

Comfortably placed in rising interest rates !!!

IIFL Finance delivered strong set of numbers – PAT came in at INR 4.6 bn (vs. our expectations of INR 4.4 bn) up by 42.6% yoy and 8.1% qoq led by strong asset growth, margin improvement, stable asset quality and controlled cost.

Outlook

- As per management, advances are likely to grow at 25%+ CAGR over the next 2 years
- In the current scenario where all NBFCs are witnessing margin contraction, IIFL is anticipating spreads will be maintained in FY24 period similar to FY23 levels. Rise in the cost of funds will be compensated by change in the portfolio mix carrying high-yielding assets like MFI etc.
- Credit cost outlook - <200 bps in FY24e
- Branch expansion plans – It is likely to add 150-200 branches in FY24 vs. ~900 addition done in FY23. It would like to break-even current existing branches opened recently before rolling out higher branches going forward.

Valuations –

The NBFC has been consistently delivering strong set of numbers on all the counts. Going forward, we expect PAT to grow at 33% CAGR during FY23-25e led by higher asset growth of 24% and stable margin profile. It is trading at very reasonable valuations of 2.2x/1.8x/1.4x on FY23e/FY24e/FY25e ABV. While it peers are trading at much higher valuation multiples. What we more like about the business model of the company is – it is diversified and present in all high growth segments which are more retail driven assets. We continue our BUY rating on the stock with TP of INR 617, according target multiple of 1.8x on FY25e ABV, upside of ~28% from current levels. We expect rerating to continue going forward as well as the outlook the asset growth and margins continue to remain upbeat.

Financial Summary

Y/E Mar (Rs Bn)	FY21	FY22	FY23E	FY23E	FY23E
Adj BVPS	146	144	223	275	343
EPS (Rs)	20	31	42	57	75
P/ABV (x)	3.3	3.3	2.2	1.8	1.4
P/E (x)	24	15	11	8	6
RoA (%)	2.0	2.7	3.3	3.7	3.9
RoE (%)	15.0	20.0	19.3	19.3	21.1

Source: Company, Dalal & Broacha Research

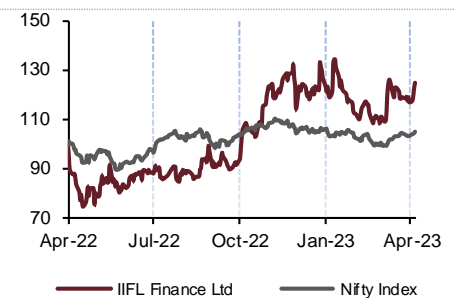
Rating	TP (Rs)	Up/Dn (%)
BUY	617	28

Market data

Current price	Rs	483
Market Cap (Rs.Bn)	(Rs Bn)	184
Market Cap (US\$ Mn)	(US\$ Mn)	2,249
Face Value	Rs	2
52 Weeks High/Low	Rs	538 / 283
Average Daily Volume	('000)	938
BSE Code		532636
Bloomberg		IIFL.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Mar-23	Dec-22
Promoters	25	25
Public	75	75
Others		
Total	100	100

