

Best bet in NBFC space !!!

IIFL Finance reported good set of numbers - consol PAT (post NCI) stood at INR 490.4 cr, up by 30% yoy and 3% qoq led by healthy asset growth and spreads expansion on qoq basis. AUM grew by 34% yoy and growth rate was strong across segments home loans, gold loans, MFI & digital loans. During the quarter, higher borrowings cost witnessed during the quarter was passed onto the customers. Asset quality performance was stable - GNPA/NNPA came down to 1.8%/1.1% in Q2FY24 to 1.7%/0.9% QoQ.

Valuations

AIF exposure concern is waned down - small amount of exposure of housing finance company is provided for. Parent IIFL Finance AIF exposure of INR 910 cr doesn't has regulatory concern as IIFL has not done any lending to AIF here. On the growth side, despite slowdown in the digital personal loans & moderation in MFI, AUM growth will continue to be strong at 25-30% CAGR over the 2 years. Additionally, IIFL Finance is the only NBFC which has seen spreads expansion vs. fall witnessed for others due to better ALM management. Given above parameters, visibility of PAT growth is higher - which will grow by 27% CAGR over FY23-25e period.

It is trading at 1.9x FY25e ABV on ROE/ROA of 19.5%/3.7%. Retain BUY with TP of INR 813, discounting its FY25e ABV by 2.5x

Financial Summary

Y/E Mar (Rs Bn)	FY 22	FY 23	FY 24E	FY 25E
Adj BVPS	155	218	265	327
EPS (Rs)	32	40	51	65
P/ABV (x)	4.2	3.0	2.4	2.0
P/E (x)	21	16	13	10
RoA (%)	2.7	3.3	3.5	3.7
RoE (%)	20.0	19.3	18.4	19.4

Source: Dalal & Broacha Research, Company

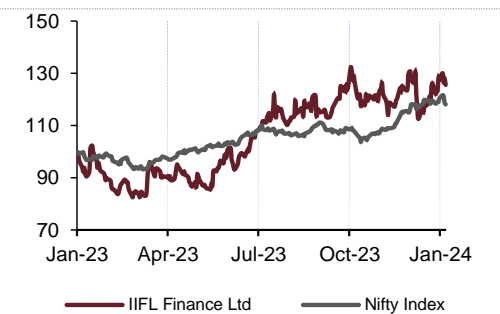
Rating	TP (Rs)	Up/Dn (%)
BUY	813	27

Market data

Current price	Rs	639
Market Cap (Rs.Bn)	(Rs Bn)	244
Market Cap (US\$ Mn)	(US\$ Mn)	2,931
Face Value	Rs	2
52 Weeks High/Low	Rs	704/408
Average Daily Volume	('000)	728
BSE Code		532636
Bloomberg		IIFL.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Oct-23	Jun-23
Promoters	24.8	24.8
Public	75.2	75.2
Total	100	100

Source: Bloomberg

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Key Financial Highlights

- Consol PAT (post NCI) stood at INR 490.4 cr, up by 30% yoy and 3% qoq.
- **Strong asset growth continues** – Total AUM growth strong at 34% yoy and 6% qoq to INR 77444 cr. Within this, home loans growth was at 25% yoy to INR 25519 cr (33% share), gold loans 35% to INR 24692 cr (32% share), LAP loans 27% yoy to INR 7862 cr (10% share), digital loans 96% yoy to INR 3905 cr (5% share) and MFI loans 54% yoy to INR 12090 cr (16% share).
- **Digital loans will be scale down in coming quarters** - Management highlighted that digital personal loans which have 1.5% share (amounting to INR 1160 cr) strategically will be reduced down considerably. However, this is not likely to have impact on the AUM growth given its share is small in overall portfolio
- **MFI loans too will see some moderation from the current run-rate of growth of 50%+ as it has observed some over lending in certain geographies**
- **Portfolio yields increased on sequential basis** – Blended portfolio yields has improved by 20 bps on qoq basis to 17.2% levels. Home loans witnessed 10 bps rise qoq to 11.1%, gold loans 50 bps to 19%, LAP 10 bps to 18.7%, MFI loans 10 bps to 24.5%.
- **Spreads improved by 10 bps qoq** - Blended borrowings cost surged by 10 bps to 9.1% in Q3FY24. Spreads improved by 10 bps to 8.1% levels in Q3FY24 as all the higher borrowings cost was passed onto customers.
- **Asset quality performance was stable** - GNPA/NNPA came down to 1.8%/1.1% in Q2FY24 to 1.7%/0.9% qoq.

