GRIHUM
HOUSING FINANCE
Apna Ghar. Apni Pehchan.

06 November, 2024

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 ("SEBI Listing Regulations")

Dear Sir/Madam,

Pursuant to the provisions of Regulation 51 read with Schedule III of the SEBI Listing Regulations, we wish to inform you that India Ratings and Research Private Limited has reaffirmed the credit rating for the facilities/instruments of the Company as per the following details:

Facilities/Instrument	Amount (Rs. Crore)	Rating	Rating Action
Commercial Paper	200	IND A1+	Reaffirmed

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 Grihum Housing Finance Limited
(Formerly, Poonawalla Housing Finance Limited)

VAISHNAVI BHUPENDRA SURATWALA
Digitally signed by VAISHNAVI BHUPENDRA SURATWALA
Date: 2024.11.06 17:05:48 +05'30'

Vaishnavi Suratwala
Company Secretary
Membership No.: A41827

Enclosed: as above

India Ratings & Research
A Fitch Group Company

India Ratings Affirms Grihum Housing Finance's CP at 'IND A1+'

Nov 06, 2024 | Housing Finance Company

India Ratings and Research (Ind-Ra) has affirmed Grihum Housing Finance Ltd.'s (GHFL; formerly Poonawalla Housing Finance Ltd) commercial paper (CP) rating as follows:

Details of Instruments

Instrument Description	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating Assigned along with Outlook/Watch	Rating Action
Commercial paper	-	-	-	INR2,000	IND A1+	Affirmed

Analytical Approach

Ind-Ra continues to take a standalone view of GHFL while arriving at the rating.

Detailed Rationale of the Rating Action

The ratings reflect GHFL'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 company has well-diversified funding, adequate liquidity, sizeable capital base and evolving risk management. Although fairly high growth has resulted in a loan book with significant share of recent originations but GHFL's focus on individual loans and avoiding builder-led disbursements provides comfort.

List of Key Rating Drivers

Strengths

- Growing franchise in affordable housing segment
- Healthy capital levels backed by support from TPG; leverage remains comfortable
- Diversified lender base; improving funding mix
- Experienced and stable management team
- Pressure on profitability to subside as operational leverage picks up

Weaknesses

- Stable asset quality but vulnerable borrower class

Detailed Description of Key Rating Drivers

Growing Franchise in Affordable Housing Segment: GHFL is one of the key players in the affordable housing segment in term of market share with assets under management (AUM) of INR91.3 billion in 2QFY25 (FY24: INR82.8 billion; FY23: INR62.9 billion), catering to more than 83,000 customers. It has a presence across 18 states, where it continues to deepen its presence, as these are the key and significant markets in the overall affordable housing segment in India. The contribution from the top three states increased to 40.7% in 1QFY25 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%, indicating GHFL's higher diversification compared to its peers. The company's portfolio is spread across India, with the northern region contributing about 39% in 1QFY25, western regions about 35%, southern regions about 22%, and the eastern regions accounting for the balance.

The company has increased its branches to 211 by 2QFY25 from 128 in FY22, which has augmented its direct sourcing ability and would be key for future AUM growth and market share gains, which will add to GHFL's growing market presence. The deepening of geographies will also result in geographic diversification in certain key markets of GHFL 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 Backed by Support from TPG; Leverage Remains Comfortable: GHFL's equity base steadily increased to INR24.9 billion at 2QFYE25 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), INR10.38 billion in FY24 (INR5.38 billion in August 2023 and INR5 billion in March 2024) by TPG (post acquisition of 99.02% stake in FY23). The leverage (debt/equity), which stood at 2.45x at 2QFYE25 (FYE24: 2.4x, FYE23: 3.7; FYE22: 2.9x), is likely to be within the management's expectations of less than 4.2x over the near-to-medium term. The strong capital buffers, with tier I capital ratio of 45.34% and total capital adequacy ratio of 45.94% at 2QFYE25, continue to aid the company on its strong growth trajectory and provide a cushion against significant asset quality shocks. Furthermore, as recalibration of business is already done in the last few quarters 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.

Diversified Lender Base; Improving Funding Mix: GHFL has a broad based funding profile with more than 30 borrowing relationships, which encompasses private sector banks, public sector banks, capital market participants and enhanced limits from the National Housing Bank (debt rated at 'IND AAA'/Stable). Since FY22, the company has deepened its relationships with all its bankers and has reduced its borrowing cost to 8.2% in 1QFY25 (FY22: 8.7%) even in the rising interest rate scenario. While incremental cost of borrowing (CoB) has increased to 8.3% in 1QFY25, GHFL recently raised a borrowing line of INR9 billion from NHB, of which INR4.6 billion remained unutilised at end-1QFY25, in addition to INR10 billion sanction from State Bank of India ('IND AAA'/Stable) and INR5.0 billion of external commercial borrowing, which can be drawn in 2HFY25 and keep borrowing costs in control over FY25.

