December 30, 2024

The Manager, Listing Department, BSE Limited, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai 400 001. BSE Scrip Code: 532636	The Manager, Listing Department, The National Stock Exchange of India Ltd., Exchange Plaza, 5th Floor, Plot C/1, G Block, Bandra - Kurla Complex, Bandra (E), Mumbai 400 051. NSE Symbol: IIFL

Sub: Credit Ratings by Standard & Poor's Financial Services LLC ("S&P Global Ratings")

Dear Sir/Madam,

In terms of Regulations 30 and 51 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended, we wish to inform you that the following final ratings have been assigned to the Company (**"Issuer"**) and the Global Medium Term Note Programme **("GMTN Programme")** of the Company by the S&P Global Ratings:

Credit Rating Agency	Rating Type	Rating
S&P Global Ratings	Issuer Credit Rating	'B+'/Stable long-term and 'B' short-term
	GMTN Programme	'B+'

The rating issued by S&P Global Ratings is enclosed herewith as **"Annexure –A"**.

You are requested to take the same on record and oblige.

Thanking you.

Yours faithfully,
For **IIFL Finance Limited**

Samrat Sanyal Digitally signed by Samrat Sanyal Date: 2024.12.30 21:10:54 +05'30'

____

Samrat Sanyal
Company Secretary & Compliance Officer
ACS – 13863
Email ID: csteam@iifl.com
Place: Mumbai

Enclosed: as above

S&P Global
Ratings

RatingsDirect®

Research Update:

IIFL Finance Ltd. Assigned 'B+/B' Ratings; Outlook Stable

December 30, 2024

Overview

- In September 2024, India's central bank lifted an embargo on the gold financing business of IIFL Finance Ltd., a midsize nonbank financial institution (NBFI) in India. The embargo had led to volatility in IIFL's financial performance.
- We believe the incremental steps that IIFL took to strengthen its board and assurance functions will help improve operational resilience. We nevertheless expect the embargo to have a transient impact on the company's reputational risk and funding profile. IIFL's very strong capitalization somewhat mitigates these risks.
- On Dec. 30, 2024, we assigned our 'B+' long-term and 'B' short-term issuer credit ratings to IIFL. We also assigned our 'B+' foreign-currency issue rating to senior secured notes that are a part of the company's US$1 billion secured global MTN program.
- The stable rating outlook reflects our view that IIFL's very strong capitalization and likely improvement in business volume and profitability will help it navigate operating challenges that may arise as it resumes business following the lifting of the embargo.

PRIMARY CREDIT ANALYST

Aurick Soh
Singapore
+65 6216 1134
aurick.soh
@spglobal.com

SECONDARY CONTACT

Deepali V Seth Chhabria
Mumbai
+ 912233424186
deepali.seth
@spglobal.com

ADDITIONAL CONTACT

Geeta Chugh
Mumbai
+ 912233421910
geeta.chugh
@spglobal.com

Rating Action

On Dec. 30, 2024, S&P Global Ratings assigned its 'B+' long-term and 'B' short-term issuer credit ratings to India-based IIFL Finance Ltd. The outlook on the long-term rating is stable. At the same time, we assigned our 'B+' foreign-currency issue rating to senior secured notes that are a part of IIFL's US$1 billion secured global medium term note (MTN) program.

Rationale

Our ratings on IIFL reflect the company's small market share in India's financial sector and the susceptibility of its funding profile to market sentiment. We believe the central bank's embargo on IIFL's gold financing business, which was lifted in September 2024, will have a transient impact on the company's reputational risk and funding profile.

We also expect IIFL's credit costs to remain higher than rated peers', given the weaker borrower profile and evolving target client segment of the company. Partially mitigating this risk is IIFL's very strong capitalization, which provides a buffer against unexpected losses.

Our starting point for rating finance companies (fincos) in India is 'bb', two notches below the anchor for the banking sector in India. We believe Indian fincos face greater industry risk than banks because they generally have no access to central bank funding. Moreover, regulations for fincos are less onerous than prudential norms for banks.

