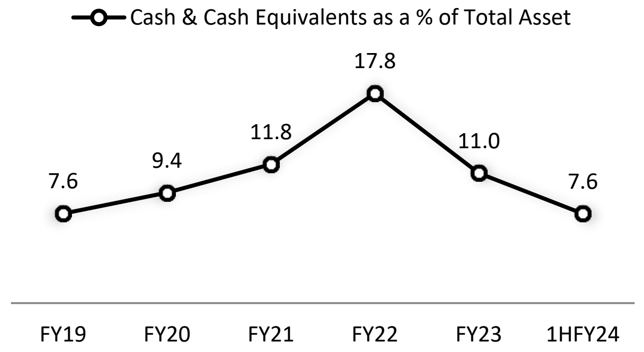
After the liquidity shock from the IL&FS default, IIFL reduced its exposure to short-term instruments and increased reliance on term loans, including banks and external commercial borrowings (ECB). The company also leveraged direct assignments and co-lending extensively to further improve its liability profile. As of Sep’23, short-term borrowings constituted only ~2% of the borrowing mix.

Exhibit 29: Higher proportion of long-tenor borrowings (%)



Source: Company, MOFSL

Exhibit 30: Historically maintained healthy liquidity (%)



Source: Company, MOFSL

Maintained higher liquidity on balance sheet to withstand unforeseen liquidity events

The company also maintains a higher level of liquidity on its balance sheet to withstand any unforeseen liquidity events. IIFL maintains a healthy positive gap across all its ALM buckets. IIFL's strategic adjustments in its liability profile and funding strategy, coupled with its stable business performance, have contributed to its resilience and creditworthiness, as reflected in its credit rating and diversified lender base.

Exhibit 31: CRISIL recently upgraded its credit rating outlook to "AA" (Positive)

Rating Agency	Instruments	FY20	FY21	FY22	FY23	Current
CRISIL	Bank Facilities	AA/Negative	AA/Stable	AA/Stable	AA/Stable	AA/Positive
	NCD	AA/Negative	AA/Stable	AA/Stable	AA/Stable	AA/Positive
ICRA	Bank Facilities	AA/Negative	AA/Negative	AA/Stable	AA/Stable	AA/Stable
	NCD	AA/Negative	AA/Negative	AA/Stable	AA/Stable	AA/Stable
CARE	Bank Facilities		AA/Negative	AA/Stable	AA/Stable	AA/Stable
	NCD		AA/Negative	AA/Stable	AA/Stable	AA/Stable

Source: Company; MOFSL

Stage set for a credit rating upgrade to AA+ within 3-6 months.

In Nov'23, CRISIL revised the outlook on: 1) IIFL's bank facilities and NCDs to CRISIL AA (Positive); 2) IIFL Home Finance to CRISIL AA (Positive); and 3) IIFL Samasta Finance to AA- (Positive). In our view, even other Credit Rating agencies such as ICRA and CARE will review their outlook over the course of the next few months, eventually setting the stage for a credit rating upgrade to AA+ within the next 3-6 months.

Operating efficiencies and improvement in branch productivity

Next leg of sustained AUM growth will be from branch productivity improvements

IIFL's branch-level productivity in the gold loans and MFI business is lower than its largest peers because of its strong branch expansion over the last 2-3 years. In addition to market-share gains, the next leg of sustained AUM growth will also come from improvements in productivity across all its branches.

Exhibit 32: MFI productivity comparable to peers except CREDAG (INR m)

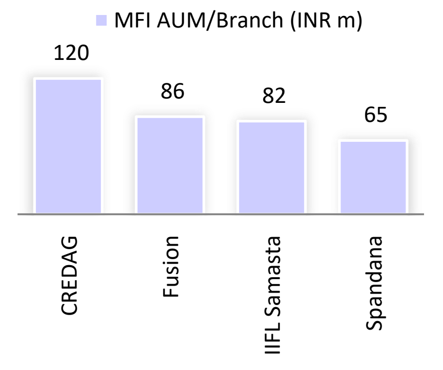


Exhibit 33: IIFL's HFC productivity better than most of the peers except CANF (INR m)

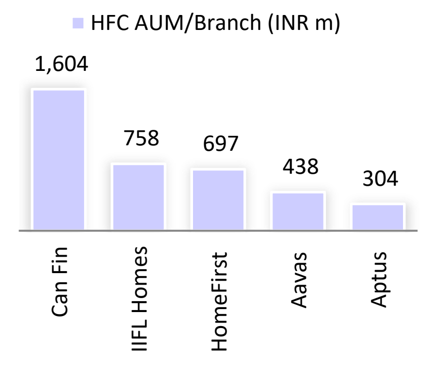
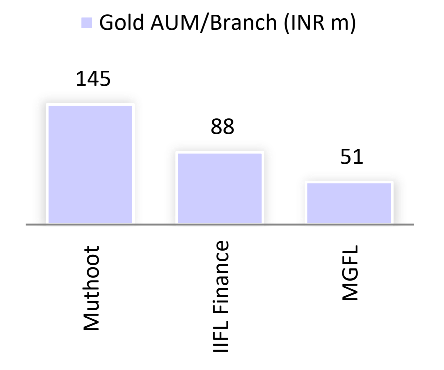


Exhibit 34: IIFL's Gold Loan AUM/branches higher than MGFL but lower than MUTH (INR m)



Source: Company, MOFSL; Note: Data as on 1HFY24

IIFL to deliver a sustained improvement in the cost ratios across all three entities

Opex ratios for IIFL across its core products were elevated because of investments in branches, manpower, technology, digital capabilities, and partnerships. However, with improvements in branch and employee productivity, we expect IIFL to deliver a sustained improvement in the cost ratios over FY25-FY26.

Exhibit 35: Standalone Opex/AUM to exhibit improvement aided by higher branch productivity (%)

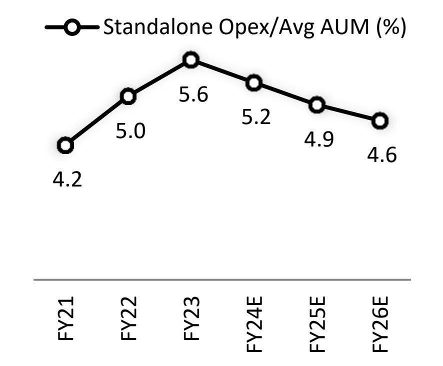


Exhibit 36: Expect HFC Opex/AUM to gradually moderate (%)

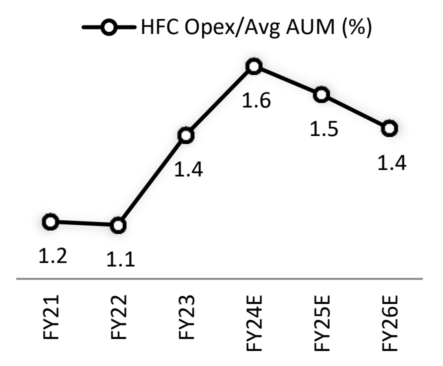
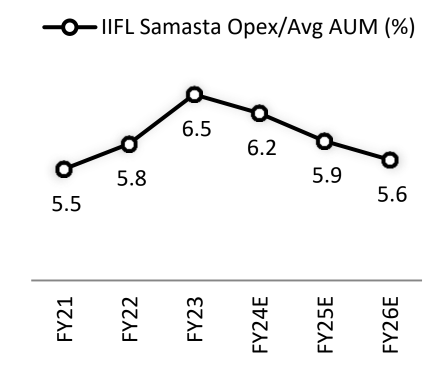


Exhibit 37: Expect Samasta's Opex/AUM to decline through scale benefits (%)



Source: Company, MOFSL

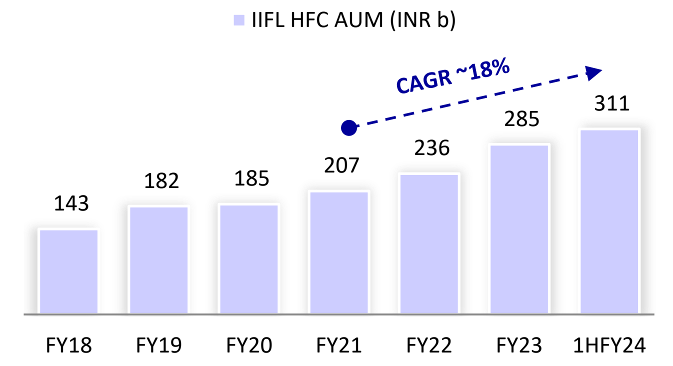
Diversified product suite for sustained execution

IIFL HFC had raised ~INR22b of primary equity capital from ADIA for a ~20% stake

Home Loans and LAP: Huge technology advantage for scalability!

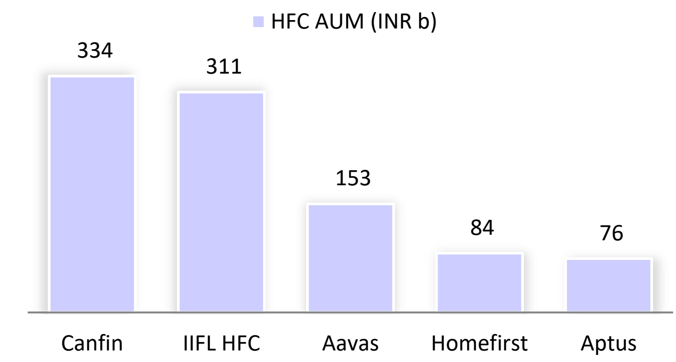
IIFL HFC (AUM: INR311b as of Sep'23) is among the few affordable HFCs that have been able to demonstrate their scale and prove wrong several skeptics who believed that the growth of affordable HFCs in India has a glass ceiling. In Jun'22, IIFL Home Finance raised ~INR22b of primary equity capital from ADIA for a ~20% stake in IIFL Home Finance.

Exhibit 38: IIFL HFC AUM CAGR of ~18% over FY21-1HFY24



Source: Company, MOFSL

Exhibit 39: IIFL HFC is the second largest among affordable HFCs

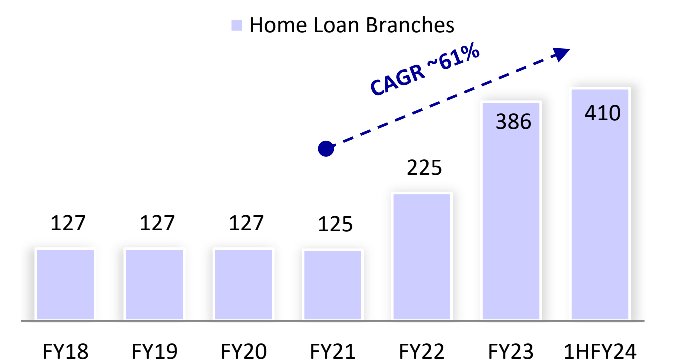


Source: Company, MOFSL Note: Data as on Sep'23

IIFL HFC's operational model is its differentiator

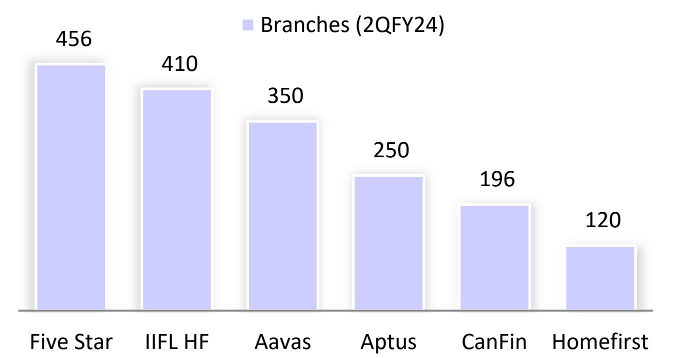
IIFL Home Finance has been on a branch expansion spree over the last two years and now has among the highest physical distribution of ~410 branches (as of Sep'23) vs. other affordable HFCs. Branches that have been added over the last two years are smaller in size, have 4-5 employees, and can break even within six to nine months. Earlier, IIFL's Housing Loans were concentrated in suburbs of metro/urban areas, but they have now penetrated deeper into Tier 2 and 3 cities.

Exhibit 40: Rapid expansion of HL branches post-Covid



Source: Company, MOFSL

Exhibit 41: Home Loan branches comparison with peers



Source: Company, MOFSL

IIFL HFC's operational model is its differentiator, including how it leverages its technology and digital capabilities to deliver a lower TAT and a superior experience to its customers.

IIFL Housing Finance operates under a hub-and-spoke model and does not need credit managers in every spoke branch. The company has a centralized credit, legal and technical team.

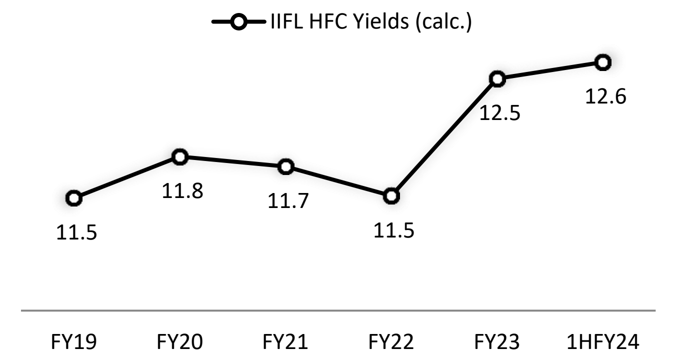
IIFL HFC operates under a hub-and-spoke model and has a centralized credit, legal and technical team

Exhibit 42: IIFL HFC: Operational Model

Sourcing Mix	❖ DST: 75-80% and DSA: 15-20% ❖ >50% of the business is sourced from APF (Approved Project Finance) and self-construction loans are extensively sourced from the expansion branches.
Underwriting	❖ Removed credit function and converted it into credit operations. ❖ Removed legal function from branches and legal is now centralized. ❖ Technical evaluation is done by the empaneled vendors and vetted by the central team.
Collections	❖ In-house collections team of >300 employees. ❖ Has separate teams for soft bucket collections as well as hard bucket collections.
Salaried Mix (%)	❖ 65% of home loans are towards salaried customers, which includes ~15% customers who are informal salaried.

