



KEY HIGHLIGHTS

1. RESULTS OVERVIEW:

- IIFL Finance reported the highest ever PAT at Rs 397 crores (+36% YoY, +20% QoQ)- driven largely by volume growth and lower credit cost.
- PPoP stood at Rs 685 crores (+23% YoY, 2% QoQ).
- IIFL Home Finance received Rs 2200 crore from a wholly owned subsidiary of the Abu Dhabi Investment Authority (ADIA) in August 2022, boosting the net worth of IIFL Home Finance by more than 80%.

2. MANAGEMENT COMMENTARY:

- AUM growth can be maintained at the current run rate.
- The management expects credit cost to continue trending downwards.
- FY23 credit costs are expected to be somewhere between 150-200 bps.
- The management is aiming to grow the MFI book a little faster than the industry.
- Management expects ROA can be sustained at current levels.
- Management aims to triple its co-lending book to over Rs 13000 crores in the next 12 months.

3. SEGMENTAL ANALYSIS:

- Loan Book Breakup: Home Loan (36%), Gold Loan (32%), Business Loan (14%), MFI (12%), CRE (5%), Capital Market Finance (1%).
- Loan Book Growth QoQ: Home Loan (5.71%), Gold Loan (4.10%), Business Loan (4.47%), MFI (7.14%), CRE (4.6%), Capital Market Finance (-19.60%).

4. CONCALL SUMMARY

- Core Loan AUM registered a growth of 28% YoY and 5% QoQ.
- Asset quality improved with GNPA's at 2.40% versus 2.60% QoQ and 2.30% YoY.
- 95% of the loans are retail in nature.
- IIFL Finance tied up with South Indian Bank and KVB during the year for gold loans.
- The company has also entered into a partnership with ZestMoney to get access to the customer base on latter's platform. Zest Money is India's fastest growing digital EMI/ Checkout Financing platform.
- Off Book to AUM came in at 39% vs 35% YoY.

5. OTHER DEVELOPMENTS:

- The company is very active in the co-lending space and is in talks with several Public Sector Banks for partnerships in order to accelerate its co-lending program.
- Co Lending as a percent of Total AUM is 13.50% in case of Gold Loans and 15.10% in case of Home Loans.

6. VALUATION AND OUTLOOK:

The system credit growth is going very robust and the overall demand for credit looks strong even in the rising rate scenario. IIFL Finance is a diversified NBFC. Branch expansion benefits shall now start to accrue and the company's medium term Opex to Assets ratios will tread lower in the medium term. The company shall also benefit owing to diversification.

We initiate a "BUY" rating on the stock and value the stock at 2.2x FY24 estimated Book Value to arrive at the Target of Rs 604.

RECOMMENDATION - BUY

CMP – 497.45

TARGET – 604 (22%)

Industry	Finance-Investment
NSE CODE	IIFL
BSE CODE	532636
Market Cap (₹ Cr)	18885
Shares Outstanding (in Cr)	37.98
52 wk High/Low (₹)	508 / 266.05
P/E	13.82
P/BV	2.22
Face Value (₹)	2.00
Book Value (₹)	220.02
EPS (FY22) (₹)	31.29
Dividend Yield (%)	1.23
Debt / Equity	5.60

SHAREHOLDING PATTERN

	Sep 22	Jun 22	Mar 22
Promoters	24.89	24.90	24.91
MF/ DII	0.34	0.25	0.06
FII/FPI	25.57	23.05	20.66
Non-Institutions	46.12	49.34	53.39
Promoter Pledging	0.00	0.00	0.00

FINANCIAL SNAPSHOT (₹ Cr)

