October 24, 2024

Grihum Housing Finance Limited: Rating reaffirmed

Summary of rating action

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

**Instrument details are provided in Annexure I*

Rationale

The rating factors in Grihum Housing Finance Limited's (Grihum) comfortable capitalisation profile and geographically diversified operations. The company raised ~Rs. 1,000-crore equity capital in FY2024, increasing its net worth to Rs. 2,390 crore as on March 31, 2024 (Rs. 2,437 crore in June 2024) from Rs. 1,209 crore in March 2023. This shall support its growth plans over the near-to-medium term while maintaining a prudent capitalisation profile. ICRA expects Grihum to operate at a managed gearing[1] level of less than 5 times (3 times as on June 30, 2024) over the medium term. As on June 30, 2024, the company had assets under management (AUM) of Rs. 8,727 crore managed through a network of more than 200 branches spread across 18 states/Union Territories (UTs). The asset quality indicators remained comfortable with gross stage 3 assets (non-performing advances; NPAs) of 1.2% and net stage 3 assets of 0.8% as on June 30, 2024.

Grihum's profitability remains subdued owing to elevated operating expenses because of the augmentation of branch and people infrastructure and expenses incurred towards technology and other functions, post separation from the erstwhile parent entity – Poonawalla Fincorp Limited. It reported a net profit of Rs. 140 crore in FY2024 (Rs. 46 crore in Q1 FY2025), translating into a return of 1.7% on average managed assets (AMA) and 7.8% on average net worth against Rs. 115 crore, 1.9% and 10.1%, respectively, in FY2023. Going forward, the company's ability to manage the pressure on margins, given the intense competition and rising interest rates, while improving its operating efficiency and controlling the credit costs in view of the target borrower segments, will be key from a rating perspective.

Key rating drivers and their description

Credit strengths

Comfortable capitalisation profile – Grihum's capitalisation profile remains comfortable with a managed gearing of 3.0 times and a capital adequacy ratio (CAR) of 44.8% (well above the regulatory requirement of 15%) as on June 30, 2024. TPG had invested ~Rs. 1,000-crore equity capital in Grihum in FY2024, increasing its net worth to Rs. 2,390 crore as on March 31, 2024 (Rs. 2,437 crore in June 2024) from Rs. 1,209 crore in March 2023. ICRA expects Grihum to operate at a managed gearing level of less than 5 times (3 times as on June 30, 2024) over the medium term.

Geographically diversified portfolio – Grihum's portfolio is fairly diversified geographically with a presence in 18 states/UTs through a network of more than 200 branches as on June 30, 2024, catering to more than 80,000 customers and an average ticket size of Rs. 10 lakh. The portfolio is spread across India with the top 3 states accounting for ~41% of loan book as on June 30, 2024 (~40% as of March 2024; ~39% as of March 2023), with no single state exceeding 20%. 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 focused on retail with loans largely backed by self-occupied

[1] *Managed gearing = (On-book debt + Off-book portfolio)/Net worth*

residential properties. Given the low penetration level and the Government of India's thrust on this segment, small-ticket 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.

Credit challenges

Subdued profitability – The company reported a net profit of Rs. 140 crore in FY2024 (Rs. 46 crore in Q1 FY2025), translating into a return of 1.7% on AMA and 7.8% on average net worth against Rs. 115 crore, 1.9% and 10.1%, respectively, in FY2023. While Grihum's credit costs remain low and net interest margins (NIM), including income from direct assignment (DA), remain healthy, elevated operating expenses have kept its earnings profile moderate. ICRA expects the profitability profile to gradually improve with the increase in the scale and the correspondingly better operational efficiency. Going forward, the company's ability to manage the pressure on margins, given the intense competition and rising interest rates, while improving its operational efficiency and controlling the credit costs will be important for maintaining its credit profile.

