



Quick Insight

IIFL Finance Ltd.

**IIFL FINANCE**

| | |
|----------------|---|
| Industry | Finance - General |
| CMP | ₹297.35 |
| M Cap | ₹113.85bn |
| Buy Range | ₹265 – 285 |
| Target | ₹380 – 400 |
| Recommendation | Accumulate on Dips |
| Highlights | <ul style="list-style-type: none"> ➤ Consistent financial performance and growth over the years ➤ Aggressive betting on growth- robust guidance of loan growth at ~25% and return ratios improving/maintaining at current levels ➤ Well positioned to scale in small ticket retail loans in partnerships with banks ➤ Well diversified sources of funding- surplus liquidity across all buckets ➤ Short to Medium term SOTP valuation mismatch opportunity |

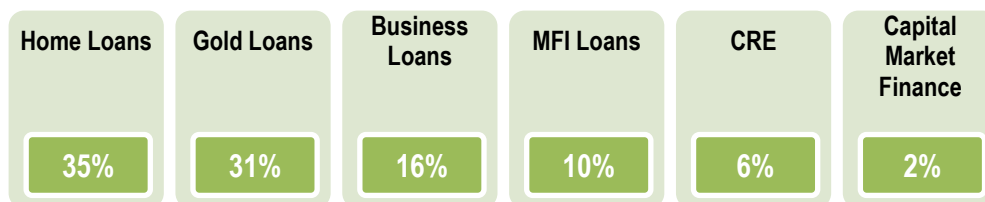
IIFL Finance Ltd.

Company Background

IIFL is one of the leading retail focused diversified NBFC, engaged in Home loans, Gold loans, Business loans, Microfinance loans- forming Core AUM. Also they are engaged in Commercial Real Estate financing and Capital Market Finance.

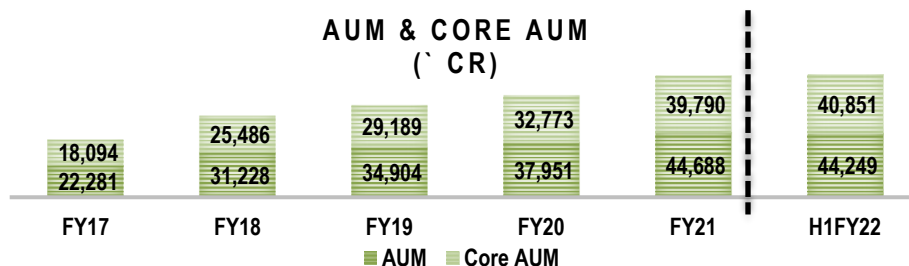
IIFL is reducing its commercial real estate portfolio as it wants to focus on retail lending which constitutes about 94% of the loan book.

Loan Book Mix-Q2FY22



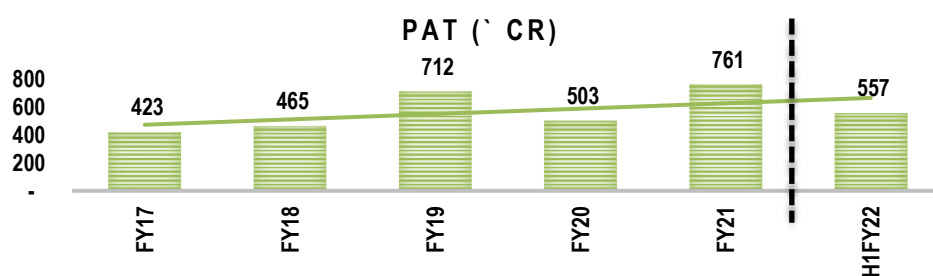
Key Metrics

Figure 1: Total AUM has grown at 16% CAGR with Core AUM growing at 22% CAGR...



