17 October, 2023

To,
BSE Limited
Corporate Relationship Department
25th Floor, Phiroze Jeejeebhoy Towers,
Dalal Street, Fort, Mumbai - 400 001

Company Code- 10828

Subject: Intimation under Regulation 51 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulations")

Dear Sir/Madam,

Pursuant to the provisions of Regulation 51 read with Schedule III of the Listing Regulations, we wish to inform you that ICRA Limited **('ICRA')** has assigned a fresh credit rating to the Company for its short term facilities/instruments as per the following details:

Facilities/Instrument	Amount (Rs. Crore)	Rating	Rating Action
Commercial Paper	100	ICRA A1+	Assigned

The rationale of ICRA is enclosed and is also available at the link: Rating Rationale (www.icra.in)

This is for your information and records.

Thanking you,

Yours faithfully,
For **Poonawalla Housing Finance Limited**

VAISHNAVI BHUPENDRA SURATWALA
Digitally signed by VAISHNAVI BHUPENDRA SURATWALA
Date: 2023.10.17 15:13:16 +05'30'

Vaishnavi Suratwala
Company Secretary
Membership No.: A41827

Enclosed: as above

October 16, 2023

Poonawalla Housing Finance Limited: [ICRA]A1+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper programme	100.00	[ICRA]A1+; assigned
Total	**100.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating factors in Poonawalla Housing Finance Limited's (PHFL) comfortable capitalisation in relation to its scale and its geographically diversified operations. As on June 30, 2023, the company had assets under management (AUM) of Rs. 6,571 crore spread across 175 branches in 19 states/Union Territories (UTs). Given the low penetration level and the Government of India's (GoI) thrust on this segment, small ticket size home loans have good growth opportunity. The rating also considers PHFL's fairly diversified funding profile, which comprised loans from banks (53%), refinance from National Housing Bank (NHB; 17%), non-convertible debentures (NCDs) and subordinated debt (15%), assignment (14%) and others as on June 30, 2023.

ICRA notes that Poonawalla Fincorp Limited sold a 99.02% stake in the company to Perseus SG Pte Limited (an entity affiliated with TPG) on July 26, 2023. Following the consummation of the transaction, TPG invested Rs. 538 crore in PHFL's equity share capital in August 2023 and has committed to provide additional equity capital of ~Rs. 462 crore to support PHFL's business and financial profile. ICRA notes that the company's management team has been retained post the change in ownership. In addition, TPG has appointed two representatives on the board of PHFL. Post the receipt of the primary equity capital in August 2023, the company's capitalisation profile is comfortable with managed gearing (including off-book portfolio) of 3.5 times. ICRA notes that PHFL plans to operate at a managed gearing level of less than 5 times over the medium term.

PHFL's profitability profile is subdued owing to elevated operating expenses due to segregation of common functions such as administration & branch infrastructure, information technology, operations, marketing, etc, from the erstwhile parent entity viz. Poonawalla Fincorp Limited. Furthermore, sourcing was made completely in-house before the acquisition by TPG. PHFL reported a net profit of Rs. 115 crore in FY2023 (Rs. 35 crore in Q1 FY2024), translating into a return of 1.9% on average managed assets (AMA[1]) and 10.1% on average net worth (Rs. 77 crore, 1.6% and 9.8%, respectively, in FY2022). The asset quality indicators remained comfortable with gross stage 3 assets of 0.8% and net stage 3 assets of 0.5% as on June 30, 2023[2]. However, PHFL remains exposed to volatility in the asset quality, given the risk associated with the target borrower segment. Going forward, the company's ability to manage the pressure on margins, given the intense competition and high interest rates, and control credit costs will be important for maintaining its credit profile.

Key rating drivers and their description

Credit strengths

Comfortable capitalisation profile – After its acquisition of a stake from the Poonawalla Group, TPG invested Rs. 538 crore in PHFL's equity share capital in August 2023 and has committed to provide additional equity capital of ~Rs. 462 crore to support

[1] Average of opening and closing total managed assets of the fiscal year; managed assets include direct assignment transactions and are grossed up by impairment allowance

[2] Gross non-performing assets (NPAs) and net NPAs reported at 0.8% and 0.5%, respectively, as on June 30, 2023

the company's business and financial profile. The capitalisation profile is comfortable following the receipt of the primary equity capital in August 2023. Adjusting the company's net worth as on June 30, 2023 for the recent capital infusion, its gearing (managed; including off-book portfolio) stood at 3.5 times as on June 30, 2023. PHFL plans to operate at a managed gearing level of less than 5 times over the medium term. The capital adequacy ratio of 33.9%, as on June 30, 2023, was well above the regulatory requirement of 15%.

