



Asset quality improves !!!

In Q3FY26, IIFL Finance reported a consol PAT of INR 501 cr, growth of 502% yoy & 23% qoq led by strong performance underpinned by a rebound in gold loans and improvement in overall asset quality. The company disclosed IT Dept ordered a special audit under Section 142(2A) for FY2019-FY2025 accounts, citing complexity (linked to prior RBI cash transaction findings). A special auditor has been appointed; no adjudication or financial impact yet, it is deemed to be procedural as said by management and completion of audit is expected in the next 60 days time. On business growth side, total AUM grew by 37.7% yoy & 9.1% qoq to INR 983 bn 10% qoq which was largely led by gold loans. **Asset quality improved during the quarter** - Overall GNPA/NNPA came down to 1.6%/0.75% in Q3 vs. 2.1%/1.02% in Q2FY26 led by decline GNPL in home loans, MSME & MFI segment. During the quarter, the company has completed its exit from high-risk segments, including unsecured digital MSME and micro-LAP from the housing finance company.

At current market price, the stock trades at 1.8x/1.5x/1.4x FY26E/FY27E/FY28E ABV, appearing reasonable amid improving return ratios and fundamentally strengthening performance trajectory. Near-term uncertainty persists until special audit outcomes emerge, prompting a rating revision from BUY to ACCUMULATE with a revised target price of Rs 606 (16% upside), based on 1.6x FY28E ABV.

Future Outlook for FY27

- Consol AUM is likely to grow by 20-25% CAGR in the medium term; growth will be driven by home & gold loans
- Loan loss provisions of 2.2-2.3% in FY27

Financial Summary

Consol (Rs Bn)	FY24	FY25	FY26E	FY27E	FY28E
PAT	19742	5781	10093	15038	17868
Owners PAT	17635	3735	7638	11968	14032
EPS (Rs)	46.2	8.8	18.0	28.2	33.0
Adj BVPS	258.4	271.7	287.4	340.4	378.5
P/E (x)	11.3	59.1	28.9	18.5	15.7
P/ABV (x)	2.0	1.9	1.8	1.5	1.4
RoE (%)	18.0	3.2	6.0	8.7	9.2
RoA (%)	3.1	0.6	1.0	1.4	1.4

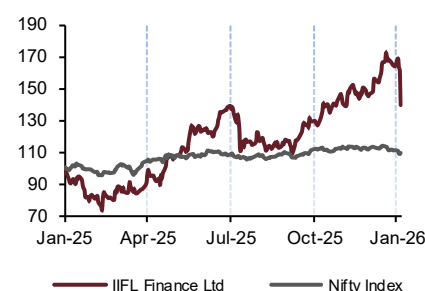
Source: Dalal & Broacha Research, Company

Rating	TP (Rs)	Up/Dn (%)
ACCUMULATE	606	16

Market data

Current price	Rs	521
Market Cap (Rs.Bn)	(Rs Bn)	229
Market Cap (US\$ Mn)	(US\$ Mn)	2,498
Face Value	Rs	2
52 Weeks High/Low	Rs	675 / 279.8
Average Daily Volume	('000)	2,817
BSE Code		532636
Bloomberg		IIFL.IN
Source: Bloomberg		

One Year Performance



Source: Bloomberg

% Shareholding	Dec-25	Sep-25
Promoters	25	25
Public	75	75
Total	100	100

Source: BSE

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Valuations

IIFL Finance delivered strong Q3FY26 results with robust AUM growth to Rs 98,336 Cr (+9% QoQ) led by gold loans and visible asset quality improvements (GNPA 1.6%, NNPA 0.8%, PCR 92%), though the Income Tax special audit carries unknown financial implications despite no business impact. Management guides for 20-25% AUM CAGR ahead with credit costs at 2.2-2.3% in FY27, bolstered by a new CEO in housing finance expected to accelerate growth.

We have re-worked on the numbers and introduced FY28 estimates. We expect consol AUMs to grow by 22.2% CAGR over FY25-28e period (largely led by gold & home loans) & PAT to grow by 46% CAGR (largely due to low base effect). We expect ROE/ROA to improve from lows of 3.2%/0.6% in FY25 to 9.2%/1.4% by FY28e respectively.

