

RATING RATIONALE

15 November 2021

Poonawalla Fincorp Limited

Brickwork Ratings upgrades the ratings of secured Non-convertible Debentures, subordinate Non-convertible Debentures and Innovative Perpetual Debt Instruments of Poonawalla Fincorp Ltd (PFL), resolves the ‘Credit watch with Developing Implications’ and assigns ‘Stable’ outlook.

Particulars

Instruments**	Amount Rated (Rs Crs)		Tenure	Rating*	
	Previous	Present		Previous 29 April 2021	Present
Non Convertible Debentures (NCDs)	201.41	201.41	Long Term	BWR AA-/ Credit watch with Developing Implications	BWR AA+/ Stable (Upgrade)
Non Convertible Debentures (NCDs)#	798.59	0.00	Long Term	BWR AA-/ Credit watch with Developing Implications	Withdrawn
Subordinated Non Convertible Debentures	230.00	230.00	Long Term	BWR AA-/ Credit watch with Developing Implications	BWR AA+/ Stable (Upgrade)
Innovative Perpetual Debt Instruments (IPDI)	72.10	72.10	Long Term	BWR A+/ Credit watch with Developing Implications	BWR AA/ Stable (Upgrade)
Total	1,302.10	503.51	Rupees Five Hundred Three Crores and Fifty One Lakhs Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

** Details of Instruments are provided in Annexures I to III.

Withdrawn at the request of the company informing the nil amount raised under the said NCDs and does not intend to raise any amount in future under the said rated NCDs.

RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) upgrades the ratings of the Non-convertible Debentures, Subordinated Non-convertible Debentures and Innovative Perpetual Debt Instruments (IPDI) of Poonawalla Fincorp Ltd (PFL), as tabulated above. BWR withdraws the rating of NCDs amounting to Rs. 798.59 Crs, at the request of the company, as there is no amount raised under the said NCDs and the company does not intend to raise any amount in future under the said NCDs. The rating withdrawal is in line with extant regulatory guidelines and BWR’s rating withdrawal policy.

The rating upgrade primarily factors in the strength derived from the infusion of large equity in the Company post acquisition of ~60% stake by Rising Sun Holdings Pvt Ltd (RSHPL), an entity



owned and controlled by Mr. Adar Poonawalla and belonging to the Cyrus Poonawalla Group, the improved financials of the company as of 30 Sep 2021 with expected improvement in its performance over the medium term. PFL has realigned its product mix with focus on good quality borrowers in urban/ semi-urban locations which is expected to enhance its business and earnings profile over the medium term.

PFL is led by Mr. Adar Poonawalla as the Chairman and Non-Executive Director, and a Board of Directors comprising highly experienced professionals. The equity infusion of Rs. 3,456 Crs by RSHPL has improved PFL's leverage substantially and has resulted in a strong capital adequacy ratio. The change in promoter and large equity infusion has also resulted in repricing of PFL's existing debt and access to fresh borrowings at lower rates. PFL's liquidity also remains adequate with healthy cash balances, surplus ALM position, undrawn term loan sanctions, and improved collections on a Q-o-Q basis.

The new promoter group of PFL is strong and resourceful, on the back of a healthy financial profile of the flagship company, Serum Institute of India Pvt. Ltd. (SIPL). SIPL is one of the world's largest vaccine manufacturers and also manufactures the COVID-19 vaccine, 'Covishield'. This reflects the ability of the Company to raise funds from its promoters group comfortably.

PFL has evolved its business model by increasing its focus towards consumer and small business finance, targeting quality customers in urban/semi-urban locations. PFL's cost of borrowing has come down through repricing of existing loans and incremental borrowing done at ~6% rates. The company is also rationalising its branches & other operational expenses to improve its business and operational efficiencies over the medium term

The ratings are, however, constrained by PFL's relatively modest scale of operations with shrinkage of loan book in FY21 as erstwhile Magma Fincorp Limited (MFL) faced challenges in maintaining liquidity with high cost of funds and asset quality pressures on account of adverse impact of the COVID-19 pandemic. However, PAT has seen improvement during H1FY22, benefited by control over credit cost with improved collections and reduced interest expenses.