Source: Company; MOFSL

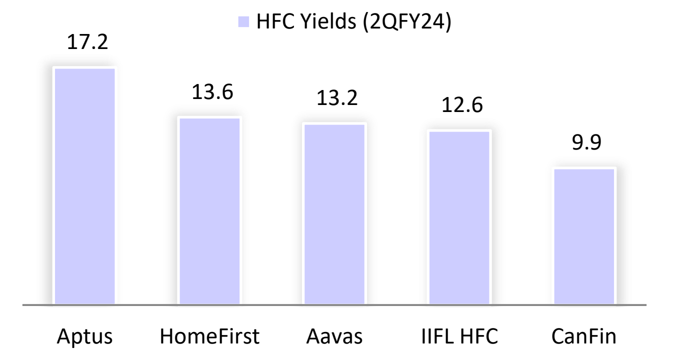
Exhibit 43: IIFL's HFC has passed on interest rate increase to customers (%)



Source: Company, MOFSL;

Note: IIFL HFC yields are on AUM basis and calculated based on weighted average yields of Home Loans, LAP and Construction Finance

Exhibit 44: IIFL HFC yield comparison with HFC peers (%)

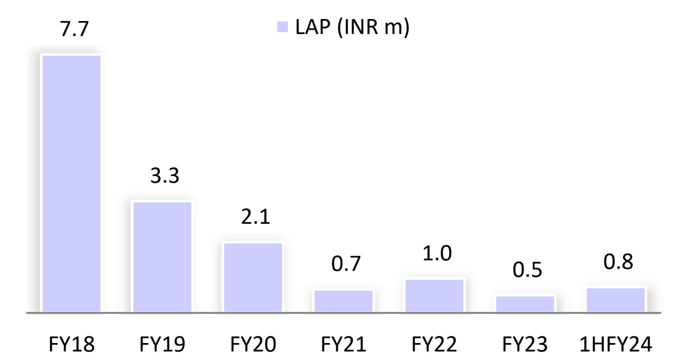


Source: Company, MOFSL;

IIFL has pivoted to the more granular LAP

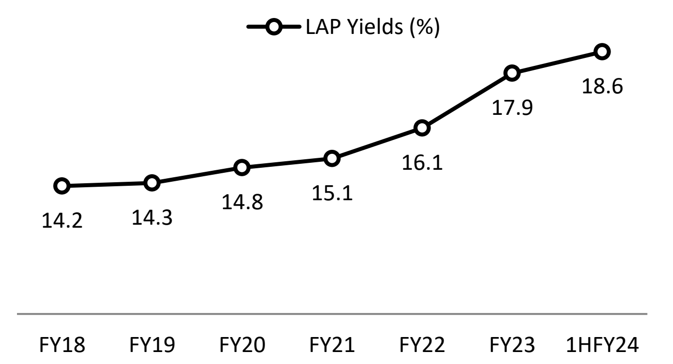
Earlier, the company was extensively present in the higher-ticket LAP segment but has now pivoted to the more granular LAP, where the competition from banks is much lower and there is no irrational pressure on pricing. This allows the company to maintain healthy yields on its LAP product.

Exhibit 45: Pivoted to lower-ticket LAP (INR m)



Source: Company, MOFSL

Exhibit 46: LAP yields have improved with increasing proportion of Micro-LAP (%)



Source: Company, MOFSL

Exhibit 47: Comparative analysis of IIFL Home Finance with its HFC peers

Particulars (2QFY24)	IIFL HFC	Aavas	HomeFirst	Aptus
AUM (INR b)	311	153	84	76
Branches	410	350	120	250
AUM Mix (%)				
HL	77	70	87	59
LAP/BL	20	30	12	41
CRE and others	3	-	1	-
Customer Profile				
Salaried (%)	65	40	69	28
HL ATS (INR m)	1.4	1.0	1.1	1.0
Margins & Opex (%)				
Yield	12.6	13.2	13.6	17.2
COF	8.3	7.9	8.1	8.4
Spreads	4.3	5.3	5.5	8.8
Opex to Assets (FY24E)	2.1	3.7	3.0	2.6
Asset Quality (%)				
Stage 3	1.8	1.0	1.7	1.2
Credit cost (FY24E)	0.8	0.2	0.4	0.5
Returns (%)				
ROA (FY24E)	4.5	3.4	3.9	7.4
ROE (FY24E)	17.9	14.2	15.5	17.0
Geographic Presence				
Key States	Maharashtra, Delhi-NCR, AP & Telangana	Rajasthan, Maharashtra, Gujarat	Maharashtra, Gujarat, TN	TN, AP, Telangana

Source: Company, MOFSL; Note: For APTUS, Opex/Assets, Credit cost, ROA & ROE based on Consensus

Exhibit 48: RoA tree for IIFL Home Finance and its HFC peers

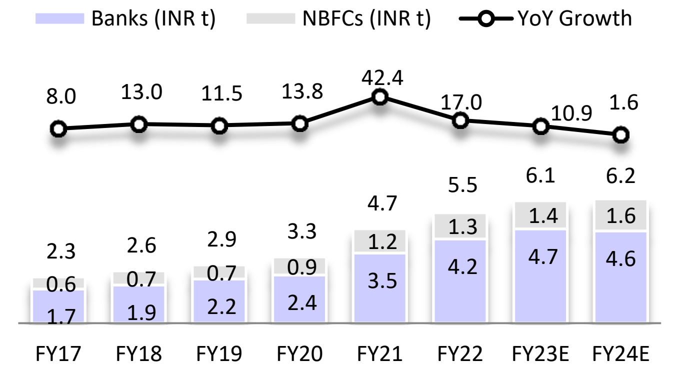
	IIFL HFC		CanFin		Aavas		Homefirst	
Particulars	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Interest Income	12.3	12.8	9.9	9.7	11.8	12.0	13.0	13.2
Interest Expended	5.8	5.8	6.4	6.4	5.6	5.7	6.2	6.5
Net Interest Income	6.6	7.0	3.5	3.4	6.2	6.2	6.9	6.7
Non-Interest Income	2.0	1.9	0.1	0.1	3.7	3.6	1.5	1.2
Net Income	8.6	8.9	3.6	3.4	8.1	8.0	8.4	7.8
Operating Expenses	2.1	2.0	0.6	0.6	3.7	3.5	3.0	2.8
Operating Income	6.5	6.8	3.0	2.9	4.4	4.5	5.4	5.1
Provisions/Write-offs	0.7	0.6	0.3	0.2	0.1	0.1	0.4	0.4
PBT	5.8	6.2	2.7	2.7	4.3	4.4	5.0	4.7
Tax	1.3	1.4	0.6	0.6	0.9	0.9	1.1	1.1
RoA	**4.5**	**4.8**	**2.1**	**2.1**	**3.4**	**3.4**	**3.9**	**3.6**
Leverage	3.9	4.0	8.9	8.7	4.2	4.4	4.0	4.5
RoE	**17.6**	**19.2**	**18.6**	**17.8**	**14.2**	**15.2**	**15.5**	**16.4**

Gold Loans: Wide distribution and co-lending enabling strong AUM growth

Leveraged distribution network and co-lending partnerships in gold loans to its advantage

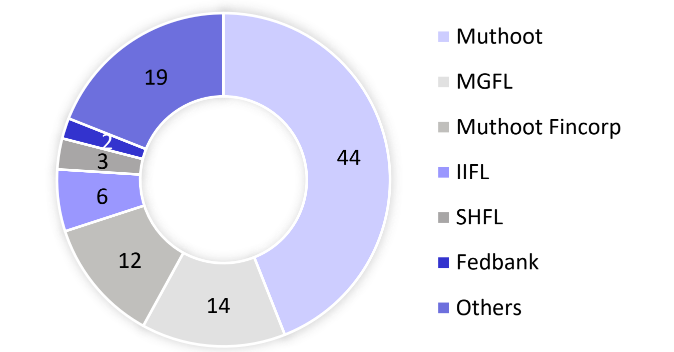
IIFL provides gold loans through its standalone entity, IIFL Finance, and has delivered an AUM CAGR of ~27% over FY21-1HFY24. Over this period, its on-book gold loans have reported a compounded decline of ~2%, which exhibits how it has effectively leveraged its wide distribution network and co-lending partnerships in gold loans to its advantage.

Exhibit 49: Organized gold lending to exhibit ~11% CAGR over FY21-24E



Source: CRISIL, MOFSL

Exhibit 50: NBFC on-book gold loan market share (FY23) (%)



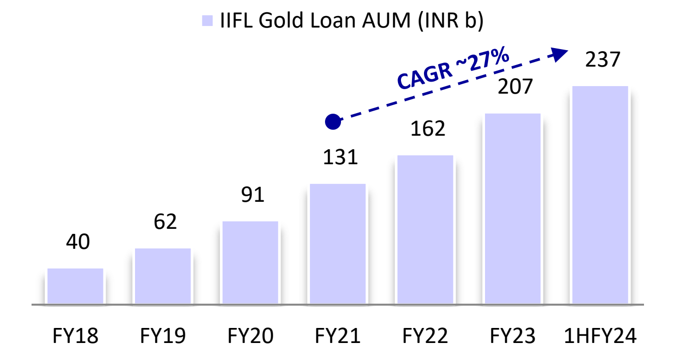
Source: CRISIL, MOFSL

***NBFCs gold loans (on-book) of INR1.4t as on FY23**

Has ~70% repeat customer base in GL and has established strong visibility and brand recall

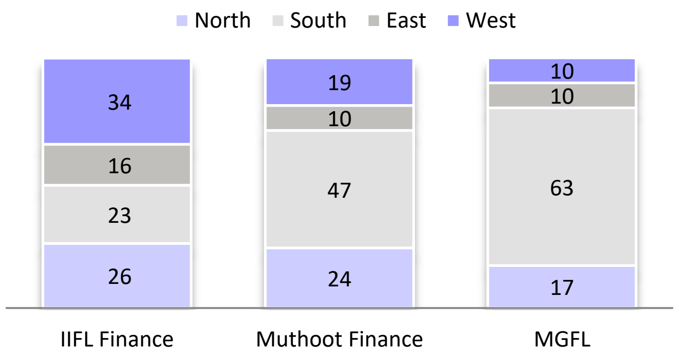
IIFL is now the second-largest gold loan NBFC in India based on AUM and the third-largest based on-book loans. The company has 2,700+ gold loan branches spread across 25 States/UTs. The company has ~34% and 26% (cumulatively ~60%) of its Gold AUM mix from western and northern India, respectively. Conversely, at the industry level, ~47% of the gold loans originate from southern India (Source: CRISIL MI&A). IIFL's early foray and penetration into northern/western India has enabled it to deliver such a strong gold AUM CAGR over the last few years.

Exhibit 51: IIFL Gold loan CAGR at ~27% over FY21-1HFY24



Source: Company, MOFSL

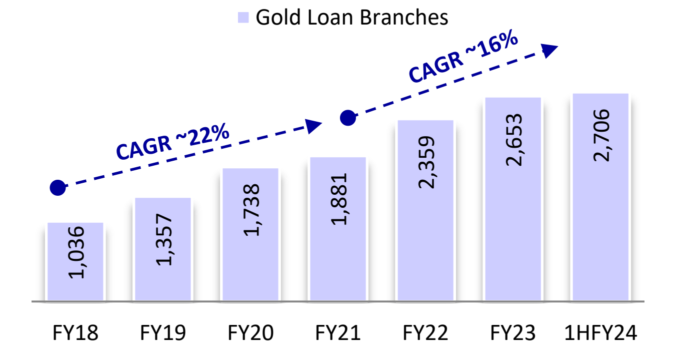
Exhibit 52: Unlike peers, IIFL has a stronger presence in North and Eastern India (%)



Source: Company; Note: Geographical AUM mix as on Sep'23

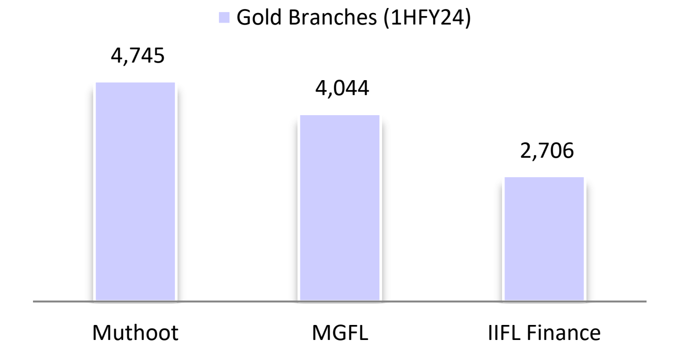
Two important strengths in the gold lending business are: 1) physical distribution, and 2) brand awareness and trust. IIFL has invested in physical distribution through branch expansion during periods when its peers such as MUTH and MGFL were not getting RBI approval for opening new branches. It has also established a strong visibility and brand recall through multiple brand positioning initiatives, like *Seedhi Baat,* which emphasizes its honest and transparent business practices in gold loans. This has enabled IIFL to achieve ~70% repeat customer base (similar to most of its peers) in gold loans.

