



Press Release

October 30, 2024

IIFL SAMASTA FINANCE LIMITED Rating Downgraded and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Non Convertible Debentures (NCD)	3000.00	ACUITE AA- Stable Downgraded Remove from Rating Watch	-
Commercial Paper (CP)	50.00	-	ACUITE A1+ Reaffirmed Remove from Rating Watch
Total Outstanding	3050.00	-	-
Total Withdrawn	0.00	-	-

Rating Rationale

Acuite has downgraded its long-term rating of '**ACUITE AA**' (read as **ACUITE double A**) to '**ACUITE AA-**' (read as **ACUITE double A minus**) on the Rs. 3000 Cr. Non-Convertible Debentures facility of IIFL Samasta Finance Limited (IIFL Samasta). The outlook is '**Stable**'. The rating watch with negative implications has been removed.

Acuite has reaffirmed its short-term rating of '**ACUITE A1+**' (read as **ACUITE A one plus**) on the Rs. 50.00 Cr. Proposed Commercial Paper of IIFL Samasta Finance Limited. The rating watch with negative implications has been removed.

Rationale for rating

The rating watch with negative implications on account of material supervisory concern was raised by RBI as it had asked IIFL Finance to stop giving fresh gold loans with immediate effect. Now that the sanctions have been lifted by the RBI and the gold loan business has resumed with immediate effect and there has been relative growth in the performance since the sanctions have been lifted which is why the rating watch with negative implications have been removed.

The rating action takes into consideration the moderation in the earning profile at consolidated level which is denoted through a PAT loss of Rs 93.10 Cr. in Q2FY25. Acuite also factors in the rising delinquency levels in the microfinance segment and expects these delinquency levels to remain elevated in the near term which can have a significant bearing on the earning profile for IIFL samastha. At a consolidated level the group has incurred losses in Q2FY25 which is primarily derived by a one time provisioning of Rs. 586.50 Cr. as there was a RBI requirement to provide a 100% provisioning on AIF investments. There is also an increase in loan losses and provisioning from H1FY24 of Rs 432.7 Cr. to Rs 657.9 Cr. in H1FY25 which is a 52% increase.

However the rating continues to derive strength from IIFL Samasta's strategic importance for the parent company given that the NBFC-MFI arm provides business & revenue diversification. Acuite also takes cognizance that the promoter will maintain majority ownership in IIFL Samasta Finance Limited. The parent company IIFL Finance Limited (Listed) has a total networth of ~Rs. 12,056 Cr. as on March 31, 2024. At a consolidated level the company's loan portfolio as on March 31, 2024 grew significantly to Rs. 50,952.32 Cr. as compared to Rs. 40,143.07 Cr. as on March 31, 2023 and has reported PAT of Rs. 1974.22 Cr. as on March 31, 2024 as against Rs.1605.55 Cr. as on March 31, 2023. Further, the loan portfolio outstanding increased to Rs. 9337.85 Cr. and reported PAT of Rs. 503.04 Cr. during FY2024. The rating also factors in company's sound asset quality and robust risk management practices and also takes into consideration the significant growth in IIFL Samasta's assets under management (AUM) over the last year, leading to improved and healthy profitability metrics. IIFL Samasta reported gross nonperforming assets (GNPA) of 1.91 percent as on March 31, 2024. The rating is however constrained by concentration of loan portfolio in the top 4 states (Bihar, Tamil Nadu, Karnataka and Rajasthan) comprising ~60 percent of the AUM and susceptibility to risks inherent to microfinance segment.

About the Company

IIFL Samasta started operations in March 2008. The Company aims at helping customers with income generating activities and working capital requirements. IIFL Finance acquired significant stake in Samasta in fiscal year 2017. As on June 30, 2023, Samasta had a presence in 21 states, catering to more than 34 lakh customers through a network of 1,352 branches spread across 363 districts. IIFL samasta is headquartered in Bangalore where Mr. Venkatesh, R. C. Shekar, and Shivaprakash Deviah established IIFL Samasta Finance Ltd.

About the Group

IIFL Finance Limited is the listed holding company of the IIFL Finance group and is registered as a systemically important non-deposit-taking, non-banking financial company. The group offers various retail lending products, including gold loans, home loans, LAP, business loans and microfinance loans which are the core segments and form 93% of the AUM while the rest comprises capital market-based lending (margin funding and loans against shares) and construction and developer finance.