At current market price, the stock trades at 1.8x/1.5x/1.4x FY26E/FY27E/FY28E ABV, appearing reasonable amid improving return ratios and fundamentally strengthening performance trajectory. Near-term uncertainty persists until special audit outcomes emerge, prompting a rating revision from BUY to ACCUMULATE with a revised target price of Rs 606 (16% upside), based on 1.6x FY28E ABV.

Results Highlights Q3FY26

- In Q3FY26, IIFL Finance reported a consol PAT of INR 501 cr, growth of 502% yoy & 23% qoq led by strong performance underpinned by a rebound in gold loans and improvement in overall asset quality.
- **Special Audit:** On January 22, 2026 (disclosed with Q3 results), Income Tax Dept ordered a special audit under Section 142(2A) for FY2019-FY2025 accounts, citing complexity (linked to prior RBI cash transaction findings). A special auditor was appointed; no adjudication or financial impact yet, deemed procedural by management and completion of audit is expected to come after 60 days time
- NII grew by 16% yoy / 3% qoq to INR 10986 mn led by strong asset growth.
- Other income from off-book assets grew at healthy pace of 305% yoy / 3% qoq to INR 7713 mn. While other income grew by 39% qoq to INR 1259 mn.
- **AUM growth was strong led by gold loans**
 - Total AUM grew by 37.7% yoy & 9.1% qoq to INR 983 bn 10% which was largely led by gold loans. At the same time, off-book assets too witnessed strong growth of 71.4% yoy / 14.9% qoq to INR 345.5 bn.
 - Last few quarters, gold loans has seen almost 3x jump from lows of INR 108 bn in Q2FY25 to INR 434 bn in Q3FY26 – NBFC has regained all the lost market in different states, cities & customer segments which reflects the strength of its gold loan franchise. In current Q3FY26, gold loans grew at whopping pace of 189% yoy / 25.6% qoq to INR 434.3 bn. While the share of gold loans which had dropped to 16.1% post embargo has now recouped to 44.2% in total overall AUMs. Going forward as well, management is confident gold loans can potentially grow by 20-25% CAGR.
 - In home loans (32.4% share) growth was flat during the quarter - growth was at 5.2% yoy / -0.4% qoq to INR 319 bn. During the quarter, the NBFC sold loans worth INR 875 cr to ARC. Secondly, there was micro LAP lending was discontinued which came under HFC. Mr.Girish Kousgi has joined in the IIFL Home Finance; who is aiming to build more focus on the collections & recoveries. Management highlighted that home loans is expected to witness growth from Q4FY26 quarter onwards.
 - MSME loans (10.3% share) grew by 17% yoy to INR 10081 cr due to higher NPLs witnessed in this segment. Within this, MSME unsecured loans (having 21% in the MSME loans) de-grew by 2% qoq (+17% yoy) to INR 2096 cr. MSME secured loans grew by 24% yoy / 8% qoq to INR 7560 cr. MSME unsecured loans which are sourced via digital channels has been discontinued by the NBFC during the quarter.
 - Additionally, MFI loans (8.5% share) too witnessed de-growth of 19% yoy INR 8360 cr in the wake of rising NPLs seen in this segment.
 - Management reiterated that its guidance for the AUM growth is likely to 20-25% with co-lending expected to remain key growth driver

Reported spreads largely stable on qoq basis

- Reported yield stood at 15.98% vs. 15.92% in Q2FY26 & 15.47% in Q3FY25.
- Cost of borrowings has come down by 10 bps to 9.28% on qoq basis.
- Reported spreads improved by 5 bps to 6.92% on qoq basis led by decline in the cost of funds. While calculated spreads were at 6.7% in Q3 vs. 6.9% in Q2.