Source: Bloomberg

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Key Financial Highlights

- **Strong AUM growth** - AUMs showed growth of 26% yoy & 12% qoq to INR 646.4 bn led by strong growth across all segments. Within this, home loans (33.7% share) grew by 23% yoy, gold loans (32% share) by 28% yoy, LAP (10.3% share) by 18% yoy and digital loans (3.9% share) by 33% yoy and MFI loans (15% share) by 59% yoy for the same period. Non-core business segment viz CRE book continued to witness downward trajectory which stood at INR 27 bn vs. INR 29 bn in Q4FY22. In home loans segment, the primary focus is on affordable and non-metro housing loans. And in gold loans, growth is coming from the market penetration
- **Going forward, management expects AUMs growth to witness growth of 25%+ CAGR over the next 2 years time.**
- Incremental disbursements growth was very strong for the quarter at 37.6% yoy vs. 22.5% in Q3FY23. Disbursements were strongest for MFI witnessing 49% yoy growth, gold loans 40.6% yoy, business loans (including LAP & digital loans) 35.7% yoy and home loans by 13.9% yoy.
- Total off-book assets grew by 29.3% yoy vs. 38.4% growth seen in Q3 and 31% in Q4FY22. Total off-book comprise of 39% of total AUMs. Within this, co-lending book showed growth of 166% yoy to INR 75.6 bn, assigned assets 19% yoy to INR 169.8 bn and securitisation declined by 69% yoy to INR 7.4 bn.
- **For the quarter, spreads improved on qoq basis by 20 bps to 7.5% as rise of portfolio yields (16.4% vs. 16.1% qoq) was higher than the cost of funds (8.9% vs. 8.8% qoq).** For the full year FY23, spreads improved by 130 bps to 7.8% yoy led by 160 bps rise in portfolio yields (16.6%) and rise in cost of funds by meagre 30 bps (8.8%). Going forward, management expects spreads to be maintained in FY24 as well as AUM mix is tilting towards high-yielding assets like MFI which will take care of the increased cost of funds.
- **Asset quality performance improving** - Stage 3 assets were at INR 7.4 bn in Q4 vs. INR 7.5bn in Q3 vs. INR 8.5 bn in Q2 and 8.9 bn in Q1. GNPA declined to 1.84% vs. 2.1% qoq (PCR stood at 41%). There was decline in GNPLs across segments viz. home loans at 1.92% vs. 2.16% qoq, gold loans at 0.8% vs same level qoq, LAP 2.9% vs. 3.48%, digital loans at 3.63% vs. 4.18% and MFI loans 2.12% vs. 2.65% for the same period. Also, PCR on CRE book stands high at 67.7%.
- For the full year FY23, the bank had added 971 branches taking total count of its branches to 4267. Over the last 2 years i.e. FY21-FY23 period, branches have more than doubled.

Concall Highlights

- **As per management, advances are likely to grow at 25%+ CAGR over the next 2 years**
- **In the current scenario where all NBFCs are witnessing margin contraction, IIFL is anticipating spreads to be maintained in FY24 period similar to FY23 levels. Rise in the cost of funds will be compensated by change in the portfolio mix carrying high-yielding assets like MFI etc.**
- **Credit cost outlook - <200 bps in FY24e**
- **Branch expansion plans - It is likely to add 150-200 branches in FY24 vs. ~900 addition done in FY23. It would like to break-even current existing branches opened recently before rolling out higher branches going forward**
- During the quarter, the NBFC redeemed \$400 mn medium term notes (MTN) raised in Feb 2020, which had higher cost of ~11%. And this has been partially replaced with \$100 mn long term funding raised from EDC and Deutsche Bank @9.2% (which is 180 bps lower rate).
- Despite lower amount of the assignment and increased share of co-lending, ROA/ROE is not likely to get impacted materially, as per management
- As per management, domestic credit demand outlook is positive
- Management highlighted that share of IIFL in mortgages is <1% - and also mortgages penetration is one of the lowest @11% as compared to other countries. Hence, there is ample room for growth for IIFL to grow going forward. There is marginal slowdown in the mortgages demand, however, as per management, it is temporary phenomenon. Long term demand outlook continues to remain strong.
- Similarly, in MSME sector, bank's outstanding lending is to the tune of 35-40 trillion for banks and sector is still very grossly under-penetrated. Here again, IIFL has sizeable scope for growth in this segment
- Going forward, assignment will reduce and co-lending will increase. Hence, relatively upfronting of income in the P&L will keep on reducing.

Quarterly Financials (Q4FY23)

