# ANNEXURE – VI TO DIRECTORS' REPORT

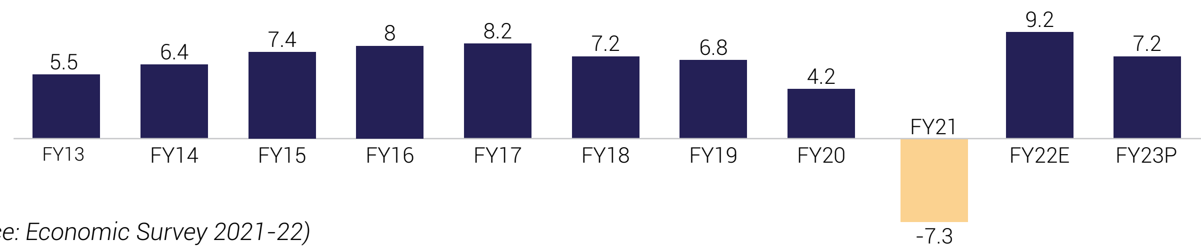
**Management Discussion and Analysis**

## INDIAN ECONOMIC OVERVIEW

The Indian economy saw signs of revival at the beginning of the fiscal year 2021-22. With the impacts of the COVID-19 pandemic under control, increased levels of activity across sectors reinforced optimism about the domestic economy's recovery. The Centre's policies aided the country's much-needed recovery. During the first wave of the COVID-19 pandemic, lowering interest rates and implementing stimulus measures provided an essential buffer to help the economy stabilize. In addition, the development of numerous vaccinations aided in not only increasing public morale but also setting the basis for a resurgent economy. The Indian economy is on track to recover to pre-pandemic levels, with almost 1 billion Indians inoculated against the COVID-19 virus and low COVID-19 positive rates.

In the first quarter of 2021-22, India's GDP grew at a record rate of 20.1%. Higher consumer spending and a low base impact from the previous fiscal year propelled this expansion. Since the conclusion of the June quarter of 2021-22, many sectors have improved, including auto sales, retail, agricultural production, construction, and exports. India's GDP growth normalized to 8.4% in the second quarter of 2021, as business operations rebounded to a considerable extent following a major easing of COVID-19-related restrictions earlier in the year. Total consumption is expected to expand by 7.0% in 2021-22, according to the Economic Survey 2021-22, with Government consumption remaining the largest contributor, as it was the previous year. Private consumption is estimated to have improved dramatically, recovering 97% of pre-pandemic production levels, and with enhanced vaccination coverage and faster economic activity normalization, it is expected to rebound even faster. Inflation has increased considerably during the year, however, its effect on economic growth has been limited. The growing geopolitical situation in Ukraine has thrown the global economy into disarray, with crude prices becoming more volatile. Despite all of these risks, India's economy has still been expanding.

**Indian Economy Growth Output (%)**




*(Source: Economic Survey 2021-22)*

*E- estimate*

*P- projected*

## OUTLOOK

India's GDP is predicted to rise by 9.2% in 2021-22, owing to broad vaccination coverage, benefits from supply-side reforms, regulatory relaxation, strong export growth, and the availability of fiscal support to boost capital investment. The macroeconomic data implies that the Indian economy is on track to reach pre-COVID-19 growth levels in 2021-22. The Indian economy's fundamentals remain strong, with the service sector catching up. The financial system is well-positioned to assist the economy's recovery, and the year ahead is poised for a rebound in private sector investment. The economy is bolstered by large foreign exchange reserves that exceed the country's external debt. Furthermore, participating in a steady and measured withdrawal of liquidity by central banks throughout the world, including in India, is expected to support growth in a non-disruptive manner.

*(Source: Economic Survey of 2021-22, Ministry of Finance, Ministry of Statistics and Program Implementation (MOSPI), IMF, World Bank).*

## INDUSTRY OVERVIEW

Housing, being a basic need, is an absolute necessity. It contributes to an individual's, family's as well as a community's growth. The Indian housing finance industry has seen exceptional growth, with loan book more than doubling in the last five years, reaching ₹ 22.2 trillion in 2021-22. Between 2016-2020, there was a significant shift, with home loans outstanding at HFCs growing at a healthy 21% CAGR compared to 13% for non-bank housing loans, owing to rising demand and penetration in Tier-II and Tier-III cities, rising disposable incomes, and particularly Government initiatives such as interest rate subvention schemes, fiscal interventions and reduction in stamp duties among others. The home finance sector has experienced a structural shift in tandem with its expansion, with an even greater emphasis on credit quality and collection efficiency.

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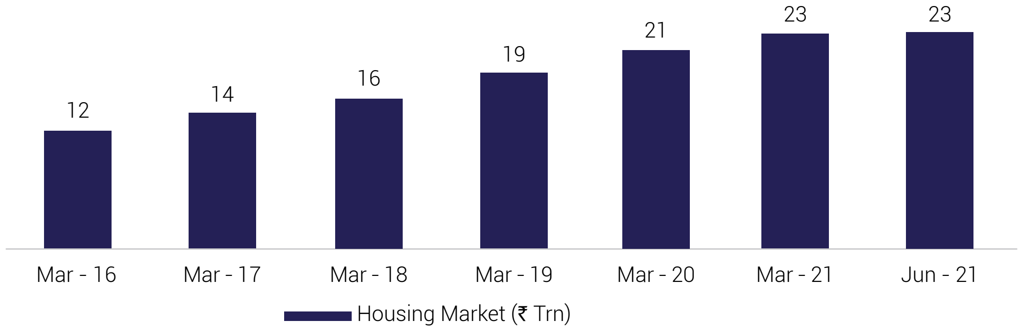
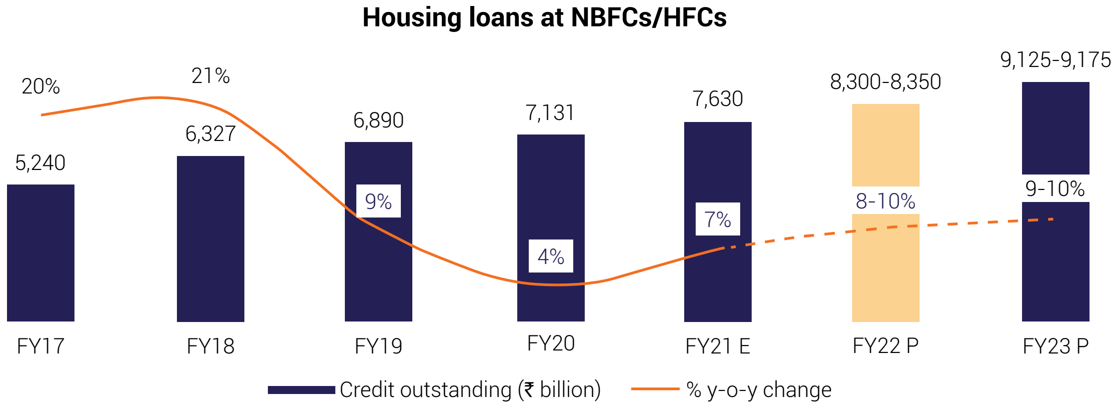



