

Diversified retail lending with focus on co-lending...

About the stock: IIFL Finance (IIFL) was incorporated in 1995 and is one of the leading players in the financial services business. IIFL is primarily engaged in retail lending through its subsidiaries – IIFL Home Finance, IIFL Samasta Finance and IIFL Open Fintech Pvt Ltd.

- IIFL's product offerings include home, gold, business loans including loans against property (LAP) and medium & small enterprise financing, microfinance, developer & construction finance and capital market finance
- The company has an AUM of ~₹ 55,300 crore with a network of 3,766 branches across India with ~32,000 employees
- H1FY23 AUM mix: HL-36%, GL-32%, BL-14%, MFI-12%, CRE & others-6%

Management meet Highlights

- Delivered healthy 18% CAGR in AUM in the last five years while focus on operational efficiency and asset quality led to ~23% CAGR in earnings. **Aims to grow AUM at 25% CAGR in FY23-25E** with focus on servicing retail and priority loans by leveraging branch network and digital technology
- Earnings target at ₹ 2500 crore in FY25E**, driven by robust business growth and improvement in operating efficiency. Focus to continue on three-pronged distribution strategy – branch, digital and partnership model
- IIFL has built an asset-light model with ~40% of portfolio under assignment, securitisation or co-lending. Aims to maintain on-off book mix steady ahead**
- IIFL maintained superior asset quality with GNPA at 2.42% (Q2FY23) including impact of RBI circular on daily stamping of NPA. MFI and unsecured business loans were impacted by Covid. It is expected to witness a gradual recovery as nearly 100% of loans are out of moratorium

Valuation: Including capital infusion in HFC business, IIFL trades at 2.1x current P/BV

Key triggers for future price performance:

- Targeted robust growth at 25% CAGR in FY23-25E with focus on achieving granularity and avoiding substantial geographical concentration
- Asset-light model with policy to keep ~40% of AUM under assignment, securitisation or co-lending
- Sweating of recent investment in branch and partnerships to aid operational efficiency and, thus, return ratios. MFI business is picking up though near term volatility cannot be ruled out
- Gradual exit from CRE book



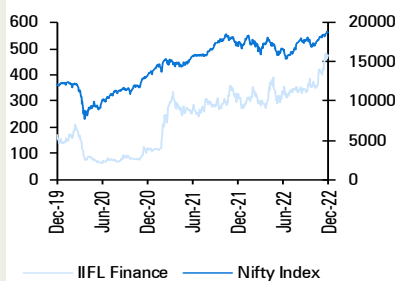
Particulars

Particulars	Amount
Market Capitalisation	₹ 17849 crore
52 week H/L	495 / 266
Networth	₹ 64697 crore
Face value	₹ 2
DII holding	3.4
FII Holding	25.6

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	24.9	24.9	24.9	24.9	24.9
FII	24.7	21.1	20.7	23.1	25.6
DII	0.7	0.8	1.0	2.7	3.4
Others	49.6	53.2	53.4	49.3	46.1

Price Chart



Recent event

IIFL sold a 20% stake in housing finance subsidiary for ₹ 2200 crore

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Key Financial Summary

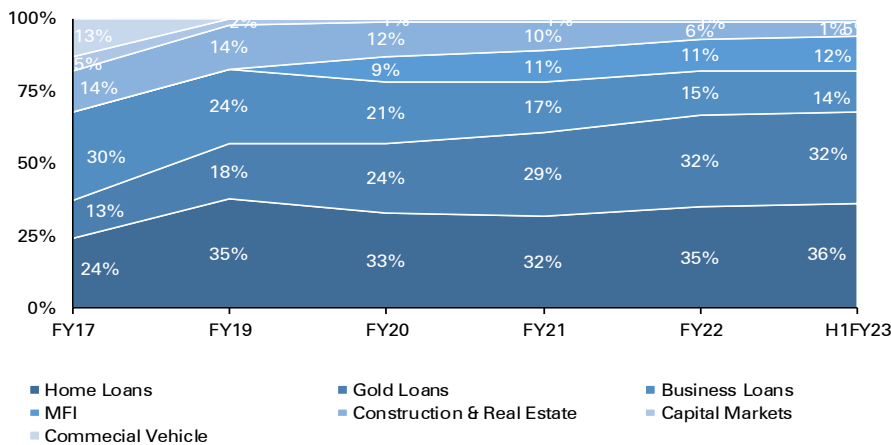
₹ crore	FY18	FY19	FY20	FY21	FY22
NII	1,558	2,170	2,223	2,795	3,204
PPP	1,673	1,044	748	1,525	1,519
PAT	465	712	503	761	1,188
BV (₹)	195.7	136.5	126.0	142.4	170.4
P/E	18.5	22.0	34.8	23.0	14.7
P/BV	2.4	3.4	3.7	3.2	2.7
RoA	1.6	2.2	1.5	2.0	2.7
RoE	13.3	17.9	11.3	15.3	20.6