Asset quality improved during the quarter

- Overall GNPA/NNPA came down to 1.6%/0.75% in Q3 from 2.1%/1.02% in Q2FY26 led by decline GNPL in home loans, MSME & MFI segment.
- In home loans, GNPA declined from 1.4% in Q2 to 0.5% in Q3 levels on qoq basis; while for gold loans GNPL increased marginally from 0.12% in Q2 to 0.36% in Q3 on qoq basis.
- For MSME loans, GNPA declined from 5.93% to 4.92% qoq. Within this, micro LAP (which is discontinued product) witnessed decline from 20.5% to 9.99% qoq & MSME unsecured digital/MFI loans from 6.9% to 7.5% qoq.
- Additionally, GNPA in MFI segment declined marginally from 5.03% to 4.93% on qoq basis. Management is seeing asset quality improvement across geographies
- Overall PCR now stands at 53.1%
- Credit cost for FY26 is expected to be 2.9-3% levels while for FY27 is expected to be 50-60 bps lower i.e. at 2.2-2.3% levels

Other Important Updates

- Rating Outlook Upgrade: S&P Global Ratings affirmed the 'B+' rating and revised the outlook from Stable to Positive, citing improved sustainable operating momentum.
- Shareholder Returns: The Board declared and approved an interim dividend of ₹4 per share (200%).
- Strategic Portfolio Re-set: The company has completed its exit from high-risk segments, including unsecured digital MSME and micro-LAP from the housing finance company.
- Liquidity Position: The company maintains strong liquidity with a total cushion of INR 9,433 cr in free cash and undrawn lines.

Concall Highlights Q3FY26

- **Ratings and Dividends:** S&P upgraded outlook from stable to positive. Declared interim dividend of INR 4 per share.
- **Outlook on AUM growth** – It has guided at 20-25% AUM growth. ROE expected to rise to 17-18% from current 7%.levels.
- **Gold Loans:** Tonnage reached 60 tons, up 7% YoY in Q3.Segment Performance and
- **Housing Loans:** Growth to resume from next quarter.
- **Asset Sales:** Completed INR 900 cr ARC deal (INR 875 cr book from beneficiary-led construction and micro LAP), aligning with renewed focus on affordable and emerging market segments.
- **Capital and Risk Metrics Capital Raising:** Potential equity raise needed; Home Finance at 40%+ CAR, MFI at 27-30%. Target leverage: 4-4.5x for standalone entities.
- **Credit Costs:** FY26 guidance at 2.8-3%; FY27 at 200 bps (50-60 bps lower than FY26).
- **Opex Pressures:** Elevated due to ₹23 crore one-time labour code charge and gold loan origination incentives.
- **Regulatory Notes on Special Audit:** Procedural under Income Tax Section 142(2A) for multi-year block assessment post-February Section 132 search. Special auditor appointed; completion expected in 60 days (covering 6-year block period)