*Source: CRISIL NBFC Report 2021*

In the Indian home finance industry, NBFCs/HFCs, maintained a constant market share, accounting for 34% of the housing finance loan book in 2021-22, the same as in 2020-21. In 2020-21, total credit outstanding is estimated to have reached ₹ 7.6 trillion, up 7% from 2019-20. With the economy in revival mode and COVID-19 cases reducing, the total HFC AUM is expected to experience double-digit growth in 2021-22. Disbursements in the first quarter of 2021-22 got impacted due to the second wave of the COVID-19 pandemic. However, it soon rebounded after June 2021 and is expected to reach ₹ 8.3 trillion in 2021-22, with salaried customer's income levels mostly steady and low home loan rates.




*Source: CRISIL Research*

Within the housing segment, affordable housing saw a rapid recovery as relative demand grew in tier-2 and tier-3 cities. The housing shortfall in India is expected to reach 100 million units in 2022, with 95% of the units going to low-income households. Given the considerable under-penetration in this marginalized segment, India's prospects for affordable housing remain positive.

As India urbanizes rapidly to the 40%-mark, Budget 2022 pushed for planned urbanization. India has a significantly lower urbanization rate than the global standard, with only 35% of the population categorized as urban, compared to a global average of 54%. India's urban population rose at 3.4 times the rate of the rural population in the recent decade. In the forthcoming decade, the urban population is expected to grow at a rate more than 5 times that of the rest of the population. Indians living in cities are expected to reach 525 million by 2025, and 600 million by 2036. This expansion would be fueled by rising demand for higher education and infrastructural development. More residential and non-residential buildings, such as office, healthcare, and hotel industries, would be required as the metropolitan population grows. With the housing and construction segment growing multifold it would have a multiplier effect on the economy

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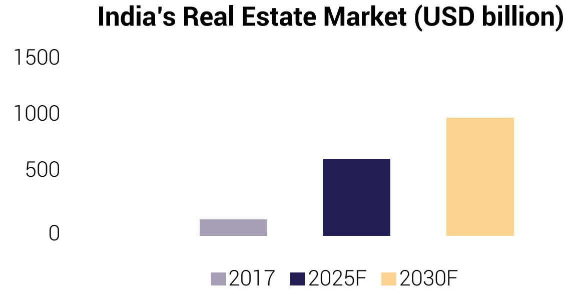


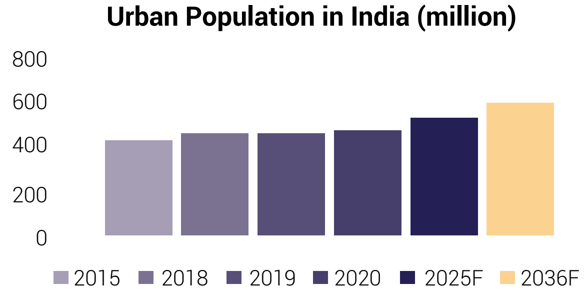


*(Source: ICICI NBFC Report)*

The COVID-19 pandemic had an adverse impact on the asset quality across the HFC space. Under the RBI's Resolution Framework 1.0 and 2.0, relief measures such as loan moratoriums and one-time restrictions offered much-needed relief. Around 0.5-1.0% of HFC home loans have been restructured, according to estimates. The GNPA ratio is likely to decrease in 2022-23 as the economy improves and stressed instances are resolved. Furthermore, post the second wave of COVID-19, the collection efficiency has increased. In August 2021, the HFC space had a collection efficiency of 100%, up from 78% in September 2020.

*Source: CRISIL NBFC report 2021, ICRA, BCG analysis, CBRE Research, Credit Suisse estimates, UN World Urbanization Prospects, Indiadatahub, Macquarie Research, November 2021, Affordable Housing Thematic Report Dalal and Broacha Research*

## GOVERNMENT INITIATIVES

The Government of India, in collaboration with State Governments, has taken a number of steps to promote development in the housing sector. The demand for affordable housing has shown an increasing trend in the past few years. The push for low-cost homes by Union Finance Minister in her speech, assured that Union Budget 2022 met the majority of real estate sector expectations.

### Pradhan Mantri Awas Yojana

Under the Pradhan Mantri Awas Yojana (Urban) (PMAY-U) 'Housing for all by 2022', an additional outlay of ₹ 480 billion has been allocated over and above the Budget estimates of last year. The Finance Minister, in her budget speech, announced the completion of 8 million -houses for identified eligible beneficiaries for both rural and urban areas in 2022-23, thereby emphasizing the need for affordable housing. In comparison to the demand for 11.2 million residences, 5.8 million houses had been built, 9.7 million had been grounded, and 12.3 million had been sanctioned as of March 31, 2022.

