

Press Release

IIFL Samasta Finance Limited

May 15, 2023



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Non Convertible Debentures (NCD)	500.00	ACUITE AA Stable Reaffirmed	-
Commercial Paper (CP)	50.00	-	ACUITE A1+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	550.00	-	-

Rating Rationale

Acuite has reaffirmed its rating of **ACUITE AA (read as ACUITE double A)** on the Rs. 500 Cr. Proposed Non Convertible Debentures facility (*Interchangeable between secured and subordinated debt*) of IIFL Samasta Finance Limited (IIFL Samasta). The outlook is **'Stable'**.

Acuite has also reaffirmed its rating of **ACUITE A1+ (read as ACUITE A one plus)** on the Rs 50.00 Cr Proposed Commercial Paper facility of IIFL Samasta Finance Limited.

Rating Rationale

The rating derives strength from IIFL Samasta's strong parentage through IIFL Finance Limited (IIFL Finance), the NBFC-MFI (Samasta) is a 99.51 percent subsidiary of the parent company, and expectations of continued support going forward. By virtue of majority ownership, IIFL Samasta also enjoys significant managerial and financial synergies with IIFL Finance group. 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. 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 network of ~Rs. 10,202 Crore and a market cap of over Rs. 17,755 Crore as on March 31, 2023. The rating 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. The company's loan portfolio outstanding as on March 31, 2023 grew significantly to Rs. 10,552.24 Cr as compared to Rs. 6,483.84 Cr as on March 31, 2022 and has reported PAT of Rs. 128.18 Cr as on March 31, 2023 as against Rs.50.60 Cr as on March 31, 2022. The rating also factors in company's sound asset quality and robust risk management practices. IIFL Samasta reported gross nonperforming assets (GNPA) of 2.12 percent as on March 31, 2023. The rating is however constrained by concentration of loan portfolio in the top 4 states (Bihar, Tamil Nadu, Karnataka and Rajasthan) comprising ~61 percent of the AUM and susceptibility to risks inherent to microfinance segment.

About the Company

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 December 31, 2022, Samasta had a presence in 18 states, catering to more than 27.2 lakh customers through a network of 1,100

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branches spread across 324 districts.

About the Group

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. 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.

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 (Parent Company) and its subsidiaries, including IIFL Home 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 Q4FY23. 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.

Adequate Earnings Profile

At IIFL Finance group level, the revenue streams comprise of IIFL Finance Limited (Parent Company) and its subsidiaries IIFL Home Finance Limited and IIFL Samasta Finance Limited. The parent company along with IIFL Home Finance Limited contributed ~90 percent towards the bottom-line in FY2023.

On a consolidated level, the IIFL group reported a profit of Rs. 1,607.55 Cr as on March 31, 2023 improving from Rs. 1,188.25 Cr as on March 31, 2022. On a standalone basis, Samasta's profitability indicators were healthy marked by Net Interest Margin (NIM) which stood at 12.09 percent as on March 31, 2023. The NBFC-MFI reported a PAT of Rs 128.18 Cr as on March 31, 2023 vis-à-vis Rs 50.60 Cr. as on March 31, 2022. IIFL Samasta's loan portfolio has grown steadily owing to healthy disbursement levels. The company's overall disbursement remained healthy, the disbursement stood at Rs. 10,213.76 Cr as on FY2023. Despite the impact of covid pandemic, the company disbursed Rs 3,694.76 Cr and Rs 5,710.24 Cr during FY2021 & FY2022 respectively.

Acuite believes that the ability of the company to sustain the improved levels of earnings

profile would be a key monitorable.