IIFL Finance - First Cut Q4FY23							
(Rs.mn) (Consol)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Y-O-Y (%)	Q-O-Q(%)
Interest Earned	16,414	16,771	17,958	19,192	20,454	24.6	6.6
Interest Expended	7,732	7,760	7,758	8,095	8,606	11.3	6.3
NII	8,682	9,011	10,200	11,096	11,848	36.5	6.8
<i>growth y-o-y (%)</i>	<i>11.5</i>	<i>22.6</i>	<i>32.1</i>	<i>33.8</i>	<i>36.5</i>		
Other Income	2,763	2,981	2,557	2,254	2,306	-16.5	2.3
Total Income	11,444	11,992	12,756	13,350	14,154	23.7	6.0
<i>growth y-o-y (%)</i>	<i>18.2</i>	<i>44.3</i>	<i>31.6</i>	<i>24.7</i>	<i>23.7</i>		
Operating expenses	4,685	5,166	5,502	5,667	6,132	30.9	8.2
<i>growth y-o-y (%)</i>	<i>47.5</i>	<i>63.9</i>	<i>42.0</i>	<i>34.7</i>	<i>30.9</i>		
PPoP	6,760	6,826	7,255	7,683	8,023	18.7	4.4
<i>growth y-o-y (%)</i>	<i>3.8</i>	<i>32.4</i>	<i>24.7</i>	<i>18.2</i>	<i>18.7</i>		
Provisions & Contingencies	2,564	2,487	1,960	2,132	2,083	-18.8	-2.3
Profit Before Tax	4,196	4,339	5,295	5,552	5,940	41.6	7.0
<i>growth y-o-y (%)</i>	<i>30.7</i>	<i>23.8</i>	<i>42.5</i>	<i>40.8</i>	<i>41.6</i>		
Tax	987	1,042	1,324	1,319	1,365	38.3	3.4
Net Profit	3,210	3,297	3,971	4,232	4,576	42.6	8.1
<i>Net profit (y-o-y %)</i>	<i>29.3</i>	<i>24.0</i>	<i>36.2</i>	<i>36.6</i>	<i>42.6</i>		
<i>Net profit (q-o-q %)</i>	<i>3.6</i>	<i>2.7</i>	<i>20.4</i>	<i>6.6</i>	<i>8.1</i>		

Other Details	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
AUMs (Rs.mn)	5,12,100	5,27,620	5,53,030	5,79,410	6,46,380
<i>Loan Book - On Book</i>	<i>3,16,700</i>	<i>3,23,860</i>	<i>3,51,620</i>	<i>3,52,370</i>	<i>3,93,660</i>
<i>Loan Book - Off Book</i>	<i>1,95,400</i>	<i>2,03,760</i>	<i>2,01,410</i>	<i>2,27,040</i>	<i>2,52,720</i>
GOLD	1,62,280	1,71,300	1,78,320	1,82,840	2,07,330
HOME LOANS	1,77,270	1,86,180	1,96,810	2,03,890	2,18,000
BUSINESS LOANS	75,590	76,430	79,850	81,820	91,830
MICROFINANCE	61,550	62,760	67,240	78,340	97,860
CONSTRUCTION AND REAL ESTATE	28,990	24,870	25,930	27,050	26,940
Capital market finance	6,420	6,070	4,880	5,460	4,420
Y-o-Y growth (%)					
AUMs	14.6	22.2	25.0	23.9	26.2
<i>Loan Book - On Book</i>	<i>6.3</i>	<i>13.2</i>	<i>21.8</i>	<i>16.0</i>	<i>24.3</i>
<i>Loan Book - Off Book</i>	<i>31.1</i>	<i>39.9</i>	<i>31.0</i>	<i>38.4</i>	<i>29.3</i>
GOLD	23.4	29.2	31.1	25.2	27.8
HOME LOANS	22.8	26.2	25.4	23.6	23.0
BUSINESS LOANS	1.3	7.4	13.8	16.7	21.5
MICROFINANCE	29.9	43.1	48.3	51.3	59.0
CONSTRUCTION AND REAL ESTATE	-31.5	-11.4	-4.7	-2.8	-7.1
Capital market finance	-3.2	-27.9	-27.8	-22.4	-31.2
Disbursements (Rs.mn)	Q4FY22	Q1FY23	Q1FY23	Q3FY23	Q4FY23
GOLD	79,970	71,350	68,110	71,770	1,12,450
HOME LOANS	21,320	18,140	19,510	18,820	24,280
BUSINESS LOANS	13,850	12,180	13,950	12,930	18,800
MICROFINANCE	25,160	13,740	18,340	26,990	37,500
Total disbursements	1,40,300	1,15,410	1,19,910	1,30,510	1,93,030

Growth (%)

GOLD	59.1	91.9	33.2	11.1	40.6
HOME LOANS	19.8	83.8	22.2	18.3	13.9
BUSINESS LOANS	175.3	240.2	165.2	33.3	35.7
MICROFINANCE	35.4	482.2	70.9	65.8	49.0
Total disbursements	53.1	117.8	44.3	22.5	37.6

