

## Annexure VI to Directors' Report

# Management Discussion and Analysis

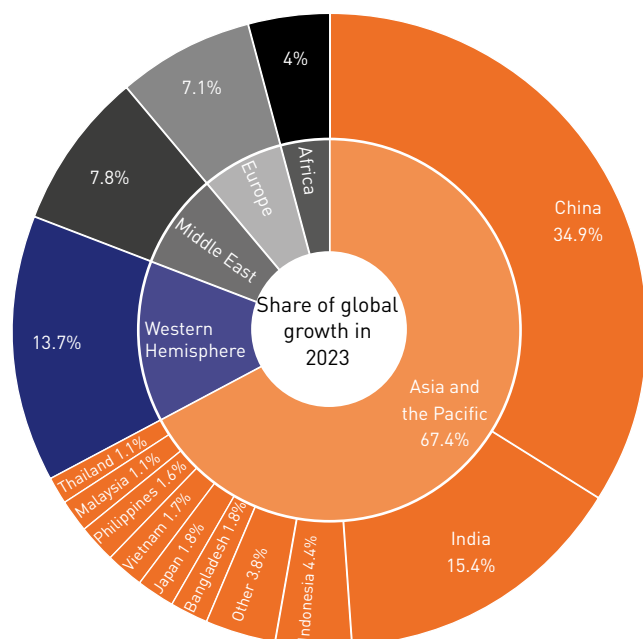
### Global Economic Overview

In CY23, the global economy demonstrated resilience despite navigating unpredictable headwinds. According to the International Monetary Fund (IMF), the economy experienced a 2.8% growth over the year. However, elevated inflation significantly impacted consumer spending, causing a notable slowdown. Geopolitical tensions disrupted supply chains and weakened investor confidence, resulting in a decline in both international trade and business investment.

In response to inflation, major central banks raised policy interest rates, leading to higher mortgage costs, reduced credit availability, and decreased investment in businesses and residential sectors. While these measures were necessary, they also had the effect of disincentivising certain investment activities. However, emerging and developing economies such as India, Vietnam, and Mexico observed robust growth and capital inflows from foreign institutional investors.

The prospect of an economic slowdown has significantly reduced, facilitated by disinflation and steady growth. Global headline inflation is expected to fall to 5.8% in 2024 and to 4.4% in 2025, which should ease financial conditions. Inflation is declining quicker than projected, with both headline and core inflation approaching pre-pandemic levels. Additionally, improved fiscal management across many economies provided a buffer against potential shocks, contributing to a more secure financial landscape.

### Asia contributed ~70% of global growth in 2023



Source: IMF, World Economic Outlook, April 2023

Note: Groupings based on IMF Regional Economic Outlook classifications.

### Outlook

Looking ahead to 2024, the global economy is at a pivotal juncture, with the potential for gradual recovery and stabilisation. The global growth is predicted to be 3.1% in CY24, with a slight increase to 3.2% in 2025. Despite the prevailing challenges, the outlook demonstrates a sense of cautious optimism, with anticipated easing of inflationary pressures and more accommodative monetary policy measures. As the global community navigates through these uncertain times, the collective policy response and resilience of economies worldwide will be instrumental in shaping a sustainable and inclusive growth trajectory for 2024.

### Indian Economic Review

In FY2024, the Indian economy showcased a robust performance, characterised by a notable growth trajectory and various strategic policy interventions aimed at fostering sustainable economic expansion. The influence on the economic landscape is attributed to proactive governmental policies, infrastructural enhancements, and the paradigm shift towards financial inclusion and digital advancements.

In FY2024, the Indian economy achieved growth rate of 8.2%, facilitated by the Government's enhanced capital expenditure. This strategic fiscal manoeuvring has improved the nation's infrastructure, catalysing the housing finance sector through improved consumer confidence and escalating housing demand. Furthermore, robust economic growth, favourable demographic trends and significant digital advancements, have bolstered the growth of the Indian economy.

This growth translates to increased disposable income, fuelling more demand for goods and services. The centrally funded schemes, such as Pradhan Mantri Garib Kalyan Yojana (providing income support to farmers), National Rural Livelihood Mission (promoting financial inclusion) and Pradhan Mantri Kaushal Vikas Yojana (boosting manufacturing to create job opportunities), have been the key drivers to increase real income.

Launched in 2020, Production Linked Incentive (PLI)<sup>2</sup> scheme has proven to be effective in accelerating the momentum of the growth of the Indian economy. The scheme augmented domestic manufacturing across 14 sectors. It increased production, enhanced employment generation and aided economic growth by significantly increasing the FDI in the manufacturing sector to 76%. The PLI Scheme for food processing has positively impacted the income of Indian farmers and MSMEs.