*(Source: Budget Estimates 2022, PIB, Economic Times)*

### Housing for Tier 2 and Tier 3

With the second wave of COVID-19 Pandemic hitting the country and Work from Home becoming the new normal, the demand for housing in tier-2 and tier-3 cities has seen a sudden increase. To capitalize on this opportunity, the Government has pushed reformative actions in tier-2 and tier-3 housing sectors, with the goal to improving town infrastructure. Programs such as the Jawaharlal Nehru National Urban Renewal Mission, Housing for All, and Smart Cities aim to divert demand towards these cities by attaining overall development in terms of physical infrastructure.

### Reduction in Interest Rates

The Reserve Bank of India has decided to keep the interest rate unchanged at 4% as per the latest release on April 8, 2022, while maintaining an accommodative stance. Apart from providing a major boost to the real estate sector in the country, the low home loan interest rates are predicted to fuel housing demand and boost sales by 35-40%. The Union Budget 2022 has also extended the loan moratorium known as the Emergency Credit Line Guarantee Scheme (ECLGS), for another year, until March 2023 with an increase in the guarantee cover by ₹ 5 trillion, thereby, easing the liquidity issue faced by the homebuyers.

### Increasing digitization in financial lending space

The Finance Minister had proposed one-nation one-registration structural reform for real estate sector that will facilitate land transactions and sale deed registration from anywhere in the country. The Government also encouraged states to adopt

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unique land parcel identification number to facilitate digitized management of records and meet the objective of 'anywhere registration' of deeds and other transfer documents.

**Adoption of green building**

According to a report published by CBRE, Green real estate assets have developed dramatically over the last decade, with their percentage of total office stock increasing from 24% in 2011 to 31% in 2021. From around 80 million square feet in 2011, certified green office stock increased by 177% to 212 million square feet in Q3 2021 (July-September). This implies that the Indian real estate sector is becoming more conscious of its Environmental, Social, and Governance (ESG) responsibilities, and is fast incorporating sustainability into its assets. Delhi – NCR and Bengaluru account for 54% of the total certified office stock in India.

*(Source: Indian Real Estate's ESG Landscape and its Progress to a Sustainable Future – CBRE)*

## GOING AHEAD

By 2030, India's real estate sector is predicted to reach a market size of USD 1 trillion, accounting for 18-20% of the country's GDP. In 2021-22, the number of housing transactions in seven major Indian cities increased by 113% year on year, indicating a solid comeback. Increasing demand from Tier-II and Tier-III cities would lead to the growth of residential sector significantly. Increased allocation to Pradhan Mantri Awas Yojana, rise in capital influx of about 35% from ₹ 5.54 trillion in 2021-22 to ₹ 7.5 trillion in 2022-23, maintaining of accommodative stance by RBI of keeping the interest rate unchanged and ease in the registration through digitalization are some of the steps taken by the Government to propel the growth of the sector.

With signs of improvement in most sectors, disbursements are likely to rise even more in the second half of the fiscal year. Lenders have been focused on co-lending with SCBs to the retail housing sector, which has remained resilient despite the GDP drop in fiscal 2021. In contrast to the previous fiscal year, salaried borrowers are mostly unaffected. Furthermore, those who work from home have accelerated their decision to buy a house or move to a larger apartment due to lower costs. According to CRISIL Research, as the economy recovers, NBFC/HFC housing credit is predicted to expand at a rate of 8-10% in 2021-22, with credit growing at a rate of 9-11% in 2022-23.

## OPPORTUNITIES

**Affordable Housing**

The population of India is anticipated to rise until 2050. More homes would be necessary as the population grows. In addition, the growing tendency of nuclear families may assist in driving the housing demand. Furthermore, India's dependent population to workforce ratio is expected to continue to decline, signaling increased family incomes and need for more residential units.

By 2022, India's housing deficit is expected to reach 100 million units, with 95% of those coming from the Lower Income Group (LIG) and the Economically Weaker Sections (EWS). An incremental housing loan demand is expected to be in the range of ₹ 50 trillion and ₹ 60 trillion, with ₹ 9–10 trillion going to the affordable housing category.

(Source: Dalal and Broacha Report on Affordable Housing)

**Encouraging Government Schemes**

Being the fourth largest sector contributing to the country's economy, the Government has been working towards launching such schemes which not only promotes the sector but also help Indians with home ownership. Schemes such as 'Pradhan Mantri Awas Yojana – Urban', 'Housing for All', 'Affordable Rental Housing Complexes Scheme (ARHCS)' are examples helping migrant workers, urban poor, and rural households to own a house and achieve their dreams. In 2022, the Union Cabinet approved an outlay of ₹ 6 billion to support the ARHCS scheme to advance the 'Housing for All' mission. In its initial phase, this is estimated to benefit over 0.6 million individuals in India.

*(Source: PIB, Government of India)*

**Rising Investment by Younger Generations**

The urban population is predicted to rise multifold in the coming decade. With the median age of the working class lying between 25-and 45 years, the tech-savvy players in the home finance industry are more likely to focus on the young generation which is not only earning but is ready to experiment. Today's generation has been more focused on real estate than investing in fixed deposits or gold. This has led to a change in the consumer graph of the home finance industry with the younger generation becoming a significant customer group.

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### Women in Housing Sector

According to a survey conducted, about 94% of women preferred investment in residential properties as opposed to gold, SIPs, stocks, and luxury fashion while the remaining 6% also preferred investing in commercial properties, thereby, showing the change in the mindset of the majority of women and real estate occupying significant space. The housing sector is driven by end-users. Given so, the number of women considering buying a home as an investment is a promising sign.