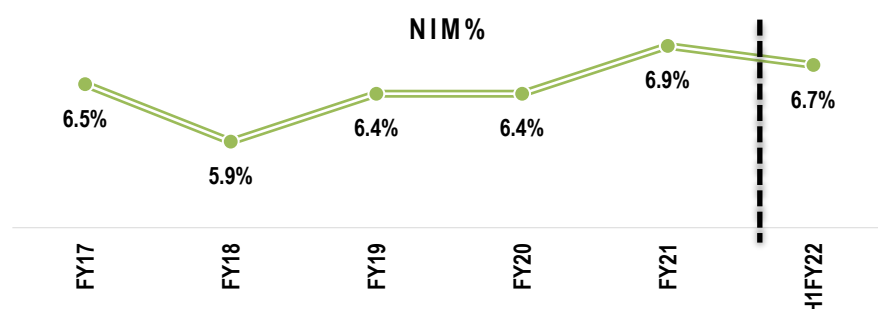
Source - Company, Way2Wealth

Figure 2: PAT CAGR has been ~16% for last four years...



Source - Company, Way2Wealth

Figure 3: NIMs on Balance Sheet assets are maintained at ~6.5% levels...

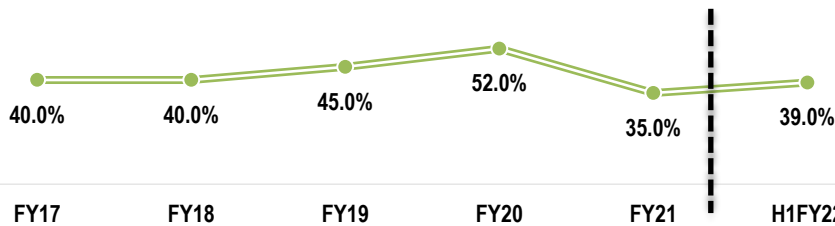


Source - Company, Way2Wealth

| | |
|-----------------------------|----------------|
| Nifty | 17,149.10 |
| Sensex | 57,491.51 |
| Key Stock Data | |
| CMP | ₹297.35 |
| Market Cap | ₹113.85bn |
| 52W High/Low | ₹374.90/112.00 |
| Shareholding Pattern Dec'21 | |
| Promoter | 24.93% |
| FII | 21.12% |
| DII | 0.80% |
| Public | 53.16% |

Figure 4: C/I ratio has inched up due to addition of 4000 employees and 350 branches in H1FY22...Also aggressive investments in technology and branding continues

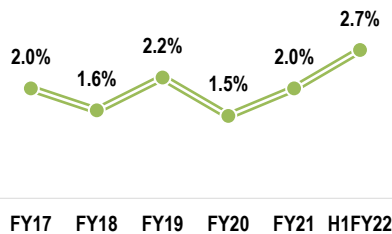
C/I



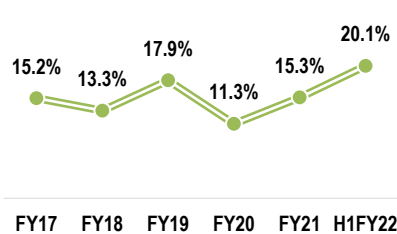
Source - Company, Way2Wealth

Figure 6: Inspite of large investment in growth causing spike in operating costs, ROA remained above 2.5% and ROE above 20% levels....

ROA %



ROE %



Source - Company, Way2Wealth

Sum of the Parts ('SOTP') Valuation

(₹Cr)

| Vertical | Valuation Parameter | Base Value (A) | Multiple (B) | Valuation (A*B) | Remarks |
|---------------------------|---------------------|---------------------|--------------|-----------------|---|
| Home Loan | Price to Book | 2,500 Cr Book Value | 2 | 5,000 | The Home loan business is being valued at P/B multiple of 2 on conservative basis as peers of similar size are hovering between multiple of 3 and 8 times and hence Network*2 has been considered as value of the business. |
| Gold Loan | Mcap to AUM | 13,600 Cr AUM | 0.7 | 9,520 | The Gold loan business is being valued at Mcap to AUM multiple of 0.7 on lower side of the band. Specialized Gold loan NBFCs are trading in a range of 0.7-1.1 times Mcap to AUM. |
| MFI | Price to Book | 650 Cr Book Value | 0.5 | 325 | MFI business currently facing lot of headwinds, on conservative basis we have taken P/B multiple of 0.5 times. |
| Total | | | | 14,845 | |
| Current Mcap | | | | 11,300 | |
| Potential Upside % | | | | 31% | |

Risks

Unexpected future disruption due to COVID or any other macro factors, resulting in poor growth and substantial worsening of asset quality.

