

## IIFL Home Finance Limited

### May 21, 2020

**Rating:**

Facilities/Instruments	Volume (Rs. Cr)	Rating	Rating Action
Non-Convertible Debentures (NCD)	400 (Four Hundred Crore only)	CARE AA; Negative (CARE Double AA: Outlook: Negative)	Rating reaffirmed and outlook revised from Stable to Negative

*\*Details of instruments in Annexure I*

**Detailed Rationale and Key Rating drivers:**

IIFL Home Finance Limited is a 100% subsidiary of IIFL Finance Limited (India Infoline Finance Limited-the erstwhile parent has merged into IIFL Finance Limited w.e.f March 31, 2020). The rating assigned to debt instruments of IIFL Home Finance Limited takes into consideration the strategic importance of housing finance business (which accounted for 34% of the Total AUM as on December 31, 2019) for IIFL Finance Limited and strong operational, managerial and financial linkages with the parent along with a shared brand name.

CARE continues to factor in the comfort derived from the parent entity's comfortable solvency position, strong institutional ownership (with shareholding of Fairfax Group of 29.87%), experienced management team, stable profitability parameters, and diversified resource base. The ratings also factors in moderation in asset quality parameters of IIFL Finance Limited on account of increase in slippages especially in the construction and real estate lending, moderate seasoning of the portfolio as well as concentration risk in loan portfolio. The ratings also reflect the adequate liquidity profile of the company with majority of its portfolio retail in nature.

Going forward, asset quality particularly in the real estate book, capital adequacy and profitability are the key rating sensitivities.

**Key Update**

Pursuant to Composite Scheme of Arrangement, under which IIFL Finance Limited had reorganised the Group structure and demerged IIFL Wealth Limited and IIFL Securities, thereby creating three distinct listed entities viz IIFL Finance Limited, IIFL Wealth Limited and IIFL Securities Limited in March 2019; the Committee of Board of Directors of IIFL Finance Limited (Formerly known as IIFL Holdings Limited) at its meeting held on March 30, 2020, approved the effecting of the merger of India Infoline Finance Limited with the Company. IIFL Finance Limited (Holding Company) obtained an NBFC license in March 2020 post which India Infoline Finance Limited has be merged in IIFL Finance. The merger was completed on March 31, 2020.

**Rating Sensitivities:****Positive factors- Factors that could, individually or collectively, lead to positive rating action/upgrade:**

- Improvement in profitability with ROTA exceeding 3% on sustained basis.
- Sustained improvement in overall asset quality parameters.

**Negative factors- Factors that could, individually or collectively, lead to negative rating action/downgrade**

- Further deterioration in asset quality with Net NPA to Networth ratio exceeding 10%
- Deterioration in profitability with ROTA falling below 1.00%.

**Outlook: Negative**

*The revision in outlook to 'Negative' reflects the company's exposure to vulnerable asset class such as LAP, Developer financing and SME financing which are likely to impact the asset quality & collection metrics of the company due to the COVID related disruption in economic activities. While the company has continued to maintain the granularity of its loan portfolio, the trend in asset quality parameters of the company have seen some moderation. While on a consolidated level, the company seems to have adequate liquidity to manage the repayments during the next 3 months, the collection and trend in asset quality mainly to the aforementioned vulnerable segments shall be key monitorables going forward. The outlook may be revised to Stable if the company manages to maintain stable asset quality parameters (in the MSME, LAP, HL and Developer & Construction Finance segment) and profitability parameters.*

*CARE Ratings has taken note of the announcement of merger of India Infoline Finance Ltd with its parent IIFL Finance Ltd.*

**Detailed description of the key rating drivers****Key Rating Strengths****Comfortable Solvency Parameters with ability to raise capital.**

The company reported CRAR of 21.4% with Tier I of 17.9% as of December 31, 2019 (CRAR: 19.2% Tier I CAR: 16.0% as on March 31, 2019) compared to CRAR of 20.7% with Tier I CAR of 17.4% as on December 31, 2018. The improvement in capitalization levels were mainly attributed to improving internal accruals resulting in increase in tangible net-worth. Also,

the subsidiaries remained adequately capitalized with IIFL Home Finance reporting CRAR and Tier I of 23.01% and 18.11%, respectively as on December 31, 2019, (21.02% and 15.82%, respectively, as on March 31, 2019) and Samasta Microfinance reporting CRAR and Tier I of 27.59% and 20.71%, respectively (20.51% and 13.51%, respectively, as on March 31, 2019). The company's overall gearing position improved from 6.68x at FYE2019 to 5.18x at Q3FY20 reflecting subdued environment for NBFC's to borrow as well as improvement in capital levels as mentioned above.

