

Rating Rationale

December 20, 2022 | Mumbai

Poonawalla Housing Finance Limited

Long term rating placed on 'Watch Negative'; CP rating placed on 'Watch Developing'

Rating Action

Total Bank Loan Facilities Rated	Rs.1500 Crore
Long Term Rating	CRISIL AA+/Watch Negative (Placed on 'Rating Watch with Negative Implications')

Rs.1500 Crore Non Convertible Debentures	CRISIL AA+/Watch Negative (Placed on 'Rating Watch with Negative Implications')
Rs.500 Crore Commercial Paper	CRISIL A1+/Watch Developing (Placed on 'Rating Watch with Developing Implications')

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1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has placed its long term ratings on the long term bank facilities and debt instruments of Poonawalla Housing Finance Limited (PHFL) on **'Rating Watch with Negative Implications'** and short-term rating on commercial paper on **'Rating Watch with Developing Implications'**.

On December 14, 2022, the board of Poonawalla Fincorp Limited (PFL) approved the complete stake sale in PHFL to Perseus SG Pte Limited (an entity affiliated with TPG Global, LLC). The transaction will involve a sale of 24,98,21,117 equity shares held by PFL in PHFL. Post the consummation of the transaction TPG Global will hold 99.02% stake in PHFL. Further, TPG Global will infuse an additional Rs 1,000 crores as equity in the company to support growth. With this fresh infusion, PHFL's on book gearing is expected to go down to ~1.8x from current level of 3.3x.

TPG is a leading global alternative asset management firm, founded in San Francisco in 1992, with \$135 billion of assets under management and investment and operational teams in 12 offices globally. The transaction is invested through TPG Capital Asia, the firm's Asia-focused private equity platform, subject to regulatory approvals and satisfaction of other customary conditions. As per the information available in public domain, in India, TPG has multiple investments in financial services space. However, CRISIL Ratings notes that TPG's will hold controlling stake in PHFL. TPG is backing the existing management team led by Mr. Manish Jaiswal, Managing Director and Chief Executive Officer, who has previously worked at some of India's leading foreign and private banks, NBFCs and credit rating agencies.

The current analytical approach for PFL group (which includes PHFL) factors in the expectation of need based timely support to PFL and PHFL from Cyrus Poonawalla Group, whose flagship company is Serum Institute of India Private Limited (SIPL, rated; CRISIL AAA/Stable/CRISIL A1+), given the majority ownership and high strategic importance, the shared

brand name and managerial control. Further, CRISIL Ratings consolidates the credit risk profiles of PFL and PHFL (collectively referred to as the Poonawalla Fincorp Group) as they have common directors, governance oversight and were expected to have synergistic operations, and be strategically important to the Group's business growth.

However, once the transaction is completed, the analytical approach would not factor in the expectation of support from Cyrus Poonawalla Group for PHFL. Post the consummation of the transaction the ratings would reflect CRISIL Ratings assessment of the credit risk profile of PHFL and benefits, if any, emanating from its ownership by TPG Global. Consequently, the long-term ratings have been placed on 'Rating Watch with Negative Implications' and the short term rating is placed on 'Rating Watch with Developing Implications'. CRISIL Ratings will track the progress on the transaction and have discussions with the management and TPG Global to understand their strategy and business plan going forward along with any implication on their liabilities franchise. CRISIL Ratings will resolve the Rating Watch post the consummation of the transaction and once it has clarity on the above aspects. Nevertheless, till the transaction is completed, the existing ratings will continue to centrally factor in the expectation of need based support to PHFL from the current parent, PFL and Cyrus Poonawalla group.

The current rating of the PHFL continues to factor in the high financial flexibility, post the significant capital infusion by the Cyrus Poonawalla Group into PFL last year resulting in healthy capitalization and low leverage. Of the total equity infusion, PFL had in turn infused Rs 500 crore in the subsidiary PHFL, thereby shoring up its networth to Rs 1151 crores with CRISIL Ratings-adjusted gearing at 4.1 times (on-book borrowings + securitization (assignment)/reported networth) as on September 30, 2022. Additionally, the senior management team consisting of seasoned professionals from reputed financial institutions and improved resource profile and funding costs post acquisition by the Cyrus Poonawalla Group are also the key strengths driving the ratings. The ratings continue to draw strength from PHFL's track record of operations, wide branch network and healthy scale up of business with improving share of granular home loans. PHFL has secured, geographically diversified, granular portfolio with more than 50,000 customers having average ticket size of ~10 lakhs. These strengths are partially offset by the currently moderate AUM and scale of operations at present.