The Government has also encouraged women borrowers/ co-borrowers for taking home loans. Schemes like lower stamp duty and higher tax deductions for women have been motivating women to purchase their own homes. Furthmore, with the PMAY home loan subsidy offered to women borrowers/co-borrower, the residential space is expected to witness and increase in women home owners in India, leading to a growth in overall home finance space.

### Rising Urbanization

The urban population of India grew at 3.4 times the rate of the rural population during the previous decade. The urban population is predicted to rise at more than 5 times the pace of the overall population in the coming decade. More residential infrastructure will be required as the metropolitan population grows. By 2030, Indian cities are predicted to house 40% of the country's population. The country would require 700 to 900 million square meters of residential and commercial space to be created each year. This migration means that nearly 90% of the demand is likely to be generated from the bottom of the economic pyramid.

*(Source: Dalal and Broacha Report on Affordable Housing)*

### Deepening Finance Penetration

India's real estate industry is predicted to grow to USD1 trillion by 2030, up from USD 200 billion in 2021. With increasing population and more rapid urbanization, Tier II and Tier III cities are expected to face a high demand for residential and non-residential constructions. With more people relocating from rural to urban regions, increasing digitalization and financial literacy leading to a deepening of financial penetration, housing demand in the country is likely to experience a boost. Between March 2017 and March 2021, the Reserve Bank of India (RBI) reported a 24% increase in financial inclusion (FI) as assessed by the RBI's FI-Index, the momentum for which is only expected to build further.

*(Source: IBEF, Housing NBFC – ICICI Prudential Housing Opportunities Fund, Business World, RBI).*

## THREATS

### Challenges to credit growth

The rising inflation in the economy, could lead to a number of disruptions in the real estate sector in India. With higher prices for building materials, increase in overall cost of construction and resultant higher home purchase prices could lead to reduced demand for residential units. This could adversely impact home loan credit growth.

Due to the ongoing COVID-19 crisis, expenditure on high-ticket assets such as real estate has been negatively impacted. The second wave of COVID-19 also encouraged people to save rather than spend which affected the real estate segment. Potential COVID-19 outbreaks further add uncertainty to the overall home loans sector. Subsequent lockdowns and reduction in sale of residential units due to restriction on trade and travel along with subdued morale of the overall economy could affect the home finance sector, adversely impacting credit growth. On the flip side, however, with schemes like Pradhan Mantri Awas Yojana for affordable housing, the Government is altering the current pace in housing sales by boosting demand.

### Competition from banks

Most people turn to borrowing from formal sources when it comes to investing in real estate. Banks save money on operational expenditures while also attracting high-quality consumers. Banks, typically have access to borrowers' banking behavior and repayment history which sometimes may not work in favor of new customers. However, with a renewed focus, Banks have been aggressively onboarding new customers at better interest rates, which might impact the share of NBFCs adversely.

### Delay in project approvals and construction

Loans from banks for making an investment in real estate are primarily reliant on timely project completion. The borrower may risk failing on debts if the project is delayed. Furthermore, such delays may lead to a negative influence on loan book growth.

### Collateral frauds and lack of proper title

Collateral fraud is a common risk that affects this sector. To mitigate the risk and assure the investors, additional measures are taken. This however impacts the underwriting processes. On the other hand, a discrepancy in title is a common threat

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faced by people of large cities investing especially in the outskirts. This can however be minimized with greater information availability and adequate due diligence by the technical team.

## COMPANY OVERVIEW

IIFL Home Finance (IIFL HFL) (the 'Company', or 'it', or 'we') is a wholly-owned subsidiary of IIFL Finance Limited. The Company was founded in the year 2006. Subsequently, in 2009, it was registered with the National Housing Bank and started operations as a Housing Finance Company (HFC). The Company is primarily involved in the affordable housing segment wherein it offers customized small-ticket home loans to customers belonging to financially underserved sections of the society – the borrowers with minimal credit history and informal income documentation. We provide these loans for the purchase of residential property, home construction, home improvement as well as plot purchases. IIFL HFL thrives on the ethical pillars of our parent Company IIFL Finance, with the ethos of FIT-fairness, integrity, transparency ingrained in the core values of our team.

With a conscious step toward sustainable decision making the Company focuses on three main objectives. Our decisions are buoyed around financial inclusion, women empowerment and sustainable construction. The Company promotes women empowerment with its business strategy aligned to focus on women owners and co-owners in the lower income segment. By supporting our customers in their home financing needs, we aspire women to build better lives for themselves and their families. IIFL HFL also supports the MSME sector for residential or commercial purposes. Offering mortgage-backed loans for various business requirements including but not limited to working capital and purchase of commercial property.

The Company primarily focuses on first-time home buyers, women buyers, salaried professionals and informal sector employees. We have a targeted customer approach and a vast network of branches pan India. The Company utilizes its asset light model to achieve sustainable earnings growth leveraging on its stringent underwriting principles, robust risk management and risk remediation framework.

### Business Overview and Strategy

The Company's dynamic home loan products are carefully custom-made to meet the requirements of those at the bottom of the pyramid. The Company's focus has been on offering small sized loans to the underserved sections of the society and women borrowers/co-borrowers affordably and accessibly. With an extensive physical network and state of the art digital infrastructure, the Company has continuously focused on growing its customer base though its hybrid 'Phygital' model. Maintaining an asset-light approach, the Company has focused on the RBI's Co-lending model to build its loan book while minimizing risk and fostering a leaner balance sheet.

At IIFL HFL, we support the Government's mission of 'Housing for All and various measures and schemes falling thereunder. So far, we have been able to serve 55, 700+ customers, who have benefitted under the CLSS scheme and disbursed over ₹ 13 billion as on March 31, 2022. Further, to aid the Beneficiary Led Construction (BLC) Scheme of the Ministry of Housing and Urban Affairs, we launched special norms for customers in states such as Tamil Nadu, Punjab and Andhra Pradesh. Moreover, we are also empaneled with various state bodies. This enables us to expand and promote our sustainable and affordable housing's vision. Some of these include associations with the Rajiv Gandhi Rural Housing Corporation Limited, the SLNA for Karnataka state for Pradhan Mantri Awas Yojana (Urban) (PMAY-U) scheme, Delhi Development Authority (DDA) and Punjab State Urban Livelihood Mission (PSULM) among others.