Exhibit 53: Healthy growth in IIFL gold loan branches



Source: Company, MOFSL

Exhibit 54: IIFL Gold loan branches relative to peers



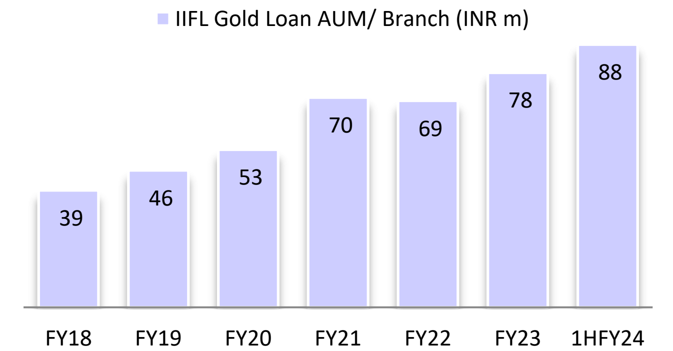
Source: Company, MOFSL; Note: Data as on 1HFY24

Room for improvement in productivity in gold branches to aid healthy GL AUM growth

Except for gold loans, which are provided under the co-lending model, IIFL offers gold loans for tenors of up to two years. Most of its other peers, including MUTH and MGFL, offer gold loans with tenors up to one year.

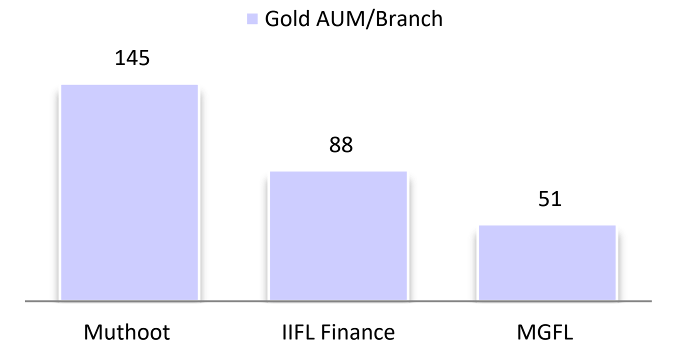
Given the rapid expansion in gold loan branches, IIFL's gold AUM per branch is still lower than that of the industry leader MUTH. However, the company acknowledges the room for improvement in productivity and will continue to deliver healthy gold AUM growth over the medium term. We model a gold AUM CAGR of ~24% over FY23-FY26E.

Exhibit 55: Productivity continues to improve in IIFL's gold loan branches (INR m)



Source: Company, MOFSL

Exhibit 56: IIFL's gold branch productivity vs. peers (INR m)



Source: Company, MOFSL; Note: Data as on Sep'23

Leveraging co-lending for gold loans has been a masterstroke from IIFL

Leveraging co-lending for gold loans has been a masterstroke from IIFL. Spreads (difference between IRR charged to customer and interest rate agreed with partner bank) between 8pp and 9pp on co-lending in gold loans is similar to that under the traditional model but co-lending has allowed IIFL to deliver Gold AUM growth much higher than its peers. Almost half (~46-49%) of the quarterly gold loan disbursements during the last two quarters have been under the co-lending model and co-lending (off-book portion) constituted ~28% of the gold AUM as of Sep'23.

Exhibit 57: Co-lending and disbursements as a % of gold AUM

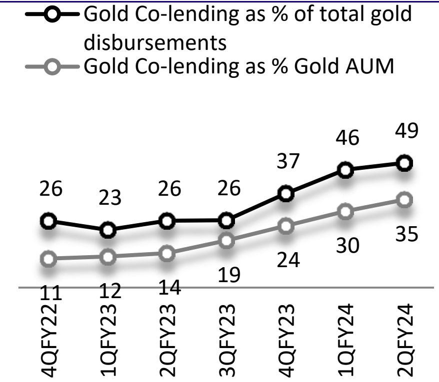


Exhibit 58: Gold ATS relative to peers (INR'000)

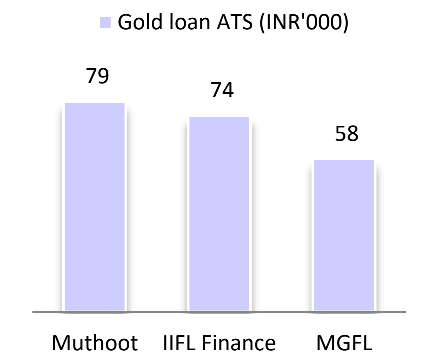
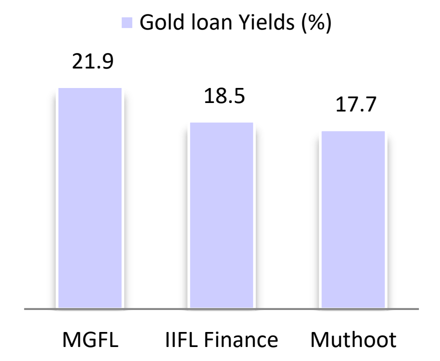


Exhibit 59: IIFL gold loans sweetly positioned between MGFL & MUTH (%)



Source: Company, MOFSL; Note: Data as on Sep'23

Carved out a niche in gold lending between MUTH and MGFL

IIFL's gold loan onboarding average ticket size (ATS) stood at INR74K in 2QFY24. While this is not directly comparable, the portfolio ATS reported by MUTH/MGFL stood at INR79K/INR58K as of Sep'23. Gold loan yields are a function of ticket size and IIFL has clearly carved out a niche for itself in the gold lending landscape between MUTH and MGFL.

For IIFL, we model a gold loan AUM CAGR of ~24% over FY23-FY26 (vs. ~12% for MUTH and ~10% for MGFL). This reflects our confidence in IIFL's ability to deliver sustained gold loan growth through addition of newer branches, improvement in branch productivity of existing branches, and leveraging co-lending.

Exhibit 60: Comparative analysis of IIFL Gold Loans relative to its peers MUTH and MGFL

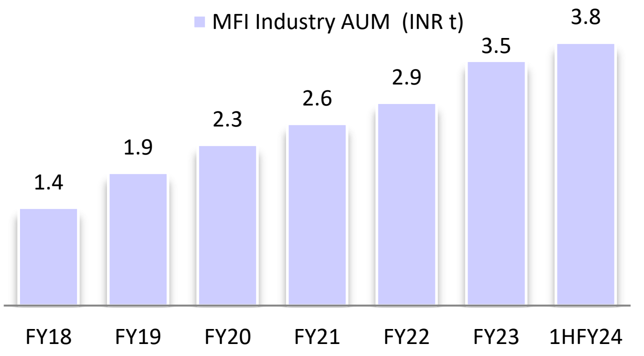
Particulars (2QFY24)	IIFL Finance	Muthoot	Manappuram
Gold Loan AUM (INR b)	237	675	208
Off-book Gold co-lending AUM (INR b)	66	-	-
Branch & Productivity			
Gold loan branches#	2,706	4,745	4,044
ATS ('000)	74.0	79.2	57.6
Margins & Opex (%)			
Standalone Yield*	18.5	17.7	21.9
Standalone CoF*	9.0	6.8	8.5
Spreads	9.5	10.9	13.4
Opex to Assets (FY24E)	6.0	3.0	5.8
Asset Quality (%)			
Stage 3	1.2	4.0	1.6
Stage 2	8.0	1.0	
Returns (%)			
ROA (FY24E)	3.1	5.1	5.1
ROE (FY24E)	14.4	17.9	21.1
Geographical Presence			
Key States	Gujarat, Maharashtra, Karnataka	Tamil Nadu, Karnataka, Kerala	Tamil Nadu, Karnataka, Kerala

Source: Company; MOFSL Note: *Yield for IIFL pertains to gold loan and CoF taken for standalone entity #Gold loan branch for MGFL includes dedicated gold loan branches of Asirvad

Microfinance: Riding sectoral tailwinds to deliver industry-leading growth

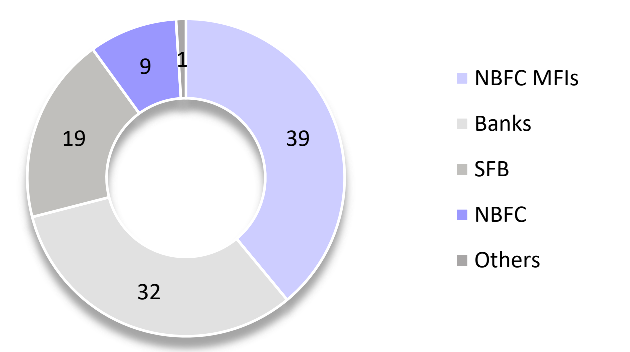
IIFL acquired Samasta Microfinance in FY17 and has invested in its deep distribution to drive industry-leading growth in the NBFC-MFI sector. IIFL Samasta is the second-largest NBFC-MFI (given that merger of Svatantra MicroFin and Chaitanya is pending approvals) with a **~8%** market share (among NBFC-MFI) and **~3.2%** market share (at the overall industry level).

Exhibit 61: MFI Industry's AUM (INR t)



Source: MFIN, MOFSL

Exhibit 62: NBFC-MFIs had ~39% market share (Sep'23)

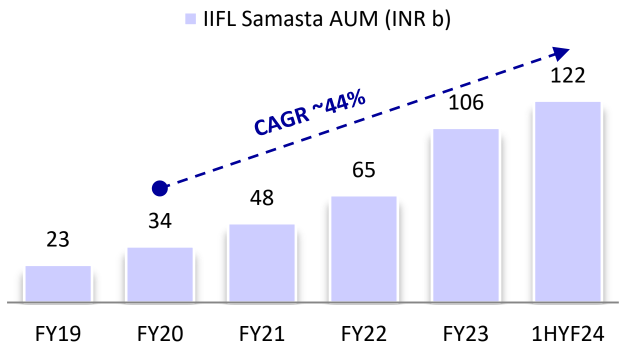


Source: MFIN, MOFSL

Samasta's AUM CAGR of ~45% over FY19-1HFY24 vs. NBFC-MFI industry CAGR of ~21%

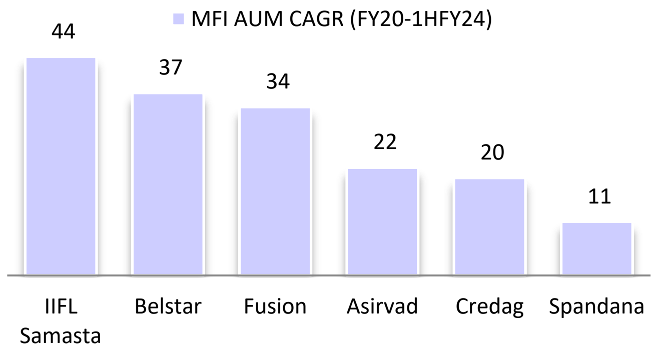
IIFL Samasta delivered an AUM CAGR of ~45% over FY19-1HFY24 vs. NBFC-MFI industry CAGR of ~21% over the same period. Samasta's top three states are Bihar, Tamil Nadu, and Karnataka. They cumulatively contribute ~50% to IIFL's Microfinance AUM.

Exhibit 63: IIFL Samasta has exhibited strong AUM CAGR of ~44% over FY20-1HFY24



Source: Company, MOFSL

Exhibit 64: IIFL Samasta AUM CAGR vs. peers (%)



Source: Company, MOFSL

Exhibit 65: Geographical AUM Mix of NBFC-MFIs as of Sep'23 (%)

	IIFL Samasta	CREDAG	Spandana	Fusion*
Bihar	24	-	6	13
Tamil Nadu	15	20	-	8
Karnataka	12	33	11	2
West Bengal	10	-	-	2
Odisha	9	-	15	9
Rajasthan	8	-	-	9
Uttar Pradesh	8	-	-	20
Madhya Pradesh	4	6	16	10
Kerala	4	-	-	-
Jharkhand	3	-	-	4
Gujarat	2	-	-	4
Maharashtra	2	21	9	1
Chhattisgarh	1	-	-	3
AP	-	-	14	-
Punjab	-	-	-	5
Other States	2	20	28	10

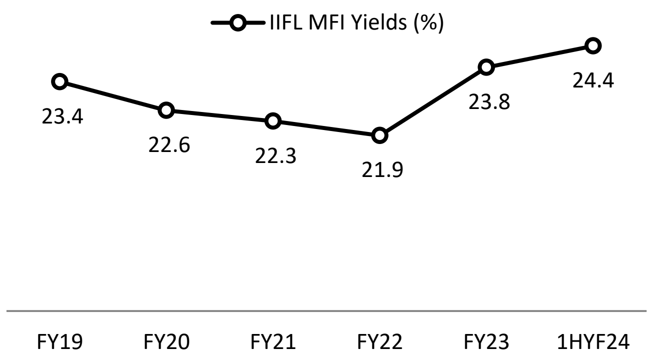
Source: Company, MOFSL; *Note: Fusion's data based on branch mix

Like other NBFC-MFIs, Samasta's target segment is rural and semi-urban self-employed women under the joint liability group (JLG) model.

Samasta's top three states contribute ~50% to IIFL's MFI AUM.

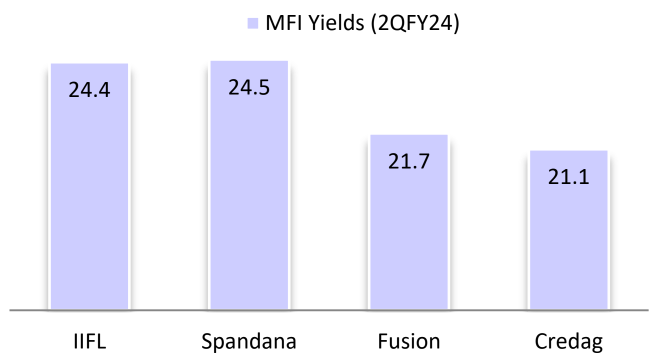
The RBI de-regulated the spread caps for the NBFC-MFIs when it published the harmonization of MFI guidelines in Mar'22. Since then, all MFIs have increased their lending rates, and the spreads/NIMs expanded for all the NBFC-MFIs across the board. This expansion in spreads has led to recent discussions around the possibility of a RBI intervention to cap the MFI lending rates or spreads. We believe that even if the regulator reintroduces capping, it will not impact the listed NBFC-MFI's and will only hurt some of the smaller SFBs and/or regional NBFC-MFIs.