Analytical Approach

Till the transaction consummates, CRISIL Ratings will combine the business and financial risk profiles of PFL and PHFL. The ratings would continue to factor in the expectation of need based timely support to PFL and PHFL from Cyrus Poonawalla Group, whose flagship company is Serum Institute of India Private Limited (SIPL, rated; CRISIL AAA/Stable/CRISIL A1+), given the majority ownership, the shared brand name and managerial control.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Expectation of need based timely financial support from Cyrus Poonawalla Group, whose flagship entity is Serum Institute of India Limited**

Till the transaction is consummated, the ratings continue to reflect the expectation of continued strong support from its majority owner, PFL, which is ultimately held by RSHPL through 61.49% of ownership. RSHPL, a special purpose vehicle owned and controlled by Mr Adar Poonawalla, is a part of the Cyrus Poonawalla Group, whose flagship company is Serum Institute of India Private Limited. Cyrus Poonawalla Group is also expected to continue to provide support to PHFL till the transaction completes, given the majority ownership through RSHPL and operational control with respect to Group having prominence on the board, with Mr Adar Poonawalla being the chairman of the board, and active involvement of the board in the group level strategies. Additionally, the brand sharing further enhances the expectation of support to the financial services entity if required.

In May 2021, RSHPL had infused an equity of Rs 3206 crore in erstwhile Magma Fincorp Limited. Of the total infusion, PFL in turn infused Rs 500 crore in the subsidiary, i.e. PHFL, thereby shoring up its networth to ~Rs 1000 crore. Currently, RSHPL holds 61.49% stake in Poonawalla Fincorp Limited and is classified as the sole promoter of PFL and PFL in turn holds 99.02% stake in PHFL. The transaction also resulted in rebranding of Magma Fincorp and Magma Housing to Poonawalla Fincorp and Poonawalla Housing, respectively. The erstwhile promoters have been re-classified to public category.

The group's flagship company, SIIPL is among the largest vaccine manufacturers globally by number of doses produced. Its vaccine portfolio includes vaccines for DTP, MMR, Polio, Hib, r-Hepatitis B, Rabies and Rotavirus. It also manufactures Covishield vaccine against Covid-19 in India. CRISIL Ratings note that over the past 4-5 years, SIIPL has been funding investments in subsidiaries and other companies of the Poonawalla group. SIIPL's investments are well diversified across sectors including financial services, green energy, real estate, aviation, pharmaceutical packaging, etc. In April 2021, Rising Sun Holdings, owned and controlled by Mr Adar Poonawalla, funded the acquisition of erstwhile Magma Fincorp Limited.

- **High financial flexibility with capital infusion last year; resulting in healthy capitalization and low leverage**

The sizeable equity infusion led to a significant increase in the group's networth to Rs 6,410 crore as on September 30, 2022, as against Rs 2,194 crore as on March 31, 2021. Consequently, the adjusted gearing also dropped significantly to 2.2 times as on September 30, 2022, as against 5.5 times as on March 31, 2021. Of the large infusion done in May 2021, PFL had in turn infused Rs 500 crore in PHFL, which resulted in an increase in the networth and low CRISIL Ratings-adjusted gearing (on-book borrowings + securitization (assignment)/reported networth) of PHFL at Rs 1,151 crore and 4.1 times as on September 30, 2022, as against Rs 497 crore and 7.2 times as on March 31, 2021. Further, equity infusion of Rs 1000 crores post the consummation of the transaction will further add to the capitalisation profile for PHFL.

- **Pan-India presence with wide branch network and digitising its operations**

PHFL is a national scale affordable housing finance company with presence through 128 branches across 20 states/Union Territories as on September 30, 2022. PHFL's loan book is diversified geographically with north contributing ~33%, east ~6%, south ~26% and west ~35% as on September 30, 2022. Over last one year, PHFL has significantly invested on capacity building and capability enhancements with the focus on direct origination, higher share of home loans and penetration into deeper geographies - "Go-Direct, Go-HL and Go-Deeper" strategy.

- **Improved resource profile and funding costs**

With the change in ownership to the Cyrus Poonawalla Group last year, PHFL has benefited through access to diversified funding mix at lower funding costs. Poonawalla Housing Finance Limited has higher reliance on PSU bank loans and off-book funding.

PHFL also broad based its funding sources including access diversified bank funding by introducing private sector banks and more PSUs and enhanced limits from National Housing Bank. PHFL has received large fresh sanctions (from various banks and financial institutions including National Housing Bank) at much lower rates of interest and has replaced the entire re-priceable higher cost of legacy debt. This has given the company stable borrowings profile, with better access to funding and lower cost of funds. The same has been witnessed in consistent decline in cost of borrowings over the last four quarters and has reported competitive cost of borrowings of 6.8% for the quarter ended June 30, 2022. This has marginally increased to 7.05% for the quarter ended September 30, 2022.

At the group level, the group has also been able to reprice their existing loans to lower rates thereby improving gross spreads. PFL group has been able to reduce the average cost of borrowing by 264 bps on YoY basis. With the equity infusion, and fresh bank sanctions, the group has a healthy liquidity position.