The 2021-22 saw a 14% growth in the overall Assets Under Management (AUM) of IIFL HFL. We closed 2021-22 with ₹ 236.17 billion in AUM and a balance sheet of ₹ 180.10 billion. The home loan contribution to the total AUM increased from 70% to 75%, with a persistent focus on low-ticket size home loans to non-metro customers in Tier-1 suburbs and Tier II and Tier III cities.

## STRENGTHS

### Expanding Physical and Digital Presence

IIFL HFL has created an expansive network of physical and digital touchpoints across India laying the foundation for a Phygital edge (physical and digital). With over 3,200+ touchpoints across the country, the Company has been extensively working to bridge the gap between the customers and offer a distinctive home financing experience. The Company is expanding its branches into newer cities, leveraging on IIFL group's branch network. Homes have a sentiment attached to them and we help

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preserve their values for our customers. For a seamless loan experience, we have shifted our loan processing systems online. These include everything from onboarding to disbursement and even subsequent customer servicing. This has enabled us to attain process efficiency and customer's trust.

### Focus on Technology

Technology has been the driver and disruptor in the post-pandemic era. Majority of the sectors that were gradually transforming to digital witnessed a phenomenal shift to the modern online age due to the pandemic-induced lockdown. At IIFL HFL, we took the cue and invested heavily in emerging technology solutions. This has not only helped IIFL HFL precede the Indian home financing space technologically, but also supported us in lowering costs, expanding reach, error free processing and disbursing instantly. The entire value chain process has been taken online, from distribution to loan underwriting, customer service, collection management, and financial accounting. On the customer front, we have delivered a robust modern solution that the growing age relates to, leveraging on a seamless customer experience. On the employee end, we have successfully improved productivity, morale and overall satisfaction. Our sales workforce can now process more files per month with a reduction in the overall file turnaround time. Technology enablement in the value chain is just the beginning; we expect to tap vast opportunities in the future based on our technological strength.

### Customer-Centric Approach

More than an asset, owing a home is an aspiration, a sense of stability and an emotion. The sensitivity of a home loan cannot be better defined. IIFL HFL consciously places its core values around a customer-first approach. All the processes at IIFL HFL are designed keeping the customer's convenience in mind. Armed with the arsenal of knowledge, sensitivity and customer-centric approach, we strive to make every customer feel satisfied. This experience is a true gain for IIFL HFL through a wide range of customized solutions, a continual emphasis on customer service, transparency in all of our operations and procedures, and investments in creating cutting-edge technology, the Company has catered to over 2,20,000 clients over the years. To facilitate client convenience, the Company offers a DIY loan application system, which allows customers to apply for a loan without assistance.

### Prudent Credit Policy and Process

Prudent credit underwriting and seamless loan processing is indispensable to the growth and development of an HFC. At IIFL HFL, we have comprehensive credit assessment systems developed in-house to structure a minimal risk approach. The Company has also employed smart technologies like AI and machine learning for credit assessment, underwriting and monitoring resulting in flawless end-to-end loan processing. COVID-19 affected the industry disbursement as well as asset quality. During the year, the Company has been able to maintain its asset quality and continues to focus on improving the same.

## SEGMENT OVERVIEW

### Home Loans

IIFL HFL's home loans offer financial assistance to the underserved sections of society. We target customers including salaried, self-employed, professionals and entrepreneurs to finance their home purchase, home construction, home renovation, and even plot purchases. There is vast potential in financially underserved segment due to the lack of credit history and informal income documentation.

Our pan-India instant home loan solution, Jhatpat, allows customers to secure a loan right away. Currently all our home loans are processed digitally through jhatpat. Furthermore, the Top-up home loans, issued in addition to current loans are also now completely paperless with no human touchpoint.

IIFL HFL attained a 14% growth in AUM in 2021-22, with the total AUM reaching ₹ 236.17 bn. 79% of the total disbursements during the year constituted of Home Loans. This growth is attributed to our digital retail loan competencies and market dynamics. Our tablet-based web application automates underwriting using pre-defined business rule engines, resulting in a 25-minute loan approval turnaround time and more consistent decision-making. The Company will continue to focus on first-time buyers, women borrowers/co-borrowers, small-sized ticket loans, and borrowers from the informal segment. With a vision to benefit all eligible borrowers under PMAY schemes.

### Secured Business Loans

IIFL HFL offers mortgage-backed small-ticket loans secured by residential or commercial properties to small and medium-sized enterprises. These loans are generally sanctioned for working capital requirements, business purposes, and the

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acquisition of commercial real estate. With the economy in revival, the SME segments boast extensive growth potential. The Company has continued its focus on this segment, prepared to fulfil their working capital requirements.

### Affordable Housing Project Finance

We offer developers customized project financing for the construction and development of residential and mixed-use projects. As a conscious step towards sustainability, IIFL HFL puts major emphasis on identifying and funding environmentally and socially sustainable projects with Green Building Certification. In addition to being impact-driven, this segment has affinity with our overall retail portfolio. Furthermore, these projects financed under our project finance vertical can also be used to support our home loan vertical.

### Financial Overview

The fiscal year 2022 saw economic activity reviving to pre-COVID-19 levels. This led to growth across sectors along with the demand for fresh capital requirements. IIFL Home Finance saw its AUM increaseby14% reaching ₹ 236.17 billion in 2021-22 from 206.94 billion in 2020-21. Outstanding loan book in the home loan segment grew by 12%, while the secured business loan and real estate project segment witnessed a degrowth of 2% and 38%, respectively. The loan book increased from ₹ 148.55 billion as on March 31, 2021 to ₹ 156.69 billion as on March 31, 2022 a growth of 5%.