Unsupported Rating

Not Applicable

Analytical Approach

Extent of Consolidation

•Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuite has consolidated the business and financial risk profiles of IIFL Finance Limited (Parent Company) and its subsidiaries, including IIFL Home Finance Limited and IIFL Samasta Finance Ltd (IIFL Samasta). This consolidation is in the view of the common promoters, shared brand name and strong financial and operation synergies.

Key Rating Drivers

Strength

Promoter support and synergies arising from association with IIFL Finance Group

Samasta is supported by the managerial, and the financial synergies of the group. IIFL Group made a strategic investment in IIFL Samasta Finance Limited, and the Group shall continue to hold a controlling stake in the business. The credit profile of Samasta derives significant financial flexibility as a part. Samasta has been receiving periodical support from its promoters over the years. IIFL Group had infused a total capital of ~Rs. 200 Cr. during FY24. Furthermore, Samasta is expected to receive funding support from the group to support the expansion of its business operations. It also has representatives on the board from IIFL group. Acuite believes that the microfinance business is strategically important for IIFL group and it helps diversify the financial product suite of the parent and expand its presence in the financial inclusion space. Also, the microfinance business is scalable, and is expected to grow moderately over the medium term.

Healthy capitalization levels

IIFL's networth stood at Rs. 12,056.44 Cr. as on Mar 31, 2024 (Rs. 10202.14 Cr. as on March 31, 2023) and Rs. 6469.73 Cr. as on March 31, 2022. In addition to being high-yielding, SME and retail portfolio shall provide granularity to AFPL's portfolio and help mitigate credit risk. The capitalization levels post equity infusion stood comfortable to support expansion plans of the company. IIFL Samastha's Capital Adequacy Ratio (CAR) stood comfortable at 24.00 percent as on March 31, 2024 (17.10 percent as on March 31, 2023) and moreover in H1FY25 it stood at 30.5%. IIFL's gearing stood at 3.81 times as on Mar 31, 2024 (3.82 times as on March 31, 2023). Acuite believes that the company's comfortable capitalization levels will support its growth plans over the medium term.

Well diversified portfolio

The AUM at a consolidated level is spread across gold loans, home loans, LAP and SME business loans which shows the diversification of the asset base. The impact in the seizure of the gold loan business has not been felt on the group as a whole despite the closure of such a profitable business line which shows the strength in the fundamental foundations of the organisation along with the strength in the diversity of the portfolio.

Weakness

Modest Earning Profile

The moderation in the earning profile at a consolidated level which is denoted through a PAT loss of Rs 93.10 Cr in Q2FY25. Moreover there is a concern of the the rising delinquency levels in the microfinance segment which has also been taken into consideration. The rating further derives strength from IIFL Samasta's strategic importance for the parent company given that the NBFC-MFI arm provides business & revenue diversification. However at a consolidated level the group has incurred losses in Q2FY25 which is primarily derived by a one time provisioning of Rs. 586.50 Cr as there was a RBI requirement to provide a 100% provisioning on AIF investments. Moreover there is also a consistent increase in loan losses and provisioning from H1FY24 of Rs 432.7 Cr to Rs 657.9 Cr. in H1FY25 which is a 52% increase.

Geographic concentration in operations

IIFL Samasta has its operations spreads across 22 states spanning 418 districts through its network of 1,645 branches as on June 30, 2024. The company has added 91 branches during FY2024. Despite the expansion geographic concentration of loan portfolio was seen in the top 4 states (Bihar, Tamil Nadu, Karnataka and Rajasthan) comprising ~60 percent of the AUM. IIFL Samasta has been gradually reducing its exposure to geographic concentration with addition of new branches in different districts and venturing in new states. Acuité believes that containing additional slippages while maintaining the growth in the loan portfolio and reducing geographic concentration will be crucial.

Susceptibility to risks inherent to microfinance segment

IIFL Samasta Finance Limited primarily extends unsecured loans to economically challenged borrowers who have limited ability to absorb income shocks. Since financial assistance to economic challenged borrowers is a sensitive issue, from government standpoint the regulatory dispensation in respect of the policies becomes relevant. Any changes in the regulatory environment impeding the ability of entities like IIFL Samasta to enforce collections, etc will have an impact on its operational performance. Besides the regulatory risks, the inherent nature of the business renders the portfolios vulnerable to event risks such as natural calamities in the area of operations.

