

Firing on all cylinders !!!

IIFL Finance posted extra-ordinary set of numbers. Consol PAT (pre-non-controlling interest) came in at INR 525.5 cr (similar to our expectations), up by 32% yoy and 11% qoq. And consol PAT (post NCI) was at INR 474.3 cr, up by 25% yoy and 11% qoq. Total AUMs reported strong growth of 32% yoy (7% qoq) to INR 73066 cr. Spreads too surged to 8% levels led by expansion in the gold loan yields. Outlook on the growth and margins is strong going forward; the current run-rates to continue. Asset quality maintained – GNPA/NNPA at 1.8%/ % resp. It is likely to raise capital over the next 1 year time. During the quarter, ROA reached to all-time high levels of 3.9% levels from 3.6% in Q1 last quarter. We retain BUY rating with revised TP of INR 813, upside of 24% from current levels.

Outlook

- AUMs are likely to grow at 25% CAGR over next 2 years time.
- Spreads will be maintained at the current levels of 7.5-8% in FY24.
- The management expects ROA of ~3.7-3.9% levels for the full year FY24.
- Branch expansion plans – In FY24, it is likely to add 16-20 branches on the home loan segment (~200 branches were opened in FY23) & ~200 will be added on micro-finance side.
- Asset quality outlook going forward is stable.

Valuations - It is currently trading at 2.5x/2x FY24e/FY25e ABV on ROE of 18-19%/ROA of ~3.5%. We expect strong profit growth trajectory to continue on the back of healthy growth in retail assets. We retain BUY rating on the stock with **revised TP of INR 813, upside of 24% from the current levels** (discounting its FY25e ABV by 2.5x)

Financial Summary

Y/E Mar (Rs Bn)	FY21	FY22	FY23	FY24E	FY25E
Adj BVPS	134	155	218	265	325
EPS (Rs)	19	32	40	51	64
P/ABV (x)	4.9	4.2	3.0	2.5	2.0
P/E (x)	34	21	16	13	10
RoA (%)	2.0	2.7	3.3	3.5	3.6
RoE (%)	15.0	20.0	19.3	18.3	19.1

Source: Dalal & Broacha Research, Company

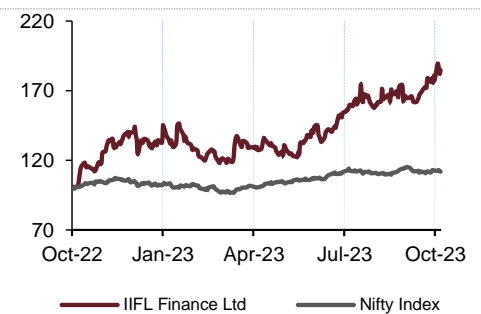
Rating	TP (Rs)	Up/Dn (%)
BUY	813	24

Market data

Current price	Rs	656
Market Cap (Rs.Bn)	(Rs Bn)	250
Market Cap (US\$ Mn)	(US\$ Mn)	3,004
Face Value	Rs	2
52 Weeks High/Low	Rs	704 / 349
Average Daily Volume	('000)	768
BSE Code		532636
Bloomberg		IIFL.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Oct-23	Jun-23
Promoters	25	25
Public	75	75
Total	100	100