#### ***Strong Institutional Ownership and experienced managed team***

As on March 31, majority shareholding of IIFL Finance Limited was held by Fairfax group at 29.87%, Promoters (24.94%), Foreign Investors ( 12.69 %), CDC Group PLC (15.46%), NRI (Repat) (4.20%) and Public & Others (12.84 %). IIFL Finance Limited continues to have experienced professionals on its Board and key management team with strong experience in respective business segment. After the scheme of arrangement, Mr. Nirmal Jain and Mr. R Venkatraman continued to be part of the top common management. Mr. A.K. Purwar is the Independent Director of IIFL Finance Limited. He was the Chairman of State Bank of India the largest Bank in the country from November, 2002 to May, 2006. Mr. Chandran Ratnaswami is the Non-Executive Director of the company. He is a director and CEO of Fairfax India Holdings Corporation. Mr. R Venkatraman, is co-promoter and Managing Director of IIFL Finance Limited since 1999. Mr. N. Srinivasan representing CDC Group PLC on the Board of the Company.

Mr. Sumit Bali is the CEO of IIFL Finance Limited having more than 24 years of banking experience, including heading the retail asset portfolio of Kotak Mahindra Bank, Mr. Monu Ratra is the CEO IIFL Home Finance Limited and Mr. N. Venkatesh is the CEO of Samasta Microfinance Limited.

#### ***Diversified loan portfolio***

IIFL Finance Limited caters to the credit requirements of a diverse customer base with a variety of products such as: Home Loans (34% of AUM at December 31, 2019), Gold Loans (21% of AUM), Small Business Loans (23% of AUM), Microfinance (8% of AUM), Developer and Construction Finance (13% of AUM) and Capital Market Finance (1% of AUM). The Company reported AUM of Rs.36,015 crore with core growth segments accounting for around 69% of AUM on December 31, 2019 (which includes Home Loans, Gold Loans, SME and MFI). Also, ~61% of HL, 48% of Business loans and 92% of microfinance loans were PSL compliant as on December 31, 2019. The Company's Retail : Wholesale proportion stood at 87 : 13 as on December 31, 2019.

#### ***Stable profitability parameters***

The Company reported total income of Rs.5,016 crore during FY19 compared to Rs.3,921 crore during FY18. The improvement in profitability was attributed to increase in interest income mainly from products such as gold loans (18% of AUM as on March 31, 2019 compared to 13% of AUM as on March 31, 2017), business loans (24% of AUM as on March 31, 2019 compared to 30% of AUM as on March 31, 2017) and microfinance (7% of AUM as on March 31, 2019 compared to 1% of AUM as on March 31, 2017) segment. On the expense side, the Company's cost of borrowing increased during FY19 and 9MFY20 due to challenging environment, particularly for NBFC's to raise funds.

During 9MFY20, company reported PAT of Rs.444 crore (after adjusting for the impact of change in the rate of opening/deferred tax worth Rs.99 crore) on total income of Rs.3,498 crore against PAT of Rs.490 crore on total income of Rs.3,643 crore during 9MFY19. NIM increased to 6.82% as on March 31, 2019 compared to 5.79% as on March 31, 2018 and was 5.68% as on December 31, 2019. Return on Total Assets (ROTA) improved marginally from 1.69% as on March 31, 2018 to 2.26% as on March 31, 2019 and declined as on December 31, 2019 to 1.21%.

#### ***Diversified resource profile***

Company has a diversified resource profile with declining reliance on short-term funding and increasing dependence on securitization/assignment. As majority of portfolio including 61% of home loans, 48% of business loans and 92% of microfinance loans are priority sector eligible assets, the Company has been able to securitize these assets in times of challenging funding environment. Company's share of funding through securitization/assignment increased from 14% as on March 31, 2017 to 27% as on March 31, 2019 and increased to 38% as on December 31, 2019.