Valuations

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Quarterly Comparison

IIFL Finance - Results Highlights - Q3FY26											
(Rs.mn) (Consol)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26	y-o-y (%)	q-o-q (%)
Interest Earned	21,989	23,576	25,630	27,200	22,308	24,833	25,835	28,209	30,193	35.3	7.0
Less: Nil on Off Book	3731	4244	4798	5251	2881	2816	3183	3739	4837	67.9	29.3
Interest Income	18,258	19,332	20,831	21,949	19,427	22,017	22,652	24,470	25,356	30.5	3.6
Interest Expended	8,878	9,321	9,885	10,744	9,957	11,694	12,888	13,819	14,370	44.3	4.0
Nil	9,380	10,011	10,946	11,205	9,471	10,323	9,764	10,651	10,986	16.0	3.1
growth y-o-y (%)	48.0	38.2	38.9	28.4	-13.5	-7.9	-3.6	7.0	16.0		
Other Income	4,878	5,983	5,928	6,382	3,350	3,557	6,615	8,377	8,972	167.8	7.1
Total Income	14,257	15,994	16,875	17,587	12,821	13,881	16,379	19,028	19,958	55.7	4.9
growth y-o-y (%)	22.1	32.8	28.0	28.1	-24.0	-21.1	17.5	29.9	55.7		
Operating expenses	6,332	6,773	7,272	7,691	7,478	7,367	8,017	8,702	9,204	23.1	5.8
Cost/Income ratio	44.4	42.3	43.1	43.7	58.3	53.1	48.9	45.7	46.1		
PPoP	7,925	9,222	9,603	9,897	5,343	6,514	8,362	10,325	10,754	101.3	4.1
growth y-o-y (%)	21.7	40.9	27.8	30.2	-42.1	-32.2	-15.5	59.5	47.0		
Provisions & Contingencies	1,736	2,386	2,440	4,360	4,332	3,417	4,799	4,758	4,124	-4.8	-13.3
Profit Before Tax	6,189	6,836	7,163	5,537	1,011	3,096	3,563	5,567	6,629	555.7	19.1
growth y-o-y (%)	42.6	29.1	29.1	-6.8	-85.9	-44.1	-18.3	-498.7	555.7		
Tax	1,455	1,580	1,711	1,231	193	581	821	1,388	1,616	736.0	16.5
Tax Rate (%)	23.5	23.1	23.9	22.2	19.1	18.8	23.1	24.9	24.4		
Net Profit (Pre-NCI)	4,734	5,256	5,452	4,306	818	2,515	2,741	4,180	5,014	513.0	19.9
Net profit (y-o-y %)	43.6	32.4	28.9	-5.9	-85.0	-41.6	-18.9	-549.2	513.0		
Net profit (q-o-q %)	3.5	11.0	3.7	-21.0	-187.9	207.5	9.0	52.5	19.9		
Total Comp. Income (PAT+OCI) (Post-NCI)	4,072	4,866	5,409	3,677	842	2,417	2,646	4,117	5,069	501.8	23.1
-Owners PAT	4075.5	4868.3	4857	3676.6	453	1983	2250	3722	4687	934.9	25.9
-Non-controlling Interest	465.4	510.1	551.8	564.2	389	434	396	395	381.7	-2.0	-3.4