- **Experienced senior management**

Post the preferential issue last year, the group (PFL + PHFL) is governed by board of directors, with Mr Adar Poonawalla being the chairman of the board. The board is supported by a strong senior management with relevant and significant experience in retail financing, having previously worked at reputed banks and NBFCs. The senior management team has operated synergistically for over the last twelve months. The group has strengthened its leadership across functions by onboarding highly experienced key personnel. These senior management personnel have been in the industry for more than two decades each and have extensive experience in their functional areas.

PHFL continues to be headed by their existing MD & CEO, Mr Manish Jaiswal, who has over 30 years of industry experience, with over 4 years being served in erstwhile Magma Housing. Mr. Jaiswal has previously worked at some of India's leading foreign and private banks, NBFCs and credit rating agencies. Mr. Jaiswal has spearheaded the Company for last five years since fiscal 2018 and has been entrusted to lead the company for a fresh term of five years from the current financial year. PHFL has inducted Mr. Pankaj Rathi as Chief Financial Officer in July 2021 who has led the liability strategy for the company since last 18 months. Over the last one year, PHFL has demonstrated efficient liability management and has reported competitive cost of borrowings.

Further, PHFL has also strengthened its management team and has inducted/ identified key personnel with industry experience to take up the positions of Chief Financial Officer, Chief Credit Officer, Chief Risk Officer, Chief Information Officer, Integrated Collections Head, Head Internal Audit, Head Human Resources and Head Operations and Customer Services.

Weaknesses:

- **Moderate, albeit improving, asset quality metrics**

Poonawalla Fincorp group reported Gross Stage 3 (GS3) assets of 1.5% as on September 30, 2022, as compared to 2.7% as on March 2022 (3.7% as on March 31, 2021) showing an improving trend. The reduction in GS3, was primarily on account of adopting a more conservative write-off policy, as part of the group's new strategy and partially on account of improvement in the economic activity post the second-wave of the pandemic resulting in consistent improvement in collection efficiency.

Additionally, the group has restructured around 2.5% (Rs 467 crore) of the total AUM as on September 30, 2022. Of the total restructured portfolio, Rs 211 crore (45%) was in 0 bucket.

At the standalone level, PHFL has reported a substantially lower GS3 assets of 0.8% as on September 30, 2022, as against 1.6% as on March 31, 2021 (0.96% as on March 31, 2022). The collection efficiencies too remained comfortable in the range of 96-100% since June 2021 and stood at 98% for the month of September 2022.

The management had realigned the product mix of the group with greater focus on better quality, credit-tested, mass-affluent customers in urban and semi-urban geographies, along with discontinuation of some products of erstwhile entity. The product strategy was primarily aimed at minimizing the credit costs in future and focusing on products with digital collections. In PHFL, the company offers affordable housing and small ticket loan against property. Ability to scale up portfolio whilst maintaining asset quality metrics will remain a key monitorable.

- **Modest, albeit improving, earnings profile**

The profitability metrics improved in the fiscal 2022, with PFL reporting a net profit of Rs 375 crore at group level. The profitability was supported by improved NIMs due to reduced cost of borrowings post the recent ownership change, capital infusion and reduced credit costs as the group took a one-time hit of revised provisioning policy on its books in fiscal 2021 itself. The group adopted a conservative write-off policy, wherein unsecured loans above 90+ DPD (Days Past Due) are fully provided for.

As on September 30, 2022, even post write-offs, the group held high stage 3 provisioning cover of 45.7%. The group continued to report healthy profits in the first half of fiscal 2023 also, with the group reporting a net profit of Rs 304 crore for the quarter ending September 30, 2022.

At the standalone level, PHFL reported a profit after tax of Rs 63 crore for the half year ending September 30, 2022, as against a profit after tax of Rs 77 crore as on March 31, 2022 (Rs 11 crore as on March 31, 2021). This resulted in a ROMA (return on managed assets) of 2.3% for the first half of fiscal 2023 as against 1.6% for fiscal 2022. Credit costs which were relatively higher at 3.4% for fiscal 2021 have shown an improvement to 0.3% for the first half of fiscal 2023.

While earnings profile has improved, the ability to manage credit costs, considering new origination, remains to be seen and will remain a key monitorable.

Liquidity: Strong

Liquidity remains comfortable with group having cash and cash equivalents and unutilised bank lines of Rs 4,812 crore, as on September 30, 2022. Against the same, the total debt repayments (including securitisation payouts) over the 3 months till December 2022 is around Rs 1,681 crore excluding WCDL lines which automatically renew on maturity and direct assignment payouts. As on September 30, 2022, the ALM profile of the group remained strong with positive cumulative gaps across all the buckets, as a result of large equity base.