Exhibit 66: IIFL's MFI yields improved post RBI MFI harmonization guidelines (%)



Source: Company, MOFSL

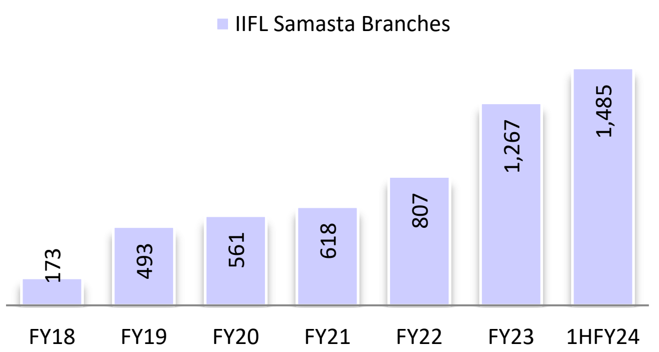
Exhibit 67: IIFL's MFI reported yields relative to peers (%)



Source: Company, MOFSL

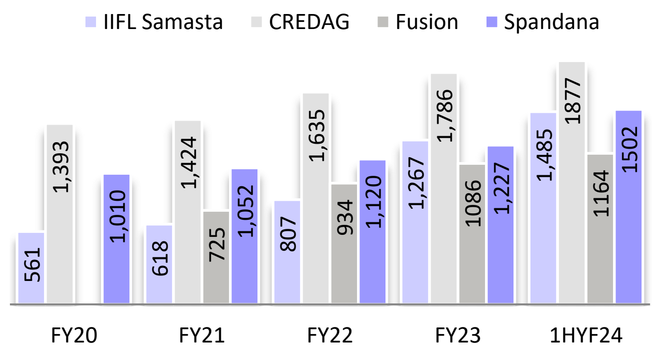
Samasta has been on a branch expansion spree over the last 2-3 years and now has among the widest physical distributions within NBFC-MFIs. It has a widespread presence across ~1,485 branches in 22 States/UTs (vs. 3 states as of FY17) and coverage across 387 districts. Going forward, we expect this branch expansion to slow down and branch additions to largely occur from the split of existing branches, which scale up beyond a certain threshold.

Exhibit 68: Strong addition of MFI branches



Source: Company, MOFSL

Exhibit 69: IIFL's Samasta branches relative to peers



Source: Company, MOFSL

Like the rest of the sector, IIFL Samasta's asset quality was also hit during Covid-19. The company underwent a higher quantum of restructuring during Covid-19, which has resulted in its asset quality, Gross Stage 3 (GS3) remaining higher than peers like CREADAG and Spandana. Samasta's credit costs were also higher than its peers in FY23 but we expect the credit costs to moderate now (in line with the rest of the industry).

Exhibit 70: IIFL Samasta's GS3 peaked at ~3% during Covid

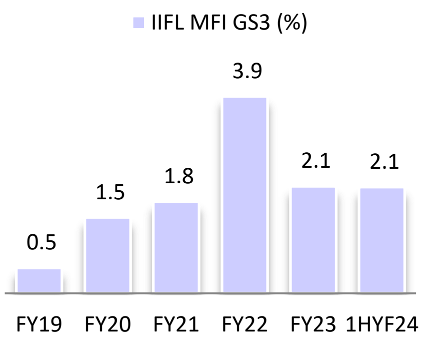


Exhibit 71: IIFL Samasta's GS3 relative to peers

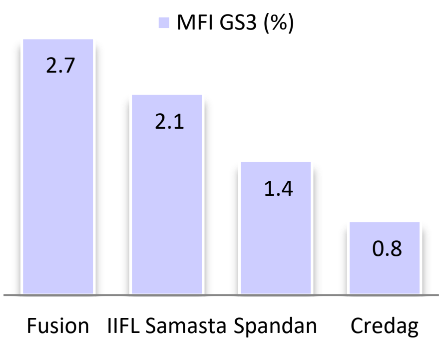
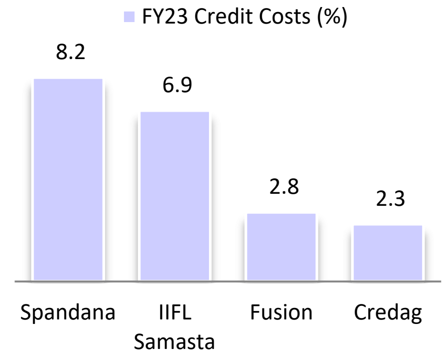


Exhibit 72: IIFL Samasta had its fair share of asset quality stress from Covid



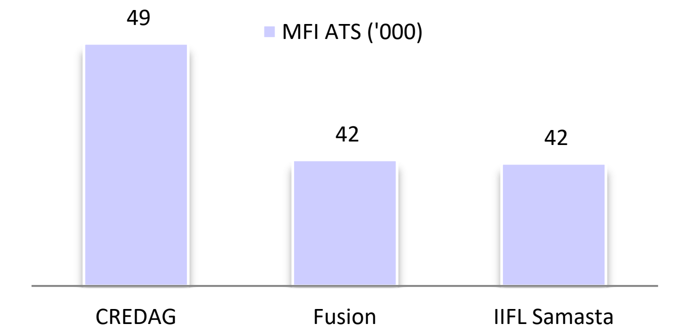
Source: Company, MOFSL

Note: Data as on Sep'23; Note: Excludes Micro-LAP and includes dairy cattle loan and individual unsecured loans done via IIFL Samasta

Expect IIFL Samasta to deliver an AUM CAGR of ~36% over FY23-FY26

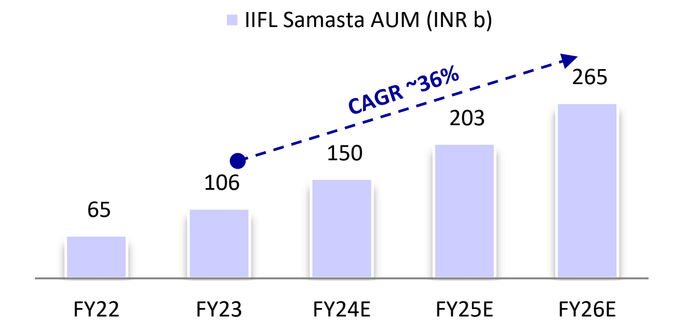
IIFL Samasta has a MFI: Non-MFI mix of 85:15 as of Sep'23 wherein it provides secured/unsecured MSME loans and dairy cattle loans that are non-qualifying MFI assets. It has an average ticket size of ~INR42K, which is broadly in line with its MFI peers and the sector. We expect IIFL Samasta to deliver a robust AUM CAGR of ~36% over FY23-FY26 achieved through a focus on operational efficiency, technology, and diversified loan offerings.

Exhibit 73: IIFL's MFI ticket size vs. peers ('000)



Source: Company, MOFSL; Note: Data as on Sep'23

Exhibit 74: IIFL Samasta's AUM likely to post a CAGR of 36% over FY23-FY26



Source: Company, MOFSL

Exhibit 75: Comparative Analysis of IIFL Samasta relative to its peers

Particulars (2QFY24)	IIFL Samasta	Fusion	Spandana	CREDAG
AUM (INR b)	122	100	98	225
MFI AUM (INR b)	113	96	97	221
Branches (n)	1,485	1,164	1,502	1,877
AUM/Branch (INR m)	82	88	70	120
Active borrowers (m)	2.7	3.7	2.7	4.6
ATS ('000)	42.0	42.2	NA	48.9
Margins & Opex (%)				
Yield	24.4	21.7	24.5	21.1
COF	10.5	10.6	12.5	9.8
Spreads	13.9	11.1	12.0	11.3
Opex to Assets (FY24E)	7.9	5.4	5.9	4.2
Asset Quality (%)				
Stage 3	2.1	2.7	1.4	0.8
Credit cost (FY24E)	4.2	2.9	2.2	1.5
Returns (%)				
ROA (FY24E)	4.9	5.2	4.8	5.5
ROE (FY24E)	31.4	20.9	15.5	22.8
Geographic Presence				
Key States	Bihar, TN, Karnataka	UP, Bihar, MP	Karnataka, MP, Odisha	Karnataka, Maharashtra, TN

Source: Company, MOFSL

Exhibit 76: RoA Tree of IIFL Samasta relative to NBFC-MFI peers – IIFL Samasta operating at higher opex and credit costs

	IIFL Samasta		CreditAccess		Fusion		Spandana	
Particulars	**FY24E**	**FY25E**	**FY24E**	**FY25E**	**FY24E**	**FY25E**	**FY24E**	**FY25E**
Interest Income	23.3	22.9	19.6	19.2	19.6	19.6	21.1	21.8
Interest Expended	8.7	8.5	7.1	7.0	7.5	7.4	9.2	9.6
Net Interest Income	**14.6**	**14.4**	**12.5**	**12.1**	**12.1**	**12.2**	**11.9**	**12.3**
Other Operating Income	3.0	2.4	1.3	1.2	2.0	1.8	1.6	1.2
Other Income	0.2	0.2	0.0	0.0	0.7	0.6	0.5	0.3
Net Income	**17.7**	**17.0**	**13.8**	**13.3**	**14.9**	**14.6**	**14.0**	**13.8**
Operating Expenses	7.9	8.0	4.4	4.2	5.4	5.4	5.9	5.7
PPoP	**9.8**	**9.0**	**9.4**	**9.1**	**9.5**	**9.2**	**8.1**	**8.1**
Provisions/write offs	3.5	2.8	1.5	1.5	2.6	1.8	1.9	1.9
PBT	**6.3**	**6.2**	**7.9**	**7.5**	**6.9**	**7.5**	**6.2**	**6.2**
Tax	1.4	1.4	2.0	1.9	1.7	1.8	1.6	1.6
RoA	**4.9**	**4.8**	**5.9**	**5.6**	**5.2**	**5.6**	**4.6**	**4.6**
Leverage	6.4	6.2	4.3	4.3	4.0	4.0	3.3	3.6
RoE	**31.4**	**29.9**	**25.4**	**23.9**	**20.9**	**22.4**	**15.1**	**16.7**

Source: Company, MOFSL

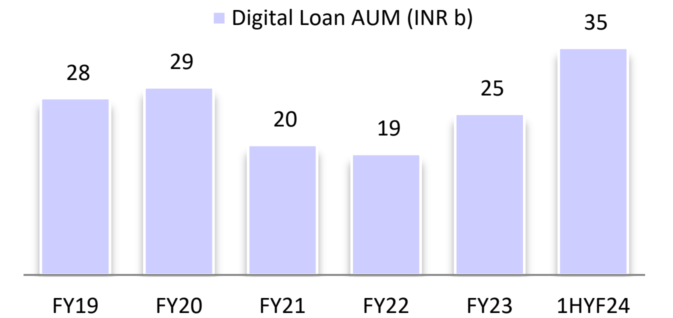
Digital (Unsecured) loans: Corrective measures to calibrate loan growth

The company provides unsecured business and personal loans (end use for business purpose) under its standalone entity, IIFL Finance. Digital loans with an AUM of ~INR35b form ~5% of the consolidated AUM mix.

Digital loan are provided through fintech partnerships as well as through DSAs

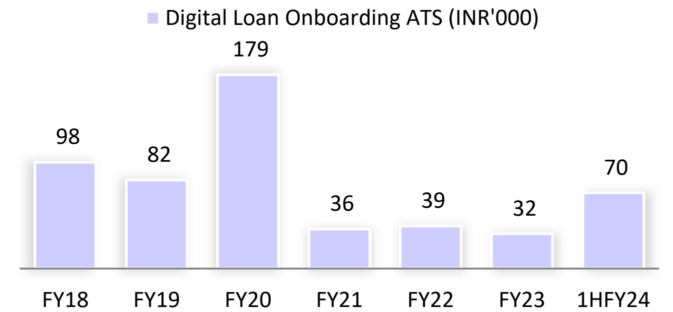
Under this segment, loan originations are carried out digitally (including through fintech partnerships) as well as through DSAs. IIFL Finance offers unsecured business/personal loans in >10k pin-codes and ~60% are in Tier 3 and 4 markets.

Exhibit 77: IIFL's Digital loan AUM (INR b)



Source: Company, MOFSL

Exhibit 78: Digital loan on-boarding ATS (INR'000)

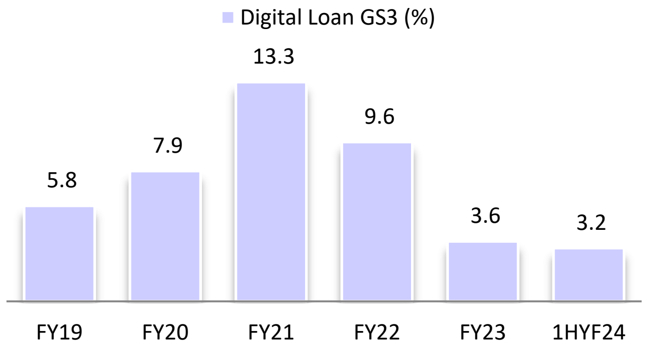


Source: Company, MOFSL

Six-month lagged GNPA in digital loans stood at ~4.5%, indicating stress build-up at the sectoral level

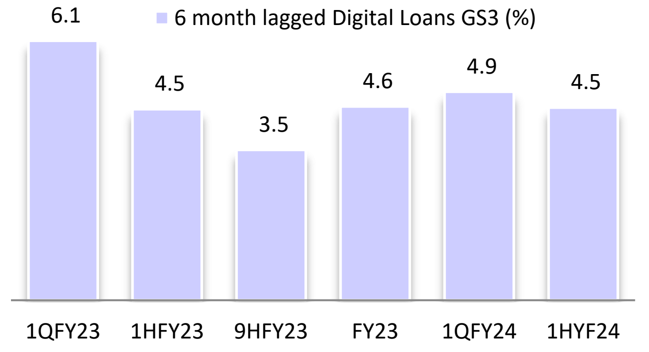
IIFL has learned from its mistakes in this product segment when its GS3 had risen to ~13% in FY21 and has since declined to ~3% as of Sep'23. The six-month lagged GNPA in digital loans stood at ~4.5% as of 1HFY24, indicating that stress is building up in this segment for IIFL as well as other peer lenders.