On consolidated basis, the asset quality parameters, which moderated as on June 30, 2021 due to COVID wave 2, witnessed improvement as on Sep 30, 2021 with Gross stage III assets and Net stage III assets at 4.10% and 2.00% respectively (5.4% and 2.7% as on Jun 30, 2021). Further, the restructured assets stood at Rs. 899 Cr (~5.9% of AUM) as on Sep 30, 2021. PFL has adequate provisions with Stage III provision cover at a level of 52%

BWR also believes that PFL's product profile is well-diversified, with focus on better quality borrowers is expected to support improvement in asset quality going forward. This, coupled with the group's demonstrated ability to raise capital, provides flexibility to pursue AUM growth over the medium to long-term.

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NA

KEY RATING DRIVERS

Credit Strengths:-

Infusion of large equity in the Company: The Cyrus Poonawalla Group (along with some participation from exiting promoters of MFL) made a large equity infusion of Rs. 3,456 Crs which led to improved leverage along with strong CRAR (capital-to-risk weighted asset ratio) and liquidity position of the Company. The adequate CRAR of 52.2% as of Sep 30, 2021 enables the company to pursue AUM growth along with sufficiently covering for the asset side risk. PFL's gearing ratio improved from 4.76x as on March 31, 2021 to 1.48x as on Sep 30, 2021.

Strong board with experienced management team: Post acquisition of a majority stake in MFL, Mr. Adar Poonawala was appointed as the Chairman and Non-Executive Director of the Board backed by an experienced and professional management team. The board comprises experienced professionals having vast experience in the financial services sector. Mr. Vijay Deshwal (previously with ICICI Bank) has been appointed as the Group CEO. Further, Mr. Sanjay Miranka (previously with Aditya Birla Finance) has joined as the Group CFO. The Group has also onboarded seasoned professionals with vast experience in financial services like credit, business, treasury, risk, technology, analytics, operations, and HR. PFL will continue to derive benefits from the said experienced and professional management team.

Strong and resourceful promoters with ability to raise funds comfortably: The group's flagship entity, SIPL, has a robust financial profile with healthy internal accruals and minimal annual fixed debt obligations. SIPL has established position in vaccines manufacturing globally, which has been further enhanced by manufacturing and supply of 'Covishield'. This reflects the ability of the group to raise funds comfortably.

Revised product focus: PFL has revised its product strategy by focusing more towards consumer and small business finance. PFL has continued to focus on pre-owned cars, affordable home loan, affordable LAP and business loan from the previous setup and has added new products such as personal loans, loans to professional and SME LAP. Further, the management also decided to discontinue some of MFL's products like commercial vehicle loans, construction equipment, tractor loans and new car loans. The company is also focusing on digitization and use of analytics for process efficiency and generating cross sell opportunities. The product mix along with focus on digital is expected to control the credit costs and operating expenses going ahead.

Conservative approach towards provisioning: PFL has adopted a conservative write-off policy whereby unsecured loans with above 90+ DPD (Days Past Due) and secured loans with above 180+ DPD are fully provided for. As a result of this policy change in Q4FY21, the net stage III assets dip to 1.20% as on March 31, 2021.

BWR believes that the group is adequately capitalised for future growth and to cover for asset-side risks, including any pandemic induced challenges.

Credit Risks:-

Average asset quality: Due to the second-wave of COVID-19, the asset quality of the Company was impacted in June 2021. At a consolidated level, it reported Gross stage III assets of 5.4% as on June 30, 2021 as against 3.7% as on 31 March 2021. However, the Gross stage III and Net stage III assets improved as on 30 Sept 2021 at 4.1% and 2%, respectively as collections started to improve from June 2021 onwards. PFL had restructured assets of Rs. 899 Cr (~ 5.9% of AUM) as on 30 September 2021.

