

Poonawalla Housing Finance Limited (Erstwhile Magma Housing Finance Limited)

August 26, 2021

Ratings

Facilities/Instruments	Amount (Rs. Crore)	Ratings ¹	Rating Action
Long term Bank Facilities	3,500.00 (enhanced from 750.00)	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Revised from CARE AA- (Double A Minus) and removed from Credit watch with Developing Implications; Stable outlook assigned
Total Bank Facilities	3,500.00 (Rs. Three Thousand Five Hundred Crore Only)		
Secured Non-Convertible Debentures (NCDs)	440.00 (Rs. Four Hundred Forty Crore Only)	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Revised from CARE AA- (Double A Minus) and removed from Credit watch with Developing Implications; Stable outlook assigned
Proposed Secured NCDs	1060.00 (Rs. One Thousand and Sixty Crore only)		
Commercial Paper Issue – Standalone	300.00 (Rs. Three hundred crore only)	CARE A1+ (A One Plus)	Assigned

Details of instruments/facilities in Annexure-1
Detailed Rationale & Key Rating Drivers

CARE has upgraded the rating of various long-term bank facilities/instruments of Poonawalla Housing Finance Limited [PHFL; erstwhile Magma Housing Finance Limited (MHFL)], to 'CARE AA+; Stable' from 'CARE AA- (under credit watch with developing implications)' and assigned the short-term rating of 'CARE A1+' to the commercial paper issue of the company.

The revision in the rating assigned to Poonawalla Housing Finance Limited (PHFL) [erstwhile Magma Housing Finance Limited (MHFL)] continues to draw strength from the operational, managerial and financial support it derives from its parent – Poonawalla Fincorp Ltd (PFL) (rated CARE AA+; Stable / CARE A1+), strength derived from the new promoter i.e., Poonawalla Group holding 60% stake accompanied with a change in management control with Mr. Adar Poonawalla appointed as Chairman of the Board, shared brand name of Poonawalla Group and expectation of timely need based financial support.

The ratings also factor in significant infusion of equity capital (Rs.3,456 crore in May 2021) resulting in comfortable CAR, low leverage and comfortable liquidity profile of PFL on a consolidated basis. Induction of professional management, focus towards better quality borrowers, and reduction in cost of funds are also key drivers for rating revision. The ratings continue to draw strength from PHFL's long track record of operations, wide branch network and healthy scale up of business with improving share of granular home loans.

CARE had earlier placed the ratings assigned to long-term instruments/facilities of PHFL (erstwhile MHFL) on 'Credit Watch with Developing Implications' following the announcement of fresh infusion of Rs 3,456 crore by way of preferential issue of equity shares of its parent, PFL. The equity was infused by new promoters Rising Sun Holdings Private Limited of the Poonawalla Group (RSHPL) for Rs 3206 crore and existing promoters for Rs 250 crore.

Post the completion of this sizeable preferential issue, regulatory approvals & open offer, RSHPL holds 60% stake while the existing promoters' stake reduced to 13.30% from 24.40% in PFL. Following the preferential issue, RSHPL is classified as the promoter of PFL along with existing promoters. Further, PFL and its subsidiary, PHFL, have been renamed and rebranded as 'Poonawalla Fincorp Limited' and 'Poonawalla Housing Finance Limited' respectively, w.e.f. July 22, 2021.

The Poonawalla Group is one of the leading players in the Pharmaceuticals & Biotechnology segment. The group's flagship company; Serum Institute of India Pvt Ltd (SIPL; rated CARE AAA; Stable/CARE A1+), one of the world's largest manufacturers of Measles/DTP vaccines. The group also set up Serum Institute Life Sciences Pvt. Ltd. (SLS; rated CARE AAA(CE)) in June-2020 to fulfill the group's adequate response to Covid-19. SIPL has diverse product offerings in vaccine segment, including the Covid-19 vaccine 'Covishield'.

¹Complete definition of the ratings assigned are available at www.careratings.com and in other CARE publications

The ratings are constrained by the PHFL's moderate asset quality, subdued return indicators and moderately diversified resource profile. However, the book is adequately cushioned with provision cover on gross stage 3 assets at 37% as on June 30, 2021. The ability of PHFL to execute its growth strategy while achieving the envisaged asset quality and profitability parameters, maintaining healthy capitalization and diversifying its liability mix will be a key rating monitorable. However, the downside risks to the business plan are likely to be mitigated by strong parentage, large equity base and low leverage along with a professional management team.

