

September 29, 2020

The Manager, Listing Department, BSE Limited, Phiroze Jeejeebhoy Tower, Dalal Street, Mumbai 400 001. BSE Scrip Code: 532636	The Manager, Listing Department, The National Stock Exchange of India Ltd., Exchange Plaza, 5 Floor, Plot C/1, G Block, Bandra - Kurla Complex, Bandra (E), Mumbai 400 051. NSE Symbol: IIFL
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Sub: Intimation under Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended from time to time

Dear Sir/Madam,

We would like to inform that international credit rating agency viz Moody's Investors Service ("Moody's") has revised/changed the corporate family rating of the Company to B2 from B1 and senior secured debt rating to B2 from B1. Moody's has also revised/changed the senior secured medium-term note program rating of the Company to (P)B2 from (P)B1.

The rating outlook has been changed to stable from rating under review.

The press release on ratings by Moody's is enclosed.

Kindly take the same on record and oblige.

Thanking You,
Yours faithfully,

For **IIFL Finance Limited**
(Formerly known as IIFL Holdings Limited)

Jayesh Sharma
Company Secretary
Place: Mumbai
Encl: As above

CC:

Singapore Exchange Securities Trading Limited
2, Shenton Way, #02-02, SGX Centre 1,
Singapore - 068 804

IIFL Finance Limited (formerly known as IIFL Holdings Limited)

CIN No.: L67100MH1995PLC093797

Corporate Office – 802, 8th Floor, Hub Town Solaris, N.S. Phadke Marg, Vijay Nagar, Andheri East, Mumbai 400069

Tel: (91-22) 6788 1000 .Fax: (91-22) 6788 1010

Regd. Office – IIFL House, Sun Infotech Park, Road No. 16V, Plot No. B-23, MIDC, Thane Industrial Area, Wagle Estate, Thane – 400604 Tel: (91-22) 4103 5000. Fax: (91-22) 2580 6654 E-mail: csteam@iifl.com Website: www.iifl.com

Rating Action: Moody's downgrades IIFL Finance to B2 from B1, outlook stable

28 Sep 2020

Singapore, September 28, 2020 -- Moody's Investors Service has downgraded IIFL Finance Limited's ("IIFL Finance") corporate family rating (CFR) to B2 from B1, senior secured debt rating to B2 from B1, and senior secured medium-term note (MTN) program rating to (P)B2 from (P)B1.

The rating outlook has been changed to stable from rating under review.

Today's rating action concludes the review for downgrade initiated on 29 May 2020.

RATINGS RATIONALE

The downgrade of IIFL Finance's ratings reflects Moody's expectation that the company's asset quality and profitability will deteriorate as loan delinquencies and defaults increase. This weakening will be driven by declining earnings and cash flow at its customers due to the deep coronavirus-led economic contraction.

Loans to small and medium-sized enterprises (SMEs), real estate developers and micro-finance companies -- segments that represent about 40% of its assets under management -- are at the greatest risk of a deterioration in asset quality, given the disruption to their business activities and their limited balance sheet liquidity. At the end of June 2020, about 50% of these loans were subject to repayment moratoriums, compared to about 30% for IIFL Finance's total loan book.

In line with its industry peers, Moody's expects IIFL Finance will restructure loans to borrowers whose businesses and earnings have been affected by the coronavirus outbreak. The longer and deeper the hit to India's economic activity, the greater the negative financial impact on borrowers, leading to an increase in non-performing loans. However, the increase will be gradual as loan restructuring will prevent an immediate sharp increase in non-performing loans.

IIFL Finance's profitability will also deteriorate as credit costs increase in line with the deterioration in asset quality. While, IIFL Finance has increased loan loss provisions against potential asset quality deterioration, Moody's expects its provisioning coverage will deteriorate as NPLs increase. IIFL Finance's return on assets has already deteriorated, declining to about 1.0% in June 2020 (annualized) from an average of 1.8% in the past three years, excluding the one-time mark-to-market impact on foreign exchange borrowings.

IIFL Finance's capital remains stable as the company has slowed loan growth in response to the contraction in economic activity and to conserve liquidity. IIFL Finance has not yet raised equity, unlike some of its peer non-bank finance companies (NBFCs), which have raised equity capital to shore up their buffers given the challenging operating conditions. While IIFL Finance is backed by strong shareholders, its access to equity capital remains to be tested.

While IIFL Finance's funding remains stable, funding conditions remain challenging for Indian NBFCs. In particular, non-bank debt markets remain largely closed to many NBFCs given the risk aversion prevalent in Indian financial markets.

As a result, IIFL Finance remains reliant on public sector banks as the primary source of liquidity to repay maturing obligations. Loan securitizations and assignments, which were a key source of funding in the past 12-18 months, have slowed given increased risk aversion amongst banks given the bleak asset quality outlook. In addition, IIFL Finance's modest liquidity provides limited buffer should funding conditions suddenly tighten.

STABLE OUTLOOK

The stable outlook reflects Moody's expectation that IIFL Finance will continue to perform in line with that of its B2 CFR peers over the next 12-18 months, with its stable capitalization providing resilience against weakening profitability and asset risk. In addition, Moody's expects ongoing deleveraging due to lower originations to result in reduced refinancing needs.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Given the stable outlook, IIFL Finance's ratings are unlikely to be upgraded over the next 12-18 months. Nevertheless, Moody's could revise the rating outlook to positive if: (1) if the company strengthens its liquidity by refinancing or raising new funding over the next few quarters, (2) the company strengthens its loss-absorbing buffers by raising equity capital, or (3) if the operating environment improves, supporting a strengthening in asset quality.

Moody's will downgrade the ratings if the company's liquidity deteriorates, or if there is a significant deterioration in its asset quality beyond Moody's current expectations, leading to a worsening of its solvency metrics.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Finance Companies Methodology published in November 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1187099. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Headquartered in Mumbai, IIFL Finance Limited reported total assets of INR335 billion at 30 June 2020.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Alka Anbarasu
VP - Senior Credit Officer
Financial Institutions Group
Moody's Investors Service Singapore Pte. Ltd.
50 Raffles Place #23-06
Singapore Land Tower
Singapore 48623
Singapore
JOURNALISTS: 852 3758 1350
Client Service: 852 3551 3077

Graeme Knowd
MD - Banking
Financial Institutions Group
JOURNALISTS: 852 3758 1350
Client Service: 852 3551 3077

Releasing Office:
Moody's Investors Service Singapore Pte. Ltd.
50 Raffles Place #23-06
Singapore Land Tower
Singapore 48623
Singapore
JOURNALISTS: 852 3758 1350
Client Service: 852 3551 3077



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