Since FY19, company has raised Rs.300 crore through on-lending route with banks and Rs.244 crore from Public issue of bonds along with \$100mn 5-year ECB during H1FY20. Post September 2019, upto March 2020, the company managed to raise to Rs.3,445 crore through Term loans and refinancing, Rs.975 crore through public issue of bonds and Rs.2,855 crore through ECB in the form of Medium Term Notes, along with funding of Rs.4,689 crore through securitization route. In terms of short-term borrowing, the Company's had Nil dependence as on December 31, 2019.

#### **Key Rating Weaknesses**

##### ***Moderate Asset Quality***

The Company's asset quality challenges emanates mainly through its real estate book comprising of Developer Financing (9.6% of AUM at Q3FY20), LAP (14% at Q3FY20), and construction Finance (3.3% of AUM at Q3FY20). GNPA deteriorated for LAP segment from 1.72% at FY2019 to 2.15% at Q3FY20. The borrowers under the LAP segment are generally self

employed or small business owners whose businesses are likely to be impacted due to the COVID related lockdown. As such, the collection and asset quality metrics are likely to suffer in this segment. The GNPA in Developer financing remains at elevated level of 5.1% at Q3FY20. While the company has restricted incremental funding under this segment, we believe the lockdown may lead to additional stress as sales velocity of the projects decline and the developers face refinancing challenges. The asset quality in MSME & others portfolio (8.1% of AUM at Q3FY20) has also worsened with GNPA's increasing from 5.78% at FY2019 to 6.52% at Q3FY20. We believe the asset quality in this portfolio is also likely to be impacted due to the lockdown. While the overall GNPA was 2.27% at Q3FY20 as against 1.96% at FY19, we believe that LAP, MSME and Developer financing may have a material impact on the asset quality going forward.

#### **Limited seasoning of portfolio**

Over the years, the Company has increased its share of high yielding products i.e. gold loans, business loans and microfinance. During March 31, 2017 to December 31, 2019, Gold loans have increased from 13% to 21% of AUM, Business loans increased from 30% to 22% of AUM whereas microfinance segment increased from 1% to 8% of AUM. Although gold loans have average tenor of less than 1 year, but business loans and home loans have longer tenor where the seasoning of the portfolio is yet to be witnessed.

#### **Liquidity Profile: Adequate**

The ALM statement of the Company as on December 31, 2019, showed no negative cumulative mismatch up-to 1-year bucket. The company had total contractual debt maturity of Rs.10,869 crore and inflows of Rs.11,568 crore from advances as on December 31 2019. The company has debt maturity of Rs.2,279 crore from April 2020 upto December 31, 2020, out of which Rs.865 crore is in the form of NCDs, and the balance is long term borrowing from banks, against which the Company had cash and cash equivalent of Rs.1,825 crore and unutilized bank lines of Rs.3,600 crore. Post September 2019, upto March 2020, the company managed to raise to Rs.3,445 crore through Term loans and refinancing, Rs.975 crore through public issue of bonds and Rs.2,855 crore through ECB in the form of Medium Term Notes, along with funding of Rs.4,689 crore through securitization route.

#### **Analytical Approach:**

CARE Ratings had earlier rated various debt instruments of India Infoline Finance Limited by considering the consolidated financials of below mentioned subsidiaries. After the merger of India Infoline finance limited with IIFL Finance Limited we continue the approach and consider the consolidated financials of IIFL Finance Limited (including merged subsidiary India Infoline Finance Limited). Further, we also factor in the synergies that IIFL Finance Limited will have with other IIFL group companies in terms of shared brand name and common promoters.

#### **Subsidiaries considered as a part of consolidated financials:**

- IIFL Home Finance Limited (100% holding)
- Samasta Microfinance Limited (98.89% holding)
- Clara Developers Private Limited (100% holding)

#### **Applicable Criteria:**

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE policy on Default Recognition](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

[Rating Methodology-Non Banking Finance Companies \(NBFC\)](#)

[Rating Methodology-Housing Finance Companies](#)

[Financial ratios-Financial Sector](#)

#### **About the Company**

IIFL Finance Limited (Erstwhile "IIFL Holdings Limited") (Bloomberg Code: IIFL IN, NSE: IIFL, BSE: **532636**) is one of the leading players in the Indian financial services space. Prior to the Composite Scheme of Arrangement, IIFL Finance Limited was engaged in the business of financing, asset and wealth management, retail and institutional broking, financial products distribution and investment banking through its various subsidiaries. IIFL Finance Limited is a first generation venture which started as a research firm in 1995. IIFL Finance Limited was a pioneer in the retail equity broking industry with its launch of 5paisa trading platform which offered the lowest brokerage in the industry and freedom from traditional ways of transacting. IIFL's evolution from an entrepreneurial start-up in 1995 to a full range diversified financial services group is a story of steady growth by adapting to the dynamic business environment, without losing focus on its core domain of financial services.