Subdued profitability during FY21, expected improvement through better collections: Due to reporting of change in write-off policy and management overlay provisions created for Covid wave 2, PFL reported a net loss of Rs.559 Cr in FY21. However, profitability levels improved in Q2FY22 with ROA of 2.6% as against 1.0% in Q2FY21 owing to reduction in borrowing costs and credit costs. The collection efficiency of PFL, which was impacted during the Q1FY22, has improved since June 2021 and was at ~98% for Q2FY22. Maintaining collection efficiency at healthy levels with reduction in credit costs from incremental slippages shall be the monitorable.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has taken a consolidated view on PFL and its wholly owned subsidiary, including Poonawalla Housing Finance Ltd (PHFL) and joint venture entities - Magma HDI General Insurance Ltd (MHDI) and Jaguar Advisory Services Pvt Ltd (to the extent of PFL's shareholding i.e. 36.43% & 48.9%, respectively), having common brand name and strong operational, financial and managerial linkages. BWR has applied its rating methodology as detailed in the rating criteria (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

Going forward, the company's ability to improve its asset quality and profitability, and to maintain comfortable liquidity and capitalisation will be key rating sensitivities.

Positive: A significant improvement in asset quality and profitability, maintaining the healthy capital adequacy ratios and comfortable liquidity profile while substantial growth in AUM and asset size are the key positive triggers for the rating.

Negative: Any substantial weakening of the asset quality from the current levels, deterioration in profitability over the near term, and/or a deterioration in capital structure and liquidity are the negative triggers for the rating.

LIQUIDITY POSITION: STRONG

The liquidity profile of PFL (on a consolidated basis) remains strong with liquid assets (including unutilized working capital limits) of over Rs.1700 Cr as on 30 September 2021. Further, the company has undrawn term loan sanctions of Rs.1750 Cr. The proceeds from equity infusion were utilized for debt repayment. As per the ALM profile, the assets and liabilities are matched across all time buckets. The liquidity is healthy considering PFL's repayment obligation of Rs. 802 Cr for H2FY22. Further, PFL has good financial flexibility emanating from its strong promoter group.



COMPANY PROFILE

Poonawalla Fincorp Limited (earlier known as Magma Fincorp Limited) is a non-deposit-taking systemically important non-banking finance company, registered with the Reserve Bank of India as an Investment and Credit Company (NBFC-ICC). Incorporated as Magma Leasing Limited, the company commenced its financing business in 1989. It was renamed MFL in 2008, and PFL in 2021 post acquisition of controlling stake of 60% by Rising Sun Holdings Private Limited (entity owned and controlled by Mr. Adar Poonawalla). The company's equity shares are listed on the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE).

PFL has various product offerings aimed at the retail consumer and MSME segments including home loans, personal loans, pre-owned car loans, business loans, loan against property as well as general insurance. It operates through a network of 285 branches as of September 30, 2021, across 21 states of India. PFL has presence in housing finance through its wholly owned subsidiary Poonawalla Housing Finance Limited and general insurance through 36.4% stake in joint venture with HDI-Gerling Industries Versicherung AG in Magma HDI General Insurance Limited.

KEY FINANCIAL INDICATORS (PFL Consolidated)

Key Parameters	Units	FY19	FY20	FY21
Result Type		Audited	Audited	Audited
Total Income	Rs in Crs)	2,426.54	2,478.84	2,282.25
PAT	Rs in Crs)	304	27	(557)
Networth	Rs in Crs)	2,702.49	2,711.04	2,194.00
Gearing	(In times)	4.96	4.42	4.76
AUM	Rs in Crs)	17,029	16,134	14,225
Gross Stage III asset	(%)	4.80	6.40	3.70

As per unaudited financials of the company for the half year ended 30 September 2021 on a consolidated basis, the company had AUM of Rs.15,275 Crs (FY21: Rs.14,225 Crs), disbursements were Rs.4311 Crs (FY21: Rs.3680 Crs) and collection efficiency was 96%, Stage III assets were at 4.1% (FY21: 3.7%), income was Rs.996 Crs (FY21: Rs.2283 Crs) and earned a net profit of Rs.160 Crs against a net loss of Rs.557 Crs in FY21. The company's ability to evolve on its business model to enhance business growth, improve upon the income levels and asset quality shall be the monitorable.