Concall Highlights

- **IIFL Finance has disclosed a combined investment of INR 21.4 cr in IIFL Fintech Fund**, along with an outstanding debt exposure of ₹3.3 cr linked to one of the fund's downstream investments. The NBFC is likely to sell this exposure.
- **Housing finance AIF exposure** - IIFL Home Finance, a subsidiary of IIFL Finance, had committed an investment of INR 161 cr through the 'Priority Distribution Model.' This said exposure has been knocked off from the capital during the quarter
- **Also, IIFL Finance had AIF exposure of INR 910 cr** (this is nothing but CRE exposure that was sold to AIF ~2 years back). But here AIF is not the same company where IIFL Finance has lend to - hence, there is no regulatory concern on this said exposure based on recent circular. However, this asset is likely to achieve closure in Q1 FY25 period. Also, it has made a provisions of ~10 cr in Q2 and INR 40 cr in Q3 (cumulative INR 50 cr) on the conservative basis.
- **Incremental borrowing cost** - IIFL Finance parent company incremental borrowing cost has increased by 20-25 bps post increase in the risk weightage. While IIFL Home Finance subsidiary has seen increase of ~20 bps which was mainly due to hike in the MCLR effected by banks in Q3 and not because of increase in RBI norms on risk weightage. While MFI incremental borrowing cost has also increased which was mainly due to NCD raising done by the NBFC.
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- Digital personal loans amounting to INR 1160 cr (1.5% of AUMs) where the sourcing of the loans is done by the fintech partners - will see natural scale down in the coming quarters
- In MFI loans, the management is seeing over-lending in certain geographies; hence current run-rate of 50%+ in this segment will see some moderation.
- **MFI subsidiary** - IIFL Finance parent has invested ~INR 200 cr in MFI subsidiary in Q3. And also, it raised the NCD amounting to INR 550 cr which resulted in improved capital positions of the company. Total CAR surged to 24.3% in Q3FY24 from 21% last quarter.
- Also, it also likely to start supply chain financing as well

- CRISIL has upward revised IIFL Finance's outlook to 'Positive' from 'Stable'. The agency has also reaffirmed the long-term rating at 'CRISIL AA' and short-term rating at 'CRISIL A1+'
- IIFL Finance has raised JPY 7.5 billion (US\$50 million) through external commercial borrowing (ECB) route from Mizuho Bank's Singapore branch in Q3
- IIFL Finance's legal head Nishith Doshi resigned from the company citing personal reasons

Valuations

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Quarterly Financials (Q3FY24)

IIFL Finance - Results Highlights - Q3FY24					
(Rs.mn) (Consol)	Q3FY23	Q2FY24	Q3FY24	YoY (%)	QoQ (%)
Interest Earned	19,192	19332	20831	8.5	7.8
Interest Expended	8,095	9321	9885	22.1	6.1
NII	11,096	10,011	10,946	-1.4	9.3
<i>growth y-o-y (%)</i>	<i>33.8</i>	<i>38.2</i>	<i>-1.4</i>		
Other Income	2,254	5,982	5,928	163.0	-0.9
Total Income	13,350	15,993	16,874	26.4	5.5
<i>growth y-o-y (%)</i>	<i>24.7</i>	<i>32.7</i>	<i>26.4</i>		
Operating expenses	5,667	6,773	7,272	28.3	7.4
<i>growth y-o-y (%)</i>	<i>34.7</i>	<i>23.1</i>	<i>28.3</i>		
PPoP	7,683	9,221	9,602	25.0	4.1
<i>growth y-o-y (%)</i>	<i>18.2</i>	<i>40.7</i>	<i>25.0</i>		
Provisions & Contingencies	2,132	2,386	2,440	14.5	2.3
Profit Before Tax	5,552	6,835	7,162	29.0	4.8
<i>growth y-o-y (%)</i>	<i>40.8</i>	<i>28.9</i>	<i>29.0</i>		
Tax	1,319	1,580	1711	29.7	8.3
Net Profit (Pre-NCI)	4,232	5,255	5,451	28.8	3.7
<i>Net profit (y-o-y %)</i>	<i>36.6</i>	<i>32.1</i>	<i>28.8</i>		
<i>Net profit (q-o-q %)</i>	<i>6.4</i>	<i>11.1</i>	<i>3.7</i>		
Minority Interest	449	513	547		
Net Profit (Post -NCI)	3,783	4,742	4,904	29.6	3.4