Exhibit 79: Digital loans' GS3 (%)



Source: Company, MOFSL

Exhibit 80: Six-month lagged GNPA in digital loans (%)

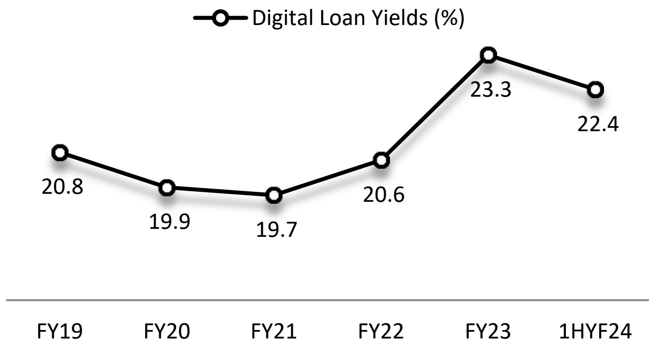


Source: MOFSL

IIFL has taken corrective actions on digital loans to fix higher delinquencies

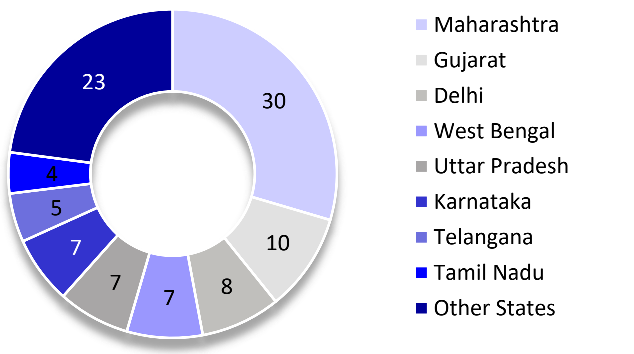
Given industry-wide concerns over higher delinquencies in lower-ticket personal loans, IIFL has taken corrective actions in this segment (including termination of partnerships with some fintechs), with blended onboarding ATS increasing to INR70K in 1HFY24 compared to INR30-40K in FY21-23. On an incremental basis, <10% of the loan originations are for personal loans. This suggests that the key focus areas will be unsecured business loans and supply chain finance. IIFL's fraud checks and risk models are now much more robust and it has post-disbursement checks in place to monitor early-warning signals (EWS).

Exhibit 81: Digital loan yields (%)



Source: Company, MOFSL

Exhibit 82: Digital loan geographical mix (%)



Source: Company, MOFSL

Around mid-Nov'23, the RBI had increased the risk weight on unsecured consumer credit to 125% (from 100%). Management believed that this will impact ~11% of loans in the Standalone Entity and ~4% of loans at the consolidated level. This will have an impact of ~40bp (~20bp on Tier 1 and ~10bp on Tier 2) on the CRAR of the Standalone entity.

Targets to increase the products per customer (PPC) to 2+ and improve cross-sell

IIFL, under its digital loan offering, will focus on customer lifecycle management going forward, and targets to increase the products per customer (PPC) to 2+ (currently at 1.5-1.6x). It will also look to improve the cross-sell figures for higher fee income and increase the repeat rate to >20% for customers with a proven track record in order to reduce the cost of customer acquisition in this segment.

Carving out its own niche with unrelenting execution

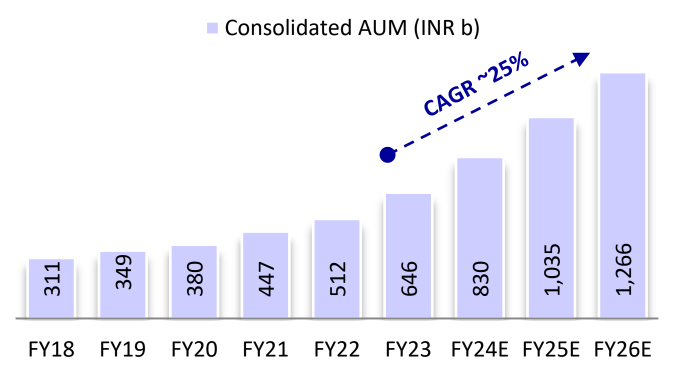
Estimate AUM/PAT CAGR of ~25%/28% over FY23-FY26 and RoE of ~22% in FY26

Strong AUM growth with a well-diversified retail product mix

Estimate proportion of digital loans in the AUM mix to remain ~5-6%

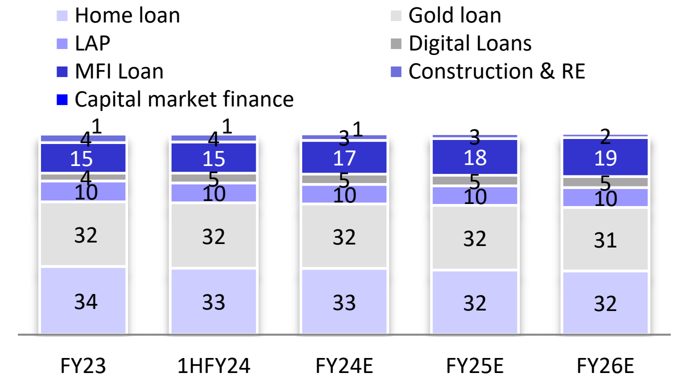
IIFL has transcended to a state where funding/capital will not be a constraint for AUM growth given its disciplined execution across core segments and its pivot toward an off-book strategy, which leverages co-lending in gold loans and home loans. While IIFL will continue to offer Construction Finance loans in its HFC subsidiary as synergetic products to propel retail loan growth, we do not estimate its proportion in the overall AUM mix to improve. Likewise, we estimate the proportion of digital loans in the AUM mix to remain around 5-6%.

Exhibit 83: Consol. AUM CAGR of ~25% over FY23-FY26E



Source: Company, MOFSL

Exhibit 84: Expect MFI loans to increase in the AUM mix (%)



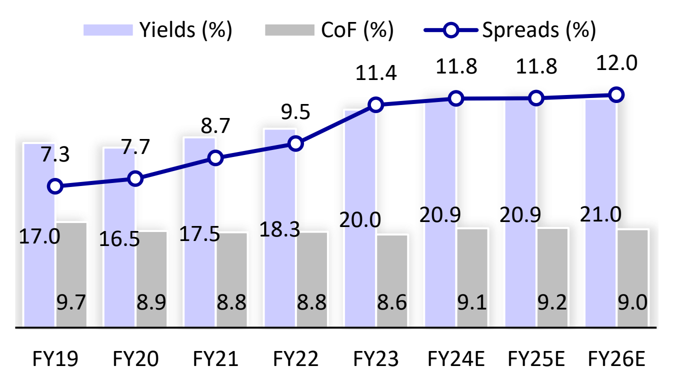
Source: Company, MOFSL

NII growth stronger than AUM growth; expect stable NIM with positive levers

IIFL will be able to broadly maintain a stable NIM

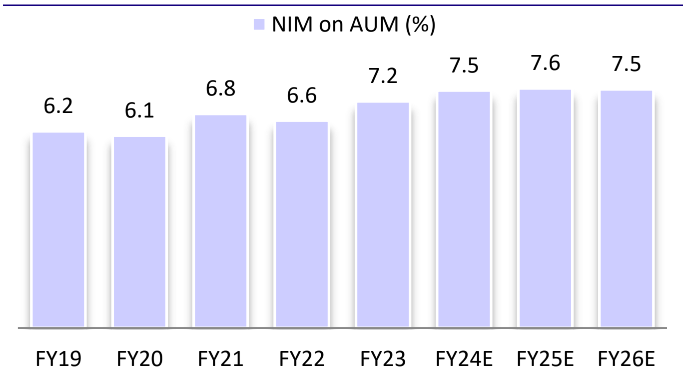
IIFL has delivered an improvement in spreads over the last few quarters through better yields relative to the rise in its borrowing costs. While we expect a minor rise in its borrowing costs over the next few quarters (exacerbated by the increase in risk weight on bank term loans to NBFCs), we estimate IIFL will be able to broadly maintain stable NIM, aided by an improvement in the proportion of MFI loans in the product mix and a higher proportion of co-lending in the AUM mix. By increasing its footprint in Tier 2 and 3 cities, IIFL has been able to maintain pricing discipline and has reported higher yields, up ~60bp in 1HFY24.

Exhibit 85: Expect Spreads to improve by ~20bp by FY26



Source: Company, MOFSL

Exhibit 86: NIM to remain broadly stable between 7.5-7.6% (%)



Source: Company, MOFSL

Borrowing costs have seen the benefit of the maturity of high-cost ECBs and the renegotiation of spreads over MCLR rate on bank term loans. We expect IIFL's CoB across its three entities to benefit from a credit rating upgrade (potentially in CY24).

Higher productivity and moderate branch expansions to improve cost ratios

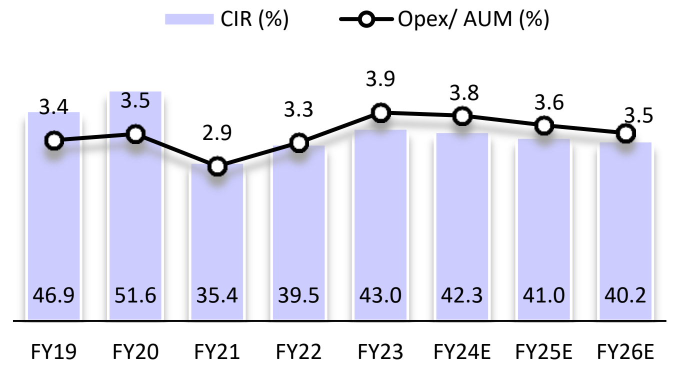
The opex-to-average AUM ratio remained elevated at 3.3-3.9% over FY22-FY23 for IIFL, primarily because of its investments in branch expansion (addition of ~970 branches), manpower (net addition of ~5,500 employees) and technology.

IIFL has frontloaded investments in distribution, and we expect cost ratios to moderate

IIFL management has frontloaded investments in physical distribution and now has the bench strength to sustain AUM growth for the next five years. We believe that over FY25-FY26, the branch/employee additions will moderate and the company will focus on productivity improvement across MFI, Home Loans and Gold businesses. Moreover, the company will look to leverage its digital capabilities to improve cross-selling, increase repeat customers, and lower the cost of customer acquisition.

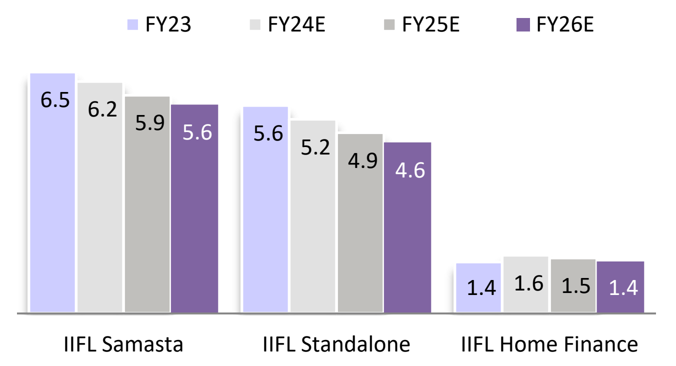
We estimate that IIFL's cost ratios (both opex to average AUM and cost-income ratio) will start to see sustainable improvements as operating leverage builds up through higher branch productivity and scale. We model a decline in the consolidated opex-to-average AUM ratio to 3.6%/3.5% in FY25/FY26 from 3.9% in FY23.

Exhibit 87: Cost ratios expected to improve over FY25-26



Source: Company, MOFSL

Exhibit 88: Expect operating efficiencies across all the three entities of IIFL over the next two years (%)



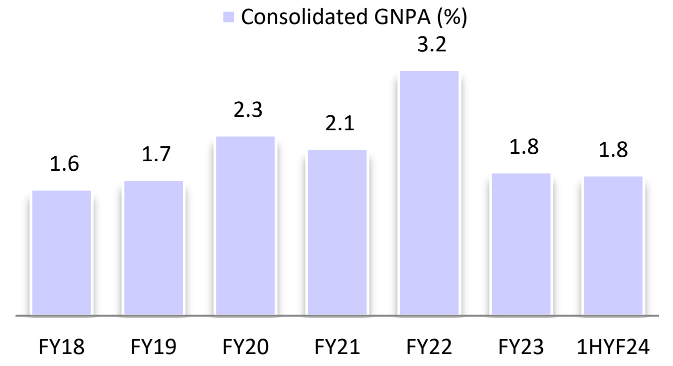
Source: Company, MOFSL; Note: Data for Opex to Average AUM

Asset quality to remain robust; credit costs to hover around 2.2-2.3% over FY25-26

IIFL faced asset quality stress in its MFI and digital loan segments during Covid. However, its asset quality performance has been far better than the broader industry and some of its peers in its core product segments of MFI, Housing, and business loans.