<sup>1</sup>[https://www.mospi.gov.in/sites/default/files/press\\_release/PressNoteGDP31052024.pdf](https://www.mospi.gov.in/sites/default/files/press_release/PressNoteGDP31052024.pdf)

<sup>2</sup><https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1932051>



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### Outlook

Going forward, India's growth is expected to remain strong, supported by improving macroeconomic factors and robust internal financial stability. The economy is set to grow by more than 7% in FY25, making it the fastest-expanding major economy in the world. This strong growth provides the central bank with the opportunity to focus on price stability, while rising demand across core sectors is anticipated to aid in job creation.

A significant advantage for India's economic growth is its youth population, with a median age projected to reach 31 by CY2030. The working-age demographic is expected to increase by 1.2 times from 2015 to 2030, resulting in India becoming the world's largest working-age population of 1.03 billion by CY2030.<sup>3</sup> This demographic expansion will be a key driver of economic growth.

The anticipated economic expansion is largely driven by substantial infrastructure investments. These investments are supported by increased government spending and improvements in the financial health of corporations and banks. Such investments are crucial for sustaining growth and enhancing the country's infrastructure.

Moreover, the young and expanding workforce, coupled with efforts to develop smaller cities more inclusively, further supports this growth. The demographic growth is likely to increase demand in essential sectors such as transportation, food, housing, and infrastructure, fostering a balanced and sustainable economic environment.

### Industry Overview

The Indian Housing Finance Industry is set for growth, supported by the Government's decision to increase capital expenditure by 11.1% to ₹ 11.11 lakh crore for the fiscal year, equating to 3.4% of GDP.<sup>4</sup> This measure not only bolsters the nation's infrastructure but also benefits the housing finance sector through improved consumer confidence and increased housing demand. The sector's growth can also be attributed to strong economic performance, favourable demographics and digital advancements.

Governmental initiatives, facilitate affordable housing by making homeownership more accessible to individuals belonging to lower and middle-income groups, particularly in rural areas. These initiatives, coupled with increased capital expenditure, are anticipated to enhance infrastructure, consequently bolstering the housing market.

In the Interim Budget 2024-25, it was announced that two crore additional rural houses will be constructed under the Pradhan Mantri Awaas Yojana-Gramin (PMAY-G) over the next five years, aiming to meet the rising demand. Despite the challenges posed by Covid-19, the government is close to achieving its target of three crore houses. Additionally, a new scheme is planned to support middle-class urban homebuyers in purchasing or building their homes.

A stable economic environment, effective policies and relentless governmental efforts towards financial inclusion and the digitisation of financial services, have fostered growth and enhanced the accessibility and affordability of housing finance.

### Affordable Housing

The Affordable Housing Finance sector saw various developments in FY2024, driven by a favourable operating environment and high demand. The sector has effectively tapped into underserved market segments, leveraging their expertise in evaluating credit risks to serve lower and middle-income groups.

With the diminishing share of priority sector lending-compliant home loans within the overall banking sector portfolio over the past two years, it has led to significant developments in the sector, opening new avenues for AHFCs to broaden their portfolios through co-lending agreements or direct assignment transactions, augmenting market expansion and presence.

The sector saw improvements in asset quality, supported by better collection efficiency and strategic write-offs, maintaining stability despite inherent risks associated with lending to self-employed individuals with volatile incomes. The Gross Non-Performing Assets (GNPA) ratio has stabilised at around 1.2% as FY2024 concluded. The sector's capital structure remained robust, supported by solid internal accruals, with a gearing ratio approximately 2.9x as of March 31, 2024. AHFCs achieved strong profitability through improved net interest margins and controlled credit costs, despite increased operating expenses due to branch expansion.

Banks are set to continue as a principal source of funding for AHFCs, facilitating their growth and operational scalability. This partnership is a symbiotic relationship between banks and AHFCs, enabling the latter to leverage the financial stability and resources of the former to meet the housing needs of underserved communities effectively.

### Significant Policy Changes

The Reserve Bank of India (RBI) has announced a series of policy changes that are set to impact the housing sector positively. The changes include a substantial increase in the housing loan limits for Urban Co-operative Banks (UCBs) and new lending options for Rural Co-operative Banks.

For Tier 1 Urban Cooperative Banks (UCBs), the individual housing loan ceiling has been raised to ₹ 60 lakh, which is double the previous maximum. Similarly, Tier 2 UCBs will see an increase in their housing loan ceiling to ₹ 1.40 crore. For Rural Cooperative Banks, the upper limits have been increased from ₹ 20 lakh to ₹ 50 lakh and from ₹ 30 lakh to ₹ 75 lakh, respectively.