NON-COOPERATION WITH PREVIOUS RATING AGENCY, IF ANY: NA

RATING HISTORY FOR THE PREVIOUS THREE YEARS (Including withdrawal & suspended)

Sr. No.	Name of Facility/ Instrument	Current Rating			Rating History for the past 3 years									
		Type	Amount (Rs.Crs)	Rating	2021			2020			2019	2018		
1	Secured NCDs	Long Term	201.41	BWR AA+/ Stable (upgrade)	29.04.2021			08.07.2020				27.12.2018		
					Long Term	1000	BWR AA-/Credit watch with developing implications	Long Term	1000	BWR AA-/ Negative (downgrade)	-	Long Term	1000	BWR AA/ Stable
					N.A.			24.01.2020			-	NA		
					-			Long Term	1000	BWR AA/ Stable (reaffirmed)	-	-		
2	Subordinated NCD	Long Term	230.00	BWR AA+/ Stable (upgrade)	29.04.2021			08.07.2020			-	12.06.2018		
					Long Term	230.00	BWR AA-/Credit watch with developing implications	Long Term	230	BWR AA-/ Negative (downgrade)	-	Long Term	430.30	BWR AA/ Stable
					N.A.			24.01.2020			-	06.02.2018		
					-			Long Term	345	BWR AA/ Stable (reaffirmed)	-	Long Term	100	BWR AA/ Stable
4	IPDI	Long Term	72.10	BWR AA/ Stable (upgrade)	29.04.2021			08.07.2020			-	12.06.2018		
					Long Term	72.10	BWR A+/Credit watch with developing implications	Long Term	97.10	BWR A+ /Negative (Downgrade)	-	Long Term	127.10	BWR AA-/ Stable
					N.A.			24.01.2020				N.A.		
					-			Long Term	127.10	BWR AA-/ Stable (reaffirmed)		-	-	-
Total			503.51		Rupees Five Hundred and Three Crores and Fifty One Lakhs Only									

COMPLEXITY LEVELS OF THE INSTRUMENTS

Subordinate NCDs - Complex

NCDs - Simple

IPDI - Highly Complex



For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria:

- [General Criteria](#)
- [Banks & Financial Institutions](#)
- [Consolidation of companies](#)
- [Market/ Equity Linked Debentures](#)

Analytical Contacts	
Peeush Middha Manager - Ratings +91 8527023160 peeush.m@brickworkratings.com	Hemant Sagare Associate Director - Ratings B :+91 80 4040 9940 Ext :333 hemant.s@brickworkratings.com
1-860-425-2742	I media@brickworkratings.com

Poonawalla Fincorp Limited

ANNEXURE I - Details of Bank Facilities

Sr.	Name of Bank	Type of Facility	Long Term (Rs in Crs)	Short Term (Rs in Crs)	Total (Rs in Crs)
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ANNEXURE II - INSTRUMENT DETAILS