Source: Bloomberg

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Q2FY24 Concall Highlights

- The NBFC is planning to raise capital over the next 1 year time to fund for its future growth. Currently, IIFL Finance parent has 20.5% CAR (Tier I 13.1%), home finance 47.6% and samasta finance has CAR levels of 21%.
- The management is looking to grow AUMs ~25% CAGR over the next 2-3 years time in line with the current run-rate of growth
- During the quarter, the company secured USD 50 mn from U.S International Development Finance Corporation (an agency of the United States of America) for financing of the affordable loans*. During last quarter, it had raised \$175 mn through ECB route from HSBC, Union Bank and BOB. All these efforts had resulted in the cost of funds coming down by 10 bps on sequential basis to 9% levels. Also going forward, cost of funds are expected to remain at the current levels
- Blended yields on entire AUMs improved by 40 bps on qoq basis to 17.1% levels which was led by surge in gold loan portfolio yields (which increased by 1% qoq) and marginal surge in the LAP yields as well
- Surge in the yields and decline in the cost of funds resulted in spread (reported) expansion of ~40-50 bps to 8% levels during the quarter. Also, going forward, the NBFC expects current run rate of spreads to continue with no material downside expected. Outperformance in the spreads of IIFL is key positive vis-à-vis contraction witnessed for other NBFCs
- AUM growth across segments was strong – Total AUMs reported growth of 32% yoy and 7% qoq to INR 73066 cr. Within this, home loans grew by 22% yoy (33% share), gold loans by 33% yoy (32% share), LAP by 21% yoy (10% share), Digital loans by 77% yoy (5% share), MFI loans by 67% yoy (15% share). Total growth in off-book assets was at 30.9% yoy and 5.5% qoq to INR 29005 cr (40% of the total AUMs)
- Gold loan portfolio reported extraordinary growth of 33% yoy and 7% qoq to INR 23690 cr (32% share) aided by strong distribution network built over the last 3-4 years. Tonnage of gold showed growth of 6.4% on qoq basis. Branch distribution has increased by nearly 3x over the last 6 years from 1036 in FY18 to 2706 as on Q2FY24. The relative AUM growth of IIFL is much stronger as compared to muted or moderated growth witnessed by peers like Muthoot & Manappuram Finance.
- Home loans (33% share) has witnessed 22% yoy and 5% qoq growth to INR 24009 cr led by expanded distribution network. Home loan branches have increased by 3x in last 4 years to 410 as on Q2FY24 which is enabling the company to build AUMs. In home loans, IIFL Finance is reaching the size of Can Fin Homes (which mentioned in the call that it is witnessing slowdown in the affordable housing loan segment, its AUM grew by ~16% yoy)
- During the quarter, MFI too witnessed extraordinary growth of 67% yoy reaching to size of book reaching to INR 11307 cr – one of the highest seen in the last 10-12 quarters. The NBFC reiterated that current trajectory of growth will continue going forward for the next 1-2 years time.
- Relative to topline growth, opex growth was less at 22.6% yoy and 3.3% qoq to INR 677 cr as operating leverage benefits are kicking in – commensurate increase in the opex is not required to generate higher volume growth. More benefits to kick in future as well - cost/income which currently stands at 42% is expected to come down to ~35% levels
- In H1FY24, it has added 295 branches taking total count of branches to 4601 branches (which includes home loan branches 410, gold loan branches – 2706, MFI branches – 1485)
- Asset quality performance stable – In % terms, GNPL/NNPL were largely stable at 1.8%/1% respectively. However, in gold loans we saw gross NPAs increasing marginally from 0.8% to 1.2% on qoq basis, however, the ultimate loss in this segment is less given secured nature of loans. PCR stood at 44.5% levels.
- The company aims to maintain the ROA of the 3.7-3.9% (reported) levels in FY24

Key Financial Highlights

- IIFL Finance posted outstanding set of numbers – consol PAT (pre-non-controlling interest) came in at INR 525.5 cr (similar to our expectations), up by 32% yoy and 11% qoq. Consol PAT (post non-controlling interest) was at INR 474.3 cr, up by 25% yoy and 11% qoq
- AUM growth across segments was strong – Total AUMs reported growth of 32% yoy and 7% qoq to INR 73066 cr. Within this, home loans grew by 22% yoy (33% share), gold loans by 33% yoy (32% share), LAP by 21% yoy (10% share), Digital loans by 77% yoy (5% share), MFI loans by 67% yoy (15% share). Total growth in off-book assets was at 30.9% yoy and 5.5% qoq to INR 29005 cr (40% of the total AUMs)
- NII registered growth of 38% yoy and 7% qoq to INR 1001 cr. Other income (including income from the off book assets) grew by 24% yoy.
- On the margin side, blended yield on consol book improved by 40 bps qoq to 17.1% while cost of funds declined by 10 bps qoq to 9%. Incremental spreads jumped to 8% levels, up by 50 bps on qoq basis. Going forward, management is reiterated that spreads are likely to remain at the current levels
- Blended NII growth was strong at 45.5% yoy and 10.7% qoq to INR 13.1 bn. NII for on the book assets grew by 47% yoy to INR 9.4 bn. And NII for off the book assets grew by 51% to INR 3.7 bn.
- Opex growth is lower than the asset growth, opex cost increased by 22.6% yoy to INR 633 cr. Cost/Income ratio stood at 42.3% levels vs. 43.1% in Q2FY23. Going ahead, the NBFC aims to bring down cost/income ratio to 35% levels over the next 2-3 years time.
- Asset quality performance was maintained – In % terms, GNPA/NNPA stood at 1.8%/1% similar to last quarter levels. PCR improved to 44% from 41% last quarter

Outlook & Valuations

It is currently trading at 2.5x/2x FY24e/FY25e ABV on ROE of 18-19%/ROA of ~3.5%. We expect strong profit growth trajectory to continue on the back of healthy growth in retail assets. We retain BUY rating on the stock with revised TP of INR 813, upside of 24% from the current levels (discounting its FY25e ABV by 2.5x)

Quarterly Financials (Q1FY24)