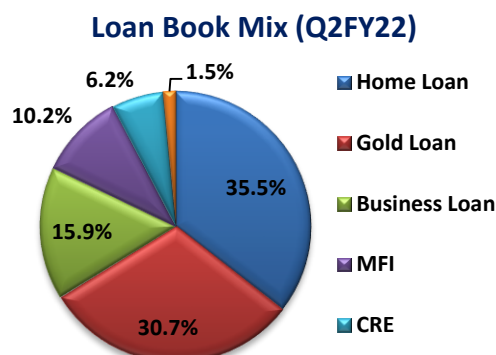
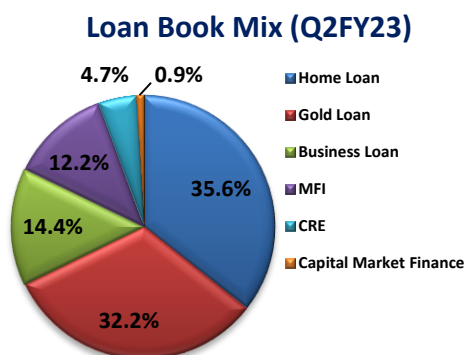
Y/E March	2021A	2022A	2023E
Core			
Interest Earned	4,719	5,423	5,894
NII	2,111	2,432	2,790
PPoP	2,002	2,346	2,982
PAT	761	1,188	1,553
EPS	20.10	31.40	40.95
BVPS	138.80	165.20	232.06
Ratios			
ROA (%)	2.00	2.70	3.07
NIM (%)	6.90	7.00	7.57
Valuation			
P/E (x)	19.5	15.84	12.15
P/BV (x)	2.10	1.70	2.15

Historical & Industrial Val Ratios

Historical P/E	13.82
Industry P/E	69.71
Historical P/B	2.22
Industry P/B	3.95



BUSINESS MIX (Q2 FY23)



QUARTERLY PERFORMANCE (CONSOLIDATED)

(₹ Cr)

Y/E March	FY21			FY22			FY23	FY22	FY23E*	
	Q2	Q3	Q4	Q1	Q2	Q3	Q4			H1
Interest Income	1,186	1,185	1,264	1,245	1,342	1,412	1,423	2,947	5,423	5,894
YoY Change (%)	27.00%	23.00%	14.00%	14.00%	13.00%	19.00%	13.00%	14.00%	15.00%	8.69%
Interest Expense	623	611	681	701	744	773	773	1,552	2,991	3,104
YoY Change (%)	10.00%	2.00%	13.00%	1.00%	4.00%	26.00%	14.00%	14.00%	15.00%	3.78%
Operating Expense	294	304	318	315	388	421	469	1,066	1,592	2,132
YoY Change (%)	-6.00%	-2.00%	-4.00%	14.00%	42.00%	38.00%	48.00%	52.00%	34.00%	33.94%
PPoP	581	615	587	509	556	611	670	1,356	2,346	2,982
YoY Change (%)	103%	127%	85%	58%	23%	6%	14%	27%	17%	27.09%
PAT	213	269	248	266	292	310	321	709	1,188	1,553
YoY Change (%)	134%	47%	321%	735%	30%	15%	30%	27%	56%	30.73%
EPS in Rs	5.60	7.10	6.50	7.00	7.70	8.20	8.50	18.70	31.40	40.95

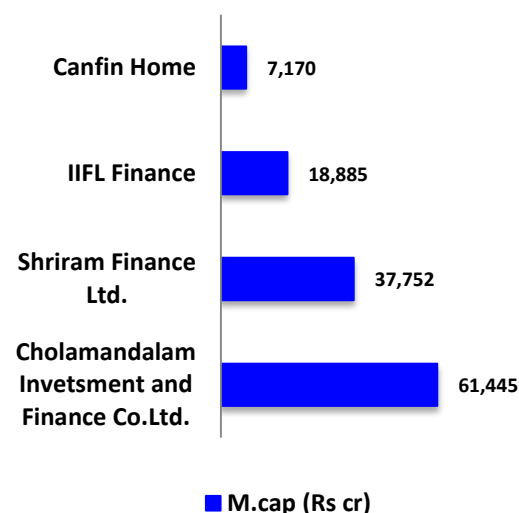
	FY21				FY22				FY23	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Home Loan	12,618	12,891	13,445	14,439	14,747	15,698	16,495	17,727	18,618	19,681
Gold Loan	9,490	11,386	12,212	13,149	13,262	13,600	14,606	16,228	17,130	17,832
Business Loan	7,864	7,899	7,788	7,464	7,114	7,019	7,014	7,559	7,643	7,985
MFI	3,222	3,460	3,920	4,738	4,386	4,534	5,178	6,155	6,276	6,724
CRE	515	724	580	4,235	2,808	2,722	2,783	2,899	2487	2,593
Capital Market Finance	4,626	4,483	4,319	663	842	676	704	642	607	488

Source: Company, Hem Securities Research.