Furthermore, Rural Co-operative Banks have now been authorized to lend to the Commercial Real Estate Residential sector. This expansion

<sup>3</sup>[https://dea.gov.in/sites/default/files/Report%20of%20the%20Task%20Force%20National%20Infrastructure%20Pipeline%20%28NIP%29%20-%20volume-i\\_1.pdf](https://dea.gov.in/sites/default/files/Report%20of%20the%20Task%20Force%20National%20Infrastructure%20Pipeline%20%28NIP%29%20-%20volume-i_1.pdf)

<sup>4</sup><https://pib.gov.in/PressReleaseIframePage.aspx?PRID=2001130>

<sup>5</sup>[https://www.careratings.com/uploads/newsfiles/1708066976\\_Affordable%20Housing%20Finance\\_CareEdge%20Report.pdf](https://www.careratings.com/uploads/newsfiles/1708066976_Affordable%20Housing%20Finance_CareEdge%20Report.pdf)

<sup>6</sup><https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1832644>

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of their lending scope aims to meet the growing demand for affordable housing in rural areas. These decisions are expected to increase the credit flow to the housing sector, thereby stimulating economic activities, enhancing capital formation, and generating employment.

These policy changes by the RBI are anticipated to significantly boost the housing sector, leading to overall economic growth and development.

### Market Penetration

Fuelled by resilience and anticipated rebound in housing and developer loans, the Housing finance companies' (HFCs) Assets Under Management (AUM) grew in double-digits in FY2024 and FY2025. With the support of solid macroeconomic fundamentals and various factors, including rapid urbanisation, decreasing mortgage-to-GDP ratios, favourable demography and governmental initiatives, the residential real estate sector is thriving. The paradigm shift towards spacious living and premium amenities facilitated by low interest rates and stamp duty cuts in some regions, is expected to propel the growth of the industry in the coming years.

The affordable housing segment is one of the fastest-growing domains in Indian consumer finance, addressing the needs of lower to middle-income brackets. The government's focus on increasing housing loan penetration, especially in rural and semi-urban areas, underscores the potential for significant market expansion.

However, challenges remain on the horizon. Regulatory changes, tighter liquidity conditions, persistently high interest rates, delays in resolving bad wholesale loans and increased competition from banks are potential downside risks that HFCs need to manage effectively.

### PESTEL Analysis

The Indian housing market operates within a complex web of factors influencing its growth and stability. The breakdown of these key influences can be done by a PESTEL Analysis.

#### Political

**Government Policies and Initiatives:** Pradhan Mantri Awas Yojana (PMAY): As of March 2024, over 2.56 crore houses have been constructed out of the 2.94 crore sanctioned houses under PMAY (Gramin). This program aims to provide affordable housing to all eligible beneficiaries in rural areas.

**Real Estate (Regulation and Development) Act (RERA):** Enacted in 2016, RERA aims to protect home buyers and boost investments in the real estate sector. As of May 2024, over 1,00,000 projects have been registered under RERA across various states.

#### Taxation and Subsidies:

**Income Tax Benefits:** Homebuyers can claim deductions up to ₹ 1.5 lakh under Section 80C for principal repayment and up to ₹ 2 lakh under Section 24 (b) for interest on home loans.

### Economic

**Interest Rates:** As of May 2024, the Reserve Bank of India (RBI) has maintained the repo rate at 6.75%, which influences home loan interest rates offered by banks.

**Economic Growth:** Disposable income levels have been rising, with per capita income increasing to ₹ 2,14,000 in 2023-24 from ₹ 1,72,000 in the previous year.

**Affordability:** Despite economic growth, housing affordability remains a challenge. The affordability index, which measures the ratio of house prices to household income, stands at around 4.7 in urban areas.

### Social

**Demographic Trends:** India's urban population is expected to grow to 600 million by 2031, up from 460 million in 2018, driving demand for housing.

The median age in India is around 28.6 years, with a significant portion of the population entering the housing market.

### Technological

**Efficient Loan Journeys through Fintech:** Advanced technologies like AI and digital platforms streamline the loan application and approval process, reducing approval times and enhancing customer experience.

**Impact of Digital Unsecured Loans:** The rise of digital lending platforms has made unsecured personal and business loans more accessible, with these loans experiencing a Compound Annual Growth Rate (CAGR) of approximately 86.4% over the past 5.5 years., marking a significant impact on traditional lending practices.\*

### Environmental

**Sustainable Development:** Regulations now require new housing projects to incorporate green building practices. The Indian Green Building Council (IGBC) has certified over 7.9 billion sq. ft. of green building space as of 2024.

**Climate Change:** Housing projects are increasingly incorporating climate-resilient designs. The National Building Code of India 2016 provides guidelines for such practices.