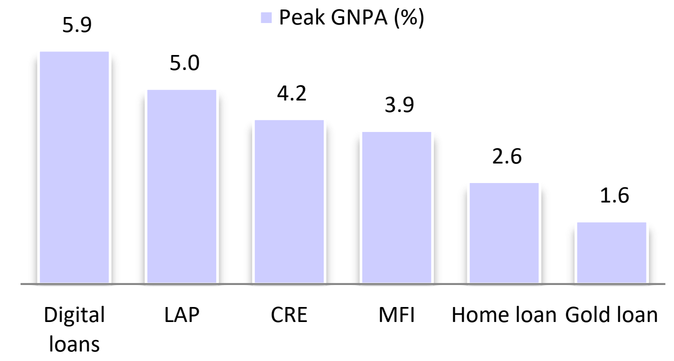
Asset quality performance has been far better than the industry

Exhibit 89: Consolidated Asset Quality for IIFL (%)



Source: Company, MOFSL

Exhibit 90: Peak GNPA ratio across respective products for IIFL (%)



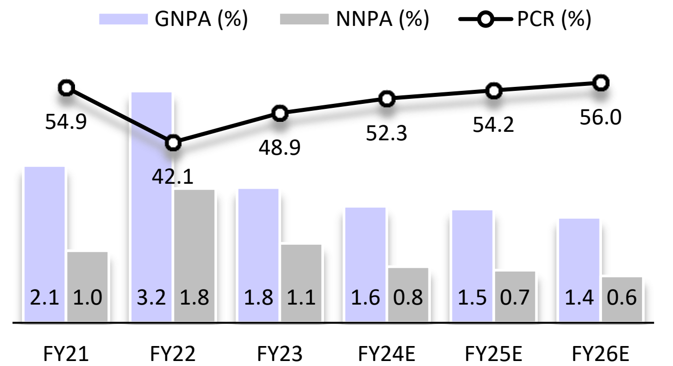
Source: Company, MOFSL; Note: Peak in Digital as of (1QFY22), LAP & MFI (3QFY22), CRE (1QFY23), HL & Gold Loan (4QFY22)

Credit costs to remain around 2.1-2.3% over FY24-FY26

While IIFL has been running down its CRE business, this segment has seen the peak GNPA ratio of ~4.2%, which is better than a host of its peer NBFC/HFCs which have a presence in the CRE segment.

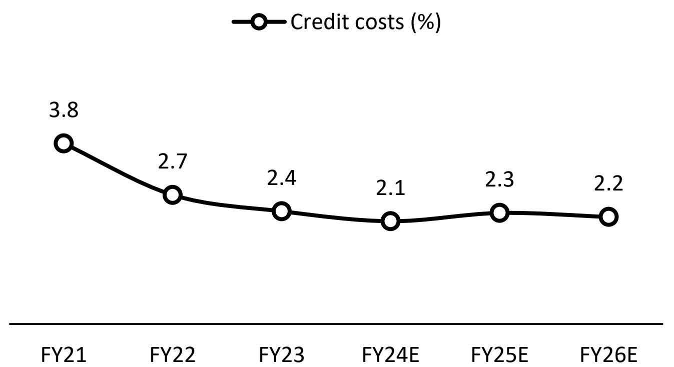
We believe that asset quality will remain robust given that ~65% of the AUM mix is in the secured and low-risk product segments like Home Loans and Gold Loans. This means IIFL will have to continue to improve its risk guardrails in other segments like MFI, LAP and Digital Loans, which have relatively higher vulnerability. We expect credit costs to remain around 2.1-2.3% over FY24-FY26.

Exhibit 91: Asset quality expected to marginally improve by FY26E (%)



Source: Company, MOFSL

Exhibit 92: Credit costs expected to remain range-bound between 2.2-2.3% (%)



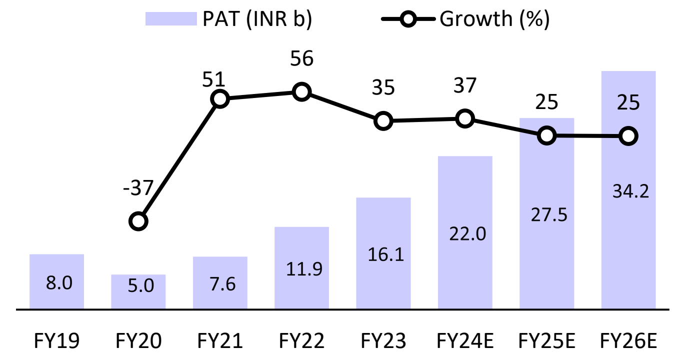
Source: Company, MOFSL

Healthy return ratios with sustainable RoA of >4% and RoE of >20%

With ~25% AUM CAGR, IIFL can deliver a PAT CAGR of ~28% over FY23-FY26E

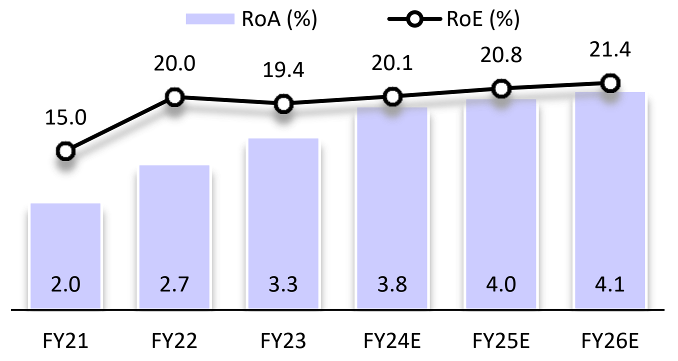
IIFL, in our view, will deliver sustainable earnings growth through credit cycles, aided by its presence in low-risk product segments like Home Loans and Gold Loans and high-growth product segments like microfinance (given the cyclical tailwinds). We believe that IIFL should maintain stable NIMs with potential for expansion in case of any repo rate cuts or a credit rating upgrade. Improving productivity will result in operating leverage benefits and a decline in opex ratios. Asset quality will remain robust and we expect credit costs to remain range-bound at current levels. With a ~25% AUM CAGR, IIFL can deliver a PAT (post-NCI) CAGR of ~28% over FY23-FY26E.

Exhibit 93: PAT CAGR of ~28% over FY23-26E



Source: Company, MOFSL

Exhibit 94: Sustainable RoE of >20%



Source: Company, MOFSL

IIFL has effectively leveraged the off-balance sheet to reduce the gearing [debt-equity ratio] to ~4.2x (vs. 6.0x in FY21). We expect the leverage [assets/net-worth] to remain around 5.7x-5.8x over FY24-FY26E, aided by a higher proportion of off-book (and co-lending) in the AUM mix. We estimate RoA/RoE (Post-NCI) to improve to 3.8%/21.5% by FY26E.

The company will look to raise primary equity of ~20-30b in the next 3-6 months

IIFL has already taken an enabling resolution from its Board for raising primary equity capital of up to INR30b. Against the regulatory threshold of minimum Tier 1 of ~10%, the company's tier 1 capital in the standalone entity, IIFL Finance, stood at ~12.9% as of Sep'23 (incorporating the impact of RBI regulation of higher risk weights on unsecured consumer credit). We believe that the company will look to raise primary equity capital of ~20-30b in the next 3-6 months.

Exhibit 95: Impact of RBI circular on increase in Risk Weight on unsecured consumer credit

Impact of increase in risk weights	Sep'23(%)	Including impact of Capital Raise (%)	Change
CRAR (IIFL Finance Standalone)	20.5	20.1	-0.4
Tier I	13.1	12.9	-0.2
Tier II	7.4	7.3	-0.1
CRAR (IIFL Home Finance)	47.6	47.6	-
Tier I	40.3	40.3	-
Tier II	7.2	7.2	-
CRAR (IIFL Samasta Finance)	21.0	21.0	-
Tier I	15.1	15.1	-
Tier II	5.9	5.9	-

Source: Company; MOFSL

A capital raise will be accretive to its book value

We have not yet incorporated equity capital raise in estimates and will do that only after the company formally announces the capital raise. However, we present below a scenario analysis of a capital raise and its impact on RoE of the consolidated entity. Our estimates suggest that even if IIFL raises around ~INR20-30b, RoE will still be ~19% in FY26E. However, any such capital raise will be accretive to the book value.

Exhibit 96: Scenario analysis for potential equity capital raise

FY26E	Without Capital Raise	Capital raise in 1HCY24		
Capital Raise Assumed (INR b)	-	INR20b	INR25b	INR30b
PAT post NCI (INR b)	31.2	32.4	32.8	33.2
RoE (%)	21.6	19.6	19.2	18.9
EPS (INR)	82	79	78	78
Book Value (INR)	418	439	444	449

Source: MOFSL, Company

Impact of RBI circular on Investment in Alternative Investment Funds (AIF)

RBI has plugged ever greening of loans through the AIF route

RBI on December 19, 2023 put out a circular to address concerns relating to possible ever greening of loans from all the lending institutions including Commercial Banks, Co-operative Banks, AIFIs and NBFCs (including HFCs). Through this circular, RBI has tried to disallow those transactions which entailed substitution of direct loan exposure of Regulated Entities (REs) with indirect exposure through investments in units of AIFs.

RBI announced the following guidelines:

- REs should not make investments in any schemes of AIFs which have downstream investments either directly or indirectly in a debtor company of the RE. The debtor company of the RE, for this purpose, meant any company to which the RE currently has or previously had a loan or investment exposure anytime during the preceding 12 months.
- If an AIF scheme, in which RE is already an investor, makes a downstream investment in any such debtor company, then the RE shall liquidate its investment in the scheme within 30 days from the date of such downstream investment by the AIF.
- In case REs are not able to liquidate their investments within the above-prescribed time limit, they shall make 100% provision on such investments.
- Also, investment by REs in the subordinated units of any AIF scheme with a 'priority distribution model' shall be subject to full deduction from RE's capital funds.

IIFL shared that it has an Investment of INR214m in IIFL Fintech fund where the company has outstanding debt exposure of INR33m in one of the downstream investments of the fund. All other AIF Investments of the company aggregating to ~INR9.1b as on current date does not include any downstream investments to which it has a loan or investments exposure currently or in the preceding twelve months. Thus, such Investments in the fund shall have no impact with regard to requirement of additional provisioning or capital adequacy of the Company.

IIFL Home Finance holds investments of ~INR1.6b under "Priority Distribution Model" which if not liquidated shall require ~100% deduction from its capital. IIFL Home Finance is adequately capitalized and a CRAR of ~47.6 as of Sep'23. After factoring in the impact of this deduction, the CRAR of IIFL Home Finance could decline to ~46.4% as of Sep'23.

Additional provisions of INR40m in the standalone entity

Charge on the capital of ~INR1.6b in IIFL HFC in FY24

To factor in the impact from the RBI AIF circular, we have taken incorporated additional provisions of INR40m in the standalone entity and taken a charge on the capital of ~INR1.6b in IIFL Home Finance in FY24. Management, however, suggested that these are performing exposures in the AIF and that it expects full recovery as when the recoveries accrue in the AIF.

Acing the asset-light model; initiate with a BUY rating

Franchise set for a 25% AUM CAGR and 20%+ RoE

- The two biggest strengths that will help IIFL sustain its strong AUM growth trajectory over the medium term are: 1) aggressive expansion of the physical distribution network and investments in partnerships, technology, and digital capabilities; and 2) establishing a first-mover advantage in co-lending with banks and completing it with an effective direct assignment strategy.
- Co-lending is capital efficient and RoE-accretive, and mitigates risk.
- IIFL has morphed into a franchise that has the distribution strength, strong presence in co-lending, superior digital loan origination and underwriting capabilities and can effectively leverage fintech partnerships to deliver a ~25% AUM CAGR over FY23-FY26E.
- IIFL's dominance in lower-risk secured product segments, such as Gold Loans and Home Loans, and higher-growth segments such as MFI (aided by cyclical tailwinds), will enable the company to deliver healthy AUM growth with robust asset quality and healthy return ratios.
- IIFL's track record of successful execution is evident in its ability to pre-empt business cycles and prioritize sustainable and scalable asset portfolios. It has embraced technology and expanded digital capabilities in home loans, gold loans, and digital loans. Despite cyclical disruptions, IIFL has emerged resilient, demonstrating adaptability, strategic foresight, and a commitment to value creation.
- The company trades at 1.5x FY26E P/BV and can sustainably deliver RoE of 20%+ in the medium term. We believe IIFL can see further re-rating as investors gain more confidence in its execution prowess through strengths in its core retail businesses. We initiate coverage on the stock with a BUY rating and a TP of INR800 based on SOTP valuation (Refer Exhibit 100).
- We believe there will be value-unlocking events in this franchise in the next two to three years. The company plans to demerge HFC and MFI subsidiaries and list them separately to unlock value.

Key downside risks

- **Regulatory uncertainty:** Any adverse regulation leading to lower demand for co-lending and/or assignments can impact the asset-light business model of IIFL.
- **Sharp decline in gold prices:** Gold loans form ~33% of the AUM mix and any sharp decline in gold prices can impact gold loan growth.
- **Potential caps on pricing in microfinance:** Spread caps (in any form) will not be positive for the MFI sector and can potentially impact NIM for IIFL Samasta.
- **Cyclicality in MFI and gold loan growth:** Gold loan growth has a strong correlation with gold prices, while MFI credit cycles are punctuated by natural or man-made disturbances.

