India Ratings Affirms IIFL Finance’s NCDs at ‘IND AA’/Stable & Perpetual Debt at 'IND AA-'/Stable; Rates Bank Loan Facilities and Additional NCDs

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India Ratings and Research (Ind-Ra) has taken following actions on IIFL Finance Ltd’s debt instruments:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating assigned along with Outlook/Watch	Rating Action
Non-convertible debentures*	-	-	-	INR2,500	IND AA/Stable	Affirmed
Perpetual debt (Tier 1 instrument) *,#	-	-	-	INR3,000	IND AA-/Stable	Affirmed
Non-convertible debentures*				INR20,000	IND AA/Stable	Assigned
Bank loan facilities*				INR30,000	IND AA/Stable	Assigned

*Yet to be issued

#Perpetual debt instruments are rated a notch lower as they are subject to coupon deferral if capital levels fall below the regulatory minimum, or if the servicing of coupon leads to capital levels falling below the regulatory minimum, or if the servicing of coupon leads to a loss after tax or an increase in loss after tax, and requires prior approval from the regulator, even if the capital levels then are above the regulatory minimum.

Analytical Approach

Ind-Ra continues to take a fully consolidated view of the business and financial risk profiles of IIFL and its subsidiaries - IIFL Home Finance Ltd (79.59% stake; debt rated at ‘IND AA’/Stable) and IIFL Samasta Finance Ltd (99.56%; debt rated at ‘IND AA’/ Stable), collectively referred to as the IIFL Finance group, while arriving at the ratings. This is because of the significant operational, financial and managerial integration among the entities. Also, all the entities operate under a common brand.

Detailed Rationale of the Rating Action

The ratings factor in the group’s material presence across segments such as affordable housing finance, gold loans, and microfinance, supported by a well-established distribution network and a geographically diverse footprint. There has been a ramp-up in the company’s gold loan portfolio post lifting of the embargo. The ratings reflect Ind-Ra’s view that the group is well positioned to grow its franchise profitably while maintaining credit discipline, given that its focus is expected to be on secured asset classes such as gold and home loans.

The ratings also factor in the group’s comfortable leverage position, and its adequate ability to raise financial resources. However, the asset quality of the microfinance (MFI) segment and unsecured business loans within the group remains an area to monitor, as it may experience some volatility over the medium term.

List of Key Rating Drivers

Strengths
- Strong franchise across lending segments
- Adequate capitalisation
- Improvement in consolidated profitability

Weaknesses
- Likely volatile asset quality due to concerns in MFI book and higher delinquencies in micro LAP book
- Evolving funding profile, cost of borrowing (COB) remains elevated

Detailed Description of Key Rating Drivers

Strong Franchise Across Lending Segments: IIFL Finance's consolidated assets under management (AUM) grew to INR901.22 billion at end-1HFY26 (FY25: INR783.41 billion), primarily driven by the increasing retail orientation of the loan book, which now accounts for 96% of the total AUM. The company has significantly expanded its physical presence, by increasing its branch network to 4,798 by 1HFY26 (FY19: 1,977). Among its key product segments, gold loans have led the growth trajectory. During the embargo period, the gold loan portfolio had declined to INR107 billion in 2QFY25. However, following the removal of the embargo, the portfolio rebounded sharply to INR345.7 billion by 1HFY26. Gold loans now represent 38% of the total AUM and have grown at a CAGR of 36% over FY19-2QFY26. Home loans also form a significant portion of the portfolio, accounting for 36% of the AUM and have grown at a CAGR of 16% over the same period. IIFL Finance has built a strong presence in both the gold and affordable housing finance segments, ranking among the top players in each. To support its operations, the company has developed extensive infrastructure, including 2,840 branches dedicated to gold loans, 1,641 branches for microfinance, and 317 network points for housing finance. IIFL Finance aims to maintain a portfolio composition where 80% of the book is allocated to gold and home loans. As of 1HFY26, 74% of the AUM is attributable to secured products, namely gold and home loans.