### Legal

**Regulatory Compliance:** Stringent norms enforced by the RBI and NHB significantly impact the industry. The RBI has increased the minimum Net Owned Fund (NOF) requirement to 20 crore and raised the liquid asset requirements from 13% to 15% of public deposits by March 2025. These measures strengthen financial stability and compliance standards for housing finance companies (HFCs).\*

<sup>7</sup><https://www.thehindubusinessline.com/money-and-banking/hfcs-eye-12-14-aum-expansion-on-back-of-housing-and-developer-loans/article67988330.ece>

<sup>8</sup><https://www.undp.org/india/press-releases/india-shows-progress-human-development-index-ranks-134-out-193-countries#:~:text=of%20193%20countries-.India%20shows%20progress%20in%20Human%20Development%20Index%2C%20ranks%20134%20out,the%20medium%20human%20development%20category.>

<sup>9</sup>[https://faceofindia.org/wp-content/uploads/2024/02/1.-Fintech-personal-loans\\_21st-Feb-2024\\_website.pdf](https://faceofindia.org/wp-content/uploads/2024/02/1.-Fintech-personal-loans_21st-Feb-2024_website.pdf)

<sup>10</sup>[https://www.rbi.org.in/scripts/BS\\_PressReleaseDisplay.aspx?prid=57128](https://www.rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=57128)



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**Land Acquisition Laws:** Land acquisition remains complex due to lengthy approval processes and legal challenges governed by the Land Acquisition, Rehabilitation and Resettlement Act, 2013. This requires thorough understanding and strategic planning to mitigate risks.

### Company Overview

Established in 2006, IIFL Home Finance (formerly known as India Infoline Housing Finance Limited) is a prominent subsidiary of IIFL Finance Limited, a market leader in the Indian financial services sector. The company received its registration certificate from the National Housing Bank (NHB) in 2009, marking its establishment as a trusted provider of home loan solutions in India. Over the years, IIFL Home Finance has carved a niche in the housing finance market by offering reliable and accessible loan products.

In line with its commitment to promoting financial inclusion, IIFL Home Finance focuses on addressing the needs of underserved individuals, particularly those in the Economically Weaker Section (EWS) and Lower-Income Group (LIG) segments. Recognising that these individuals often have limited or no credit history and rely on informal income, the company strives to provide them with opportunities to access financial services. By focusing on these segments, IIFL Home Finance aims to bridge the gap in housing finance and contribute to the broader goal of inclusive economic growth in India.

### Extensive Network, Technology-Driven Approach

With a network of 396 branches across India, the organisation caters to both salaried and self-employed individuals. The Company utilises advanced technology-driven lending processes, offers competitive interest rates and provides flexible repayment option, consequently enhancing customer experience. A part of the diversified IIFL Group, the Company leverages their strength and expertise to provide easy and affordable home financing solutions throughout India.

### Fostering Innovation and Collaboration

IIFL Home Finance' flagship platform, 'Kutumb', fosters collaboration within the affordable housing industry. The initiative brings together architects, construction experts, developers and government representatives, to bridge the gap between green and affordable housing solutions in India. Furthermore, the Company has enhanced its digital capabilities through a user-friendly mobile app and revamped website, providing online loan applications, status tracking and convenient account management. Additionally, digital onboarding processes facilitate paperless loan approvals and faster turnaround times.

### Strategic Partnerships and Sustainability Initiatives

IIFL Home Finance has established co-lending agreements with several banks and financial institutions, leveraging partner capabilities and customer bases to provide borrowers with varied home loan products and competitive pricing.

The Company is committed to sustainability, offering special interest rate concessions and benefits on loans for green-

certified properties or those incorporating eco-friendly features. This "Green Housing" initiative reflects their adherence to providing sustainable and affordable housing solutions in India.

### Shaping the Future of Housing Finance

By focusing on affordability, financial inclusion and sustainability, IIFL Home Finance positions itself as a key player in shaping the future of the Indian housing finance landscape. Their commitment extends beyond simply providing loans, the Company ensures they create a positive impact through their innovative programs and policies.

### Business Overview

#### Business Overview and Strategy for FY24

IIFL Home Finance Ltd. (IIFL HFL) is a leading market player in the affordable housing segment. Our key objectives have been to ensure- affordable mortgage options for the middle and lower income strata and easy access to customers. The Company over the last couple of years have been deepening reach and now we have decisively pivoted in the direction. Today out of an overall branch count of 396, branches in smaller towns account for 83%.