INDUSTRY OVERVIEW

- NBFC's have emerged as a principal institution in providing credit to the under-served in the economy.
- NBFC Industry AUM has jumped from Rs 17.7 trillion in 2016 to Rs 28.70 trillion in 2021.
- The focus of the industry is on higher yield segments.
- Huge Credit Gap in the MSME Sector shall create opportunities for the business lending space.
- Unorganized Gold loan segment presents immense opportunities for the organized players. 35% of the gold loan lending in India is done through the formal segment, whereas, 65% is still served by the informal segment.
- Macroeconomic tailwinds, growing credit momentum, and contact intensive services shall lead to broad based growth across the sector.
- However, rising interest rates may start to put pressure on spreads and margins.
- The geopolitical crisis has posed severe inflationary challenges for global economies, propelling central banks to hike rates. As a result, liquidity could witness some strain, toning down economic growth of emerging as well as developed countries.

Key Players in NBFC Space



PEER PERFORMANCE

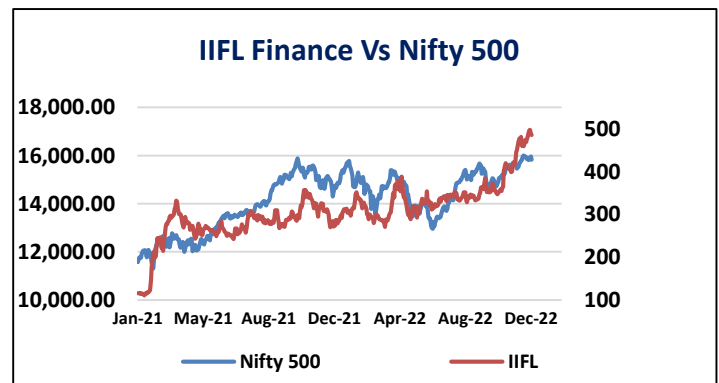
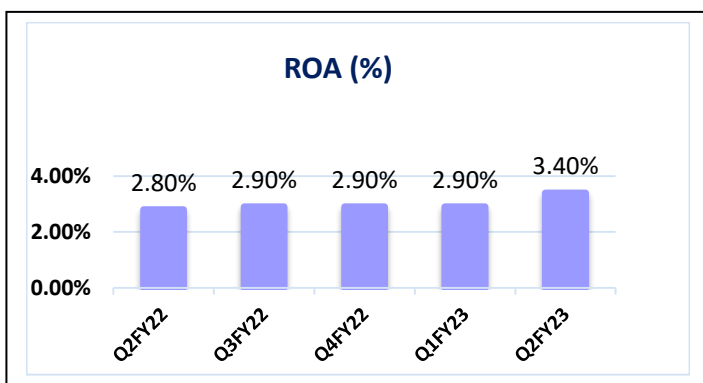
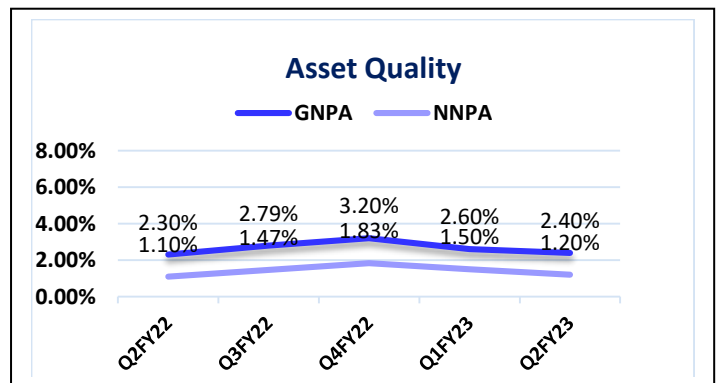
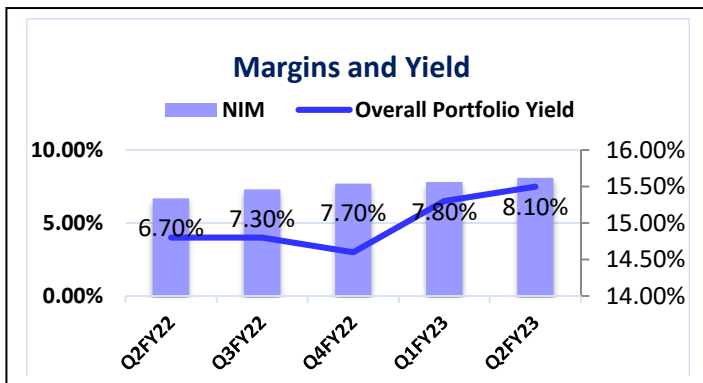
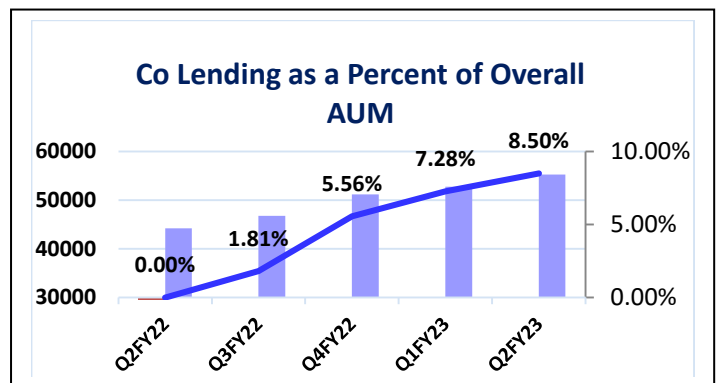
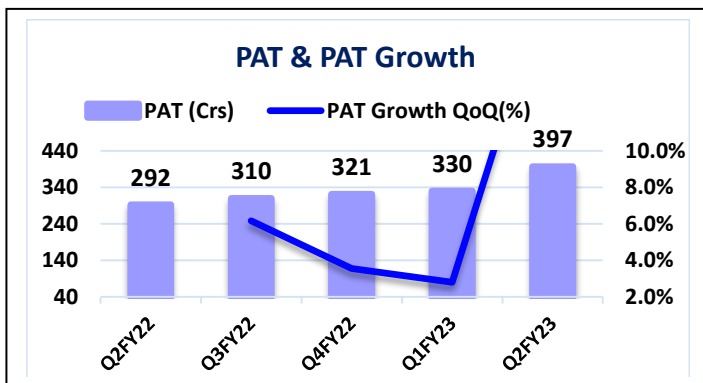
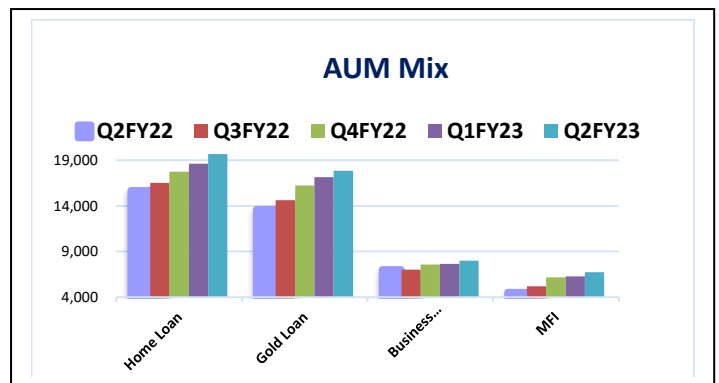
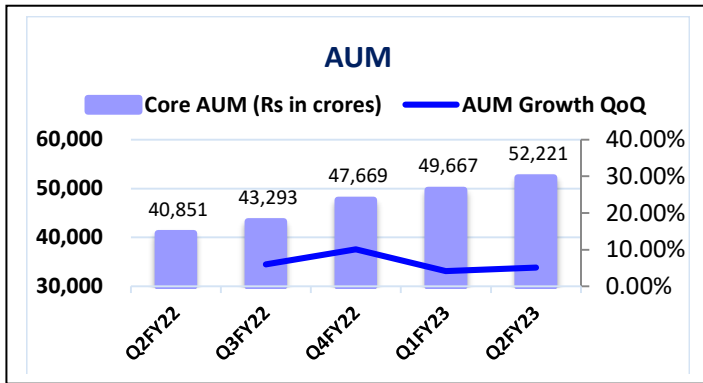
(₹ Cr)