Geographically diversified portfolio – PHFL's portfolio is fairly diversified geographically with a presence in 19 states/UTs through a network of 175 branches as on June 30, 2023, catering to more than 65,000 customers and an average ticket size of Rs. 10 lakh. The company's portfolio is spread across India with northern region contributing ~36%, western regions ~35%, southern regions ~23% and balance in eastern regions as on June 30, 2023. The top 3 states accounted for 42% of the on-book portfolio as on June 30, 2023 (40% as on March 31, 2023) with share of no single state exceeding 16%. ICRA expects the operations to remain geographically diversified while the operations are scaled up further. The company did not have any exposure to builder/developer financing and its operations are completely retail-focused with loans largely backed by self-occupied residential properties. Given the low penetration level and the GOI's thrust on this segment, small ticket size home loans have good growth opportunity. However, competition has intensified over the last few years with the entry of new players and the company's ability to manage the pressure on its business growth will remain a key monitorable.

Fairly diversified funding profile – PHFL's funding profile is fairly diversified and comprised loans from banks (53%), refinance from NHB (17%), NCDs an subordinated debt (15%), assignment (14%) and others as on June 30, 2023. Commercial paper outstanding was nil as on September 30, 2023. In terms of fund raising, post announcement of the change in ownership, PHFL has been able to raise funds regularly from various funding sources, including debt capital markets and refinance from NHB. The company received fresh sanctions of Rs. 2,265 crore of debt funds in Q1 FY2024, including Rs. 1,000 crore refinance from NHB. Additionally, it raised Rs. 750 crore in the form of NCDs issued to mutual funds. At present, the company has funding relationships with more than 23 lenders, including banks, financial institutions debt mutual funds.

Credit challenges

Subdued profitability – The company reported a net profit of Rs. 115 crore in FY2023 compared to Rs. 77 crore in FY2022. The net interest margins (NIM) improved to 6.7% of AMA in FY2023 (including income from assignment). Operating expenses increased as PHFL started to segregate all aspects of its operations from the Poonawalla Group, in light of the proposed change in ownership at the time and were reported at 4.1% of AMA in FY2023 compared to 3.1% in FY2022. ICRA notes that the segregation exercise is complete and there are no interlinkages with the erstwhile parent at present. With slippages from the restructured portfolio and write-offs/sale of NPAs, credit costs increased and were reported at 0.6% of AMA in FY2023 compared to 0.2% in FY2022. The company reported a return of 1.9% on AMA and 10.1% on average net worth in FY2023 compared to 1.6% and 9.8%, respectively, in FY2022. ICRA expects the profitability profile to remain subdued in FY2024 due to elevated operating expenses with gradual improvement expected from FY2025.

Relatively limited portfolio seasoning – PHFL's portfolio has increased considerably in the last 5 years as reflected by the compound annual growth rate (CAGR) of ~28% in its standalone AUM till March 2023. Its disbursements over the last 3 years, which includes organic disbursements and inorganically acquired portfolio, comprised ~88% of the AUM as on June 30, 2023. Going forward as well, the portfolio growth rate is expected to remain at a similar level. Though the company has witnessed various economic cycles over the past few years, its performance in the longer term is yet to be seen considering the limited vintage of a significant part of the portfolio, as with most affordable housing finance companies (AHFCs).

Relatively vulnerable borrower profile – The company's portfolio is quite granular with no exposure to the wholesale segment. PHFL reported gross stage 3 assets of 0.8% and net stage 3 assets of 0.5% as on June 30, 2023[3] (0.7% and 0.3%, respectively, as on March 31, 2023). The company has a decentralized and vertical approach towards its operations with segregated legal, technical and credit underwriting team. Further, the company has credit & underwriting policy in place with loan-to-value (LTV) in the range of 60% to 70% for home loan (HL) cases and 50% to 60% for LAP cases. The collections function is completely

[3] *Gross NPAs and net NPAs reported at 0.8% and 0.5%, respectively, as on June 30, 2023*

in-house, comprising more than 300 members.

However, it had restructured loans under Resolution Framework 1.0 & 2.0 for Covid-19-related stress and a standard restructured portfolio of 2.8% on its balance sheet as on June 30, 2023 (3.1% as on March 31, 2023). Nevertheless, the company maintains a provision coverage of 13.6% on this portfolio as on June 30, 2023 (15.9% as on March 31, 2023). Furthermore, the company has started collecting EMIs[4] from such loan customers and incremental slippages from the standard restructured portfolio is expected to be low.