Relatively limited portfolio seasoning – Grihum's portfolio has increased considerably in the past few years as reflected by the compound annual growth rate (CAGR) of ~28% during March 2019 to June 2024. Its organic disbursements over the past 12 quarters comprised ~84% of the AUM as on June 30, 2024. 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 – Grihum's reported asset quality remains comfortable with gross stage 3 assets of 1.2% as on June 30, 2024 (1.0% as on March 31, 2024). However, like other AHFCs, it lends to borrowers in the low-and-mid-income segments, which are more vulnerable to income shocks. Given the pace of growth and the relatively riskier borrower profile of these segments with assessed income profiles, it remains exposed to the volatility in the asset quality. Nevertheless, the company's portfolio is quite granular with no exposure to the wholesale segment. Further, the loan-to-value (LTV) ratio is in the range of 60-70% for home loans (HLs) and 50-60% for loan against property (LAP), thereby limiting the loss given default. The company has a decentralised and vertical approach towards its operations with segregated legal, technical and credit underwriting teams. Going forward, Grihum'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 maintained by it and the presence of sanctioned but unutilised funding lines. It had a free cash and bank balance and liquid investments of ~Rs. 864 crore as on June 30, 2024. This, along with the scheduled collections of Rs. 1,898 crore till June 30, 2025, is sufficient to meet the scheduled debt repayments of Rs. 2,226 crore in a timely manner during this period. The presence of unutilised sanctions of ~Rs. 1,990 crore from various lenders, as on June 30, 2024, supports its liquidity profile further. The liquidity coverage ratio of 141.0%, for the quarter ended June 30, 2024, was well above the regulatory requirement. Grihum's liquidity profile is also supported by its fairly diversified funding mix and demonstrated track record of raising funds from diverse sources. Its funding profile comprised loans from banks (43%), refinance from National Housing Bank (NHB; 25%), non-convertible debentures (NCDs) and subordinated debt (14%), direct assignment and others (18%) as on June 30, 2024. At present, the company has funding relationships with more than 30 lenders, including banks, financial institutions and mutual funds and it has been able to raise funds regularly from various funding sources, including public, private and foreign banks and refinancing from NHB. The company received fresh sanction of Rs. 900 crores from NHB in Q1FY25.

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	Non-banking Finance Companies
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Grihum Housing Finance Limited is a housing finance company registered with the Reserve Bank of India (RBI). The company provides home loans and loan against property in the affordable housing finance segment. It had a presence in 18 states/UTs in India through a network of more than 200 branches as on June 30, 2024. The company reported assets under management (AUM) of Rs. 8,727 crore as on June 30, 2024 while catering to more than 80,000 customers with an average ticket size of Rs. 10 lakh.

TPG, through Perseus SG Pte Ltd. (Perseus), had acquired a 99.02% stake in the company on July 26, 2023. TPG is a global investment firm with ~$229 billion in AUM as of March 31, 2024. Perseus is advised and managed by TPG Capital (S) Pte. Ltd., which holds a capital markets services licence issued by the regulatory authority – the Monetary Authority of Singapore (MAS). TPG Asia Fund VIII ultimately holds the entire 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 $8 billion and a fund life of 10 years.

Key financial indicators (audited)

Grihum	FY2023	FY2024	Q1 FY2025*
Total income	716	1,046	306
PAT	115	140	46
Total managed assets	6,821	9,535	10,023
Return on managed assets	1.9%	1.7%	1.9%
Managed gearing (times)	4.5	2.9	3.0
Gross stage 3/ GNPA	0.8%	1.0%	1.2%
CRAR	34.8%	47.3%	44.8%

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations and estimates; Amount in Rs. crore*
PAT – Profit after tax; CRAR – Capital to risk-weighted assets ratio

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

				Chronology of rating history for the past 3 years					
Current (FY2025)									
FY2025				FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs. crore)	24-Oct-2024	Date	Rating	Date	Rating	Date	Rating
Commercial paper	Short term	100.00	[ICRA]A1+	16-Oct-2023	[ICRA]A1+	-	-	-	-
Fund-based term loans	Long term	0.00	-	-	-	-	-	6-Oct-2021	[ICRA]AA- &; withdrawn

& – On Watch with Developing Implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial paper	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
Yet to be placed	**CP programme**	NA	NA	NA	100.00	[ICRA}A1+

Source: Company; CP – Commercial paper

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.

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