In FY2024, the Company continued to harness the power of technology to elevate customer experience, optimise operations and drive process efficiency. Technology has enabled us to create the "phygital" model which ensures that we have expanded our customer base, improved turn around times and made our entire loan approval process-seamless, paperless and can be completed in 25 minutes. In spite of the rapid branch and manpower expansion, extensive use of technology has enabled us in maintaining our opex to AUM ratios at 1.8%. Our asset light model approach has been working well for us in the past years and this year as well we have seen great success in the model. Our approach has been to have a well balanced mix of on-book and off-book liabilities. Apart from conventional borrowing from banks, mutual funds, refinancing from National Housing Board, the Company has also borrowed funds from various multilaterals and DFIs.

During FY2024, IIFL HFL Assets Under Management (AUM) grew to ₹ 354.99 Bn (USD 4.29 Bn), a growth of 25% with a balance sheet size of ₹ 254.46Bn (USD 3.07 Bn) by the end of the fiscal year.

Following the footsteps of the Government's 'Housing for All' mission, IIFL HFL has made significant strides in catering to varied clientele through the Credit Linked Subsidy Scheme (CLSS). The disbursements amount to over ₹ 12,861 Cr as of March 31, 2024. The Company has introduced specialised norms across various states, including Andhra Pradesh, Tamil Nadu, Gujarat, Maharashtra, Madhya Pradesh and Punjab, supporting the Beneficiary-Led Construction (BLC) Scheme of the Ministry of Housing and Urban Affairs.

IIFL HFL's continued collaboration with state bodies facilitates the expansion and promotion of its vision for sustainable and affordable housing. These partnerships with State Level Nodal Agencies (SLNAs) for the Pradhan Mantri Awas Yojna PMAY(U) across multiple states highlights the Company's commitment to enhancing housing accessibility and affordability across India.

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### Segment Overview

#### Home Loans

IIFL Home Finance Ltd. (IIFL HFL) provides home loans to a diversified clientele, including salaried individuals, self-employed persons, professionals, and entrepreneurs. The Company offers financial assistance to underserved segments for home purchases, construction, renovations, and plot acquisitions. Utilizing its 'Jhatpat' instant home loan solution, IIFL HFL ensures swift loan approvals within 25 minutes. In FY2024, the home loans segment saw a substantial increase in Assets Under Management (AUM), reaching ₹ 274.38 Bn. This growth highlights IIFL HFL's focus on low-ticket size loans and its consistent efforts to make homeownership accessible to first-time buyers and borrowers from informal sectors, particularly in non-metro and lower-tier cities.

#### Secured Business Loans

IIFL HFL offers secured business loans backed by residential or commercial properties, primarily targeting small and medium-sized enterprises (SMEs). These loans meet the working capital needs and other business-related financial requirements of SMEs. In FY2024, the AUM for this segment experienced a growth of 23%, achieving a total of ₹ 72.5 Bn. This performance indicates the Company's commitment to supporting the financial needs of the SME sector. A robust credit underwriting framework and a dedicated team ensure reliable financing solutions for consumers.

#### Affordable Housing Project Finance

The Affordable Housing Project Finance segment recorded an AUM of ₹ 8.1Bn in FY2024, demonstrating significant growth in the industry. IIFL HFL focuses on offering customized project financing solutions to developers for the construction and development of residential and mixed-use projects. The Company focuses on funding environmentally and socially sustainable projects to achieve Green Building Certification. This strategy aligns with IIFL HFL's retail portfolio while supporting the Company's objective to aid economic growth while promoting environmental and social sustainability. Moving forward, IIFL HFL aims to continue identifying and financing sustainable projects to reinforce its commitment to broaden the goals of sustainable development and inclusive growth.

### Government initiatives

Pradhan Mantri Awas Yojana (PMAY) is the Government of India's flagship program aimed at providing affordable housing to all. With a dedicated department working across India, IIFL Home Finance have taken up housing finance under PMAY as one of their core businesses.

The Company is actively collaborating with various state governments and central government departments to construct and provide housing subsidies for the Economically Weaker Sections (EWS) and Low-Income Groups (LIG). The Company's focus is on the Affordable Housing in Partnership (AHP) and Beneficiary-Led Construction (BLC) verticals of PMAY, as the Credit-Linked Subsidy Scheme (CLSS) is currently not operational.

The Company has achieved significant success with the BLC (Beneficiary-Led Construction) component in Andhra Pradesh, formalizing a partnership with the state through a Memorandum of Understanding. This initiative provides additional financing for BLC houses, ranging from Rs. 3-5 lakhs. The Company has assisted over 25,000 BLC customers in Andhra Pradesh, marking the largest disbursement in this PMAY component by any Housing Finance Company in a single state. Currently, the Company processes approximately 1,800 to 2,000 cases per month in Andhra Pradesh.

