POONAWALLA HOUSING FINANCE
Apna Ghar, Apni Pehchan

07 November, 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 that India Ratings and Research Private Limited 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	200	IND A1+	Assigned

The rationale of India Ratings and Research Private Limited is enclosed and is also available at the link: Rating Rationale (www.indiaratings.co.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: 2023.11.07 23:14:26 +05'30'

Vaishnavi Suratwala
Company Secretary
Membership No.: A41827

Enclosed: as above

IndiaRatings & Research
A Fitch Group Company

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India Ratings Assigns Poonawalla Housing Finance’s CP ‘IND A1+’

Nov 07, 2023 | Housing Finance Company

India Ratings and Research (Ind-Ra) has rated Poonawalla Housing Finance Ltd.’s (PHFL) commercial paper (CP) as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating	Rating Action
CP	-	-	0-365 days	INR2,000	IND A1+	Assigned

The rating reflects PHFL’s healthy credit profile, driven by an established competitive franchise in the retail affordable housing space in its key operating geographies. While the business model of granular low-ticket loan portfolio continues to be scalable, the agency believes competition in the segment will remain elevated over the near-to-medium term. Furthermore, the entity has well-diversified funding, adequate liquidity, sizeable capital base and evolving risk management. Even though fairly high growth has resulted in a loan book with significant share of recent originations, PHFL’s focus on individual loans and avoiding builder-led disbursements provides comfort.

Key Rating Drivers

Growing Franchise in Affordable Housing Segment: PHFL is the fifth-largest franchise in terms of market share in the affordable housing segment. It has a presence across 19 states, catering to over 68,000 customers, where it continues to deepen its presence, as these are key and significant markets in the overall affordable housing segment in India. The company has established its footprint in the market, with assets under management (AUM) of INR71.0 billion in 2QFY24. The contribution from the top three states increased to 40.8% in 1HFY24 from 37.3% in FY22, largely driven by increasing originations from Uttar Pradesh and Madhya Pradesh, with no state’s share being greater than 20%, which clearly shows PHFL’s higher diversification compared to its peers. The company’s portfolio is spread across India, with the northern region contributing about 37% as of 2QFY24, western regions about 35%, southern regions about 23%, and the eastern regions accounting for the balance.

The company aims to further increase its branches to over 230 by FY25 (2QFY24: 190), further augmenting its direct sourcing ability. The agency believes the successful execution of this geographic expansion strategy will be key for future AUM growth and market share gains, which will add to PHFL’s growing market presence. The deepening of geographies will also result in geographic diversification in certain key markets of PHFL and will balance the AUM mix further, whereby pressure on the collections in any key state/region would not materially impact the asset quality at the portfolio level.

Healthy Capital Levels; Leverage Remains Comfortable: PHFL’s equity base steadily increased to INR18.0 billion at 1HFYE24 from INR3.4 billion at FYE19, resulting from equity infusions of INR5.0 billion by the erstwhile parent entity in FY22 (post acquisition in FY21) and INR5.34 billion in August 2023 by TPG (post acquisition of 99.02% stake in FY23). Furthermore, as per the management, TPG plans to infuse an additional INR4.66 billion by FYE24, which would increase the equity base to about INR23.0 billion, with Tier 1 ratio of over 50% and comfortable leverage profile of less than 2.5x.

The leverage ratio (debt/equity), which stood at 3.0x at 1HFYE24 (FYE23: 3.7; FYE22: 2.9x), is likely to be within the management’s expectations of less than 4.0x over the near-to-medium term. The strong capital buffers, with tier I capital ratio of 44.94% and total capital adequacy ratio of 46.35% at 1HFYE24, give it enough room to continue on its strong growth trajectory and provide a cushion against significant asset quality shocks. Furthermore, post the recalibration of business in the medium term, which involves the separation of IT infrastructure from the erstwhile parent entity and the establishment of in-house sourcing, underwriting and collection team, the management expects the internal accruals to be sustainable, with return on assets (ROA) of over 2.0% in the near-to-medium term.