ESG Factors Relevant for Rating

IIFL Finance is the listed holding company of the IIFL Finance group and is registered as a systemically important non-deposit-taking, non-banking financial company. Some of the material governance issues for the financial services sector are policies and practices with regard to business ethics, board diversity and independence, compensation structure for board and KMPs, role of the audit committee and shareholders' rights. On the social aspect, some of the critical issues for the sector are the contributions to financial inclusion and community development, responsible financing including environmentally friendly projects and policies around data privacy. The industry, by nature has a low exposure to environmental risks. The entity maintains adequate transparency in its business ethics practices as can be inferred from the entity's disclosures regarding related party transactions, vigil mechanism and whistle blower policy. The board of directors of the company comprise of 8 directors out of which 4 are independent director. The audit committee is with the objective to monitor and provide an unbiased supervision of the management's financial reporting process. IFL also maintains transparency in terms of disclosures pertaining to interest rate policy and its adherence to Fair Practice Code as disseminated by Reserve Bank of India's circular. It continues to work on several community development initiatives and has also developed a social performance management system to facilitate financial stability of its staff and clients. In digitalization, the Company promotes technology that encapsulates the entire MFI operations of the company on Application Service Provider model.

Rating Sensitivity

- Movement in profitability as per the expectations
- Movement in the asset quality and collection efficiency
- Changes in Regulatory environment
- Continued funding support from promoters as well as capital raising ability
- Changes in Capital Structure

Liquidity Position

Adequate

IIFL Samasta Finance Limited's liquidity profile is adequate with no cumulative mismatches in individual buckets up in near to medium term based on the ALM statement as on June 30, 2024. Further, the company has cash and cash equivalents of Rs. 1027.92 Cr. as on March 31, 2024. Additionally, IIFL Finance will provide timely fund support for servicing of debt if needed

Outlook

Stable

Other Factors affecting Rating

None

Key Financials - Standalone / Originator

Particulars	Unit	FY24 (Actual)	FY23 (Actual)
Total Assets	Rs. Cr.	11360.35	8859.06
Total Income*	Rs. Cr.	1863.38	1136.27
PAT	Rs. Cr.	503.04	128.18
Net Worth	Rs. Cr.	2009.72	1322.15
Return on Average Assets (RoAA)	(%)	4.98	1.69
Return on Average Net Worth (RoNW)	(%)	30.20	11.04

Debt/Equity	Times	4.48	5.5
Gross NPA	(%)	1.91	2.12
Net NPA	(%)	0.34	0.81

**Total income equals to Net Interest Income plus other income.*

Key Financials (Consolidated)

Particulars	Unit	FY24 (Actual)	FY23 (Actual)
Total Assets	Rs. Cr.	62269.37	52880.12
Total Income*	Rs. Cr.	6262.07	5201.01
PAT	Rs. Cr.	1974.22	1607.55
Net Worth	Rs. Cr.	12056.44	10202.14
Return on Average Assets (RoAA)	(%)	3.43	3.26
Return on Average Net Worth (RoNW)	(%)	17.74	19.28
Debt/Equity	Times	3.81	3.82
Gross NPA	(%)	2.32	1.84
Net NPA	(%)	1.20	1.08