Despite slower progress in other states due to various challenges, the Company aims to expand its geographic footprint to Uttar Pradesh, Maharashtra, Gujarat, Tamil Nadu, Karnataka, and Madhya Pradesh. For the Affordable Housing in Partnership (AHP) component, the Company focuses on approximately 8-10 states, with a strong presence in Gujarat, Tamil Nadu, Delhi, Maharashtra, Uttar Pradesh, and Madhya Pradesh.

### Challenges

While implementing PMAY, several challenges have been encountered through the operations including inefficient data management, variable information levels stored by State-Level Nodal Agencies (SLNAs), and issues with ownership documents provided by beneficiaries. Despite these hurdles, the Company's professional team has been trained to navigate these state-specific challenges and align the strategies with the Government's 'Housing for All' agenda.

### PMAY-U PERFORMANCE

PMAY- U verticals	Sanctioned Houses	Grounded Houses	Completed
BLC	73.76	59.88	28.11
CLSS	23.97		
AHP	20.63	13.27	6.63
ISSR	4.33	6.43	4.9

Nos. in lakhs; Source: Ministry of Housing and Urban Affairs- MIS, June 2022



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### Strengths

#### Leveraging Technology for Customer Centricity

With the aid of strategic technological integration, the Company ensures homeownership is made accessible and affordable. With 391\* touchpoints enhanced by a 'Phygital' approach, this integration enables the Company to expand into new markets. This strategy streamlines operations while building sustained connections with customers. By capitalising on technological advancements, the Company offers personalised solutions and transparency, optimises operations and elevates customer satisfaction.

\*Excluding Gurgaon Udyog Vihar and Kochi

#### Comprehensive Credit Underwriting and Efficient Loan Processing

A meticulous credit underwriting process, complemented by advanced technological implementations such as artificial intelligence and machine learning, forms the backbone of the Company. These technologies facilitate an in-depth credit assessment and ensure swift loan processing with minimum risks. The Company leverages custom-developed systems and smart technologies to provide a seamless loan processing for their consumers. The system ensures significant reduction in errors and turnaround times. This infrastructure positions the Company as a reliable provider for individuals seeking uncomplicated and dependable home financing solutions.

#### Robust Risk Management

The Company's solid risk management framework exemplifies its commitment to safe and responsible lending practices. Designed to proactively identify and mitigate lending-related risks while complying with regulatory requirements, this framework blends technological and human expertise to ensure comprehensive risk assessment. This approach safeguards both the Company's operations and its customers, reinforcing stability and trust.

#### Expanding Presence in Tier 3 and 4 Cities

The Company aims to expand its geographic footprint in Tier 3 and 4 cities by broadening its branch network and targeting unexplored market segments. This expansion aligns with the commitment to make homeownership more accessible for all individuals, especially those living in the areas traditionally underserved by the financial sector. The Company curates tailored financial solutions to support the growing demand for affordable housing, reinforcing its dedication to contribute towards financial inclusion.

#### Strong Corporate Governance

The foundation of the Company is built upon corporate governance, ensuring transparency and accountability in all its activities. With a governance structure that includes the Board of Directors, Audit Committee, Risk Management Committee and an Internal Audit function, the Company conducts businesses with integrity and adhering to ethical standards. This governance framework is crucial for building stakeholder trust and delivering value in a responsible manner.



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### Opportunities

- **Rising Urbanization and Demographic Shifts**

With continuous urban migration and a significant demographic that is increasingly becoming economically active, it provides a lucrative market for home loans as younger generation is prioritising homeownership.

- **Digital Transformation**

With the advent of digitalisation, loan processing and approvals have become a seamless experience. This has enabled the Company to expand the customer base, especially among tech-savvy consumers.

- **Government Initiatives and Schemes**

Programs like Pradhan Mantri Awas Yojana (PMAY) and other affordable housing schemes create a conducive environment for increased lending, particularly targeting the LIG and EWS segments.

- **Increasing women ownership**

Governmental initiatives, such as reduced stamp duties and PMAY subsidies, have facilitated a transformative shift in the home finance sector. A rise in women investing in residential properties has been observed, contributing to the industry's expansion.

- **Fintech and Co-Lending Models**

The emergence of fintech startups and the adoption of co-lending models with banks have diversified reach, streamlined processes and provided innovative lending solutions to enable exploring the underserved markets.

- **Affordable Housing Finance Growth**

The focus on affordable housing finance caters to a significant population portion. Addressing the demand in Tier II and Tier III cities, contributes to volume growth in home loans.

- **Green Home Loans**

The increasing awareness of environment and increasing shift towards sustainable living has opened new avenues for green home loans, incentivizing eco-friendly housing projects and investments.



### Threats

- **Dominance of Banks:** Banks' significant market share in the prime home loan segment poses a competitive challenge to HFCs and NBFCs, potentially limiting their market penetration and growth.