Particulars	Cholamandalam Investment & Finance Co. Ltd.	Shriram Finance Ltd.	IIFL Finance Ltd.	Canfin Homes
Market Cap	61,445	37,752	18,885	7,170
Revenue from Operations	3,017	5,348	2,023	657
PBT	759	1,441	529	203
PAT	563	1,070	397	142
EPS (Rs)	6.85	39.54	9.99	10.64
AUM	87,668	1,71,400	55,302	28,823
Disbursement	14,623	17,769	11,991	2,245
Net Interest Income	1,697	2,694	745	251
NIM (%)	8.50	8.30	8.10	3.55
GNPA (%)	5.84	6.70	2.40	0.62
NNPA (%)	4.07	3.40	1.20	0.35
Capital Adequacy Ratio	18.40	23.10	21.70	23.65
ROA	3.50	2.70	3.40	2.07

Source: Company, Hem Securities Research.



STORY IN CHARTS



Source: Company, Hem Securities Research



INVESTMENT RATIONALE:

- IIFL Finance has a well-diversified portfolio. The company's focus tends to be on the Core Loan Products i.e. Home Loan, Gold Loan, Business Loan, and MFI.
- Strong AUM Growth for past few quarters is sustaining. Besides, the management is confident of maintaining the current AUM run rate.
- Asset Quality has been stable and the impact of RBI's new NPA norms (applicable from 1st October 2022) have already been factored in.
- The company delivered an ROA greater than 3% owing to its business mix and robust performance.
- Management believes that ROA levels to the north of 3% are sustainable.
- The funding mix has been well managed and the cost of borrowings have been contained.
- ROEs are healthy at greater than 20%.
- The management has gone strong on branch expansion and has added about 450 branches in H1FY23. This shall pave way for accelerated growth in the future.
- The company has entered into several dedicated partnerships to drive financial inclusion.
- Credit cost are expected to trend lower.

RISK / NEGATIVE FACTORS:

- Rising interest rates may weigh on the demand for home loans.
- Gold loan market has been tepid for quite some time now. 1/3rd of the book is skewed towards gold loans and hence, AUM pick up in this segment might be slower.
- RBI regulations on co-lending have to be consistently monitored as the company is going quite aggressive on co-lending.
- Any macro developments which may affect the asset quality have to be monitored.

COMPANY RECAP

- IIFL Holdings Limited was incorporated on October 18, 1995 and was engaged in Merchant Banking and Investment Advisory services besides holding investments in subsidiaries till April 01,2018.
- In FY20, the company demerged its Securities and Wealth business undertakings into 2 separate companies i.e. IIFL Securities Ltd and IIFL Wealth Management Ltd.
- The company has a wide network of 3766 branches as of Q2FY23.
- The company added 731 new branches across the country during FY21-22.
- The company has 2 subsidiaries- IIFL Home Loan and IIFL Samasta Finance Ltd.
- The company offers a wide spectrum of products such as Home loan, Gold loan, business loan, microfinance, capital market finance and developer & construction finance
- IIFL Finance had loan assets under management (loan AUM) of Rs 55,302 Cr as at September 30, 2022, with the home loans segment constituting 36%, gold loans 32%, business loans 14% and microfinance loans 12% of the total AUM.
- IIFL Finance provides home loans to mainly first time home buyers from the Tier I suburbs, Tier II and Tier III cities.
- Management- Mr. Nirmal Jain is the founder and Managing Director of the Company. He holds a PGDM (Post Graduate Diploma in Management) from the Indian Institute of Management (IIM), Ahmedabad and is a rank holder Chartered Accountant and a Cost Accountant.