Ratios	Q4FY22	Q1FY23	Q1FY23	Q3FY23	Q4FY23
ROA (%) (reported)	2.9	2.9	3.4	3.4	3.6
ROE (%) (reported)	21.1	20.5	20.4	17.9	19.3
Cost/Income ratio	40.9	43.1	43.1	42.5	43.3
Advances yields (%) (calc)	19.6	19.8	20.8	21.6	21.5
Cost of funds (%) (calc)	8.9	8.8	8.8	9.6	9.6
Margins (%) (calc)	8.3	8.6	9.4	9.8	10.0
GNPAs (%) (reported)	3.2	2.6	2.4	2.1	1.8
Net NPAs (%) (reported)	1.8	1.5	1.2		

Source: Company, Dalal & Broacha Research

Financials

P&L (Rs Mn)	FY21	FY22	FY23	FY24e	FY25e
Interest income	54,212	61,949	73,693	91,651	1,14,284
Interest expense	26,258	29,910	32,218	38,126	47,052
NII	27,954	32,039	41,475	53,526	67,232
Non-interest income	5,685	8,114	10,778	13,543	16,645
Net revenues	33,639	40,153	52,253	67,069	83,877
Operating expenses	11,904	15,918	22,466	28,962	33,104
PPOP	21,734	24,235	29,787	38,107	50,773
Provisions	11,686	8,875	8,661	9,161	12,652
PBT	10,048	15,360	21,126	28,947	38,121
Tax	2,440	3,477	5,050	7,295	9,606
PAT	7,608	11,883	16,076	21,652	28,514
<i>Growth (%)</i>	<i>55</i>	<i>59</i>	<i>28</i>	<i>36</i>	<i>33</i>
PAT after NCI	7,539	11,971	15,340	20,916	27,778
<i>Growth (%)</i>	<i>55</i>	<i>59</i>	<i>28</i>	<i>36</i>	<i>33</i>
Balance sheet	FY21	FY22	FY23	FY24e	FY25e
Share capital	758	759	759	759	759
Reserves & surplus	53,177	63,938	1,01,260	1,21,204	1,47,820
Net worth	53,934	64,697	1,02,019	1,21,963	1,48,579
Borrowings	3,25,831	3,60,858	3,96,040	4,69,150	5,76,458
Other liability	26,904	33,546	31,951	56,125	74,975
Total liabilities	4,06,669	4,59,102	5,30,010	6,47,237	8,00,012
Fixed assets	1,043	1,505	8,900	10,680	12,816
Investments	820	12,664	35,110	37,287	40,083
Loans	3,35,332	3,36,929	4,00,010	5,16,065	6,34,104
Cash	47,841	81,569	58,390	62,044	83,178
Other assets	21,634	26,434	27,600	21,161	29,831
Total assets	4,06,669	4,59,102	5,30,010	6,47,237	8,00,012

Ratios	FY21	FY22	FY23	FY24E	FY25E
Growth (%)					
NII	26	15	29	29	26
PPOP	89	12	23	28	33
PAT	51	56	35	35	32
Advances	18	0	19	29	23
Spread (%)					
Yield on Funds on avg. AU	13.1	12.9	12.9	12.8	12.9
Cost of Funds	8.7	8.7	8.5	8.8	9.0
Spread on Avg. AUMs	4.5	4.2	4.3	4.0	3.9
NIMs on avg. AUMs	6.8	6.7	7.2	7.5	7.6
Asset quality (%)					
<i>Gross NPAs</i>	<i>2.0</i>	<i>2.5</i>	<i>2.3</i>	<i>1.9</i>	<i>1.9</i>
Net NPAs	0.9	1.4	1.3	1.1	1.0
Provisions	57	43	41	45	47
Return ratios (%)					
RoE	15.0	20.0	19.3	19.3	21.1
RoA	2.0	2.7	3.3	3.7	3.9
Per share (Rs)					
EPS	20.1	31.3	42.3	57.0	75.1
BV	156	157	237	289	360
ABV	146	144	223	275	343
Valuation (x)					
P/E	24.0	15.4	11.4	8.5	6.4
P/BV	3.1	3.1	2.0	1.7	1.3
P/ABV	3.3	3.3	2.2	1.8	1.4
Other Ratios					
C/I Ratio	35.4	39.6	43.0	43.2	39.5
C/I ratio (incl. other income)	30.3	33.0	35.6	35.9	32.9
Opex to AuM	2.9	10.8	11.0	9.5	7.6
Opex to Avg. AUM (%)	2.9	3.3	3.9	4.1	3.7

Source: Dalal & Broacha Research, Company

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