- **Project Delays and Approvals:** A delay in projects' approval can inhibit the construction of new properties, affecting the demand for home loans and impacting the growth of housing finance companies.

- **Collateral and Title Risks:** Risks associated with collateral fraud and discrepancies in property titles, especially in hinterlands, peri-urban areas and in relatively new developments, can lead to financial losses and undermine investor confidence.

- **Interest Rate Fluctuations:** The potential for rising interest rates, influenced by macroeconomic factors and monetary policy, can affect loan affordability and demand, posing a risk to the housing loan market growth.

- **Economic Slowdowns:** Any downturn in the economy can reduce disposable incomes and affect job security, directly impacting borrowers' ability to take new loans or repay existing ones, thereby increasing NPAs.

- **Regulatory Changes:** Changes in regulations, such as those related to lending practices, KYC norms or taxation, can introduce operational challenges and increase compliance costs, affecting profitability and growth.

### Risk Management Overview

Risk Management is a pivotal element of IIFL Home Finance Ltd.'s operational ethos. Acknowledging risks is an inherent component of the business landscape, therefore, the Company focuses on effective risk mitigation. IIFL follows a comprehensive, enterprise-wide risk management framework, that is adept at identifying and analysing risks promptly, and providing proactive measures to manage potential impacts effectively.

#### Enterprise-Wide Risk Management Framework

The Company employs the 'Three Lines of Defence' strategy to structure its risk management approach:

- **First Line of Defence:** Operational Management
- **Second Line of Defence:** Specialised Functions such as Risk Management and Compliance
- **Third Line of Defence:** Internal Audit



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The Company is governed by the Board and supported by a dedicated Risk Management Committee, seeking to balance risk and return optimally, fostering sustainable value creation for stakeholders.

### Credit Risk

The Company has instituted a robust credit risk management architecture, utilising policies, procedures and advanced analytics to enhance credit decision-making. By integrating machine learning tools for real-time data analysis, the Company efficiently assesses borrowers' creditworthiness. An independent internal audit team ensures compliance, while stress testing systems conduct sensitivity analyses to pinpoint potentially at-risk accounts.

### Operational Risk

Operational risks are addressed through stringent internal control systems and procedural monitoring to uphold process integrity across the business. Responsibilities are clearly delineated with comprehensive access, authorisation and reconciliation protocols in place. Digitisation of credit operations significantly reduces reliance on manual tasks, minimising errors through automation.

### Liquidity Risk

The Company maintains a rigorous Liquidity Risk Management framework, ensuring the availability of funds at optimal costs to meet financial obligations and support growth. The Asset and Liability Management Committee closely monitors liquidity risks, employing an adaptive Asset Liability Management (ALM) framework to manage financial assets and liabilities' maturity profiles efficiently.

### Interest Rate Risk

Interest rate risks are managed by balancing loan durations and adopting diversified funding strategies. This approach optimises the borrowing profile, aiming to reduce costs and enhance fund stability.

### Foreign Exchange Risk

A conservative hedging policy manages foreign currency exposure through Forward contracts and Cross Currency Interest Rate Swaps, setting fixed outflows in functional currency and minimising PBT and equity impacts due to rate fluctuations.

### Regulatory Risk

The Company actively monitors regulatory landscape changes, adapting systems and practices promptly to comply with new directives and maintain operational integrity.

### IT and Data Risk

Overseen by the IT Strategy Committee, the IT risk mitigation strategy aligns IT and business strategies, addressing security threats and ensuring infrastructure compliance remains updated.

### Climate Risk

Acknowledging the impact caused due to climate change, the Company explores methods for resilience analysis against climate-related physical and transitional risks. Initiatives such as obtaining LEED certification for its Gurgaon Head Office and embracing digital and paperless operations underscore its commitment to sustainability and climate risk management.

### Customer service and leadership

IIFL Home Finance has evolved to provide comprehensive solutions tailored to the unique needs of its customers. The journey began with understanding the gaps that exist between government subsidies and the actual cost of constructing or purchasing a home. Products are designed to bridge this gap, offering affordable financing solutions that keep customers' repayment capacities in mind.

A commitment to customer centricity extends from the moment a customer lead is acquired to their complete wish fulfilment. Dedicated teams focus on different stages of the customer journey, ensuring a seamless experience throughout. Field representatives visit customers in their communities, onboarding them digitally and providing on-the-spot solutions.

In line with the Government of India's 'Housing for All' mission, strategies and processes are aligned to cater to the underserved segments of society. Technology is leveraged to expand and provide accessible solutions, even in areas where traditional financial institutions may not have a presence.

A significant shift from email to WhatsApp as a communication channel has been made to provide faster resolutions and greater convenience, with enhanced WhatsApp features including loan summaries, document downloads, and payment links. The DIY system, which automates ticket processing, further enhances efficiency and customer satisfaction. The integration of an ORM solution and an advanced ticket management process has streamlined query resolution and improved service delivery.