Post obtaining an NBFC license and merger of India Infoline Finance Limited with the Company (NBFC-ND-SI) in March 2020, IIFL Finance Limited became a systematically important, non-deposit accepting non-banking financial company (NBFC-ND-SI) and continues to cater to the credit requirements of underserved markets through its diversified offerings

which include core products: Home Loans, Gold Loans, Small Business Loans and Microfinance; and other products: Developer and Construction Finance and Capital Market Finance. The Company reported AUM of Rs.36,015 crore with core growth segments accounting for around 69% of AUM as on December 31, 2019. (Rs.34,904 crore as on March 31, 2019).

IIFL Finance has wholly owned subsidiary, IIFL Home Finance Limited (housing finance company registered with NHB), engaged in retail mortgage finance. During FY17, IIFL ventured into the microfinance segment with the acquisition of Bengaluru-based microlender Samasta Microfinance Ltd (NBFC-MFI) registered with RBI. As on December 31, 2019, AUM of Samasta Microfinance Ltd was Rs.2,973 crore (Rs.2,285 crore as on March 31, 2019).

#### IIFL Home Finance Limited

IIFL Home Finance Limited is a 100% subsidiary of India Infoline Finance Limited registered with NHB. It majorly provides home loans to customers for purchasing affordable homes. The Company also offers loans for home renovation and home construction, LAP (provided to SMEs) for working capital requirement, business use and to acquire commercial property and construction financing. IIFL Home Finance is mainly in the affordable home loan segment present in Tier 2 and Tier 3 cities catering the informal income segment for owning first home. The Company's focus is primarily on small-ticket loans in affordable home segment to both salaried and self-employed sections.

#### Brief Financials – IIFL Finance Limited (Consolidated)

(Rs. crore)

Particulars*	FY18 (A)	FY19 (A)
Total Income	3,921	5,016
PAT	465	729 <sup>#</sup>
Total Assets*	31,649	32,859
Net NPA (%)	0.64	0.63
ROTA (%)	1.96	2.26

\*as per IND AS. A: Audited; #: Including profit from sale of CV business; \*: Net of Intangibles and Deferred Tax Assets (DTA).  
All ratios are as per CARE's calculations

#### Brief Financials (IIFL Home Finance Limited) as per IND AS:

(Rs. crore)

Particulars	FY18 (A)	FY19 (A)
Total income	1,351	1,846
PAT	232	306
Total Assets*	12,905	14,564
Asset Under Management (AUM)	8,600	12,200
Net NPA (%)	0.25	0.66
ROTA <sup>#</sup> (%)	2.11	2.23

A: Audited; \*: Total assets are Net of Intangibles, Deferred Tax Assets & Goodwill on consolidation; #: Calculated on Total Average Assets.

#### Annexure I: Instrument Details

Instrument Type	ISIN No	Date of Issuance	Date Of Maturity	Amount (Rs. Cr)	Coupon (%)	Existing Rating
Non-Convertible Debenture (NCD)	INE477L07701	3-Nov-16	02-Nov-21	5.0	8.9%	CARE AA; Negative
Non-Convertible Debenture (NCD)	INE477L08030	24-Jul-15	26-Jul-21	17.0	10.20%	CARE AA; Negative
Proposed- Non-Convertible Debenture (NCD)	-	-	-	378.0	-	-
<b>Total</b>				<b>400.0</b>	-	<b>CARE AA; Negative</b>

## Annexure II: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (08-Jan-19)	1)CARE AA; Positive (09-Feb-18) 2)CARE AA; Positive (11-Jul-17)
2.	Debentures-Non Convertible Debentures	LT	400.00	CARE AA; Negative	-	1)CARE AA; Stable (08-Jan-20)	1)CARE AA; Stable (15-Mar-19) 2)CARE AA; Positive (08-Jan-19)	1)CARE AA; Positive (09-Feb-18) 2)CARE AA; Positive (11-Jul-17)

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarification.

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### About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**