Several fincos in India have strong niches, domain expertise, and economies of scale to support revenue stability and mitigate competitive pressures. Despite fincos' higher funding costs than banks, many of the larger fincos are very profitable, with overall return on assets of 1.5%-3.0% over the past three years. Their earnings benefit from lower operating costs than banks', strong niche positions, and an absence of regulatory drag on margins.

IIFL's business position reflects its modest market share. The company has a small market share in India's financial sector, with an asset base of Indian rupee (INR) 624 billion (US$7.5 billion). IIFL is active in originate and sell down/co-lending. This is unlike some of the large rated fincos that mainly do on-balance sheet lending. The off-balance sheet book for IIFL is sizable at about 34% of assets under management as on Sept. 30, 2024.

Prior to the Reserve Bank of India (RBI) embargo, IIFL aggressively gained market share in the gold loan segment, standing only behind Muthoot Finance Ltd. among fincos. Now that the embargo is lifted, we expect IIFL to make good progress in recapturing its market share in gold loans. It will likely use its wide and sizable branch network to re-engage former customers, and potentially offer more competitive pricing.

IIFL has a granular and diversified loan book. It has increased its focus on retail loans in the past five years. The company has average profitability relative to its rated peer group, with a three-year average return on adjusted assets of about 3% for fiscals 2022-2024 (years ending March 31). That is lower than the return for Bajaj Finance Ltd. and other gold financiers.

IIFL is open to corporate actions in the form of demergers when such a move unlocks value for its shareholders and attracts quality investors. However, we understand there are no immediate plans at least in the next 12 months. If such actions happen, we will treat them as event risk and assess their impact on the company's creditworthiness.

IIFL will likely maintain very strong capitalization. We forecast the company's risk-adjusted capital (RAC) ratio will increase to 16%-17% over the next two fiscal years, compared with 15% as of March 31, 2024. This reflects a contraction of the loan book following the embargo, the company's INR12.7 billion equity rights issuance in May 2024, and limited dividend payouts over the next 24 months.

We expect the IIFL's return on assets (excluding one-offs) to improve to 3.0%-3.3% in fiscal years 2026-2027, after a likely drop in profitability in fiscal 2025. The improvement in profitability will be supported by normalization in credit costs and higher net interest margins as IIFL resumes its gold lending business. The company's core return on assets (excluding one-offs) was 2.5% annualized for the first half ended Sept. 30, 2024; the return is about 0.5% if we consider a provision for alternative investment funds.

Our view on IIFL's risk position reflects the company's high-risk appetite and the high-risk, high-yielding business in which it operates. The company's risk appetite has evolved in recent years, with a reducing exposure to construction and real estate finance, and an increasing focus on secured loans such as gold loans and mortgages. That said, IIFL's risk appetite remains high given the vulnerable/low-income client segment in which it operates.

IIFL focuses on an inherently risky underserved segment. The company has in recent years increased exposure to the microfinance segment, which carries higher risk. Moreover, in the gold loan business, underwriting primarily depends on collateral value (rather than being cash flow-based). IIFL, like other lenders in this segment, mainly bases its lending on the appraisal of jewelry.

IIFL's credit costs will likely remain on the higher side compared with that of rated peers. This is given the company's focus on higher-yielding, lower-ticket loans in its low-income target segment, which typically entails higher credit costs. IIFL's credit costs rose this year due to ongoing stress in the microfinance book, higher provisioning and write-offs in the digital loan book, and the lower base effect in the gold loan book. IIFL has taken steps to tighten microfinance underwriting standards, and we expect to see the effects of this in the coming quarters.

Our assessment of IIFL's funding profile reflects the company's dependence on wholesale funding. The lack of backing from a strong parent group suggests the company is more vulnerable to volatility and to market perception than peers that are part of a strong parent group. This is reflected in IIFL's higher cost of funding. Further, any perceived governance issues could heighten reputational risks.

We expect the embargo to have a transient impact on IIFL's funding profile and increase the cost of funds. During the embargo, the company's cost of funds rose on its incremental borrowings, mostly at the subsidiary level; there were no new borrowings at the IIFL level. Now that the embargo is lifted, IIFL has started to secure new lines from lenders.