**Total income equals to Net Interest Income plus other income*

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any Other Information

None

Applicable Criteria

- Non-Banking Financing Entities: <https://www.acuite.in/view-rating-criteria-44.htm>
- Banks And Financial Institutions: <https://www.acuite.in/view-rating-criteria-45.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Group And Parent Support: <https://www.acuite.in/view-rating-criteria-47.htm>
- Commercial Paper: <https://www.acuite.in/view-rating-criteria-54.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
12 Mar 2024	Proposed Commercial Paper Program	Short Term	50.00	ACUITE A1+ (Reaffirmed (Rating Watch with Negative Implications))
	Non-Covertible Debentures (NCD)	Long Term	150.00	ACUITE AA (Reaffirmed (Rating Watch with Negative Implications))
	Proposed Non Convertible Debentures	Long Term	50.00	ACUITE AA (Reaffirmed (Rating Watch with Negative Implications))
	Proposed Non Convertible Debentures	Long Term	500.00	ACUITE AA (Reaffirmed (Rating Watch with Negative Implications))
	Non-Covertible Debentures (NCD)	Long Term	200.00	ACUITE AA (Reaffirmed (Rating Watch with Negative Implications))
	Non-Covertible Debentures (NCD)	Long Term	100.00	ACUITE AA (Reaffirmed (Rating Watch with Negative Implications))
	Proposed Non Convertible Debentures	Long Term	1487.98	ACUITE AA (Reaffirmed (Rating Watch with Negative Implications))
	Non-Covertible Debentures (NCD)	Long Term	80.39	ACUITE AA (Reaffirmed (Rating Watch with Negative Implications))
	Non-Covertible Debentures (NCD)	Long Term	157.72	ACUITE AA (Reaffirmed (Rating Watch with Negative Implications))
	Non-Covertible Debentures (NCD)	Long Term	73.45	ACUITE AA (Reaffirmed (Rating Watch with Negative Implications))
	Non-Covertible Debentures (NCD)	Long Term	34.05	ACUITE AA (Reaffirmed (Rating Watch with Negative Implications))
	Non-Covertible Debentures (NCD)	Long Term	116.84	ACUITE AA (Reaffirmed (Rating Watch with Negative Implications))
	Non-Covertible Debentures (NCD)	Long Term	49.57	ACUITE AA (Reaffirmed (Rating Watch with Negative Implications))
	06 Oct 2023	Proposed Commercial Paper Program	Short Term	50.00
Non-Covertible Debentures (NCD)		Long Term	150.00	ACUITE AA Stable (Reaffirmed)
Proposed Non Convertible Debentures		Long Term	50.00	ACUITE AA Stable (Reaffirmed)
Proposed Non Convertible Debentures		Long Term	500.00	ACUITE AA Stable (Reaffirmed)
Non-Covertible Debentures (NCD)		Long Term	200.00	ACUITE AA Stable (Reaffirmed)
Non-Covertible Debentures (NCD)		Long Term	100.00	ACUITE AA Stable (Reaffirmed)
Proposed Non Convertible Debentures		Long Term	2000.00	ACUITE AA Stable (Reaffirmed)
25 Sep 2023	Proposed Commercial Paper Program	Short Term	50.00	ACUITE A1+ (Reaffirmed)
	Non-Covertible Debentures (NCD)	Long Term	150.00	ACUITE AA Stable (Reaffirmed)
	Proposed Non Convertible Debentures	Long Term	50.00	ACUITE AA Stable (Reaffirmed)
	Proposed Non Convertible Debentures	Long Term	500.00	ACUITE AA Stable (Reaffirmed)
	Proposed Non Convertible Debentures	Long Term	2000.00	ACUITE AA Stable (Assigned)
	Non-Covertible Debentures (NCD)	Long Term	200.00	ACUITE AA Stable (Reaffirmed)
	Non-Covertible Debentures (NCD)	Long Term	100.00	ACUITE AA Stable (Reaffirmed)
07 Jun 2023	Proposed Commercial Paper Program	Short Term	50.00	ACUITE A1+ (Reaffirmed)
	Proposed Non Convertible Debentures	Long Term	150.00	ACUITE AA Stable (Reaffirmed)
	Proposed Non Convertible Debentures	Long Term	350.00	ACUITE AA Stable (Reaffirmed)
	Proposed Non Convertible Debentures	Long Term	500.00	ACUITE AA Stable (Assigned)