Liquidity Indicator – Adequate: PHFL intends to maintain two months of debt repayment as liquidity on the balance sheet, assuming nil inflows. Moreover, at 2QFYE24, PHFL had reported positive cumulative surplus in the one-year time despite stressing the structural liquidity statement. Also, at 2QFYE24, PHFL had maintained working capital limits of INR4.05 billion and documented undrawn term loan sanctions of INR10.25 billion from various banks in addition to on-balance sheet liquidity (liquid investments and unencumbered cash and investments) of INR10.0 billion, against total scheduled debt repayment of INR17.94 billion over the next four quarters, which can be met by PHFL even without any inflows.

Diversified Lender Base; Improving Funding Mix: PHFL has broad based its funding profile with relationships across 23 lenders, which encompasses private sector banks and public sector banks and enhanced limits from National Housing Bank (IND AAA/Stable). Since FY22, the company has deepened its relationships with all its bankers and has reduced its incremental borrowing cost, leading to a cost of 7.3% in FY23 (FY22: 8.7%) and 8.1% in 1HFY24 even in the rising interest rate scenario and the change in ownership. While incremental cost of borrowing (CoB) has increased to 8.1% in 2QFY24, PHFL recently raised a borrowing line of INR10 billion from NHB in addition to raising funds amounting to INR9.0 billion from the capital market in the form of non-convertible debentures from asset management companies at competitive rates, which will keep borrowing costs in control over 2HFY24 and FY25.

New Promoter to Drive Near-to-Medium Term AUM Growth: TPG, via Perseus SG Pte Ltd (Perseus), acquired 99.02% stake in PHFL in July 2023. The investment in PHFL is a strategic investment by TPG, which holds significant importance and is made from TPG Capital's Asia VIII fund (USD 8 billion fund size), with a fund life of 10 years and an option to extend the fund life for two consecutive periods of one year each, subject to the receipt of approval from its limited partners advisory committee. TPG has committed fresh primary capital infusion of INR10 billion by FYE24 to support PHFL's growth requirements. Out of this, PHFL received its first round of equity infusion of INR5.38 billion on 7 August 2023 and the balance capital should be available by 4QFY24. The agency believes that this capital availability along with internal accruals shall be sufficient to meet its requirements for the near-to-medium term AUM growth of the entity. The agency also believes that PHFL will benefit from TPG's global experience and would see an improvement in systems and processes and any synergies within the TPG ecosystem.

Experienced and Stable Management Team: Overall, PHFL has an operating track record of over 11 years. Its top management consists of experienced professionals with experience of more than 18 years on an average with reputed banks and NBFCs across retail financing. TPG is a majority shareholder in PHFL, with 99.15% stake at 1HFYE24. PHFL's board is headed by its managing director and chief executive officer, Manish Jaiswal, who has been leading the company since FY18 and has been mandated for a fresh term of five years from FY23. Furthermore, there are two representatives from TPG and two independent directors on the board, which brings in the requisite professional experience.

Lending to Relatively Vulnerable Self-Employed Borrower Mitigated by Efficient Risk Management: PHFL mainly lends to the self-employed category (67% of the portfolio at 1HFYE24), and the balance to the salaried segment. The average ticket size of loans to the two segments is only marginally different, with an overall average granular ticket size of around INR1.0 million. The company does not have any wholesale exposure to builder/developer financing, making its loan portfolio 100% secured, retail and granular, with majority of its portfolio being backed by self-occupied residential properties. Women applicants/ co-applicants constitute over 90% of PHFL's customers. The agency believes lending to the under-banked rural and semi-urban customers with limited formal income proof carries a higher risk, and thus, assessing creditworthiness along with a strong focus on monitoring and collection becomes imperative to avoid asset quality shocks. The company has been able to build its expertise in sourcing, underwriting, and collection towards its target segment by following an efficient and independent unit model, with strict credit norms. The ability to maintain underwriting standards with scale and replicate the credit culture by adequate training would be essential for PHFL's continued success in the execution of its strategy.