Significant AUM growth while maintaining sound asset quality

IIFL Samasta's loan portfolio outstanding as on March 31, 2023 grew significantly to Rs.10,552.24 Cr as compared to Rs. 6,483.84 Cr as on March 31, 2022. The Income Generation Loans (SAMRIDDHI) constitute ~76 percent of the total POS followed by Top-up loans and Dairy Cattle Loans as on December 31, 2022. The loans have an average tenure ranging upto 24 months. IIFL Samasta has demonstrated sound asset quality, as reflected in the Gross NonPerforming Assets (GNPA) of 2.12 percent and NNPA of 0.81 percent as on March 31, 2023. The company has structured inherent checks for effective risk management that include lending policy, underwriting process and dedicated due diligence team, which helps to maintain asset quality. The company's collection efficiency for current month due averages above 91 percent for last 6 month ended December 31, 2022, resulting to an ontime portfolio of 94.54 percent as on March 31, 2023 improving from 88.31 percent as on March 31, 2022.

Acuite believes that the ability of the company to grow its loan portfolio while maintaining asset quality will be key monitorable.

Weakness

Geographic concentration in operations

IIFL Samasta has its operations spread across 18 states spanning 324 districts through its network of 1,110 branches as on December 31, 2022. The company has added ~303 branches as on December 31, 2022. Despite the expansion geographic concentration of loan portfolio was seen in the top 4 states (Bihar, Tamil Nadu, Karnataka and Rajasthan) comprising ~61 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.

Acuite 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. IIFL 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

Material Covenants

None

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 December 31, 2022. Further, the company has cash and cash equivalents of Rs. 227.11 Cr. as on March 31, 2023. Additionally, IIFL Finance will provide timely fund support for servicing of debt if needed.

Outlook - Stable

Acuité believes that IIFL Samasta Finance Limited will maintain a 'Stable' outlook over the near to medium term owing to the established track record of promoters and their demonstrated ability to sustain the business growth. The outlook may be revised to 'Positive' in case of higher than envisaged growth in loan portfolio while maintaining profitability and asset quality metrics. Conversely, the outlook may be revised to 'Negative' in case of any deterioration in asset quality, profitability metrics and capital structure

Other Factors affecting Rating

None

Key Financials - Standalone / Originator

Particulars	Unit	FY23 (Actual)	FY22 (Actual)
Total Assets	Rs. Cr.	8859.06	6331.31
Total Income*	Rs. Cr.	1060.60	612.84
PAT	Rs. Cr.	128.18	50.60
Net Worth	Rs. Cr.	1322.15	999.28
Return on Average Assets (RoAA)	(%)	1.69	0.95
Return on Average Net Worth (RoNW)	(%)	11.04	6.14
Debt/Equity	Times	5.50	5.21
Gross NPA	(%)	2.12	3.07
Net NPA	(%)	0.81	0.82

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

Key Financials (Consolidated)

Particulars	Unit	FY23 (Actual)	FY22 (Actual)
Total Assets	Rs. Cr.	52878.65	45624.36
Total Income*	Rs. Cr.	5225.28	3990.07
PAT	Rs. Cr.	1607.55	1188.25
Net Worth	Rs. Cr.	10202.14	6469.73

Return on Average Assets (RoAA)	(%)	3.26	2.76
Return on Average Net Worth (RoNW)	(%)	19.28	20.03
Debt/Equity	Times	3.88	5.55
Gross NPA	(%)	1.84	3.15
Net NPA	(%)	1.08	1.83

*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

- 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>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Non-Banking Financing Entities: <https://www.acuite.in/view-rating-criteria-44.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
08 May 2023	Proposed Non Convertible Debentures	Long Term	350.00	ACUITE AA Stable (Assigned)
	Proposed Commercial Paper Program	Short Term	50.00	ACUITE A1+ (Assigned)
	Proposed Non Convertible Debentures	Long Term	150.00	ACUITE AA Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Commercial Paper Program	Not Applicable	Not Applicable	Not Applicable	Simple	50.00	ACUITE A1+ Reaffirmed
Not Applicable	Not Applicable	Proposed Non Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	Simple	350.00	ACUITE AA Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Non Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	Simple	150.00	ACUITE AA Stable Reaffirmed

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

Name of Entities Consolidated	
IIFL Finance Ltd	Parent
IIFL Home Finance Ltd	Subsidiary
IIFL Samasta Finance Ltd	Subsidiary

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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