Standalone Profit After Tax (PAT) for the year stood at ₹ 5,779.95 million in 2021-22, a growth of 44% year on year. Operating profit (excluding allowances and write-off) grew by 15% compared to same period in the last year. Furthermore, with the Capital Adequacy Ratio (CAR) of 30.48% (including tier-1 CAR of 21.10%).The Company is strongly positioned for future uncertainties with stringent credit policies and proactive collection efficiencies. IIFL HFL posted return ratios, Return on Assets (ROA) of 3.52% and a Return on Equity (ROE) of 24.26%. Gross Stage 3 Assets under Indian Accounting Standards (IND AS) stood at 2.10% as compared to 1.97% in the previous year. The specific provision coverage ratio stood at 37.59%, while the overall provision coverage ratio including regular asset provisions (stages1 and 2) and management overlays stood at 152.18% of the Gross Stage 3 Assets. Loan losses and provisions, as a percentage of average loan book for the year ended March 31, 2022 stood at 1.02%.

In a conscious step to improve access to green affordable housing, climate resilience, sustainability-orientated thinking and the achievement of gender balance, IIFL HFL has secured a USD 68 million loan with the Asian Development Bank (ADB) to help lower-income groups in India acquire funding for affordable green housing. The investment is made up of a USD 58 million direct loan from the Asian Development Bank and a USD 10 million concessional loan from the Canadian Climate Fund for the Private Sector in Asia (CFPS). 80% of the funds would be set aside for lending to women borrowers or co-borrowers, while the remaining 20% will be used to finance mortgages for green-certified buildings.

### Non-Convertible Debentures (NCDs)

IIFL HFL raised funds by issuing non-convertible debentures (NCDs) in form of two tranches, i.e. Unsecured NCDs in July 2021 and Secured NCDs in December 2021 respectively. Both the tranche issues had a base issue size of ₹ 100 crore and a greenshoe option of ₹ 900 crore aggregating up to ₹ 1,000 crore each. The NCDs were rated AA/Stable by CRISIL and by AA+/ Negative by BRICKWORKS, and were raised with an intention to diversify company's liability profile.

## RISKS AND CONCERNS

### Risk Management

IIFL Home Finance, has a holistic approach to risk management. Our enterprise-wide risk management framework focuses on identifying and analysing risks as well as putting in place mitigation strategies. The risk management framework is based on the "Three Lines of Defense" strategy. Within this, the first line of defense is the Company management, the second line is the functional teams such as risk management and compliance, and the third line is internal audit. Governed by our Boards with assistance from the risk management committee, our risk management strategy is aimed at an optimum risk-return quantum. Collectively, resulting into sustainable value creation for the stakeholders.

**A. Credit Risk**

Credit risk is the possibility of a debt default arising from a borrower's failure to make required principal or interest payments to the lender. Almost all types of credit extensions subject the lenders to default risk. If the customer fails to pay the dues within 90 days of the due date, the loan is classed as a non-performing asset (NPA) in the Company's books.

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**Mitigation**

The Company has a comprehensive credit risk assessment in place. IIFL HFL determines the creditworthiness through a digital platform that includes pre-defined credit norms, procedures, and policies, approved by our Board. We have an independent internal audit team that conducts regular reviews on samples of credit files to ensure adherence to the policies. The Company has also employed advanced analytics and machine learning tools in our portfolio to enhance the credit decision-making capabilities. On the basis of data analytics output, the Company undertakes a dynamic analysis of data and portfolio in real-time, detect risks, and takes remedial steps.

Furthermore, a stress testing system has been implemented to perform event-based sensitivity analysis and identify accounts that are under stress as a result of expected market movement. In the case of vulnerability to external triggers, effective risk mitigation would be implemented, reducing the Company's losses.

**B. Operational Risk**

Operational risk encompasses risk of loss resulting from insufficient or failing internal processes, people, and systems, as well as external events. It is associated with system failure, human error and inadequate policies and control measures. A breach of systems or processes could adversely IIFL HFL capital, business and reputation.

**Mitigation**

IIFL HFL has an operational risk management policy in place to address and mitigate risks. To maintain successful business operations and sufficiency of controls, the Company has in place robust internal control systems and regular monitoring procedures.

Effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, such as internal audit, risk containment units offer proactive vigilance and monitor transaction risk. Additionally, by digitising our credit operations, we have decreased our operational expenses.

**C. Liquidity Risk**

Liquidity risk arises due to inadequacy of liquid assets and/or limited access to external borrowing to meet contractual liabilities of different maturities, redemptions, regulatory requirements, or the Company's investment needs. Furthermore, external factors including volatile market rate, Government regulation and policies and tax changes can also have a detrimental effect on IIFL HFL liquidity.

**Mitigation**

The Company manages liquidity risk by maintaining sufficient cash and by having access to funding through an adequate amount of credit lines. We monitor liquidity risk through our Asset and Liability Management Committee in line with a well-defined Asset Liability Management (ALM) Framework. This is regularly monitored to effectively manage maturity profiles of financial assets and financial liabilities including debt financing, cash and cash equivalent instruments.

**D. Market Risk**

Market risk refers to the possibility of a decrease in the value of the Company's on-balance-sheet or off-balance-sheet assets held for trading, or a rise in the value of its liabilities held for trading. IIFL's market positions could be affected due to fluctuations in interest rates, foreign exchange rates, equity prices, credit spreads, and/or commodity prices, resulting in a loss of earnings and capital.

• **Interest Rate Risk -** We are subject to interest rate risk, primarily since we lend to customers at rates and for maturity periods that may differ from our funding sources. Interest rates are highly sensitive to many factors beyond our control, including the monetary policies of the RBI, deregulation of the financial sector in India, domestic and international economic and political conditions, inflation and other factors.