ANNUAL PERFORMANCE

Financials & Valuations

Income Statement						(₹ Cr)
Y/E March	2019	2020	2021	2022	2023E	2024E
Core AUM	29,190.00	32,770.00	39,790.00	47,670.00	58,157.00	69,789.00
Growth YoY (%)	14.52%	12.26%	21.42%	19.80%	22.00%	20.00%
Overall AUM	34,900.00	37,950.00	44,690.00	51,210.00	61,452.00	72,513.00
Growth YoY (%)	11.75%	8.74%	17.76%	14.59%	20.00%	18.00%
Interest Income	4,509.70	4,043.50	4,719.20	5,422.70	5,894.00	6,601.00
Growth YoY (%)	22.47%	-10.34%	16.71%	14.91%	8.69%	12.00%
Net Interest Income	1924.70	1646.70	2110.90	2431.70	2790.00	3218.00
Growth YoY (%)	20.73%	-14.44%	28.19%	15.20%	14.73%	15.34%
Operating Expense	1174.60	1274.90	1189.00	1591.80	2132.00	2292.03
Growth YoY (%)	57.20%	8.54%	-6.74%	33.88%	33.94%	7.53%
PPoP	1394.00	1191.40	2001.80	2346.40	2982.00	3740.00
Growth YoY (%)	24.09%	-14.53%	68.02%	17.21%	27.09%	25.41%
PAT	794.7	503.5	760.8	1188.2	1553	1963
Growth YoY (%)	71.57%	-36.64%	51.10%	56.18%	30.70%	29.30%
EPS (Rs.)	21.04	13.30	20.10	31.40	40.95	51.78

Balance Sheet

Y/E March	2018	2019	2020	2021	2022
Share Capital	64	64	76	76	76
Reserves	4679	4279	4684	5312	6388
Net Worth	4743	4343	4760	5387	6464
Debt Securities	15744	10586	8705	8330	7838
Borrowings	16629	14381	16832	21624	25319
Other Liabilities	7,379	3,929	4,077	5,325	6,289
Total Liabilities & Equity	44,495	33,239	34,373	40,667	45,910
Cash & Bank	3,122	2,521	3,216	4,784	8,157
Loans	35,703	27,377	28,535	33,533	33,693
Investments	2,150	212	770	32	1,192
Other Assets	3,520	3,128	1,852	2,318	2,868
Total Assets	44,495	33,239	34,373	40,667	45,910

Source: Company, Hem Securities Research.



Ratios					
Y/E March (Basic (INR crores))	2018	2019	2020	2021	2022
Key Performance Indicators					
Loan AUM:	31230	34900	37950	44690	51210
Core	25490	29190	32770	39790	47670
Synergistic	5740	5710	5180	4900	3540
ROE (%)	13.3	17.9	11.3	15.3	20.6
ROA (%)	1.60	2.20	1.50	2.00	2.70
Cost of Funds (%)	8.50	8.90	9.30	9.00	8.60
Capital Adequacy Ratio (%)	16.30	18.30	16.60	25.40	23.90
NIM on Balance Sheet Assets (%)	5.90	6.40	6.40	6.90	7.00
Current Ratio (x)					
Asset Quality Ratios					
GNPA (%)	1.62	1.74	2.04	1.98	3.15
NNPA (%)	0.58	0.49	0.82	0.89	1.82
Valuation Ratios					
P/E (x)	28.67	17.37	5.61	14.00	9.11
P/BV (x)	4.75	3.19	0.59	1.98	1.68

Source: Company, Hem Securities Research.



RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	>=15%
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	<-5%

RECOMMENDATION SUMMARY

DATE	RATING	TARGET
15/12/2022	BUY	604

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Name of the Research Analyst: SHIVANI MITTAL

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