Other Details	Q3FY23	Q2FY24	Q3FY24
AUMs (Rs.mn)	5,79,410	7,30,660	7,74,440
<i>Loan Book - On Book</i>	<i>3,52,370</i>	<i>4,40,610</i>	<i>4,72,100</i>
<i>Loan Book - Off Book</i>	<i>2,27,040</i>	<i>2,90,050</i>	<i>3,02,340</i>
GOLD	1,82,840	2,36,900	2,46,920
HOME LOANS	2,03,890	2,40,090	2,55,190
BUSINESS LOANS	81,820	1,07,350	1,17,670
-LAP	61,860	71,960	78,620
-Digital Loans	19,960	35,390	39,050
MICROFINANCE	78,340	1,13,070	1,20,900
CONSTRUCTION AND REAL ESTA	27,050	28,240	28,890
Capital market finance	5,460	5,010	4,870
Y-o-Y growth (%)			
AUMs	23.9	32.1	33.7
<i>Loan Book - On Book</i>	<i>16.0</i>	<i>25.3</i>	<i>34.0</i>
<i>Loan Book - Off Book</i>	<i>38.4</i>	<i>44.0</i>	<i>33.2</i>
GOLD	25.2	32.9	35.0
HOME LOANS	23.6	22.0	25.2
BUSINESS LOANS	16.7	34.4	43.8
MICROFINANCE	51.3	68.2	54.3
CONSTRUCTION AND REAL ESTA	-2.8	8.9	6.8
Capital market finance	-22.4	2.7	-10.8

Disbursements (Rs.mn)	Q3FY23	Q2FY24	Q3FY24
GOLD	71,770	85,330	89,840
HOME LOANS	18,820	21,310	23,800
BUSINESS LOANS	12,930	20,160	23,520
MICROFINANCE	26,990	31,730	29,170
Total disbursements	1,30,510	1,58,530	1,66,330
Growth (%)			
GOLD	11.1	25.3	25.2
HOME LOANS	18.3	9.2	26.5
BUSINESS LOANS	33.3	44.5	81.9
MICROFINANCE	65.8	73.0	8.1
Total disbursements	22.5	32.2	27.4
Ratios	Q3FY23	Q2FY24	Q3FY24
ROA (%) (reported)	3.4	3.9	3.8
ROE (%) (reported)	17.9	20.1	19.7
Cost/Income ratio	42.5	42.3	43.1
Portfolio yields (reported)	16.1	17.0	17.2
Borrowings cost (%) (reported)	8.8	9.0	9.1
Spreads	7.3	8.0	8.1
GNPAs (%) (reported)	1.8	2.1	1.7
Net NPAs (%) (reported)			0.9
% Share	Q3FY23	Q2FY24	Q3FY24
<i>GOLD</i>	31.6	32.4	31.9
<i>HOME LOANS</i>	35.2	32.9	33.0
<i>BUSINESS LOANS</i>	14.1	14.7	15.2
<i>MICROFINANCE</i>	13.5	15.5	15.6
<i>CONSTRUCTION AND REAL ESTA</i>	4.7	3.9	3.7
<i>Capital market finance</i>	0.9	0.7	0.6
% Share of	Q3FY23	Q2FY24	Q3FY24
On book AUMs	60.8	60.3	61.0
Off Book AUMs	39.2	39.7	39.0