Asset Quality Pressure Subsided, and Settling at New Normal: PHFL's lending operations are largely concentrated in the vulnerable low income group- middle income group (LIG-MIG) segment and it has limited seasoning in the portfolio, with the AUM having grown to INR71.0 billion in 1HFY24 from INR23.8 billion in FY20. The gross non-performing assets reduced below pre-covid levels (FY20 at 1.6%) to 0.84% during 1HFY24, with provision coverage ratio (PCR) of 38.3% (FY23: 0.81%), largely driven by write-offs and the collection policy during FY22-1HFY24. The proportion of 1+ day past due (dpd) reduced to 7.4% in 1HFY24 from 12.1% in FY22, largely because of revamped collection strategy, with more emphasis on collections in softer buckets so as to roll back early delinquencies. However, it remains marginally higher than comparable peers and incorporates the stress of the legacy portfolio, which will run-down over the course of the next few quarters.

Though PHFL has consciously grown its loan against property (LAP) portfolio conservatively, with a CAGR of 13.6% during FY20-1HFY24 (against home loan (HL) CAGR of 30% during the same period) and the book is backed by self-occupied residential properties. LAP tends to have higher delinquency in comparison to the home loan portfolio and needs to be tracked closely to avoid any asset quality shock and increase in the provisioning cost.

However, PHFL's focus on granular lending (average housing ticket size is INR1.0 million), reasonable loan-to-value ratios (around 60% for the portfolio at 1HFY24), and stage-3 provision cover of 38.3% lends comfort to the rating. Asset quality trends, particularly in 1+ dpd, would continue to remain a key monitorable as the company's strong growth continues in the medium term.

Pressure on Profitability to Subside as Operational Leverage Picks-up: PHFL reported muted profitability in 1HFY24, with annualised return of asset of 1.70% (FY23: 2.22%; FY22: 2.06%), largely because of its operating cost structure, which remained elevated at 4.3%-5.2% during FY23-1HFY24 (as a percentage of average AUM). This was on account of the segregation of IT infrastructure erstwhile parent entity alongside rapid branch expansion, ramp up of collections team and strengthening of management team. PHFL expects the cost to normalise in the next few quarters as digital lending capabilities continue to improve and operational efficiencies increase, even as the scale and size of franchise increases significantly.

Moreover, with its lending presence towards housing for self-employed individuals in the semi-urban areas, who are typically less sensitive to interest rates, PHFL was able to pass on 150bp amid the rising interest rate cycle; consequently, its spreads improved to 6.0-6.6% during FY23-1HFY24 from 4.0-4.1% during FY21-FY22 despite a decline in the share of LAP to 26% in 1HFY24from 31% in FY22. PHFL's profitability trajectory will depend on the benefits it derives from the economies of scale with growth in AUM, and maintaining control on asset quality. In Ind-Ra's opinion, the company's capitalisation levels, with tier 1 at 44.9% (FY23: 32.6%; FY22: 39.9%), are adequate to absorb the existing levels of stress in the loan book.

Rating Sensitivities

Negative: Significant deterioration in the profitability, impacting the capitalisation buffers, and challenges in mobilising incremental funds and the leverage exceeding 5x, on a sustained basis, could lead to a negative rating action. Deterioration in the asset quality, with the gross non-performing assets exceeding 4%, on a sustained basis, could lead to a rating review.

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 PHFL, 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.

Company Profile

PHFL is an affordable housing finance company, primarily engaged in extending home loans and affordable LAP to borrowers in the low-to-middle income groups, with an AUM of INR71 billion as of September 2023. The company lends to the low-ticket segment and targets low-income semi urban self-employed customers. It operates through a network of 195 branches across 19 states/union territories and it has over 2,800 employees, largely because of the in-house sourcing, underwriting and collection model of business. As of September 2023, TPG is the majority shareholder of PHFL, with 99.15% stake.

FINANCIAL SUMMARY

Particulars	FY23	FY22
Total assets (INR million)	59,708	43,870
Total equity (INR million)	12,086	10,818
Net profit (INR million)	1,152	774
Return on average assets (%)	2.22	2.06
Equity/assets (%)	20.24	24.66
Tier 1 capital (%)	32.60	39.91
Source: PHFL, Ind-Ra		

Non-Cooperation with previous rating agency

Not applicable

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

Complexity Level of Instruments

Complexity Indicator	Complexity Indicator
CP	Low

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

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APPLICABLE CRITERIA

Financial Institutions Rating Criteria

Non-Bank Finance Companies Criteria

Evaluating Corporate Governance

The Rating Process

DISCLAIMER