Instrument	Issue Date	Amount (Rs in Cr)	Coupon Rate (%)	Maturity Date	ISIN Particulars
Secured NCD (Public Issue)	6-May-2019	50	10.25	06-May-2022	INE511C07656
	6-May-2019	50	Zero Coupon	06-May-2022	INE511C07664
	6-May-2019	11.53	10.04	06-May-2024	INE511C07672
	6-May-2019	50	10.5	06-May-2024	INE511C07680
	6-May-2019	25	Zero Coupon	06-May-2024	INE511C07698
	6-May-2019	10.18	10.27	06-May-2029	INE511C07706
	6-May-2019	4.71	10.75	06-May-2029	INE511C07714
	Total	201.42			
Subordinated NCD (Tier II)	06-Sep-2012	10	11.5	06-Sep-2022	INE511C08803
	06-Sep-2012	10	11.5	06-Sep-2022	INE511C08803
	06-Sep-2012	1	11.5	06-Sep-2022	INE511C08803
	06-Sep-2012	2	11.5	06-Sep-2022	INE511C08803
	06-Sep-2012	2	11.5	06-Sep-2022	INE511C08803
	17-Jan-2013	10	11	17-Jan-2023	INE511C08829
	23-Apr-2013	48	10.7	21-Apr-2023	INE511C08860
	26-Sep-2013	14	10.9	26-Sep-2023	INE511C08886
	07-Dec-2016	10	10.4	07-Dec-2026	INE511C08985
	07-Dec-2016	25	10.4	07-Dec-2026	INE511C08985
	14-Dec-2016	10	10.3	14-Sep-2022	INE511C08993
	28-Dec-2016	3	10.3	28-Sep-2022	INE511C08AA9
	03-Jan-2017	5	10.3	03-Oct-2022	INE511C08AB7
	06-Jan-2017	15	10.4	06-Jan-2027	INE511C08AD3
	06-Jan-2017	2	10.3	06-Oct-2022	INE511C08AC5
	06-Jan-2017	3	10.3	06-Oct-2022	INE511C08AC5
	24-Jan-2017	25	10.4	24-Jan-2027	INE511C08AE1
	03-Mar-2017	15	10.25	03-Mar-2027	INE511C08AG6
	18-May-2017	10	10.1	18-May-2027	INE511C08AI2
	07-Mar-2018	5	10.2	06-Jun-2025	INE511C08AK8
28-Mar-2018	5	10	28-Mar-2028	INE511C08AL6	
	Total	230			
IPDI	7-Jan-11	11	12.5	Perpetual	INE511C08712
	20-May-13	1	12.1	Perpetual	INE511C08878

20-May-13	2	12.1	Perpetual	INE511C08878
20-May-13	0.05	12.1	Perpetual	INE511C08878
20-May-13	0.05	12.1	Perpetual	INE511C08878
20-May-13	0.05	12.1	Perpetual	INE511C08878
20-May-13	0.1	12.1	Perpetual	INE511C08878
20-May-13	0.1	12.1	Perpetual	INE511C08878
20-May-13	0.1	12.1	Perpetual	INE511C08878
20-May-13	0.4	12.1	Perpetual	INE511C08878
20-May-13	0.1	12.1	Perpetual	INE511C08878
20-May-13	0.25	12.1	Perpetual	INE511C08878
20-May-13	0.35	12.1	Perpetual	INE511C08878
20-May-13	0.05	12.1	Perpetual	INE511C08878
20-May-13	0.1	12.1	Perpetual	INE511C08878
20-May-13	0.05	12.1	Perpetual	INE511C08878
20-May-13	0.5	12.1	Perpetual	INE511C08878
20-May-13	0.3	12.1	Perpetual	INE511C08878
20-May-13	1	12.1	Perpetual	INE511C08878
20-May-13	1.45	12.1	Perpetual	INE511C08878
20-May-13	6	12.1	Perpetual	INE511C08878
20-May-13	11.5	12.1	Perpetual	INE511C08878
26-Sep-13	25	12	Perpetual	INE511C08894
14-Jun-16	3	12.1	Perpetual	INE511C08944
5-Jul-16	1.7	12.1	Perpetual	INE511C08951
1-Aug-16	10	12.1	Perpetual	INE511C08969
9-Sep-16	3	12.1	Perpetual	INE511C08977
3-Feb-17	1.9	11.5	Perpetual	INE511C08AF8
7-Mar-17	1	11.5	Perpetual	INE511C08AH4
4-Aug-17	1	11	Perpetual	INE511C08AJ0
Total	72.10			

ANNEXURE III - CP DETAILS

Instrument	Issue Date	Amount (Rs in Crs)	Coupon Rate	Maturity Date	ISIN Particulars
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ANNEXURE IV

List of entities consolidated

Sr. No.	Name of Entity	% Ownership	Extent of consolidation	Rationale for consolidation
1	Poonawalla Housing Finance Limited	100%	Full	Wholly owned Subsidiary
2	Magma HDI General Insurance Company Ltd	35%	Partial	Associate Company



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