Source: Dalal & Broacha Research, Company

Financial

Profit & Loss Account

P&L (Rs Mn)	FY22	FY23	FY24E	FY25E
Interest income	61,345	73,693	90,312	1,09,140
Interest expense	29,910	32,218	38,673	46,630
NII	31,435	41,474	51,639	62,510
Non-interest income	8,891	10,778	12,482	15,089
Net revenues	40,327	52,253	64,121	77,598
Operating expenses	15,918	22,466	26,484	31,411
PPOP	24,409	29,786	37,637	46,187
Provisions	9,048	8,661	10,161	11,774
PBT	15,360	21,125	27,477	34,413
Tax	3,477	5,050	6,924	8,672
PAT	11,883	16,075	20,552	25,741
<i>Growth (%)</i>	<i>56</i>	<i>35</i>	<i>28</i>	<i>25</i>
Non-Controlling Intere	4	1,057	1,073	1,073
Net Profit (post NCI)	11,880	15,018	19,480	24,669
<i>Other Comprehensive Inc</i>	<i>92</i>	<i>322</i>	<i>0</i>	<i>0</i>
Consol PAT (post NCI & Growth (%))	11,972	15,340	19,480	24,669
	63	28	27	27

Balance Sheet

(Rs. mn)	FY 22	FY 23	FY24E	FY25E
Share capital	759	761	761	761
Reserves & surplus	63,879	89,160	1,08,000	1,31,839
Non-controlling Interest	59	12,101	12,101	12,101
Net worth	64,697	1,02,021	1,20,862	1,44,701
Borrowings	3,60,858	4,00,174	4,78,761	5,81,002
Other liability	33,549	27,818	35,672	43,790
Total liabilities	4,59,104	5,30,013	6,35,295	7,69,493
Fixed assets	7,810	8,896	10,230	11,867
Investments	11,922	35,110	38,972	43,649
Loans	3,36,929	4,00,010	4,83,549	5,87,765
Cash	81,569	58,390	66,788	79,641
Other assets	20,875	27,607	35,756	46,572
Total assets	4,59,104	5,30,013	6,35,295	7,69,493

Source:

Ratios

Ratios	FY 22	FY 23	FY 24E	FY 25E
Growth (%)				
NII	12	32	25	21
PPOP	12	22	26	23
PAT	63	28	27	27
Advances	0	19	21	21
Spread (%)				
Advances yield on avg. AUMs	12.4	12.4	12.2	11.9
Spread on Avg. AUMs	3.7	3.9	3.4	3.1
NIMs on avg. AUMs	6.6	7.2	7.2	7.1
Advances yield on On B/S advances	17.7	19.3	19.7	19.7
Yield on funds	15.1	16.0	16.7	16.8
Cost of Funds	8.7	8.5	8.8	8.8
Spreads (on B/S assets)	6.4	7.5	7.9	8.0
NIMs (on B/S assets)	7.7	9.0	9.5	9.6
Asset quality (%)				
Gross NPAs	2.5	2.3	2.0	1.9
Net NPAs	1.4	1.3	1.1	1.0
Provisions	43	41	45	47
Return ratios (%)				
RoE	20.0	19.3	18.4	19.4
RoA	2.7	3.3	3.5	3.7
Per share (Rs)				
EPS	31.5	40.3	51.2	64.8
BV	170	236	286	349
ABV	155	218	265	327
Valuation (x)				
P/E	20.6	16.1	12.7	10.0
P/BV	3.8	2.8	2.3	1.9
P/ABV	4.2	3.0	2.4	2.0
Other Ratios				
C/I Ratio	39.5	43.0	41.3	40.5
C/I ratio (incl. other income)	32.3	35.6	34.6	33.9
Opex to AuM	10.8	11.0	8.7	7.2
Opex to Avg. AUM (%)	3.3	3.9	3.7	3.6
AUMs	5,12,100.0	6,34,690.0	7,92,712.2	9,73,110.8

Source: Dalal & Broacha Research, Company

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