The company also operates an off-book portfolio and targets a mix of 60% on-book and 40% off-book assets. As of 1HFY26, the off-book portfolio stood at INR304 billion, representing 34% of the total AUM. This exposure comprises 39% through co-lending arrangements and 61% through direct assignment (DA) transactions.

Adequate Capitalisation: The group's capitalisation remained adequate in 1HFY26 with a tangible net worth of INR147 billion (FY25: INR140 billion). During the embargo, the improvement in net worth was supported by a rights issue of INR12.7 billion in IIFL Finance during May 2024. The gross leverage (debt/equity) stood at 3.9x in 1HFY26 (FY25: 4.1x). The group's capitalisation is further supported by a large share of off-balance sheet portfolio of 34% at 1HFYE26 (FY25: 30%). This leads to optimum utilisation of capital and improved return ratios. Also, IIFL Finance 's standalone capitalisation remains adequate, with a tier 1 ratio of 13.68% at 1HFYE26 (FY25: 13.7%) and gross leverage of 4.4x (3.8x).As per Ind-Ra stress test, the company is able to maintain adequate capital buffers.

Improvement in Consolidated Profitability: IIFL Finance's AUM continues to be concentrated in high-yielding segments, supporting its profitability trajectory. A key driver has been the expansion of the gold loan portfolio, which yields around 19%. The scale achieved in this segment has contributed meaningfully to operating leverage. However, the sustainability of this profitability will depend on the company's ability to effectively manage credit costs. Also, the higher share of off-balance sheet assets in its AUM mix enhances return ratios without requiring significant capital deployment. This strategic shift supports capital efficiency and strengthens the overall profitability metrics.

The consolidated profit after tax was INR6,921.1 million in 1HFY26, marking a significant turnaround from a loss of INR930 million in 2QFY25. The consolidated ROAUM stood at 2% for 1HFY26 (FY25 :0.78%). Despite this recovery, the profitability was impacted by elevated credit costs (1HFY26: 4%; FY25: 2.82%). This increase was largely driven by stress in the microfinance portfolio under IIFL Samasta Finance and the micro-LAP business under IIFL Home Finance. Compounding the pressure on profitability was the regulatory embargo, which restricted IIFL Finance's ability to raise funds at competitive rates. Consequently, the company's COB increased to 9.41% in 1HFY26 from 9.4% in FY25. This compressed interest margins, despite the company maintaining a stable yield of 20% during 2QFY26. Ind-Ra anticipates a moderation in credit costs and a decline in cost of funds, which should support profitability.

IIFL Finance’s ability to contain credit costs and optimise its cost of funds will be critical in driving a sustained and stable recovery in profitability. These factors will also influence its capacity to scale high-yielding segments while maintaining asset quality and capital efficiency.

Likely Volatile Asset Quality due to Concerns in MFI Book and Higher Delinquencies in Micro LAP Book: The group’s gross non-performing assets (GNPA) were 2.1% in 1HFY26 (FY25: 2.2%) and net non-performing assets were 1 % (1%). Gold loans (38% of AUM at 1HFY26) and home loans (36% of AUM), which are larger segments of the business and primarily secured, reported 90+ days past due (dpd) of 0.1% and 1.4%, respectively.. The home loan portfolio has faced specific challenges in Andhra Pradesh, which accounts for around 5% of the overall home loan book. IIFL Home Finance’s asset quality deteriorated during 1HFY26, with its GNPA rising to 2.2% (FY25: 1.8%). This increase was primarily driven by elevated stress in the company’s micro LAP portfolio, which had an outstanding exposure of around INR20 billion before being discontinued in October 2024 as part of a strategic shift to focus on core home loan offerings.