PHFL mainly lends to borrowers in the low and mid-income segments, which is more vulnerable to income shocks. Given the pace of growth and the relatively riskier borrower profile of the low and mid-income segments with assessed income profile, the asset quality indicators could exhibit more volatility. While the company has a good credit appraisal mechanism, it remains exposed to the volatility in the asset quality, given the risk associated with the target borrower segment. Going forward, PHFL's ability to maintain the asset quality as it scales up its operations will be important for its credit profile.

Liquidity position: Strong

The company's liquidity profile is strong, given the on-book liquidity being maintained and the presence of sanctioned but unutilised funding lines. It had ~Rs. 1,000 crore of free cash, bank balance, liquid investments, and undrawn working capital limits as on June 30, 2023. It also had ~Rs. 1,500 crore of unutilised sanctions from various lenders as on June 30, 2023, which supports its liquidity profile further. As per the asset-liability management statement on June 30, 2023, PHFL had scheduled debt repayments of Rs. 890 crore vis-à-vis scheduled principal collections of Rs. 873 crore till June 30, 2024. The liquidity coverage ratio was 195.6% for the quarter ended June 30, 2023, well above the regulatory requirement.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on the rating could arise on an increase in the managed gearing beyond 5 times or a deterioration in the asset quality indicators (gross stage 3 assets above 2.5%), thereby impacting the earnings on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Poonawalla Housing Finance Limited (PHFL) is a housing finance company registered with the Reserve Bank of India (RBI). The company provides home loans (~66% of AUM as on June 30, 2023) and loan against property ~(34% of AUM as on June 30, 2023) in the affordable housing finance segment. It had a presence in 19 states/UTs in India through a network of 175 branches as on June 30, 2023. The company reported assets under management (AUM) of Rs. 6,571 crore as on June 30, 2023 while catering to more than 65,000 customers with an an average ticket size of Rs. 10 lakh.

TPG, through Perseus SG Pte Ltd. (Perseus), acquired 99.02% stake in PHFL on July 26, 2023. TPG is a global investment firm with ~ USD 135 billion in assets under management as of September 30, 2022. Perseus is advised and managed by TPG Capital

[4] *Equated monthly instalments*

(S) Pte. Ltd. which holds a capital markets services license issued by, and is regulated by, the Monetary Authority of Singapore (MAS). TPG Asia Fund VIII ultimately holds 100% of the equity interest in Perseus. TPG Asia Fund VIII is one the several funds advised or managed by TPG and has a current fund size of USD 8 billion and a fund life of 10 years.

Key financial indicators (audited)

Poonawalla Housing Finance Limited	FY2021	FY2022	FY2023
As per	**Ind-AS**	**Ind-AS**	**Ind-AS**
Total income	473	470	716
Profit after tax	11	77	115
Net worth	497	1,082	1,209
Gross assets under management	3,978	5,060	6,289
Total managed assets	4,304	5,271	6,821
Return on average managed assets	0.3%	1.6%	1.9%
Return on average net worth	2.2%	9.8%	10.1%
Gearing (reported; times)	5.1	3.0	3.9
Gearing (managed; times)	7.3	3.7	4.5
Gross non-performing assets	1.3%	1.7%	0.8%
Net non-performing assets	0.6%	1.2%	0.4%
Gross stage 3 assets	1.6%	1.0%	0.7%
Net stage 3 assets	0.8%	0.6%	0.3%
Solvency (Net stage 3 assets/Net worth)	4.5%	2.4%	1.4%
Capital to risk-weighted assets ratio	30.5%	42.8%	34.8%

Total managed assets = Total assets + Impairment allowance; Gearing (managed) = (Total borrowings + Off-balance sheet portfolio)/Net worth
Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on September 30, 2023 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021		
					Oct 16, 2023	-	Oct 06, 2021	Feb 17, 2021	Dec 08, 2020	Apr 13, 2020
1	Commercial paper programme	Short term	100.00	-	[ICRA]A1+	-	-	-	-	-
2	Term loans (banks)	Long term	-	-	-	-	[ICRA]AA-&; withdrawn	[ICRA]AA-&	[ICRA]AA- (Negative)	[ICRA]AA- (Negative)
3	Non-convertible debenture programme	Long term	-	-	-	-	-	-	-	[ICRA]AA- (Negative); withdrawn

& - On Watch with Developing Implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial paper programme	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA’s website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Commercial paper programme – Yet to be issued**	NA	NA	NA	100.00	[ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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