Management meet Highlights

- Delivered healthy AUM growth at 18% CAGR in in the last five years while focus on operational efficiency and asset quality led to earnings growth at ~23% CAGR. The company **aims to grow AUM at 25% CAGR in FY23-25E** with focus on servicing retail and priority loans by leveraging branch network and digital technology
- Earnings target at ₹ 2500 crore in FY25E**, driven by robust business growth and improvement in operating efficiency. Focus is expected to continue on three-pronged distribution strategy – branch, digital and partnership model
- IIFL has built an asset-light model with ~40% of portfolio under assignment, securitisation or co-lending. Aims to maintain on-off book mix steady ahead**
- In the HFC business, focus remains on low ticket home loans with priority to first time home owners
- In gold loans, competitive intensity continues though aggressive pricing seems to have normalised. Extensive branch network with digital offering, expansion in tier 4, under-penetrated markets to enable business growth
- Massive under-penetration in MSME funding, fast growing digital lending market and partnership with fintechs to drive business momentum. Better underwriting using improved data to ensure control on asset quality
- Under penetration and huge opportunity are expected to aid growth in the MFI business. Geographical diversification and granularity is key to steady asset quality. Erstwhile CRE book is not a part of the core business strategy. The book is expected to run down gradually in the next three to four years

Financial story in charts

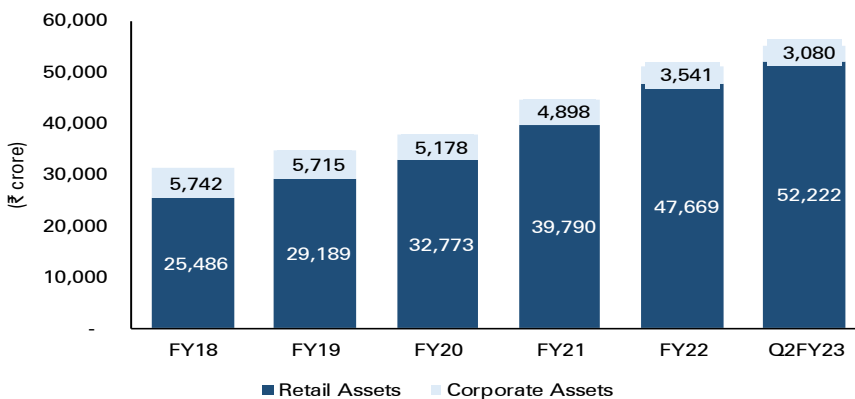
Exhibit 1: Product mix



Diversified portfolio mitigates risk of asset concentration and cyclical gyration

Source: Company, ICICI Direct Research

Exhibit 2: AUM trend



Retail assets grew at a CAGR of 27%; overall assets grew at a CAGR of 18% over five years