The group’s credit cost elevated to 4% as on 1HFY26 (FY25: 2.89%), largely because of headwinds in the MFI business and the trailing impact of the run-down of micro LAP business. The group has also witnessed a notable rise in delinquencies within its unsecured MSME loan portfolio, with loans overdue by more than 90DPD increasing to 7.5% in 1HFY26 (FY25: 2.95%). The consolidated provision coverage ratio for stage 2 and stage 3 stood at 7.3% and 52.8%, respectively, in 1HFY26. IIFL Finance also offers unsecured business loans; the risk-return trade-off in these loans has been adequate so far. However, being unsecured, the asset quality in this segment can be volatile. At 1HFYE26, IIFL Samasta Finance’s 1+dpd and 90+dpd increased to 7% (FYE24: 3.8%) and 4% (2.1%), respectively, because of the deterioration in the asset quality across MFI industry largely on account of the general elections as well as heat waves in several parts of the country, leading to the increase in credit costs. Furthermore, the capping of maximum lender exposure per borrower to three, as per MFIN guardrails which limit borrowers from availing incremental loans and thus, temporarily impacted the collections during 1HFY26. IIFL Samasta Finance has seen its collection efficiency improving to 90% in June 2025 (May 2025: 88%, April 2025: 87%). IIFL Samasta Finance has secured CGFMU (Credit Guarantee Fund for Micro Units) coverage for about half of its loan book, providing credit risk protection. The consolidated net security receipts outstanding were INR34.2 billion in FY25-FY26, out of which INR28 billion was Recovery rate 1 and Recovery rate 2.

The group’s ability to effectively manage and recover from the stress in its discontinued micro LAP portfolio and MFI book will be a critical determinant of its profitability trajectory and overall credit profile. A continued focus on asset quality, especially in its core home loan segment, will be essential to support growth.

Evolving Funding Profile, COB Remains Elevated: As of 1HFY26, on a consolidated basis and excluding securitisation, the company’s borrowings were primarily driven by term loans, which constituted 40% of the mix, followed by debentures at 32% and refinancing at 11%. 1HFY26 also saw a robust DA activity, with around INR111.78 billion raised, making DA the dominant funding route, largely off-balance sheet. The group has not yet fully transitioned to Co-Lending Model 1 and continues to operate under Co-Lending Model 2 arrangements with some of its off-book partners. This transition remains monitorable. On the balance sheet, the company mobilised INR200 billion during 1HFY26.. COB remained elevated at 9.41% in 1HFY26 (FY25: 9.4%), primarily because the company has not yet benefited from recent repo rate cuts, as a significant portion of its term loans are linked to the one-year MCLR. Additionally, post-embargo fundraises were executed at high rates, further contributing to the elevated COB. To address this, the company is actively engaging with lenders to transition its loan book to the six-month MCLR. It also plans to buy back INR6 billion worth of NCDs that were issued at a high cost, aiming to reduce interest expenses. IIFL Samasta Finance has faced covenant breaches in less than 10% of the total borrowing and has received waivers for most of the breaches. Ind-Ra expects these strategic measures—MCLR realignment and NCD buyback—to result in a meaningful reduction in the company’s COB, estimating a decline of 40–50bp by end-FY26.

Liquidity

Adequate: Based on the consolidated the asset liability maturity (ALM) profile prepared on behavioural basis for June 2025, IIFL Finance had a cumulative surplus of 17% of assets until one year. The asset liability maturity profile is supported by the short tenure book of gold loans and MFI loans; however, the mortgage book is long tenure. Having said that, the mortgage book's behavioural tenure is shorter than the contractual tenure, which supports the ALM profile. IIFL can raise liquidity by assigning / securitising the loan book. IIFL has not heavily relied on the commercial paper route, which alleviates early redemption pressures to a certain extent. As of September 2025, the consolidated cash and unutilised bank lines amounted to INR81.7 billion, which is sufficient to cover debt obligations of INR58.6 billion for the subsequent three months.