View

The valuation as per the above SOTP matrix comes in at around ₹14,845cr. The current market cap of the company is ₹~11,300cr. The SOTP matrix only considers the base case multiples for all businesses making the valuation of ₹14,845cr as the base scenario for the stock.

Re-rating could be possible as the businesses have stood out in the recent tough industry environment with prudent asset liability management, adequate liquidity buffers and improving ROE's.

The SOTP matrix is yet to pencil in any growth from all these businesses given the robust guidance and the valuation of Business Loans leaving enough space for a higher valuation of the company.

Financials

(₹ cr)

| Particulars | Q2FY22 | Q2FY21 | YoY | Q1FY22 | QoQ |
|------------------------------|--------------|--------------|------|--------------|------|
| NII | 598.2 | 562.9 | 6% | 544.1 | 10% |
| Income from Assigned Assets | 265.6 | 214.6 | 24% | 240.9 | 10% |
| Other Income | 105.6 | 97 | 9% | 45.7 | 131% |
| Total Net Income | 969 | 875 | 11% | 831 | 17% |
| Total Op. Exp. | 387.6 | 293.7 | 32% | 315.1 | 23% |
| Operating Profit | 582 | 581 | 0% | 516 | 13% |
| Provisions and Contingencies | 210 | 302.2 | -31% | 165 | 27% |
| PBT | 372 | 279 | 33% | 351 | 6% |
| PAT | 292 | 213 | 37% | 266 | 10% |
| EPS ₹ | 7.7 | 5.6 | 38% | 7 | 10% |
| Book Value per Share | 152.5 | 129.8 | 17% | 145.6 | 5% |

Source : Company, Way2Wealth

Technical View

Looking at weekly chart, IIFL has been in a protracted up trend since June 05, 2020; in that optimism, stock rallied from the low of around 57 to 375. Of late, the rally from the bottom of 237.05 (weekly swing low of June 18, 2021) to the high of around 375 (weekly swing high of November 04, 2021) was failed to confirm by weekly RSI (14) momentum which signaled “Bearish Divergence”. The impact of such development seen in past few weeks as stock corrected from the peak of 375 to 266. Broadly speaking, the recent bottom of 266 coincided with the lower band of its “Rising Channel” formation. Also, the 78.6% Fibonacci retracement of its entire rally from the bottom of 237.05 to the top of 375 comes near 266. During the concluding week of calendar year 2021, the weekly RSI (14) signaled “Positive Reversal” which is a bullish signal. In line with the technical, we saw decent buying interest in stock. The probable upside target of “Positive Reversal” pattern comes near 380 whereas the upper band of its “Rising Channel” comes near 400. Considering the above technical evidences, we advocate to accumulate IIFL in a range of 285 to 265 with an upside price target of around 380 – 400 zone. Lower side, stop loss to be placed near 235.



Source: Falcon 7

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Disclosure of Interest Statement in IIFL Finance Ltd. as on 25 January 2022

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|--|-------------------|
| Name of the Security | IIFL Finance Ltd. |
| Name of the analyst | Harshil Gandhi |
| Analysts' ownership of any stock related to the information contained | NIL |
| Financial Interest | |
| Analyst : | No |
| Analyst's Relative : Yes / No | No |
| Analyst's Associate/Firm : Yes/No | No |
| Conflict of Interest | No |
| Receipt of Compensation | No |
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| Investment Banking relationship with company covered | NIL |

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