Source: Company, ICICI Direct Research

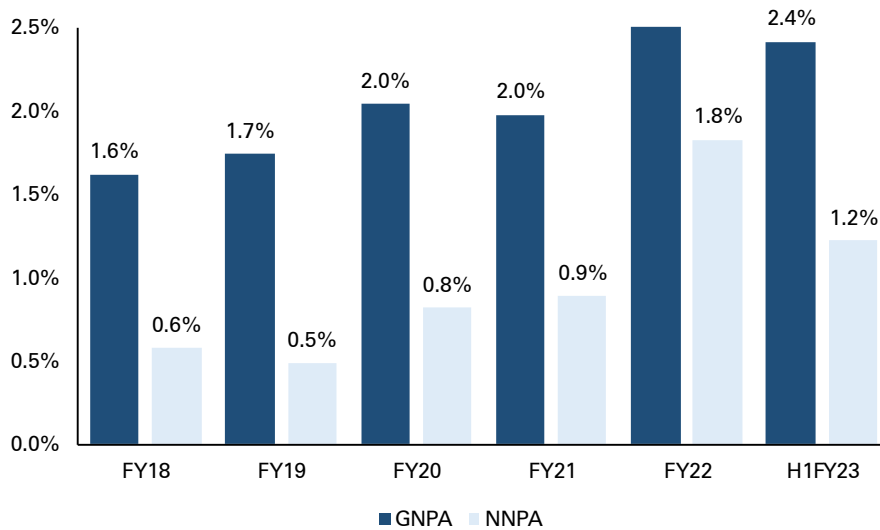
Exhibit 3: Segment wise snapshot

As of Sept'22	AUM Share	AUM (₹ Cr)	GNPA%	NNPA%	Portfolio yield (%)	Portfolio average Ticket Size (₹ Lakhs)
Home Loans	36.0%	19,681	2.4%	1.3%	10.6%	16.2
Gold Loans	32.0%	17,832	0.8%	0.7%	17.5%	0.7
Business Loans	14.0%	7,985	4.3%	2.1%	17.6%	8.6
Microfinance	12.0%	6,724	3.5%	1.3%	22.4%	0.3
Core Products (A)	94.0%	52,221				
Construction & Real Estate	5.0%	2,593	0.4%	0.1%	15.3%	2155.6
Capital Market Finance	1.0%	488	0.0%	0.0%	12.3%	146.6
Synergistic Products (B)	6.0%	3,081				
Total (A+B)	100.0%	55,302	2.4%	1.2%	15.5%	

Source: Company, ICICI Direct Research

Home loan & gold loan account for two-third of AUM; 95% of loan portfolio is small ticket retail

Exhibit 4: Best in class asset quality



GNPA including RBI circular impact at 2.42% in Q2FY23

Source: Company, ICICI Direct Research

Exhibit 5: Recent partnerships for co-lending, co-origination and BC...

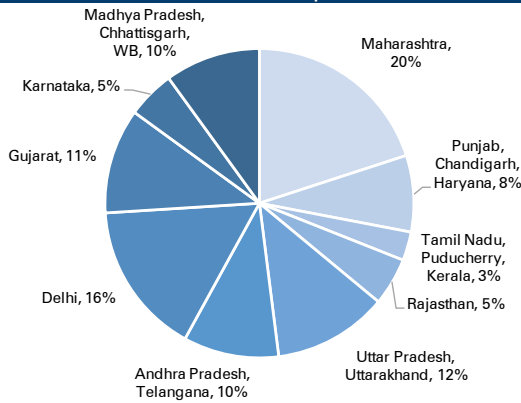


Co-lending/co-origination/business correspondence disbursement picking up...