Rating Sensitivity factors**Upward factors:**

- Profitable scaling up of operations as per business plan
- Sustainable improvement in asset quality and earnings profile of the company

Downward factors:

- Decline in support from Cyrus Poonawalla Group or material change in Cyrus Poonawalla Group's shareholding in PFL or in CRISIL Ratings view any downward revision in the credit profile of Cyrus Poonawalla Group
- Any sustained deterioration in asset quality and earnings profile of the company
- Significant jump in gearing beyond 6 times on a sustained basis while scaling up the portfolio

About the Poonawalla Fincorp group

Incorporated as Magma Leasing Ltd, the company commenced its operations in 1989. The company was renamed to Magma Fincorp Limited in 2008 and Poonawalla Fincorp Limited in 2021 post the acquisition by Rising Sun Holdings Private Limited (an entity owned and controlled by Mr Adar Poonawalla). The company has a diversified product offerings in consumer and business finance including personal loans, loans to professionals, business loans, SME LAP, pre-owned car loans, etc.

About the Poonawalla Housing Finance Limited

In February 2013, erstwhile Magma Fincorp acquired GE Money Housing Finance. Post-acquisition, the company was renamed Magma Housing Finance Ltd. Magma Housing Finance Limited was rebranded as Poonawalla Housing Finance Limited, post the acquisition by Rising Sun Holdings Private Limited. Poonawalla Housing Finance Limited product offerings include affordable home loans and affordable LAP.

Poonawalla Housing Finance Limited has been able to grow at a 3-year CAGR of 28% to reach at an AUM of Rs 5,060 as on March 31, 2022. The AUM further grew to Rs 5,612 crore as on September 30, 2022. The growth has been accompanied by growing share of affordable home loans in AUM from 35% as on March 31, 2018 to 64% as on September 30, 2022. Share of affordable LAP has gradually reduced from 64% as on March 31, 2018 to 36% as on September 30, 2022. Further, the loan book is granular with average ticket size of ~Rs.10 lacs September 30, 2022.

Key Financial Indicators: (PFL + PHFL Consolidated):

Particulars as on,	Unit	Sep-22**	Mar-22*	Mar-21*
Total Assets	Rs Cr.	19,293	16443	13212
Total income	Rs Cr.	1,227	2041	2352
Profit after tax	Rs Cr.	304	375	-559
Gross Stage 3	%	1.5	2.7	3.7
Adjusted Gearing	Times	2.2	1.8	5.5
Return on total managed assets #	%	3.1	2.3	-3.5

*As per IndAS

**Annualised

Profit after tax by total assets + securitisation (Assignment)

Key financial indicators: (PHFL Standalone)

Particulars as on,	Unit	Sep-22**	Mar-22*	Mar-21*
Total Assets	Rs Cr.	5,095	4,387	3,134

Total income	Rs Cr.	316	470	473
Profit after tax	Rs Cr.	63	77	11
Gross Stage 3	%	0.8	0.96	1.6
Adjusted Gearing%	Times	4.1	3.7	7.2
Return on total managed assets #	%	2.3	1.6	0.3

*As per IndAS

**Annualised

Profit after tax by total assets + securitisation (Assignment)

% Calculated as (on-book borrowings + securitization (assignment))/reported network

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Banker Name	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (INR. Crs)	Complexity Level	Rating Assigned with Outlook
NA	Commercial Paper	NA	NA	NA	7-365 days	500	Simple	CRISIL A1+/Watch Developing
NA	Non Convertible Debentures*	NA	NA	NA	NA	1500	Simple	CRISIL AA+/Watch Negative
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	NA	1500	NA	CRISIL AA+/Watch Negative

*Yet to be issued

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Poonawalla Fincorp Limited	Full	Parent
Poonawalla Housing Finance Limited	Full	Subsidiary

Annexure - Rating History for last 3 Years

Instrument	Current			2022 (History)		2021		2020		2019		Start of 2019
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	1500.0	CRISIL AA+/Watch Negative	31-01-22	CRISIL AA+/Stable		--		--		--	--
Commercial Paper	ST	500.0	CRISIL A1+/Watch Developing	31-01-22	CRISIL A1+	15-12-21	CRISIL A1+	06-05-20	CRISIL A1+	30-07-19	CRISIL A1+	CRISIL A1+

			--		--	12-02-21	CRISIL A1+		--		--	--
Non Convertible Debentures	LT	1500.0	CRISIL AA+/Watch Negative	31-01-22	CRISIL AA+/Stable		--		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Proposed Long Term Bank Loan Facility	1500	Not Applicable	CRISIL AA+/Watch Negative

This Annexure has been updated on 20-Dec-22 in line with the lender-wise facility details as on 31-Jan-22 received from the rated entity.

Criteria Details

Links to related criteria
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Finance Companies
CRISILs Criteria for rating short term debt
CRISILs Criteria for Consolidation

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