



April 07, 2023

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, 5th Floor, Plot C/1, G Block, Bandra - Kurla Complex, Bandra (E), Mumbai 400 051. NSE Symbol: IIFL
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Subject: Change in credit Rating

Dear Sir/ Madam,

Pursuant to Regulation 30 and 51(2) read with Schedule III of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (as amended from time to time) ("Listing Regulations"), we hereby inform you that Moody's Investors Service ("Moody's"), the credit rating agency, has upgraded the rating of IIFL Finance Limited ("the Company"), assigned to the long term corporate family and foreign currency senior secured debt to B1 from B2 and foreign and local currency senior secured medium term note program to (P) B1 from (P) B2.

The press release on ratings by Moody's is enclosed and the same has also been hosted on the website of the Company, i.e. www.iifl.com.

Kindly take the same on record and oblige.

Thanking you,

For IIFL Finance Limited

Sneha Patwardhan
Company Secretary
Encl: as above

CC:

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IIFL Finance Limited

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Rating Action: Moody's upgrades IIFL Finance's rating to B1 from B2; outlook stable

06Apr2023

Singapore, April 06, 2023 -- Moody's Investors Service has upgraded IIFL Finance Limited's (IIFL Finance) long-term corporate family rating to B1 from B2, foreign currency senior secured debt rating to B1 from B2, and foreign and local currency senior secured medium-term note program ratings to (P)B1 from (P)B2.

The rating upgrades are driven by strong momentum from the company's asset-light model that has improved its profitability, capital and funding.

The ratings outlook remains stable.

RATINGS RATIONALE

IIFL Finance's share of asset-light business or off-balance sheet loans increased to 37% of its total assets under management (AUM) as of the end of December 2022 from 21% as of the end of March 2019 (fiscal 2019). This transition has improved its funding, profitability and capital.

The asset-light business is driven by partnerships with banks for loan assignment and co-lending of new loans to retail and small and medium enterprise customers, with the banks providing the funding and assuming the corresponding asset risk of those loans.

The transition to an asset-light model has helped improve IIFL Finance' profitability, with the annualized return on average assets increasing to 3.2% for the 9 months ending December 2022 compared with the average of 2% over fiscals 2017-21. While there may be some margin compression as other finance companies replicate the asset-light model, Moody's expects IIFL Finance's profitability to remain higher than historical levels.

The combination of improved profitability and relatively muted balance sheet growth has helped improve its capital, with the tangible common equity/total managed assets increasing to 14% as of the end of March 2022 compared with 13% as of the end of March 2019. The company's capitalization has improved further, helped by an external capital infusion in IIFL Home Finance in June 2022.

The company's asset quality has improved from pandemic lows, with the gross non-performing loan ratio decreasing to 2.1% as of the end of December 2022 from 3.2% as of the end of March 2022. Moody's expects its asset quality to remain stable over the next 12-18 months, in line with the broader asset quality trends among Indian banks and finance companies. At the same time, the company is structurally more exposed to asset quality risks, given its limited operating scale and low-income customer segment.

Liquidity remains a credit weakness, given the relatively low level of liquid assets on its balance sheet. At the same time, the maturities of its assets and liabilities are well matched, particularly

in the near-term maturity buckets. The increasing share of home loans will present a challenge for liquidity management given the long tenor nature of the product.

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

WHAT COULD MOVE THE RATINGS UP

Moody's could upgrade IIFL Finance's ratings if the company, on a sustainable basis, holds liquid assets amounting to more than 15% of its total assets, while keeping asset quality and capital at current levels.

WHAT COULD MOVE THE RATINGS DOWN

Moody's will downgrade IIFL Finance's ratings if the company's asset quality deteriorates, such that credit costs increase to around 4% of loans and/or liquidity deteriorates such that there are meaningful mismatches in the maturity profile of assets and liabilities.

The principal methodology used in these ratings was Finance Companies Methodology published in November 2019 and available at <https://ratings.moodys.com/api/rmc-documents/65543>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

IIFL Finance Limited, headquartered in Mumbai, reported total assets of INR489.1 billion as of 31 December 2022.

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 on <https://ratings.moodys.com/rating-definitions>.

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