Source: Dalal & Broacha Research, Company

Other Details	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26	y-o-y (%)	q-o-q (%)
AUMs (Rs.mn)	6,81,780	7,30,660	7,74,440	7,89,600	7,14,110	7,83,410	8,38,890	9,01,220	9,83,340	37.7	9.1
growth y-o-y (%)	29.2	32.1	33.7	22.2	-7.8	-0.8	20.5	34.6	37.7		
growth q-o-q (%)	5.5	7.2	6.0	2.0	6.6	9.7	7.1	7.4	9.1		
Loan Book - On Book	4,15,150	4,40,610	4,72,100	5,08,330	4,97,020	5,49,460	5,72,630	5,96,680	6,37,850	28.3	6.9
Loan Book - Off Book	2,66,630	2,90,050	3,02,340	2,81,270	2,17,080	2,33,950	2,66,260	3,04,550	3,45,490	59.2	13.4
-Assigned Assets	1,77,000			1,64,880	1,24,720	1,27,890	1,50,610	1,86,070	2,13,730	71.4	14.9
-Co-lending Assets	89,630			1,16,390	92,360	1,06,060	1,15,650	1,18,480	1,31,760	42.7	11.2
GOLD	2,21,420	2,36,900	2,46,920	2,33,540	1,50,440	2,10,220	2,72,740	3,45,770	4,34,320	188.7	25.6
HOME LOANS	2,28,380	2,40,090	2,55,190	2,74,380	3,03,180	3,15,880	3,20,170	3,20,340	3,18,930	5.2	-0.4
BUSINESS LOANS	97,350	1,07,350	1,17,670	1,29,090	85,970	1,41,850	1,39,390	96,710	1,00,810	17.3	4.2
MICROFINANCE	1,02,550	1,13,070	1,20,900	1,30,940	103,390	98,590	89,160	83,620	83,600	-19.1	0.0
CONSTRUCTION AND REAL ESTATE	27,320	28,240	28,890	18,470	8,830	8,390	8,850	9,420	9,470	7.2	0.5
Capital market finance	4,770	5,010	4,870	3,080	5,910	6,090	6,860	6,130	5,350	-9.5	-12.7
Discontinued Business			11,380		5,6390	2,390	1,720	3,9240	30,860	-45.3	-21.4
Y-o-Y growth (%)											
AUMs	29.2	32.1	33.7	22.2	-7.8	-0.8	20.5	34.6	37.7		
Loan Book - On Book	28.2	25.3	34.0	29.1	5.3	8.1	25.9	34.0	28.3		
Loan Book - Off Book	30.9	44.0	33.2	11.3	-28.2	-16.8	10.3	35.7	59.2		
GOLD	29.3	32.9	35.0	12.6	-39.1	-10.0	85.2	220.2	188.7		
HOME LOANS	22.7	22.0	25.2	25.9	18.8	15.1	14.0	10.0	5.2		
BUSINESS LOANS	27.4	34.4	43.8	40.6	-26.9	9.9	7.0	-30.5	17.3		
MICROFINANCE	63.4	68.2	54.3	33.8	-14.5	-24.7	-25.8	-26.1	-19.1		
CONSTRUCTION AND REAL ESTATE	9.9	8.9	6.8	-31.4	-69.4	-54.6	-39.5	-34.6	7.2		
Capital market finance	-21.4	2.7	-10.8	-30.3	21.4	97.7	133.3	61.7	-9.5		
Q-o-Q growth (%)											
AUMs	5.5	7.2	6.0	2.0	6.6	9.7	7.1	7.4	9.1		
Loan Book - On Book	5.5	6.1	7.1	7.7	11.6	10.6	4.2	4.2	6.9		
Loan Book - Off Book	5.5	8.8	4.2	-7.0	-3.2	7.8	13.8	14.4	13.4		
GOLD	6.8	7.0	4.2	-5.4	39.3	39.7	29.7	26.8	25.6		
HOME LOANS	4.8	5.1	6.3	7.5	4.1	4.2	1.4	0.1	-0.4		
BUSINESS LOANS	6.0	10.3	9.6	9.7	-38.2	65.0	-1.7	-30.6	4.2		
MICROFINANCE	4.8	10.3	6.9	8.3	-8.6	-4.6	-9.6	-6.2	0.0		
CONSTRUCTION AND REAL ESTATE	1.4	3.4	2.3	-36.1	-38.7	-5.0	5.5	6.4	0.5		
Capital market finance	7.9	5.0	-2.8	-36.8	55.9	3.0	12.6	-10.6	-12.7		
% Share											
GOLD	32.5	32.4	31.9	29.6	21.1	26.8	32.5	38.4	44.2		
HOME LOANS	33.5	32.9	33.0	34.7	42.5	40.3	38.2	35.5	32.4		
BUSINESS LOANS	14.3	14.7	15.2	16.3	12.0	18.1	16.6	10.7	10.3		
MICROFINANCE	15.0	15.5	15.6	16.6	14.5	12.6	10.6	9.3	8.5		
CONSTRUCTION AND REAL ESTATE	4.0	3.9	3.7	2.3	1.2	1.1	1.1	1.0	1.0		
Capital market finance	0.7	0.7	0.6	0.4	0.8	0.8	0.8	0.7	0.5		

Source: Dalal & Broacha Research, Company

Financials

Profit & Loss Account

P&L (Rs Mn)	FY24	FY25	FY26E	FY27E	FY28E
Interest income	98386	95043	109297	129405	152962
Interest expense	38678	41695	54157	61978	72621
NII	59708	53348	55140	67428	80341
Non-interest income	5151	2014	10389	15442	18461
Net revenues	64859	55362	65529	82869	98802
Operating expenses	28,067	29,634	36,260	43,639	52,556
PPOP	36792	25728	29269	39230	46246
Provisions	11073	18658	16075	19573	22358
PBT	25719	7070	13194	19657	23888
Tax	5,977	1,289	3,101	4,619	6,020
PAT	19742	5781	10093	15038	17868
<i>growth (%)</i>	<i>23</i>	<i>-71</i>	<i>75</i>	<i>49</i>	<i>19</i>
<i>Profits attributable to Owners</i>	<i>17635</i>	<i>3735</i>	<i>7638</i>	<i>11968</i>	<i>14032</i>
<i>Non-controlling interest</i>	<i>2107</i>	<i>2046</i>	<i>2455</i>	<i>3069</i>	<i>3837</i>
Comprehensive Income (Post NCI)	19569	5781	10093	15038	17868
<i>growth (%)</i>	<i>19</i>	<i>-70</i>	<i>75</i>	<i>49</i>	<i>19</i>