15 May 2023	Proposed Commercial Paper Program	Short Term	50.00	ACUITE A1+ (Reaffirmed)
	Proposed Non Convertible Debentures	Long Term	150.00	ACUITE AA Stable (Reaffirmed)
	Proposed Non Convertible Debentures	Long Term	350.00	ACUITE AA Stable (Reaffirmed)
08 May 2023	Proposed Commercial Paper Program	Short Term	50.00	ACUITE A1+ (Assigned)
	Proposed Non Convertible Debentures	Long Term	150.00	ACUITE AA Stable (Assigned)
	Proposed Non Convertible Debentures	Long Term	350.00	ACUITE AA Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Complexity Level	Rating
Not Applicable	INE413U07269	Non-Convertible Debentures (NCD)	21 Dec 2023	10.03	21 Dec 2028	80.39	Simple	ACUITE AA- Stable Downgraded Remove from Rating Watch (from ACUITE AA)
Not Applicable	INE413U07251	Non-Convertible Debentures (NCD)	21 Dec 2023	10.50	21 Dec 2028	157.72	Simple	ACUITE AA- Stable Downgraded Remove from Rating Watch (from ACUITE AA)
Not Applicable	INE413U07277	Non-Convertible Debentures (NCD)	21 Dec 2023	10.00	21 Dec 2026	73.45	Simple	ACUITE AA- Stable Downgraded Remove from Rating Watch (from ACUITE AA)
Not Applicable	INE413U07236	Non-Convertible Debentures (NCD)	21 Dec 2023	9.57	21 Dec 2026	34.05	Simple	ACUITE AA- Stable Downgraded Remove from Rating Watch (from ACUITE AA)
Not Applicable	INE413U07228	Non-Convertible Debentures (NCD)	21 Dec 2023	9.60	21 Dec 2025	116.84	Simple	ACUITE AA- Stable Downgraded Remove from Rating Watch (from ACUITE AA)
Not Applicable	INE413U07244	Non-Convertible Debentures (NCD)	21 Dec 2023	9.21	21 Dec 2025	49.57	Simple	ACUITE AA- Stable Downgraded Remove from Rating Watch (from ACUITE AA)
Not Applicable	INE413U07301	Non-Convertible Debentures (NCD)	21 Jun 2024	10.03	21 Jun 2029	54.33	Simple	ACUITE AA- Stable Downgraded Remove from Rating Watch (from ACUITE AA)
Not Applicable	INE413U07319	Non-Convertible Debentures (NCD)	21 Jun 2024	10.05	21 Jun 2029	14.87	Simple	ACUITE AA- Stable Downgraded Remove from Rating Watch (from ACUITE AA)
Not Applicable	INE413U07293	Non-Convertible Debentures (NCD)	21 Jun 2024	10	21 Jun 2027	14.72	Simple	ACUITE AA- Stable Downgraded Remove from Rating Watch (from ACUITE AA)

Not Applicable	INE413U07327	Non-Convertible Debentures (NCD)	21 Jun 2024	9.57	21 Jun 2027	13.14	Simple	ACUITE AA- Stable Downgraded Remove from Rating Watch (from ACUITE AA)
Not Applicable	INE413U07335	Non-Convertible Debentures (NCD)	21 Jun 2024	9.60	21 Jun 2026	77.60	Simple	ACUITE AA- Stable Downgraded Remove from Rating Watch (from ACUITE AA)
Not Applicable	INE413U07285	Non-Convertible Debentures (NCD)	21 Jun 2024	9.20	21 Jun 2026	6.20	Simple	ACUITE AA- Stable Downgraded Remove from Rating Watch (from ACUITE AA)
Not Applicable	INE413U08093	Non-Convertible Debentures (NCD)	18 May 2023	11.00	18 May 2030	150.00	Simple	ACUITE AA- Stable Downgraded Remove from Rating Watch (from ACUITE AA)
Not Applicable	INE413U07210	Non-Convertible Debentures (NCD)	26 May 2023	10.00	26 Nov 2026	200.00	Simple	ACUITE AA- Stable Downgraded Remove from Rating Watch (from ACUITE AA)
Not Applicable	INE413U08101	Non-Convertible Debentures (NCD)	13 Jun 2023	11.00	13 Jun 2030	100.00	Simple	ACUITE AA- Stable Downgraded Remove from Rating Watch (from ACUITE AA)
Not Applicable	Not avl. / Not appl.	Proposed Commercial Paper Program	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	50.00	Simple	ACUITE A1+ Reaffirmed Remove from Rating Watch
Not Applicable	Not avl. / Not appl.	Proposed Non Convertible Debentures	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	50.00	Simple	ACUITE AA- Stable Downgraded Remove from Rating Watch (from ACUITE AA)
Not Applicable	Not avl. / Not appl.	Proposed Non Convertible Debentures	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	319.14	Simple	ACUITE AA- Stable Downgraded Remove from Rating Watch (from ACUITE AA)
Not Applicable	Not avl. / Not appl.	Proposed Non Convertible Debentures	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	1487.98	Simple	ACUITE AA- Stable Downgraded Remove from Rating Watch (from ACUITE AA)

***Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt. Support)**

Sr. No	Name of the companies
1	IIFL Finance Limited
2	IIFL Home Finance Limited
3	IIFL Samasta Finance Limited
4	IIFL Open Fintech Private Limited

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About Acuité Ratings & Research

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