Rating Sensitivities

Positive Factors: *Factors that could lead to positive rating action/upgrade*

- Any change in rating of the parent, PFL
- Growth in scale of operations as envisaged
- Improvement in profitability on a sustained basis

Negative factors: *Factors that could lead to negative rating action/downgrade*

- Any change in rating of the parent, PFL
- Weakening of linkages with the Poonawalla Group
- Overall gearing going above 3x till FY23 on a consolidated basis for PFL

Detailed description of the key rating drivers

Key Rating Strengths

Strong and resourceful Promoter

The Poonawalla Group holds 60% stake in PFL through Rising Sun Holdings Private Limited. PFL is strategically important to the group as indicated by sharing of the 'Poonawalla' name, Mr. Adar Poonawalla becoming the Chairman of the board and the large investment made by the group to diversify into financial services segment with acquisition of retail lending, housing finance and general insurance business of erstwhile Magma.

The Poonawalla Group is one of India's most reputed business houses and are leading players in the Pharmaceuticals & Biotechnology segment. The group's flagship company; Serum Institute of India Pvt Ltd (SIIPL; rated CARE AAA; Stable/CARE A1+), one of the world's largest manufactures of vaccines supplying to ~170 countries. SIIPL has a robust financial profile with total operating income (TOI) of Rs.5,774 crore with PAT margin of 39% in FY20, along with healthy network of Rs.17,690 crore as on March 31, 2020.

SIIPL floated Serum Institute Life Sciences Pvt. Ltd. (SLS; rated CARE AAA(CE)) in June 2020 which is currently engaged in the marketing and distribution of 'Covishield', the Covid-19 vaccine. Apart from 'Covishield', SIIPL has a diverse product basket in the vaccine segment. Over the years, the group has operated with minimal debt and has one of the lowest leverage among business groups in India.

SIIPL has a healthy liquid investment portfolio (excluding investments in subsidiaries and associates) to the tune of Rs.3,941 crore as on March 31, 2020 and cash balance of Rs.180 crore as on March 31, 2020. Further, SIIPL had generated gross cash accruals of Rs. 2,538 crores which is further expected to be augmented in the medium term. SLS is also expected to generate healthy cash flows owing to its revenues from Covid vaccine business. Thus, the Group has a robust financial profile with healthy cash accruals and minimal debt obligations.

Large equity infusion resulting in comfortable leverage

PFL had a large equity infusion of Rs.3,456 crore by way of a preferential issue of equity shares which has resulted in low leverage of 1.4x, high CAR and a comfortable liquidity position. The Poonawalla group subsequently rebranded the companies under its brand name as "Poonawalla Fincorp Limited" and "Poonawalla Housing Finance Limited" w.e.f. July 22, 2021. In May 2021, PFL infused Rs.500 crore equity into its wholly owned subsidiary PHFL, shoring up its net-worth to ~Rs. 1,000 crore culminating in a comfortable leverage of 2.1x as on June 30, 2021.

Induction of professional management in PFL

PFL and PHFL are led by Mr. Adar Poonawalla as the Chairman and Non-Executive Director of the Board backed by a newly appointed management team. The company is governed by an eight-member Board of Directors, which includes one erstwhile promoter director and four independent directors. The Board comprises of qualified and experienced professionals with considerable experience in functional areas. The Board is ably supported by a qualified senior management team led by Mr. Abhay Bhutada, MD who has a vast experience in commercial and retail lending led the group's initial foray in retail lending as MD & CEO of Poonawalla Finance Private Limited (PFPL). Mr. Vijay Deshwal (previously with ICICI Bank) has been appointed as the Group CEO and Mr. Sanjay Miranka (previously with Aditya Birla Finance) has joined as the Group CFO along

with the appointment of other senior officials with a vast experience in financial services having worked at financial institutions and banks of repute. The day-to-day affairs of the company are managed by Mr. Manish Jaiswal as Managing Director & CEO who has over 25 years of industry experience.

Synergies with parent, PFL

PHFL is a wholly owned subsidiary of PFL and derives significant amount of support from PFL in terms of financial, managerial and operational synergies and use of common brand name. PHFL has its own branch network, technology platform and collections team and also derives business support from PFL.

Pan-India presence with wide branch network

PHFL has a pan- India presence through 103 branches as on June 30, 2021. PHFL's loan book is diversified geographically with north contributing ~33%, east ~8%, south ~26% and west ~33% as on June 30, 2021. The parent, PFL has pan-India presence through a network of 297 branches (as on June 30, 2021) spread across 21 States/Union Territories. PFL's business plan aims to rationalize the branch network suiting the needs of its realigned product suite, which is likely to achieve cost efficiencies. PFL plans to intensify its use of technology and digitalization in its entire customer life-cycle from origination, underwriting, monitoring, collections to customer service which aided by the existing branch network. This is expected to increase its reach bringing synergies between brick & mortar and digital processes.