(Rs.mn) (Consol)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY23	y-o-y (%)	q-o-q (%)
Interest Earned	16,414	16,771	17,958	19,192	20,454	21,989	31.1	7.5
Interest Expended	7,732	7,760	7,758	8,095	8,606	8,878	14.4	3.2
NII	8,682	9,011	10,200	11,096	11,848	13,111	45.5	10.7
<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>	<i>45.5</i>		
Other Income	2,763	2,981	2,557	2,254	2,306	1,718	-42.4	-25.5
Total Income	11,444	11,992	12,756	13,350	14,154	14,829	23.7	4.8
<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	6,332	22.6	3.3
<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>	<i>22.6</i>		
PPoP	6,760	6,826	7,255	7,683	8,023	8,497	24.5	5.9
<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>	<i>24.5</i>		
Provisions & Contingencies	2,564	2,487	1,960	2,132	2,083	2,313	-7.0	11.1
Profit Before Tax	4,196	4,339	5,295	5,552	5,940	6,184	42.5	4.1
<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>	<i>42.5</i>		
Tax	987	1,042	1,324	1,319	1,365	1,455	39.6	6.6
Net Profit	3,210	3,297	3,971	4,232	4,576	4,729	43.4	3.3
<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>43.4</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>	<i>3.3</i>		

Source: Dalal & Broacha Research, Company

IIFL Finance - Results Highlights - Q2FY24

(Rs.mn) (Consol)	Q2FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)
Interest Earned	15,001	18,252	19,332	28.9	5.9
Interest Expended	7,758	8,878	9,321	20.1	5.0
NII	7,243	9,374	10,011	38.2	6.8
<i>growth y-o-y (%)</i>	<i>-6.2</i>	<i>4.0</i>	<i>38.2</i>		
Other Income	4,810	4,878	5,982	24.4	22.6
Total Income	12,053	14,252	15,993	32.7	12.2
<i>growth y-o-y (%)</i>	<i>24.4</i>	<i>18.8</i>	<i>32.7</i>		
Operating expenses	5,502	6,332	6,773	23.1	7.0
<i>growth y-o-y (%)</i>	<i>42.0</i>	<i>22.6</i>	<i>23.1</i>		
PPoP	6,551	7,920	9,221	40.7	16.4
<i>growth y-o-y (%)</i>	<i>12.6</i>	<i>16.0</i>	<i>40.7</i>		
Provisions & Contingencies	1,249	1,736	2,386	91.0	37.4
Profit Before Tax	5,302	6,184	6,835	28.9	10.5
<i>growth y-o-y (%)</i>	<i>42.7</i>	<i>42.5</i>	<i>28.9</i>		
Tax	1,324	1,455	1,580	19.4	8.6
Net Profit (Pre-NCI)	3,979	4,729	5,255	32.1	11.1
<i>Net profit (y-o-y %)</i>	<i>36.5</i>	<i>43.4</i>	<i>32.1</i>		
<i>Net profit (q-o-q %)</i>	<i>20.7</i>	<i>3.4</i>	<i>11.1</i>		
Minority Interest	-175	-475	-513		
Net Profit (Post - NCI)	3,804	4,254	4,742	24.7	11.5

Other Details	Q2FY23	Q1FY24	Q2FY24
AUMs (Rs.mn)	5,53,030	6,81,780	7,30,660
<i>Loan Book - On Book</i>	<i>3,51,620</i>	<i>4,15,150</i>	<i>4,40,610</i>
<i>Loan Book - Off Book</i>	<i>2,01,410</i>	<i>2,66,630</i>	<i>2,90,050</i>
GOLD	1,78,320	2,21,420	2,36,900
HOME LOANS	1,96,810	2,28,380	2,40,090
BUSINESS LOANS	79,850	97,350	1,07,350
MICROFINANCE	67,240	1,02,550	1,13,070
CONSTRUCTION AND REAL ESTA	25,930	27,320	28,240
Capital market finance	4,880	4,770	5,010

Y-o-Y growth (%)

AUMs	25.0	29.2	32.1
<i>Loan Book - On Book</i>	<i>21.8</i>	<i>28.2</i>	<i>25.3</i>
<i>Loan Book - Off Book</i>	<i>31.0</i>	<i>30.9</i>	<i>44.0</i>
<i>GOLD</i>	<i>31.1</i>	<i>29.3</i>	<i>32.9</i>
<i>HOME LOANS</i>	<i>25.4</i>	<i>22.7</i>	<i>22.0</i>
<i>BUSINESS LOANS</i>	<i>13.8</i>	<i>27.4</i>	<i>34.4</i>
<i>MICROFINANCE</i>	<i>48.3</i>	<i>63.4</i>	<i>68.2</i>
<i>CONSTRUCTION AND REAL ESTA</i>	<i>-4.7</i>	<i>9.9</i>	<i>8.9</i>
<i>Capital market finance</i>	<i>-27.8</i>	<i>-21.4</i>	<i>2.7</i>