Source: Company, ICICI Direct Research

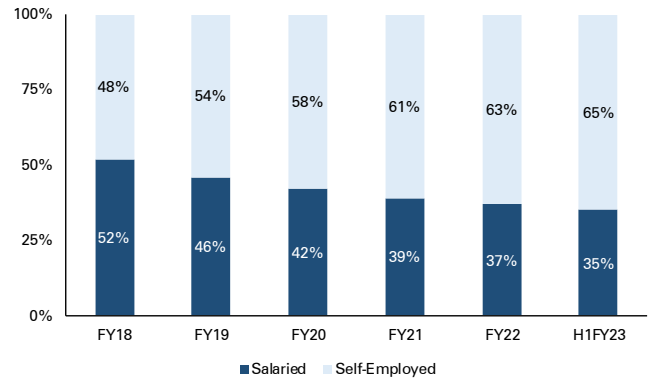
Home loans

Exhibit 6: Distribution mix as of September 2022



Source: Company, ICICI Direct Research

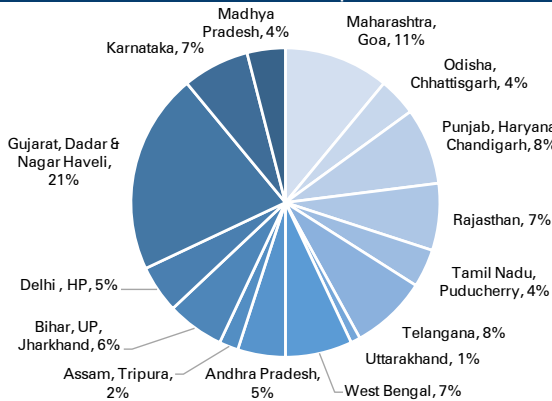
Exhibit 7: Home loan mix



Source: Company, ICICI Direct Research

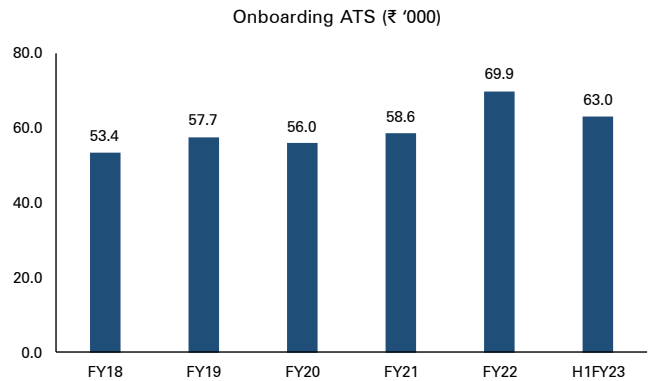
Gold loans

Exhibit 8: Distribution mix as of September 2022



Source: Company, ICICI Direct Research

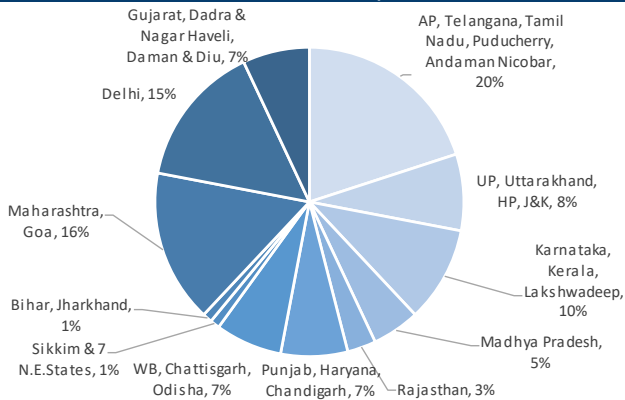
Exhibit 9: Onboarding LTV ~70%; tenor about two years



Source: Company, ICICI Direct Research

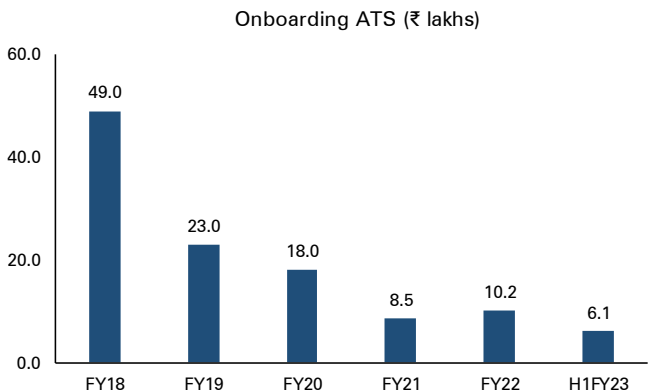
Business loans

Exhibit 10: Distribution mix as of September 2022



Source: Company, ICICI Direct Research

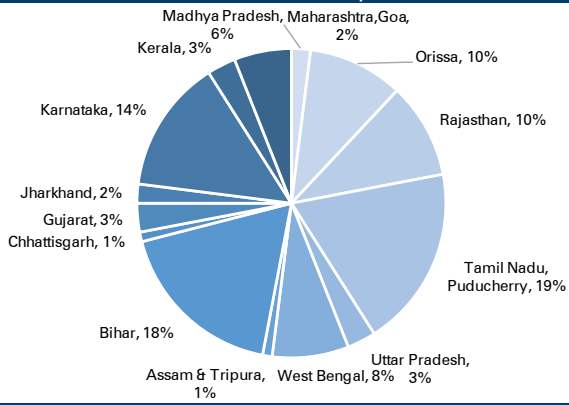
Exhibit 11: Loans for tenor up to 12 years



Source: Company, ICICI Direct Research

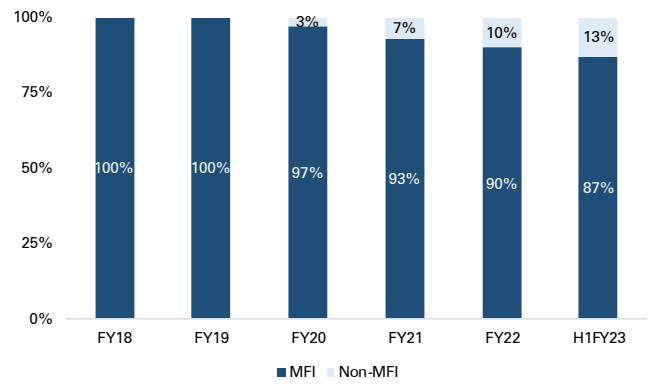
MFI loans

Exhibit 12: Distribution mix as of September 2022



Source: Company, ICICI Direct Research

Exhibit 13: MFI – Non MFI loan mix



Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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