Healthy business scale up in PHFL

PHFL's AUM has grown at a healthy CAGR of ~30% over the three years period ended March 2021 to reach close to Rs.4,000 crore. The AUM further grew to Rs.4,047 crore as on June 30, 2021. The growth has been accompanied by growing share of affordable home loans in AUM from ~35% in FY18 to ~60% in FY21. Share of affordable LAP has gradually reduced from ~64% in FY18 to ~40% in FY21. In Q1FY22, about 95% of the disbursement was towards affordable home loans. Further, the loan book is granular with average ticket size of ~Rs.11 lac in FY21.

Liquidity: Comfortable

PHFL had an overall available liquidity (including free cash & cash equivalents and undrawn sanctioned lines) of about Rs.391 crore as on June 30, 2021. Additional undrawn sanctions-in-hand as on June 30, 2021 were Rs.175 crore. The parent, PFL (on consolidated basis) had an overall liquidity (including free cash & cash equivalents and undrawn sanctioned lines) of about Rs 3,238 crore as on June 30, 2021. Additional undrawn sanctions in hand for PFL as on June 30, 2021 were Rs 625 crore. The proceeds from equity infusion were utilized for debt repayment and equity infusion into PHFL. As on June 30, 2021, the ALM profile of both PFL and PHFL shows significant surplus position across all time buckets aided by large equity base, reduced debt level and inherently short-to-medium duration of assets. With RSHPL now being the largest shareholder, financial flexibility is expected to improve significantly.

Improved access to funding

With a strong parent coupled with strong management team, the company has a wider access to more diversified liability market along with a significant reduction the cost of funds. The company is in the process to receiving fresh sanctions at much lower rates of interest and has commenced the process of replacing the erstwhile higher cost debt. It is also expected that the company shall be able to gainfully approach lending institutions who have not been associated with the company in the past. This is expected to give the company stable borrowings profile, with better access to funding and lower cost of funds going forward.

Key Rating Weaknesses

Moderate diversified resource profile

PHFL has a moderately diversified resource profile in terms mix of bank and debt capital markets borrowings. PHFL's borrowings as on June 30, 2021 were in the form of 72% of term loans (incl. PTC), 21% in the form of NCDs, 2% in the form of working capital and balance 5% in the form of sub-debt. Moreover, the overall gearing has reduced to 2.1x due to a reduction in debt to Rs 2,138 crore as on June 30, 2021 from Rs 2,550 crore in March 31, 2021 from equity infusion of Rs.500 crore by PFL in May 2021.

It is expected that the company shall be able to leverage and raise further debt capital to embark on a growth plan envisaged by PFL/PHFL to take its AUM to 3x of current levels. It is also expected that a likely diversification of resource profile, reduced dependence on bank borrowings along with a lower cost of funding shall result in a stable liability profile.

Moderate asset quality

PHFL's Gross stage III & Net Stage III % remained at 1.6% and 0.8% respectively as at March 31, 2021, almost similar to 1.6% and 1% reported as at March 31, 2020. The same, however, inched up to 1.9% and 1.2% as on June 30, 2021 due to the

impact of covid. The stage III provision coverage was healthy at 51.8% as on March 31, 2021 as compared to 39.8% as on March 31, 2020 (~36.5% as on June 30, 2021).

On a consolidated basis, the parent PFL's reported Gross stage III & Net Stage III assets of the company decreased substantially from Rs.914 crore and Rs.580 crore respectively as on March 31, 2020 to Rs.465 crore and Rs.146 crore respectively as on March 31, 2021 and stood at Rs 697 crore and Rs 341 crore respectively as on June 30, 2021. The Gross stage III & Net Stage III assets as a percentage of advances thus reduced to 3.70% and 1.20% respectively as on March 31, 2021 as compared to 6.44% and 4.19% respectively as on March 31, 2020 (5.4% and 2.7% as on June 30, 2021). The stage III provision coverage was healthy at 68.60% as on March 31, 2021 as compared to 36.54% as on March 31, 2020 (~51% as on June 30, 2021).