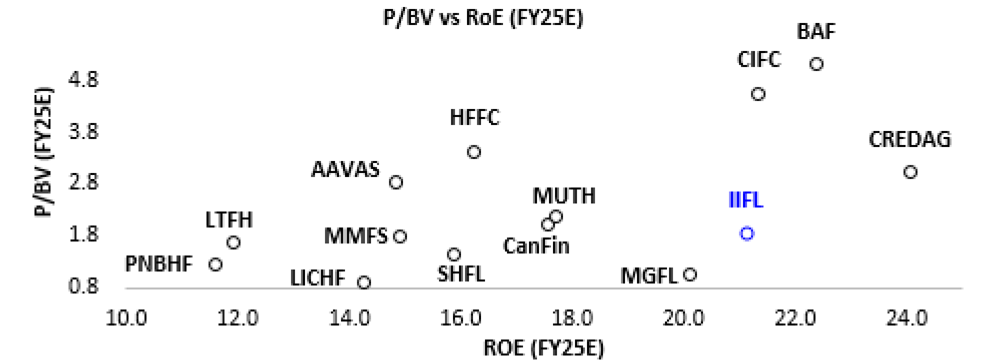
Exhibit 97: Valuation matrix for diversified lenders (NBFCs)

Peers	CMP	MCap	BV		P/BV		EPS		P/E		RoA (%)		RoE (%)	
	(INR)	(INR b)	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
IIFL Finance	**635**	**242**	**341**	**418**	**1.9**	**1.5**	**65.6**	**81.9**	**9.7**	**7.7**	**4.0**	**4.1**	**21.1**	**21.6**
Bajaj Finance	7,704	4,412	1,510	1,846	5.1	4.2	306.3	389.4	25.2	19.8	4.6	4.7	22.4	23.2
Chola Finance	1,297	1,004	286	370	4.5	3.5	55.4	68.8	23.4	18.9	2.7	2.8	21.4	21.2
L&T Finance	172	404	101	111	1.7	1.5	11.7	15.5	14.7	11.1	2.5	2.7	11.9	14.6
Shriram Finance	2,148	769	1,493	1,714	1.4	1.3	222.8	268.5	9.6	8.0	3.2	3.3	15.9	16.7
MGFL	176	145	163	194	1.1	0.9	30.1	35.9	5.9	4.9	4.9	4.9	20.1	20.1

Source: MOFSL, Company

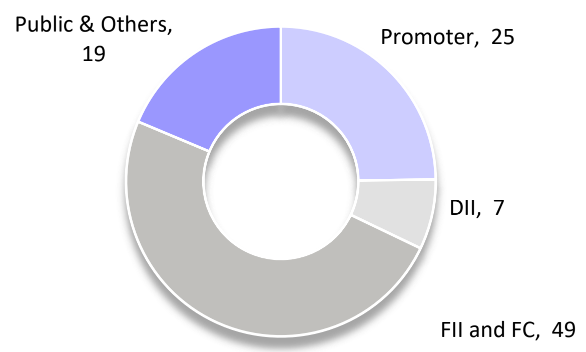
Note: Data for MGFL and Shriram Finance is for the consolidated and standalone entity respectively

Exhibit 98: IIFL is a re-rating candidate given that it can sustainably deliver better RoE than most of its NBFC peers



Source: MOFSL, Company

Exhibit 99: Shareholding pattern basis DII, FII and others (Sep'23) (%)



Source: MOFSL, Company

Exhibit 100: IIFL Finance: SOTP - March 2026 (%)

Particulars	Stake	Value (INR B)	Value (USD B)	INR per share	% To Total	Target Multiple(x)	Basis
IIFL Finance (Standalone)	100	133	1.6	350	44	1.8	PBV
IIFL Home Finance (HFC)	80	118	1.4	310	39	2.0	PBV
IIFL Samasta Finance (MFI)	100	53	0.6	140	18	1.7	PBV
Target Value		**305**	**3.6**	**800**	**100**		
Current market cap.		242	2.9	635			
Upside (%)				***26***			

Source: MOFSL, Company

ESG initiatives

Environmental initiatives

- A USD68m financing agreement between IIFL and the Asian Development Bank (ADB) would increase funding for lower-income people in India; 20% of the funds will go to homes with green certification, and 80% will go to women borrowers.
- During the year, the company installed a rainwater harvesting system and solar panels in their registered office building.
- Pioneered the idea of green buildings in collaboration with housing developers utilizing the 'Kutumb' platform, which supports industries with a platform for professionals and housing developers to encourage green infrastructure.
- Adopted access-based printing, default printing on both sides of the paper across all our offices and branches to regulate paper usage.

CSR initiatives

- Launched 'Sesame Community Radio', an initiative for improving learning and mental well-being of young children and caregivers through community radio in the Jhunjhunu district of Rajasthan. Total 1,000 children and 1,000 caregivers have benefited from this initiative.
- Launched 'Smart Shala', a program to promote academic learning of teachers and students at government schools in Jodhpur, Bikaner, and Jaipur. This program benefitted 103,000 students and 3,052 teachers from 1,526 government schools.
- Annual medical camps are held at Barsana, Uttar Pradesh, and Solapur, Maharashtra. About 6,750 patients benefit from this camp in Maharashtra.
- Development of emergency services at government hospital. The company has worked with Maharana Bhupal Government Hospital, Udaipur (Rajasthan), to develop three operation theatres, an intensive care unit, an outpatient department (OPD) and an orthopedic surgery ward.

Governance

- The company promotes sound corporate governance practices, ethical standards, and compliance with the laws of the land.
- For the quarter end Jun'23, IIFL reported zero cases of non-compliance with financial, environmental, and socioeconomic regulations.
- The company maintains transparency by disclosing the strategy, key targets, and goals to all key stakeholder groups (internal and external) and report its progress annually.
- Corporate policies and guidelines, such as board diversity policy, whistle blower policy, CSR policy, interest rate policy and grievance redressal policy, are being incorporated.
- Corporate governance and ethical business conduct are some of the fundamental pillars of a successful business. The company strives to maintain the highest standards of business ethics.

Bull and Bear cases

Bull Case

- ☑ In our bull case, we assume a 28% AUM CAGR driven by a 26% disbursement CAGR over FY23-FY26E
- ☑ We expect spreads and margins (on AUM) to improve by ~65bp/40bp respectively to ~12.1%/7.6% by FY26E
- ☑ NII and PPOP CAGR of ~30% each over FY23-26E on account of higher loan growth and ability to deliver operating efficiencies.
- ☑ We estimate cost ratios to improve over the next three years. Decline in average credit costs to ~2.2% can lead to PAT CAGR of 32% over FY23-FY26E.

Bear Case

- ☑ In our bear case, we assume a 20% AUM CAGR over FY23-FY26E
- ☑ We expect spreads to decline by 10bp and margins (on AUM) to remain flat by FY26E
- ☑ NII and PPOP CAGR of ~22%/ 17% respectively over FY23-26E
- ☑ Average credit costs of ~2.5% to drive PAT (post-NCI) CAGR of 13% over FY23-FY26E

Exhibit 101: Bull case scenario

INR m	FY24E	FY25E	FY26E
AUM	8,29,790	10,67,085	13,52,382
Growth (%)	28	29	27
NIM (%)	7.5	7.6	7.6
NII	55,382	71,951	91,690
PPoP	38,537	50,301	64,860
Credit Costs	9,518	12,477	15,500
PBT	29,019	37,825	49,360
PAT (post-NCI)	19,985	26,359	34,702
Growth (%)	33	32	32
RoA (%)	3.9	4.1	4.4
RoE (%)	20.3	22.1	23.4
BV (INR)	281	346	432
Target PV multiple (FY26E)			**2.3**
Target price (INR)			**1,000**
Upside (%)			**57%**

Source: MOFSL, Company

Exhibit 102: Bear case scenario

INR m	FY24E	FY25E	FY26E
AUM	8,07,501	9,55,751	11,10,592
Growth (%)	25	18	16
NIM (%)	7.5	7.4	7.2
NII	54,325	65,039	74,467
PPoP	37,480	43,389	47,637
Credit Costs	9,450	14,081	15,107
PBT	28,030	29,308	32,531
PAT (post-NCI)	19,220	19,778	21,698
Growth (%)	28	3	10
RoA (%)	3.8	3.4	3.3
RoE (%)	19.6	17.2	16.2
BV (INR)	278	326	377
Target PV multiple (FY26E)			**1.5**
Target price (INR)			**550**
Upside (%)			**-13%**

Source: MOFSL, Company

SWOT analysis

- ☑ IIFL provides a wide range of loan products to all types of customers
- ☑ It has access to funds from multiple sources including PSUs, banks
- ☑ Strong asset quality maintained by keeping NPAs low

- ☑ Presence in synergistic wholesale lending of Construction Finance might make it vulnerable to unfavorable regulations

- ☑ With Generative AI, NBFCs can enhance risk assessment and underwriting processes, provide personalized customer experiences, and strengthen fraud detection capabilities
- ☑ E-commerce unlocks the potential of retail lending

- ☑ Liquidity squeeze may affect IIFL's lending capability
- ☑ Unanticipated changes in regulatory norms

Board of Directors

Mr. Arun Kumar Purwar
Chairman and Independent Director

Mr. Purwar is the Chairman and Independent Director of IIFL Finance, Jindal Panther Cement, and ERoute Technologies. He also is an independent director in companies across diverse sectors. He was Chairman of State Bank of India and Indian Banks Association.

Mr. Nirmal Jain
Managing Director

Mr. Jain founded IIFL Group in 1995. He started his career in 1989 with Hindustan Unilever and founded IIFL Group as an independent equity research company in 1995. He has about three decades of experience heading diverse businesses in the financial services sector.

Mr. R. Venkataraman
Joint Managing Director

Mr. Venkataraman has more than 31 years of experience in the financial services sector. He previously held senior managerial positions in ICICI Limited,, including ICICI Securities. He also worked as Assistant Vice President with G E Capital Services India in the private equity division.

Mr. Chandran Ratnaswami
Non-Executive Director

Mr. Ratnaswami is CEO and Director of Fairfax India Holdings and Managing Director of Hamblin Watsa Investment Counsel. He has served on the boards of various companies.

Mr. Vijay Kumar Chopra
Independent Director

Mr. Chopra has 37+ years of experience in the banking industry and was the whole time member of SEBI for two years. He also served as Chairman and Managing Director at Corporation Bank and SIDBI. He was Executive Director at Oriental Bank of Commerce for three years and at Central Bank of India for 31 years.

Mr. Nilesh Vikamsey
Independent Director

He is a senior partner at KKC & Associates. He is presently a member of the Advisory Committee on Mutual Funds & Corporate Governance of SEBI, Risk Management Committee of CDSL, and Expert Advisory Committee of ICAI. He was President of ICAI and Chairman of Federal Bank.

Ms. Geeta Mathur
Independent Director

Ms. Mathur has 10+ years of experience in the finance sector and started her career with ICICI Bank. She currently serves as an independent director in various large organizations across manufacturing and services such as Motherson Sumi Wiring India, Infoedge, and NIIT.

Mr. Ramakrishnan Subramanian
Independent Director

Mr. Subramanian has served several leading financial institutions in leadership roles since 1990 in India and abroad. He has served as a board member of ING Vysya Bank, Shriram Capital, Shriram Transport, and Shriram City Union in the past. He also held senior executive roles in domestic and international banks.

Mr. T S Ramakrishnan
Non-executive Nominee Director

Mr. Ramakrishnan is currently MD & CEO of LIC Mutual Fund. Previously, he was General Manager at LIC Housing. He started his career as a direct recruit officer with LIC in 1988. In a career spanning over three decades with LIC, Mr. Ramakrishnan has made his mark in the areas of training, marketing, and Pension & Group business.

Management team

Mr. Nirmal Jain
Managing Director

Mr. Nirmal Jain founded IIFL Group in 1995. He started his career in 1989 with Hindustan Unilever and founded IIFL Group as an independent equity research company in 1995. He has about three decades of experience heading diverse businesses in the financial services sector.

Mr. Kapish Jain
Group CFO

Mr. Kapish Jain has more than 25 years of experience in the BFSI sector across all areas of Finance, Strategy, Treasury, IR, FP&A, and Accounts. He previously worked with PNB Housing Finance, AU Small Finance Bank, Deutsche Bank, and ICICI Prudential Life Insurance, among others.

Mr. Monu Ratra
CEO - IIFL Home Finance

Mr. Ratra is CEO and Executive Director at IIFL Home Finance. In the past, he worked as Head of National Mortgages Sales at Indiabulls Financial Services.

Mr. N Venkatesh
CEO - IIFL Samasta

Mr. Venkatesh has over 20 years of experience in the financial services industry as an entrepreneur. He is the founder and MD of IIFL Samasta. He was also the founder of erstwhile PNV Techno Acquisitions that marketed financial products, and Affluence Edifice, that provided wealth management services.

Mr. Saurabh Kumar
Business Head – Gold Loans

Mr. Kumar has industry experience of 20+ years in NBFC and retail banking. His expertise spans various fields including Gold Loans, business banking, branch banking, CASA, sales and distributions of investment products. He started his career with Godfrey Philips India Ltd. and has worked with Muthoot, ICICI Bank.

Mr. Bharat Aggarwal
Business Head – Digital Loans

Mr. Aggarwal comes with 15+ years of experience in Fin-Tech, NBFC & Banking Industry. Prior to joining IIFL, he was associated with Poonawalla Fincorp, heading Unsecured lending, Partnerships & Digital Lending and also has worked with Lendingkart, Bajaj finserv and HSBC.

Mr. Pranav Dholakia
Chief Risk Officer

Mr. Dholakia is a finance professional having 25+ years of experience of which 20 years has been in real estate across various asset classes, geographies, project cycles and economic cycles. Prior to joining IIFL, he was working with Edelweiss Financial Services as Head - Credit for its real estate lending platform.