IIFL has access to multiple sources of funding. Bank term loans and refinancing lines have the largest share at about 60%, within which some concentration exists.

IIFL maintained sufficient liquidity during the embargo. Shortly after the RBI order was announced, Fairfax India Holding Corp., IIFL's largest institutional shareholder, stepped in to provide liquidity support to the tune of US$200 million. This demonstrates Fairfax's confidence in the company.

IIFL's assets and liabilities are well matched, with a cumulative positive gap across all tenor buckets. Liquid assets (cash and government securities and mutual funds) maintained on the balance sheet were about 6% of total assets as of Sept. 30, 2024.

In our comparable rating analysis, we make a one-notch downward adjustment in assessing IIFL's stand-alone credit profile (SACP). This is due to a combination of structural and transient factors. Our approach reflects the company's higher credit losses than rated peers because of its weak borrower profile and evolving target client. It is also driven by IIFL's slightly weakened business and financial profile due to the prolonged central bank embargo, and by its confidence sensitive funding.

We understand that there is a covenant breach at IIFL's microfinance subsidiary. IIFL is working on obtaining the necessary waivers and lenders are not enforcing on the breach. However, the breach could expose IIFL to higher funding costs.

MTN Program Ratings

We have equalized the ratings on the senior secured notes under the global MTN program with our long-term issuer credit rating on IIFL. This is because the finco is a prudentially regulated financial institution and the notes under the program have an equal ranking in right of payment with all the company's secured obligations.

Notes issued from the program will constitute direct, secured, and unconditional obligations of IIFL. The notes are secured by a first ranking pari passu charge over all rights, titles, interest, benefits, claims, and demands (both present and future) over receivables/assets, including the issuer's accounts, operating cash flows, current assets, book debts, loans and advances and receivables, subject to conditions. The company must ensure that notes are at least 100% covered by assets, excluding assets classified as nonperforming.

IIFL may also issue index-linked notes from the program. Under our rating criteria, we do not rate the notes if principal payments are linked to fluctuations in equity or commodity prices, or equity or commodity indices.

The global MTN program also has a cross-acceleration clause on the present and future indebtness of the issuer or any of its principal subsidiaries. IIFL Samasta Finance Ltd., which is IIFL's microfinance subsidiary, is at present in breach of certain asset quality related covenants. That said, we understand that none of the lenders has so far enforced on the covenant breach.

The rating on the notes is subject to our review of the final issuance program documentation.

Outlook

Our stable outlook on IIFL reflects our view that the company's very strong capitalization and anticipated improvement in business volume and profitability will help it navigate operating challenges that may arise as it resumes business following the lifting of the embargo.

We believe IIFL's credit costs have peaked and should start decreasing from fiscal 2026. At the same time, we expect only a gradual increase in leverage during this period. The company will likely sustain its funding access despite sensitivity to market confidence.

Downside scenario

We may downgrade IIFL if a material corporate action, such as a demerger, occurs to the extent that it weakens the company's creditworthiness.

Upside scenario

We could raise the ratings if IIFL strengthens its revenue stability and market position, and its credit losses fall broadly in line with rated peers, while the company maintains its capital position.

Ratings Score Snapshot

Issuer Credit Rating	B+/Stable/B
SACP	b+

Issuer Credit Rating	B+/Stable/B
Anchor	bb
Business position	Moderate (-1)
Capital and earnings	Very Strong (+2)
Risk position	Moderate (-1)
Funding & Liquidity	Moderate & Adequate (-1)
Comparable rating analysis	-1
Support	0
ALAC support	0
GRE support	0
Group support	0
Sovereign support	0
Additional factors	0
SACP--Stand-alone credit profile.	

Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Banking Industry Country Risk Assessment: India, Aug. 19, 2024

Ratings List

New Rating; Outlook Action	
IIFL Finance Ltd.	
Issuer Credit Rating	B+/Stable/B
Senior Secured Global MTN Program	B+