Subdued return indicators due to large credit costs in FY21, improvement in profitability in Q1FY22 for PFL/PHFL

PHFL on a standalone basis reported a net profit of Rs 9 crore in Q1FY22. PHFL reported PAT of Rs.11 crore on total income of Rs.473 crore in FY21 vis-à-vis PAT of Rs.43 crore on total income of Rs.356 crore in FY20. The decrease in profitability in FY21 was mainly on account of one-time additional provisions made and adoption of a more conservative policy for write offs which accounted for additional credit costs of Rs 44 crore. PHFL's profitability has improved in Q1FY22 with annualized ROTA 0.9%.

The parent PFL reported a consolidated net profit of Rs 64.5 crore in the first quarter of FY22 ending June 30, 2021. PFL had reported a net consolidated loss of Rs 559 crore in FY21 on account of one-time credit costs of Rs 894 crore on account of Covid-19 induced stress and change in write off policy in Q4FY21. However, profitability improved in Q1FY22 with annualized ROTA and RONW at 1.8% and 4.6% respectively. PFL and PHFL's profitability is likely to improve to a reasonable level by through change in product mix, control over finance costs, credit costs and operational costs going forward.

Analytical approach: CARE has taken a standalone view of PHFL along with factoring in the synergies with its parent PFL in the form of financial, managerial and operational support and a shared brand name. CARE has also factored in the benefits derived from the ultimate parentage of Poonawalla group.

Applicable Criteria

[CARE's Policy on Default Recognition](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[Rating Methodology- Housing Finance Companies \(HFCs\)](#)

[Financial ratios –Financial Sector](#)

[Rating Methodology: Notching by factoring linkages in Ratings](#)

About the Company

Poonawalla Housing Finance Limited (PHFL) was initially promoted as GE Money Housing Finance (GEMHF) by GE Capital Corporation which is a 100% subsidiary of General Electric Company, USA. Subsequently, in February 2013, the company was acquired by the erstwhile Magma Fincorp Limited (now PFL), through its wholly owned subsidiary Magma Advisory Services Ltd (MASL). The name of GEMHF was changed to Magma Housing Finance in March 2013 and as Magma Housing Finance Limited (MHFL) in April, 2017. MASL merged with PFL (appointed date of April 01, 2017) post which it became a direct subsidiary of PFL. In May 2021, PFL was acquired by the Poonawalla group and subsequently name of the company changed to PHFL. The company commenced disbursements under MFL from June 2013. PHFL is engaged in providing housing loans and home equity loans (Loan against Property) to individuals in the affordable segment. The company is registered as a non-deposit taking Housing Finance Company.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	356.36	472.55
PAT	42.65	10.89
Interest coverage (times)	1.31	1.06
Total Assets	2,553.67	3,236.42
Net NPA (%)	0.98	0.62
ROTA (%)	1.87	0.37

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Not Applicable

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	-	285.94	CARE AA+; Stable
Fund-based - LT-Cash Credit	-	-	-	-	335.00	CARE AA+; Stable
Fund-based - LT-Proposed fund based limits	-	-	-	-	2854.06	CARE AA+; Stable
Fund-based - LT-Working Capital Demand loan	-	-	-	-	25.00	CARE AA+; Stable
Debentures-Non Convertible Debentures	INE055I07057	March 30, 2015	10%	31/03/2022	20.00	CARE AA+; Stable
Debentures-Non Convertible Debentures	INE055I07065	March 30, 2016	10%	March 31, 2023	10.00	CARE AA+; Stable
Debentures-Non Convertible Debentures	INE055I07099	June 26, 2020	9%	June 26, 2023	50.00	CARE AA+; Stable
Debentures-Non Convertible Debentures	INE055I07099	June 26, 2020	9%	June 26, 2023	75.00	CARE AA+; Stable
Debentures-Non Convertible Debentures	INE055I07107	July 6, 2020	8.75%	April 21, 2023	75.00	CARE AA+; Stable
Debentures-Non Convertible Debentures	INE055I07107	July 21, 2020	8.75%	April 21, 2023	20.00	CARE AA+; Stable
Debentures-Non Convertible Debentures	INE055I07115	July 31, 2020	9%	July 31, 2023	50.00	CARE AA+; Stable
Debentures-Non Convertible Debentures	INE055I07123	August 18, 2020	8.48	February 18, 2022	140	CARE AA+; Stable
Proposed Debentures-Non Convertible Debentures	-	-	-	-	1060.00	CARE AA+; Stable
Commercial Paper-Commercial Paper	-	-	-	-	300.00	CARE A1+

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
(Standalone)						