Disbursements (Rs.mn)	Q1FY23	Q1FY24	Q2FY24
GOLD	68,110	93,040	85,330
HOME LOANS	19,510	18,800	21,310
BUSINESS LOANS	13,950	15,510	20,160
MICROFINANCE	18,340	22,770	31,730
Total disbursements	1,19,910	1,50,120	1,58,530
Growth (%)			
GOLD	33.2	30.4	25.3
HOME LOANS	22.2	3.6	9.2
BUSINESS LOANS	165.2	27.3	44.5
MICROFINANCE	70.9	65.7	73.0
Total disbursements	44.3	30.1	32.2

Financials

P&L (Rs Mn)	FY 20	FY 21	FY 22	FY 23	FY 24E	FY 25E
Interest income	46,193	54,212	61,345	73,693	89,710	1,07,797
Interest expense	23,968	26,258	29,910	32,218	38,407	46,036
NII	22,225	27,954	31,435	41,474	51,303	61,761
Non-interest income	2,014	5,685	8,891	10,778	12,464	15,050
Net revenues	24,239	33,639	40,327	52,253	63,768	76,811
Operating expenses	12,733	11,904	15,918	22,466	26,484	31,411
PPOP	11,506	21,734	24,409	29,786	37,284	45,400
Provisions	4,255	11,686	9,048	8,661	10,091	11,624
PBT	7,252	10,048	15,360	21,125	27,194	33,776
Tax	2,217	2,440	3,477	5,050	6,853	8,511
PAT	5,035	7,608	11,883	16,075	20,341	25,264
Growth (%)		51	56	35	27	24
Non-Controlling Inte	16	7	4	1,057	1,073	1,073
Net Profit (post NCI)	5,018	7,601	11,880	15,018	19,268	24,192
Other Comprehensiv	-67	-243	92	322	-	-
Consol PAT (post NC	4,952	7,358	11,972	15,340	19,268	24,192
Growth (%)	-	49	63	28	26	26

Balance sheet	FY 20	FY 21	FY 22	FY 23	FY 24E	FY 25E
Share capital	757	758	759	761	761	761
Reserves & surplus	46,843	53,117	63,879	89,160	1,07,788	1,31,150
Non-controlling Interest	56	59	59	12,101	12,101	12,101
Net worth	47,656	53,934	64,697	1,02,021	1,20,650	1,44,012
Borrowings	2,79,961	3,25,831	3,60,858	4,00,174	4,72,709	5,73,557
Other liability	16,117	26,904	33,549	27,818	35,397	43,452
Total liabilities	3,43,734	4,06,669	4,59,104	5,30,013	6,28,756	7,61,021
Fixed assets	6,093	6,812	7,810	8,896	10,230	11,867
Investments	7,704	316	11,922	35,110	38,972	43,649
Loans	2,85,347	3,35,332	3,36,929	4,00,010	4,77,436	5,79,293
Cash	32,159	47,841	81,569	58,390	66,362	79,641
Other assets	12,432	16,369	20,875	27,607	35,756	46,572
Total assets	3,43,734	4,06,669	4,59,104	5,30,013	6,28,756	7,61,021

Ratios	FY21	FY22	FY23	FY24E	FY25E
Growth (%)					
NII	26	12	32	24	20
PPOP	89	12	22	25	22
PAT	49	63	28	26	26
Advances	18	0	19	19	21
Spread (%)					
Advances yield on avg. AL	12.8	12.4	12.4	12.2	11.9
Spread on Avg. AUMs	4.2	3.7	3.9	3.4	3.1
NIMs on avg. AUMs	6.8	6.6	7.2	7.2	7.0
Advances yield on On B/S adva	17.1	17.7	19.3	19.7	19.7
Yield on funds	15.3	15.1	16.0	16.7	16.8
Cost of Funds	8.7	8.7	8.5	8.8	8.8
Spreads (on B/S assets)	6.6	6.4	7.5	7.9	8.0
NIMs (on B/S assets)	7.9	7.7	9.0	9.5	9.6
Asset quality (%)					
Gross NPAs	2.0	2.5	2.3	2.0	1.9
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	18.3	19.1
RoA	2.0	2.7	3.3	3.5	3.6
Per share (Rs)					
EPS	19.4	31.5	40.3	50.6	63.6
BV	142	170	236	285	347
ABV	134	155	218	265	325
Valuation (x)					
P/E	33.7	20.8	16.2	12.9	10.3
P/BV	4.6	3.8	2.8	2.3	1.9
P/ABV	4.9	4.2	3.0	2.5	2.0
Other Ratios					
C/I Ratio	35.4	39.5	43.0	41.5	40.9
C/I ratio (incl. other income)	30.3	32.3	35.6	34.7	34.2
Opex to AuM	2.9	10.8	11.0	8.7	7.2
Opex to Avg. AUM (%)	2.9	3.3	3.9	3.7	3.6

Source: Dalal & Broacha Research, Company

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