Mr. Gaurav Sharma
Chief Technology Officer

Mr. Sharma is a seasoned professional with over 25 years of experience in Financial Services Technologies. He is currently serving as the CTO at IIFL Finance. He began his career in June 1995 with Tata Consultancy Services as a founding team member of TCS Bancs, a financial services product. Before joining IIFL he served as the group CRO for L&TFH

Mr. Abhiram Bhattacharjee
Chief of Staff

Ms. Bhattacharjee has over 29+ years of work experience in investment banking, financial advisory and commercial banking. He has worked with Kotak Mahindra bank, Morgan Stanley, E&Y.

Financials and valuations

Income Statement								(INR M)
Y/E March	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**
Interest Income	47,547	46,189	54,212	61,345	73,693	94,170	1,16,984	1,41,889
Interest Expenses	25,850	24,050	26,258	29,910	32,218	38,788	46,349	55,106
Net Interest Income	**21,697**	**22,139**	**27,954**	**31,435**	**41,474**	**55,382**	**70,635**	**86,782**
Change (%)		2	26	12	32	34	28	23
-NII on on-book	*19,245*	*16,380*	*20,934*	*23,713*	*30,183*	*39,439*	*50,459*	*61,663*
-NII on off-book	*2,452*	*5,758*	*7,020*	*7,722*	*11,291*	*15,943*	*20,176*	*25,119*
Other Operating Income	2,230	1,635	4,186	7,202	8,896	8,675	9,392	10,173
Other Income	1,071	818	1,499	1,689	1,883	2,675	2,943	3,237
Total Income	**24,998**	**24,591**	**33,639**	**40,326**	**52,253**	**66,733**	**82,970**	**1,00,192**
Change (%)		-2	37	20	30	28	24	21
Total Operating Expenses	**11,734**	**12,677**	**11,904**	**15,918**	**22,466**	**28,196**	**33,985**	**40,240**
Change (%)		8	-6	34	41	26	21	18
Employee Expenses	6,901	7,461	7,231	9,307	13,295	17,066	21,030	25,343
Depreciation	318	1,056	1,057	1,217	1,526	1,712	1,945	2,201
Other Operating Expenses	4,514	4,160	3,617	5,394	7,645	9,418	11,010	12,697
Operating Profit	**13,265**	**11,914**	**21,734**	**24,408**	**29,787**	**38,537**	**48,985**	**59,952**
Change (%)		-10	82	12	22	29	27	22
Provisions and write-offs	3,012	4,662	11,686	9,048	8,661	9,661	12,936	15,088
PBT	**11,299**	**7,252**	**10,048**	**15,359**	**21,125**	**28,876**	**36,049**	**44,865**
Tax Provisions	3,342	2,217	2,440	3,477	5,050	6,862	8,561	10,631
Tax Rate (%)	0.3	30.6	24.3	22.6	23.9	23.8	23.7	23.7
PAT (pre-NCI)	**7,957**	**5,035**	**7,608**	**11,882**	**16,076**	**22,015**	**27,488**	**34,233**
Change (%)		-37	51	56	35	37	25	25
Non Controlling Interest (NCI)	-11	-16	-7	-4	-1,072	-2,140	-2,500	-3,000
PAT (post-NCI)	**7,946**	**5,018**	**7,601**	**11,879**	**15,003**	**19,875**	**24,988**	**31,233**
Change (%)		-37	51	56	26	32	26	25

Balance Sheet								(INR M)
Y/E March	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**
Equity Share Capital	756	757	758	759	761	762	762	762
Reserves & Surplus	42,831	46,899	53,177	63,879	89,160	1,05,903	1,29,175	1,58,503
Non-controlling interest				59.0	12,101	14,241	16,741	19,741
Net Worth	**43,587**	**47,656**	**53,934**	**64,697**	**1,02,021**	**1,20,906**	**1,46,679**	**1,79,006**
Borrowings	**2,65,171**	**2,77,177**	**3,22,645**	**3,57,255**	**3,96,040**	**4,54,328**	**5,58,236**	**6,61,823**
Change (%)		4.5	16.4	10.7	10.9	14.7	22.9	18.6
Other Liabilities	23,631	18,901	30,090	37,150	31,951	43,122	51,493	60,014
Total Liabilities	**3,32,389**	**3,43,734**	**4,06,669**	**4,59,102**	**5,30,012**	**6,18,356**	**7,56,408**	**9,00,843**
Cash and Bank	25,216	32,159	47,841	81,569	58,390	37,287	47,038	57,352
Investments	2,124	7,704	316	11,922	35,110	38,314	43,782	49,805
Loans	**2,73,775**	**2,85,347**	**3,35,332**	**3,36,929**	**4,00,011**	**5,01,406**	**6,15,832**	**7,35,664**
Change (%)		4.2	17.5	0.5	18.7	25.3	22.8	19.5
Fixed Assets	1,112	3,950	4,102	4,777	5,708	6,196	7,264	8,501
Other Assets	30,162	14,574	19,079	23,908	30,794	35,153	42,492	49,521
Total Assets	**3,32,389**	**3,43,734**	**4,06,669**	**4,59,104**	**5,30,013**	**6,18,356**	**7,56,408**	**9,00,843**

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Spreads Analysis (%)								
Avg. Yield on Loans	17.0	16.5	17.5	18.3	20.0	20.9	20.9	21.0
Avg Cost of Funds	9.7	8.9	8.8	8.8	8.6	9.1	9.2	9.0
Spread of loans	7.3	7.7	8.7	9.5	11.4	11.8	11.8	12.0
NIM (as % of total AUM)	6.2	6.1	6.8	6.6	7.2	7.5	7.6	7.5
On-book NIM (% of on-book AUM)	6.8	5.9	6.8	7.0	8.1	8.8	9.1	9.2
Profitability Ratios (%)								
RoE	19.6	11.0	15.0	20.0	19.4	20.2	21.1	21.6
RoA	2.4	1.5	2.0	2.7	3.3	3.8	4.0	4.1
Int. Expended / Int.Earned	54.4	52.1	48.4	48.8	43.7	41.2	39.6	38.8
Other Inc. / Net Income	13.2	10.0	16.9	22.0	20.6	17.0	14.9	13.4
Efficiency Ratios (%)								
Op. Exps. / Avg AUM	3.6	3.5	2.9	3.3	3.9	3.8	3.6	3.5
Op. Exps. / Net Income	46.9	52	35	39	43	42	41	40
Empl. Cost/Op. Exps.	58.8	59	61	58	59	61	62	63
Asset-Liability Profile (%)								
Debt-Equity Ratio	6.1	5.8	6.0	5.5	4.4	4.3	4.3	4.2
Assets/Equity	7.6	7.2	7.5	7.1	5.9	5.8	5.8	5.7
Asset Quality (%)								
GNPA (INR m)			6,620	10,740	7,380	7,851	9,418	10,431
GNPA (%)	1.7	2.3	2.1	3.2	1.8	1.6	1.5	1.4
NNPA (INR m)			2,986	6,218	3,771	3,747	4,315	4,591
NNPA (%)	0.5	1.0	1.0	1.8	1.1	0.8	0.7	0.6
PCR (%)			55	42	49	52	54	56
Credit costs	1.1	1.7	3.8	2.7	2.4	2.1	2.3	2.2

Valuations	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Book Value (INR)	115	126	142	170	236	280	341	418
BV Growth (%)		*9*	*13*	*20*	*39*	*18*	*22*	*23*
P/BV	**5.5**	**5.0**	**4.5**	**3.7**	**2.7**	**2.3**	**1.9**	**1.5**
EPS (INR)	21	13	20	31	39	52	66	82
EPS Growth (%)		*-37*	*51*	*56*	*26*	*32*	*26*	*25*
P/E	**30.2**	**47.9**	**31.6**	**20.3**	**16.1**	**12.2**	**9.7**	**7.7**
Dividend	5.0	2.3	3.0	3.5	4.0	4.5	5.0	5.5
Dividend yield	**0.8**	**0.4**	**0.5**	**0.6**	**0.6**	**0.7**	**0.8**	**0.9**

E: MOFSL Estimates

(INR M)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
AUM	**349,035**	**379,511**	**446,880**	**512,098**	**646,376**	**829,790**	**1,035,485**	**1,265,827**
Change (%)	12	9	18	15	26	28	25	22
On-book/Off-book Mix (%)								
On-book AUM (%)		74	75	67	62	60	59	57
Assignments (%)		26	25	28	26	24	23	21
Co-lending (%)		0	0	6	12	16	19	21
Total (%)		**100**	**100**	**100**	**100**	**100**	**100**	**100**
Disbursements (core products)			**278,300**	**383,090**	**559,630**	**700,376**	**858,428**	**1,021,915**
Change (%)				**38**	**46**	**25**	**23**	**19**

Du-Pont (% of avg. assets)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	14.5	13.7	14.4	14.2	14.9	16.4	17.0	17.1
Interest Expended	7.9	7.1	7.0	6.9	6.5	6.8	6.7	6.7
NIM	**6.6**	**6.5**	**7.5**	**7.3**	**8.4**	**9.6**	**10.3**	**10.5**
Other income	1.0	0.7	1.5	2.1	2.2	2.0	1.8	1.6
Total income	**7.6**	**7.3**	**9.0**	**9.3**	**10.6**	**11.6**	**12.1**	**12.1**
Operating cost	3.6	3.8	3.2	3.7	4.5	4.9	4.9	4.9
PPOP	**4.1**	**3.5**	**5.8**	**5.6**	**6.0**	**6.7**	**7.1**	**7.2**
Provision	0.9	1.4	3.1	2.1	1.8	1.7	1.9	1.8
PBT	**3.5**	**2.1**	**2.7**	**3.5**	**4.3**	**5.0**	**5.2**	**5.4**
Tax	1.0	0.7	0.7	0.8	1.0	1.2	1.2	1.3
ROA (pre-NCI)	**2.4**	**1.5**	**2.0**	**2.7**	**3.3**	**3.8**	**4.0**	**4.1**
NCI	0.0	0.0	0.0	0.0	0.2	0.4	0.4	0.4
ROA (post-NCI)	2.4	1.5	2.0	2.7	3.0	3.5	3.6	3.8
Avg. leverage (x)	8.1	7.4	7.4	7.3	6.4	5.8	5.8	5.7
RoE	**19.6**	**11.0**	**15.0**	**20.0**	**19.4**	**20.2**	**21.1**	**21.6**

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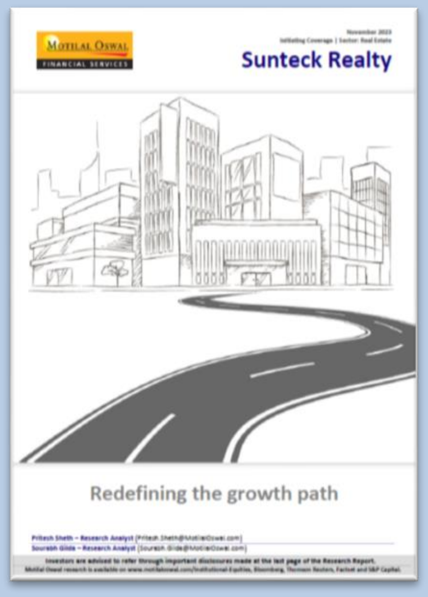

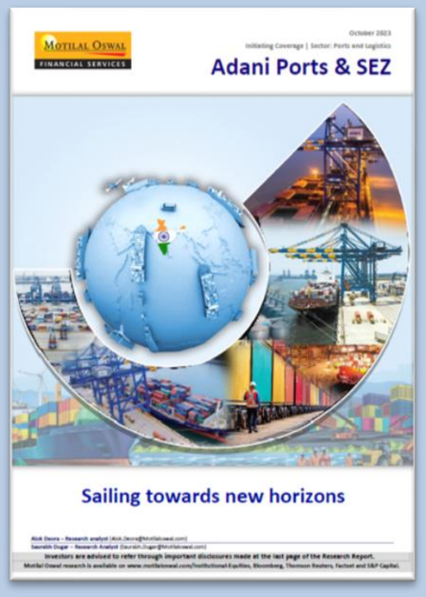

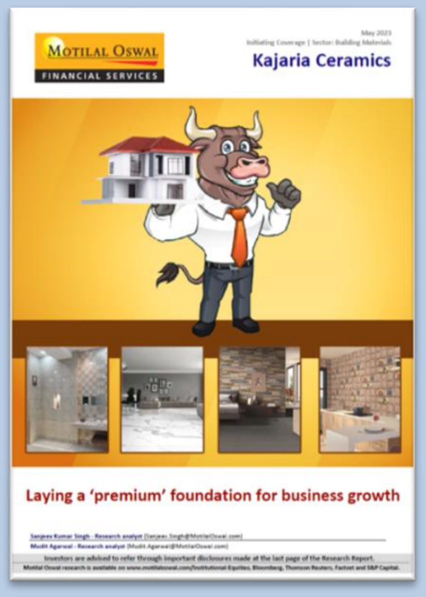

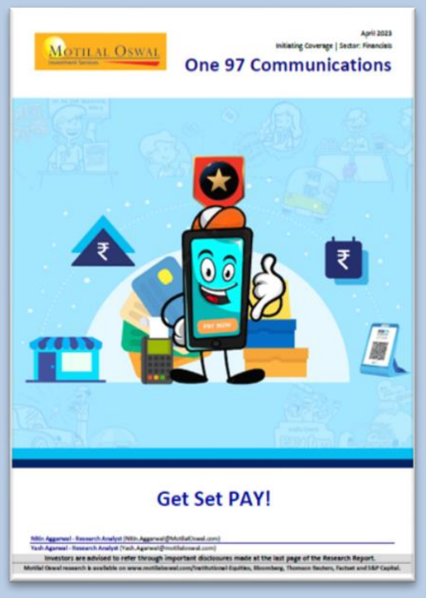

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