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	-
2.	Short Term Instruments-STD	ST	-	-	-	-	-	-
3.	Fund-based - LT-Term Loan	LT	285.94	CARE AA+; Stable	-	1)CARE AA-(CWD) (16-Feb-21) 2)CARE AA-; Negative (06-Jul-20) 3)CARE AA-; Negative (10-Jun-20) 4)CARE AA-; Negative (28-Apr-20)	1)CARE AA-; Stable (05-Jul-19)	1)CARE AA-; Stable (06-Jul-18)
4.	Fund-based - LT-Cash Credit	LT	335.00	CARE AA+; Stable	-	1)CARE AA-(CWD) (16-Feb-21) 2)CARE AA-; Negative (06-Jul-20) 3)CARE AA-; Negative (10-Jun-20) 4)CARE AA-; Negative (28-Apr-20)	1)CARE AA-; Stable (05-Jul-19)	1)CARE AA-; Stable (06-Jul-18)
5.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (06-Jul-18)
6.	Debentures-Non Convertible Debentures	LT	20.00	CARE AA+; Stable	-	1)CARE AA-(CWD) (16-Feb-21) 2)CARE AA-; Negative (06-Jul-20) 3)CARE AA-; Negative (10-Jun-20) 4)CARE AA-; Negative	1)CARE AA-; Stable (05-Jul-19)	1)CARE AA-; Stable (06-Jul-18)

						(28-Apr-20)		
7.	Debentures-Non Convertible Debentures	LT	15.00	CARE AA+; Stable	-	1)CARE AA-(CWD) (16-Feb-21) 2)CARE AA-; Negative (06-Jul-20) 3)CARE AA-; Negative (10-Jun-20) 4)CARE AA-; Negative (28-Apr-20)	1)CARE AA-; Stable (05-Jul-19)	1)CARE AA-; Stable (06-Jul-18)
8.	Debentures-Non Convertible Debentures	LT	35.00	CARE AA+; Stable	-	1)CARE AA-(CWD) (16-Feb-21) 2)CARE AA-; Negative (06-Jul-20) 3)CARE AA-; Negative (10-Jun-20) 4)CARE AA-; Negative (28-Apr-20)	1)CARE AA-; Stable (05-Jul-19)	1)CARE AA-; Stable (06-Jul-18)
9.	Debentures-Non Convertible Debentures	LT	10.00	CARE AA+; Stable	-	1)CARE AA-(CWD) (16-Feb-21) 2)CARE AA-; Negative (06-Jul-20) 3)CARE AA-; Negative (10-Jun-20) 4)CARE AA-; Negative (28-Apr-20)	1)CARE AA-; Stable (05-Jul-19)	-
10.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (28-Apr-20)	1)CARE AA-; Stable (05-Jul-19)	-
11.	Debentures-Non Convertible Debentures	LT	25.00	CARE AA+; Stable	-	1)CARE AA-(CWD) (16-Feb-21) 2)CARE AA-; Negative (06-Jul-20) 3)CARE AA-; Negative (22-Jun-20)	-	-
12.	Debentures-Non Convertible Debentures	LT	50.00	CARE AA+; Stable	-	1)CARE AA-(CWD) (16-Feb-21) 2)CARE AA-; Negative (06-Jul-20)	-	-
13.	Debentures-Non	LT	75.00	CARE	-	1)CARE AA-	-	-

	Convertible Debentures			AA+; Stable		(CWD) (16-Feb-21) 2)CARE AA-; Negative (06-Jul-20)		
14.	Debentures-Non Convertible Debentures	LT	200.00	CARE AA+; Stable	-	1)CARE AA- (CWD) (16-Feb-21) 2)CARE AA-; Negative (06-Jul-20)	-	-
15.	Debentures-Non Convertible Debentures	LT	10.00	CARE AA+; Stable	-	1)CARE AA- (CWD) (16-Feb-21) 2)CARE AA-; Negative (17-Aug-20)	-	-
16.	Debentures-Non Convertible Debentures	LT	1060.00	CARE AA+; Stable	-	1)CARE AA- (CWD) (16-Feb-21)	-	-
17.	Fund-based - LT-Proposed fund based limits	LT	2854.06	CARE AA+; Stable	-	-	-	-
18.	Fund-based - LT-Working Capital Demand loan	LT	25.00	CARE AA+; Stable	-	-	-	-
19	Commercial Paper-Commercial Paper (Standalone)	ST	300.00	CARE A1+	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Debentures-Non Convertible Debentures	Simple
2.	Fund-based - LT-Cash Credit	Simple
3.	Fund-based - LT-Proposed fund based limits	Simple
4.	Fund-based - LT-Term Loan	Simple
5.	Fund-based - LT-Working Capital Demand loan	Simple
6.	Commercial Paper-Commercial Paper (Standalone)	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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