**Mitigation**

In order to manage interest rate risk, we seek to optimize our borrowing profile between short-term and long-term loans. Though our interest rate risk remains in sync with our lending and borrowing function, we always try to manage interest rate risk, by optimizing our borrowing profile between short-term and long-term loans. We adopt funding strategies to ensure diversified resource-raising options to minimize cost and maximize stability of funds.

• **Foreign Exchange Risk -** Foreign currency risk is the risk that the fair value or future cash flows of exposure will fluctuate because of changes in foreign currency rates. The Company's exposure to the risk of changes in foreign exchange rates relates primary to the foreign currency borrowings taken from banks and External Commercial Borrowings (ECB).

# ANNEXURE – VI TO DIRECTORS' REPORT (Contd.)

**Mitigation**

The Company has a conservative policy of hedging its foreign currency exposure through Forward contracts and/or Cross Currency Interest Rate Swaps in such a way that it has fixed determinate outflows in its functional currency, and thus there would be no significant impact on the Company's profit before tax (PBT) and equity if foreign currency rates moved.

• **Price Risk -**Price risk is the risk that the value of a security or investment will decrease. The Company uses tools such as sensitivity analysis, price trend analysis etc. to hedge the price risk.

IIFL HFL makes certain that all investments follow the investment policy. These include establishing strict controls and limits, reporting positions on a regular basis, conducting independent reviews of all controls and limits on a regular basis, and testing and auditing all pricing, risk management, and accounting systems.

**E. Regulatory Risk**

IIFL could have a material impact on its business on account of non-adherence, to the laws and regulation by the Government or regulatory bodies including NHB, SEBI, RBI etc. Furthermore, the Company also faces uncertainty of an unfavorable regulatory environment and policies.

**Mitigation**

In order to minimise the material impact on business and costs, IIFL HFL regularly reviews and monitors all regulatory directives and makes prompt changes in its systems and practices, realigning itself with the changed regulatory framework.

## INTERNAL CONTROL SYSTEMS AND ADEQUACY

IIFL HFL risk management framework includes an internal control system consummate to the size, scope, and complexity of our operations. The Company has emphasised on digitizing its internal control systems, which would help in reducing the overall cost burden. Controls include effective segregation of duties, access controls, authorization and reconciliation procedures, staff training and assessment processes, including the use of internal audit. And to ensure accuracy in recording financial information, safeguarding assets from unauthorised use, preventing and detecting frauds and errors, completeness of accounting records, timely preparation of reliable financial information and compliance with statutes and laws, the Company follows stringent procedures, systems, policies, and processes.

The Company's Internal Audit (IA) is an independent activity and is headed by Head-Internal Audit who works under the guidance and supervision of the Audit Committee of the Board. To manage different risks across various products and processes, the Company has adopted the 'three lines of defence' risk governance model. The first line of defence role is the line management while second line consists of Risk management and Compliance functions and third line of defence is the Audit function.

Internal Audit function (IAF) works in close coordination with Risk Management and Compliance Department to evaluate effectiveness of controls, assess compliance with controls and adherence to internal process and procedures. IA is conducted as per the Annual Risk Based Audit Plan approved by the Audit Committee. For the purpose of audit planning, activities are assessed based on their inherent and control risk. The IAF carries out a risk assessment exercise to identify the same on an annual basis. Based on the risk assessment the frequency of audit at these activities is decided. Further the scope of internal audit covers all aspects of business including credit, technical, legal, operations and compliances. It lays emphasis to check on process controls, measures undertaken by the Company to monitor risk and to check on leakages or frauds. The Company has invested in ensuring that its internal audit and control systems are adequate and commensurate with the nature of business, regulatory prescriptions and the size of its operations. Moreover, the Company is ISO/IEC 27001:2013 certified and also implemented effective information security processes reinforcing our commitment to provide robust and secure technology for all our customers.

The Board/Audit Committee reviews the overall risk management framework and the adequacy of internal controls instituted by the management team. The Audit Committee reviews major instances of attempted fraud or actual fraud on a quarterly basis and actions are taken on the same. It also focuses on the implementation of the necessary systems and controls to strengthen the system and prevent such recurrence.

## HUMAN RESOURCE MANAGEMENT

IIFL Home Finance believes in the distinctive capabilities human resources can bring to an organization. The Company has continuously invested in a seamless recruitment process, employee trainings, and developed a supportive workplace to retain

# ANNEXURE – VI TO DIRECTORS' REPORT (Contd.)

valuable talent within the organization. The Company has constantly leveraged on its digital capabilities, to enhance the skills of our people. While maintaining a culture of fairness, integrity, and transparency, the Company strives to remain nimble, sensitive and ambitious. We have been certified by the Great Place to Work Survey fourth year in a row. Total number of employees as on 31st March for the Company is 2627.

**A. Employee Engagement Initiative**

At IIFL Home Finance, we believe in maintaining an inclusive and equitable workplace environment. The Company believes diversity in hiring which is essential to enhancing the knowledge capital. We ensure that employees are not discriminated on the basis of gender, race, color, religion, age or caste. The Company emphasizes on Performance and Rewards, Optimised HR Policy and Process, Workplace Learning, Engagement and Wellness, and Recruitment Trends. The CEO meets with all the employees in quarterly townhall - CPLogue where top performers are applauded, sharing of past achievements, next quarter's targets for the company, and addressing queries by the employees every quarter during the 'CPlogue: HFC Townhall with the CEO.' Other team interactions like Power60 over zoom, HR virtual and physical visits are continuously conducted to keep the team connected. The Company recognizes and rewards top performers and innovators at annual R&R meets. It also has an AI Chabot that acts as a feedback and suggestions mechanism for our people. Establishing a direct connection between the management and the employee for instant resolutions. We initiated 'Gupshup' series under DEI to ensure that the door of communication is open between all teams during the onset of pandemic. All the important days are equally celebrated in our Company.