Experienced and Stable Management Team: Overall, GHFL has an operating track record of over 12 years. Its top management consists of experienced professionals with experience of more than 19 years on an average with reputed banks and non-bank financial companies across retail financing. TPG is a majority shareholder in GHFL, with 98.33% stake at 1QFYE25. GHFL'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 three independent directors on the board, which brings in the requisite professional experience.

Pressure on Profitability to Subside as Operational Leverage Picks up: GHFL reported muted profitability in 2QFY25, with annualised return of assets of 2.28% (FY24: 1.96%; FY23: 2.22%), largely because of its operating cost structure, which remained elevated at 4.3%-5.2% during FY23-2QFY25 (as a percentage of average AUM), which improved to 4.8% in 1HFY25 (FY24: 5.2%). The higher operating cost was on account of the segregation of IT infrastructure (erstwhile with the parent entity), alongside rapid branch expansion, ramp up of collections team and strengthening of management team. GHFL 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, GHFL was able to pass on 150bp amid the rising interest rate cycle; consequently, its spreads improved to 6.0%-6.6% during FY23-FY24 from 4.0-4.1% during FY21-FY22. However, the spreads compressed 30bp to 5.7% in 1HFY25, largely due to moderating yields and rise in benchmark cost of its borrowings. GHFL'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 45.34% in 1HFY25 (FY24: 46.68%, FY23: 32.6%; FY22: 39.9%), are adequate to absorb the existing levels of stress in the loan book.

Stable Asset Quality but Vulnerable Borrower Class: GHFL has a growing presence in the affordable housing finance segment and achieved AUM growth of 28% yoy in 2QFY25. However, the company's borrowers belong to the low-income and mid-income groups and have limited buffers to absorb volatility in income levels. Therefore, these borrowers could see an impairment in their repayment behaviour due to any shock they witness in their income-generating potential. GHFL's gross stage three (GS3) assets saw a marginal uptick to 1.42% in 2QFY25 (FY24: 0.95%; FY23: 0.81%; FY22: 0.96%). Furthermore, gross non-performing assets which had moderated to 0.8% in FY23 (1.6% in FY20) increased to 1% and 1.4% in FY24 and 2QFY25, respectively, largely exhibiting a comparatively higher stress in loan against property originations and also seasonal impact in 1HFY25. In 2QFY25, 1+ day past due (dpd)on loan book saw an uptick to 6.5% (FY24: 4.8%; FY23:6.4%; FY22: 12.1%), with delinquencies in off-book higher than on-book. Bounce rates have improved compared to the levels seen during COVID-19 but continue to be above pre-pandemic levels and hovered around 15% in 2QFY25. In addition, the company's restructured portfolio declined to 1.6% of the AUM in 1QFY25 (around 7.1% of this book is already in stage 3), with a provision coverage of 13.0% on the overall restructured portfolio.

The company's stage 3 provision declined to 38.5% in 1QFY25 (FY24: 41.2%), but the total provision coverage on the loan portfolio was largely steady at 1.11% (0.93%). Furthermore, the seasoning of the portfolio is low, as 64.8% of the AUM in 1QFY25 consisted of disbursements in the last eight quarters. Also, GHFL plans to further increase its AUM above INR100 billion over FY25 in view of the aforementioned factors; the asset quality would be a key monitorable.

Liquidity

Adequate: GHFL intends to maintain two months of debt repayment as liquidity on the balance sheet, assuming nil inflows. Moreover, at 1QFYE25, GHFL had reported positive cumulative surplus in the one-year time despite stressing the structural liquidity statement. Also, at 1QFYE25, GHFL had maintained working capital limits of INR4.55 billion and documented undrawn term loan sanctions of INR15.35 billion from various banks in addition to on-balance sheet liquidity (liquid investments and unencumbered cash and investments) of INR8.64 billion, against total scheduled debt repayment of INR9.98 billion over the next two quarters, which can be met by GHFL even without any inflows.

Rating Sensitivities

Positive: Not applicable

Negative: Significant deterioration in the profitability, impacting the capitalisation buffers, and challenges in mobilising incremental funds and the leverage exceeding 5.0x, 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 GHFL, 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

GHFL 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 INR91.3 billion as of September 2024. The company lends to the low-ticket segment and targets low-income semi urban self-employed customers. It operates through a network of 211 branches across 18 states/union territories and it has over 4,200 employees, largely because of the in-house sourcing, underwriting and collection model of business. As of September 2024, TPG is the majority shareholder of GHFL, with 98.33% stake.

Key Financial Indicators

Particulars	FY24	FY23
Total assets (INR million)	86,464	59,708
Total equity (INR million)	23,899	12,086
Net profit (INR million)	1,400	1,152
Return on average assets (%)	1.96	2.22
Equity/assets (%)	28.63	20.24
Tier 1 capital (%)	46.68	32.60
Source: GHFL, Ind-Ra		

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	7 November 2023
Commercial paper	Short-Term	INR2,000	IND A1+	IND A1+

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Commercial paper	Low

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

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Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.
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APPLICABLE CRITERIA AND POLICIES

Non-Bank Finance Companies Criteria

Evaluating Corporate Governance

Financial Institutions Rating Criteria

The Rating Process