IIFL Home Finance has a surplus of 4.5%, and no negative cumulative surplus in up to one-year bucket. With pre-payment of around 12% and longer tenure of liability profile, the company has always maintained sufficient liquidity on the books. At end-September 2025, the company had a cash and bank balance, undrawn banks lines of INR30.69 billion which is sufficient to cover more than three months of debt obligations.

IIFL Samasta Finance had a cumulative surplus of 19% of assets until one year. At end-September 2025, the company had cash and bank balance, undrawn lines of INR 14.67billion against obligations of INR10 billion for the subsequent three months.

Rating Sensitivities

Positive: Developments that could collectively, result in a positive rating action include:

- a significant expansion of the group franchise, increased market share, maintained leadership in the core business lines, and sustained capitalisation levels;
- improved asset quality with minimum volatility through the cycle;
- improved profitability with minimum ROAUM of 3% on sustained basis, and
- improved COB and diversified funding with optimum proportion of on- and off book assets.

Negative: Developments that could individually or collectively, result in a negative rating action include:

- sustained deterioration in the market share or significant loss of the franchise;
- a sharp increase in the credit cost, leading to sustained depletion of the capital buffers;
- funding challenges and a decline in the liquidity buffer; and
- depletion of the capital buffers such that consolidated gross leverage exceeds 4.5x on a sustained basis.

Any Other Information

Not applicable

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on IIFL Finance, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

About the Company

IIFL Finance began its operations in 2006. At end-1HFY26, it had an AUM of INR901.22 billion and operated through 4,798 branches.

Key Financial Indicators

Parameters (consolidated)	1HFY26	FY25	FY24
Assets (INR billion)	760	676	624
Equity (INR billion)	146	140	120.6

Profit after tax (INR billion)	6	5.8	19.7
Return on average assets (%)	2.4	0.89	3.06
Return on managed assets (%)	2	0.78	2.35
Source: Ind-Ra, IIFL Finance			

Parameters (Standalone)	1HFY26	FY25	FY24
Assets (INR billion)	398	321	275
Equity (INR billion)	68.2	65.07	56
Profit after tax (INR billion)	3.4	-4	5.8
Return on average assets (%)	2.4	-1.3	3.4
Return on managed assets (%)	2.1	-6	2.1
Source: Ind-Ra, IIFL Finance			

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	**Current Rating/Outlook**			**Historical Rating/Outlook**				
	Rating Type	**Rated Limits (million)**	**Rating**	**14 November2024**	**9 September 2024**	**13 March 2024**	**22 February 2024**	**16 January 2024**
Non-convertible debentures	Long-term	INR22,500	IND AA/Stable	IND AA/Stable	IND AA/Rating Watch with Negative Implications	IND AA/Rating Watch with Negative Implications	IND AA/Positive	IND AA/Positive
Bank loan ratings	Long-term	INR30,000	IND AA/Stable	-	-	-	-	-
Perpetual debt (Tier 1 instrument)	Long-term	INR3,000	IND AA-/Stable	IND AA-/Stable	IND AA-/Rating Watch with Negative Implications	IND AA-/Rating Watch with Negative Implications	IND AA-/Positive	

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Bank loan facilities	Low
Non-convertible debentures	Low
Perpetual debt(Tier 1 instrument)	High

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity- indicators.

Contact

Primary Analyst
Pankaj Naik
Director
India Ratings and Research Pvt Ltd
Wockhardt Towers, 4th Floor, West Wing, Bandra Kurla Complex, Bandra East,Mumbai - 400051
+91 22 4000 1785
For queries, please contact: infogrp@indiaratings.co.in

Secondary Analyst
Ankit Jain
Associate Director
+91 22 4035 6160

Media Relation
Ameya Bodkhe
Marketing Manager
+91 22 40356121

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APPLICABLE CRITERIA AND POLICIES

Evaluating Corporate Governance

Financial Institutions Rating Criteria

Non-Bank Finance Companies Criteria

The Rating Process

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