**B. Employee Health and Safety**

Health and safety are the important facets for an organization. Our health and safety policy guides the workplace environment, and related policies governing workplace. It helps us to safeguard the health and safety of our employees, customers, other stakeholders and visitors. The Company continuously focuses on improving occupation health and safety practices, raising awareness at workplace and guiding the employees to commit to health and safety standards. Furthermore, the Company also persuades and educates its business partners to follow the same health and safety standards.

IIFL HFL teamed up with 'Cultfit', a health and wellness app to inculcate a culture of fitness and wellbeing in the Company. The employees are given fitness challenges every month to motivate them in their fitness journey. Apart from this, there are also fitness workouts and nutritional sessions organized to highlight the importance of eating healthy food to help the employees achieve their fitness goals. The employees have also been provided with a community trainer, who conducts sessions, answers queries and rolls out daily targets to the employees to keep the motivation levels high towards fitness.

Apart from this, we were among the initial NBFC's to conduct COVID-19 vaccination drives at all major locations pan-India where first second vaccination doses were administered to the employees. We also conducted multiple doctor consultations to the office for employees to get their health check-ups done free of cost and also tied up with Fortis and Max hospitals to ensure that all employees have access to medical care at a discounted price especially during the Covid-19 waves. The male DSTs and CLMs were also provided with Gillette grooming kits to highlight the importance of personal grooming and all women employees were provided with Pee Safe kits to highlight the importance of female hygiene. Sanitary pads dispensing machines have also been installed in the office premises to ensure that the women employees have access to sanitary pads as and when they require the same.

IIFL has also teamed up with wellness app 'Your Dost' which provides therapy to all employees anonymously. All employees can log into the app and speak to a therapist they are most comfortable with free of cost to help them deal with the stresses of their personal and professional lives.

During the pandemic, we invoked Business Continuity Planning (BCP) to ensure smooth workflow and employee safety. The procedures and personnel were shifted to a work-from-home environment. We quickly adapted to the new standards, from virtual meetings and virtual celebrations to acquiring new soft skills and adopting new lifestyles. We also launched Employee Assistance Programme (EAP) services to ensure mental support to our employees. IIFL HFL established COVID-19 response teams at the national and regional levels. These groups were responsible for overseeing staff safety protocols at the offices and ensuring that local Government instructions were followed.

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**C. Training and Development**

IIFL HFL continuously engages with the employees and invests in their learning, growth, and development. The Company provides extensive induction and classroom training to the new recruits and managers. It regularly organises virtual training sessions for its existing as well as new employees to help them understand the organizational values and align with the corporate goals and strategies. We also provide upskill, reskill and align with the corporate goals function-specific training to our people through multimedia as Virtual Instructor-Led Trainings (VILTs). We had one-on-one coaching conducted for our leaders by an industry renowned coach, advancing the learning curve of our people and strengthening the foundation of our organization. Furthermore, to help the team stay connected and enhance team bonding, the Company organises lunch brunch sessions. We organised trainings for our DSTs on the importance of road safety and wellbeing to ensure they are equipped with the knowledge on safety when traveling for work. Moreover, we also organised workshops for women to help them tackle workplace bullying and post pandemic emotional quotient (EQ) and adversity quotient (AQ) to sensitize the women employees on how to manage their professional and personal lives during the pandemic.

**D. Performance Management and Rewards**

IIFL HFL evaluates the performance of its employees using the Performance Assessment and Review System (PARS) framework. The system is a transparent and quantifiable tool that evaluates employees on their previous financial year's performance and operates on a four-point scale: Flier, Runner, Walker, and Learner.

Individual Performance Metrics (IPMs) are well-defined at the beginning of the financial year. It guides our employees throughout the year aligning them with the organization's objectives. Each department and designation have its own set of IPMs, which are adapted to their respective roles and geographic area. IPMs for business development professionals are focused on boosting revenue, whereas IPMs for file processing departments are focused on improving business consistency while maintaining file turnaround time. The goal of IPMs in support departments is to enhance processes continuously. IPMs are also characterised at the mid and senior levels by the quality of business sourced and the maintenance of a healthy business mix.

## OUTLOOK

The economy has undergone significant recovery with positive momentum across all economic indicators. With more than 1 billion population vaccinated in India and low COVID-19 positive rates, the public morale has improved. Businesses have gradually picked up pace and consumer spending has increased. With safety measures in place, the economy's growth momentum appears to be on the upswing. However, concern remains due to the escalating inflation from crude price rise, the Ukraine crisis, and the possibility of a new COVID-19 breakout.

With the improving economic outlook and the Indian Government's increasing attention on infrastructure and construction, the future for NBFC HFCs remains bright. In 2021-22, NBFC/HFC housing credit is likely to rise at a rate of 8-10%, with credit expected to grow at a rate of 9-11% in 2022-23 backed by tech-based modernization across the value chain. Government measures such as partial credit guarantee schemes coupled with RBI's co-lending model, is expected to improve the liquidity as well as the asset-liability profile of the HFCs. IIFL HFL continues to focus on financing affordable homes and expanding product reach with competitive offerings. The Company's core objectives of a technologically robust infrastructure, sound risk management, seamless loan processing and asset light model remain intact.

*Sources: CRISIL Research*

## CAUTIONARY STATEMENT

This document contains forward-looking statements and information. Such statements are based on our current expectations and certain assumptions, and are, therefore, subject to certain risks and uncertainties. Should one or more of these risks or uncertainties materialise, or should underlying assumptions prove incorrect, actual results may vary. The Company does not intend to assume any obligation or update or revise these forward-looking statements in light of developments, which differ from those anticipated.

**For and on behalf of the Board of Directors of**
**IIFL Home Finance Limited**

| | |
|---|---|
| **R. Venkataraman** | **Monu Ratra** |
| Director | Executive Director & CEO |
| (DIN: 00011919) | (DIN: 07406284) |
| Place: Mumbai | Place: Gurugram |

Date: April 25, 2022