Balance Sheet

(Rs.mn)	FY24	FY25	FY26E	FY27E	FY28E
Share capital	763	849	850	850	850
Reserves & surplus	105607	123273	130061	143824	159992
Net worth	106370	124122	130911	144674	160842
Non-controlling Interest	14190	15428	15428	15428	15428
Borrowings	471357	515334	589914	714877	846860
Other liability	32127	21559	45770	54557	64412
Total liabilities	624044	676442	782022	929536	1087542
Cash	42459	41918	51485	60105	67206
Investments	40590	44380	53256	62842	72268
Loans	509523	553643	637107	760987	895131
Fixed assets	9575	15098	18118	21741	26090
Other assets	21898	21403	22057	23861	26847
Total assets	624045	676442	782022	929536	1087542

Ratios

Ratios	FY24	FY25	FY26E	FY27e	FY28e
Growth (%)					
NII	44	-11	3	22	19
PPOP	31	-30	14	34	18
PAT	0	0	0	0	0
Advances	27	9	15	19	18
Spread (%)	FY24e	FY25e	FY26e	FY27e	FY27e
Total yields on AUMs	13.8	12.1	12.1	11.6	11.6
Advances yields on B/S loans	17.7	15.0	15.1	14.9	14.9
Cost of Funds	8.9	8.5	9.8	9.5	9.3
Spreads	8.8	6.5	5.3	5.4	5.6
Margins	7.7	6.2	5.2	5.2	5.3
Asset quality (%)	FY24e	FY25e	FY26e	FY27e	FY27e
Gross NPAs (Rs)	11692	12318	14961	17841	21198
Net NPAs (Rs)	5963	5715	7376	9048	10908
Gross NPAs (%)	2.3	2.2	2.3	2.3	2.3
Net NPAs (%)	1.2	1.0	1.2	1.2	1.2
Provisions (%)	49	54	51	49	49
Return ratios (%)	FY24e	FY25e	FY26e	FY27e	FY27e
RoE	18.0	3.2	6.0	8.7	9.2
RoA	3.1	0.6	1.0	1.4	1.4
Per share (Rs)	FY24e	FY25e	FY26e	FY27e	FY27e
No. of shares	382	425	425	425	425
EPS	46.2	8.8	18.0	28.2	33.0
BV	279	292	308	340	378
ABV	258	272	287	340	378
Valuation (x)	FY24e	FY25e	FY26e	FY27e	FY27e
P/E	11.3	59.1	28.9	18.5	15.7
P/BV	1.9	1.8	1.7	1.5	1.4
P/ABV	2.0	1.9	1.8	1.5	1.4
Other Ratios	FY24e	FY25e	FY26e	FY27e	FY27e
C/I Ratio	43.3	53.5	55.3	52.7	53.2
C/I ratio (incl. other income)	40.1	51.6	47.8	44.4	44.8
Opex to AuM	9.2	6.8	5.9	5.2	4.7
Opex to Avg. AUM (%)	3.9	3.8	4.0	3.9	4.0
ROA Tree (%)	FY24e	FY25e	FY26e	FY27e	FY27e
Interest income	17.1	14.6	15.0	15.1	15.2
Interest expense	6.7	6.4	7.4	7.2	7.2
NII	10.3	8.2	7.6	7.9	8.0
Non-interest income	0.9	0.3	1.4	1.8	1.8
Net revenues	11.2	8.5	9.0	9.7	9.8
Operating expenses	4.9	4.6	5.0	5.1	5.2
PPOP	6.4	4.0	4.0	4.6	4.6
Provisions	1.9	2.9	2.2	2.3	2.2
PBT	4.5	1.1	1.8	2.3	2.4
Tax	1.0	0.2	0.4	0.5	0.6
PAT	3.4	0.9	1.4	1.8	1.8
Owners PAT	3.1	0.6	1.0	1.4	1.4

Source: Dalal & Broacha Research, Company

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