Looking ahead, IIFL Home Finance is implementing new Business Rule Management logics for workflows such as part payments, rate changes, and EMI cycle date changes, aiming for straight-through processing and further operational efficiency.

In line with the developments in customer service the CSAT survey scores increased from 2.27 in May '23 to 3.17 in March '24.

### Human Resources

IIFL Home Finance has implemented robust HR strategies to attract, develop, and retain top talent in alignment with its growth plans. The company utilizes an RPO model, apprenticeship program tie-ups, competitive compensation structures, and focused campus hiring from Tier II, III, and IV towns. Significant milestones include transitioning to a new HRMS, crossing 5,600 employees, and consistently achieving Great Place to Work certification.



## Annexure VI to Directors' Report (Contd)

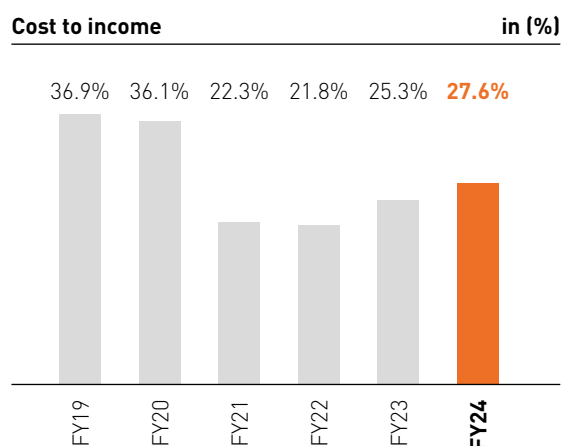
The Company emphasises employee engagement through branch visits, milestone celebrations, real-time pulse surveys, fostering camaraderie, offsites, and rewards programs. Diversity and inclusion are promoted via gender inclusivity training, leadership webinars for women, better gender pay ratios, and a healthy gender mix at leadership levels. A robust grievance redressal system, including anonymous chatbots, ensures employee concerns are addressed. Continuous skill development is driven by training need analysis based on HOD and employee feedback.

### Digital Intervention

"The core principles leading to increased automation and self-service integrations will drive the mortgage loan journey in the post-COVID period as customers' inclination towards digital, hassle-free and paperless loan applications has increased". Further, "Generative AI tools will power the upcoming wave in the fintech ecosystem of housing finance" writes Rachit Gehani, Chief Technology Officer, IIFL Home Finance Limited, in an exclusive interaction with Shruti Jain of Elets News Network (ENN).

IIFL Home Finance has developed an award-winning customer onboarding platform with an embedded business rule engine that instantly provides a decision on a loan application based on an individual's risk assessment through validated data. Once an application gets approved, it moves into an in-house loan origination system in real-time for property verification and valuation. IIFL Home Finance is also ensuring that underwriting gets assisted by AI and ML tools, which use deep learning algorithms to arrive at customized commercial metrics for loan sanction.

The customer's journey towards disbursement is digitised through the e-docketing of the loan agreement, in line with the overall organizational Environmental, Social and Governance (ESG) goals. Customer service ecosystems have been integrated with do-it-yourself and omni-channel workflow to enhance customer experience and delight.



### The Company's digital initiatives have saved over 99,14,396 sheets of paper in FY24.

As a result, IIFL Home Finance's customers have experienced increased transparency, minimal documentation and more affordable interest rates for mortgage lending, enabling the company to stay ahead of the competition in the housing finance space.

### Internal Audit

IIFL Home Finance Ltd. (the Company) has tailored a risk management framework to its operational scope and complexity, prioritizing the digitization of internal control systems. This approach enhances duty segregation, accuracy in financial reporting, asset protection, and fraud prevention, while ensuring regulatory compliance.

The Company operates under the 'Three Lines of Defence' model for comprehensive risk management across its offerings. The Internal Audit function, being independent functions under the Audit Committee's guidance, works transparently and prioritises issues by severity. It embraces best practices beyond regulatory norms, including audit function automation, to boost efficiency and control accuracy.

Internal Audit follow an I Risk-Based Internal Audit Plan, focusing on inherent and control risks, and advocating for process improvements. The Company's commitment to information security is underscored by its ISO/IEC 27001:2013 certification. Regular reviews by the Board and Audit Committee ensure the risk management framework and internal controls' adequacy, addressing and preventing fraud actively. Through these measures, the Company upholds high operational and compliance standards.

### Cautionary Statement

This document contains forward-looking statements and information that are based upon the Company's expectations and various assumptions at the time of writing. These statements inherently involve risks and uncertainties. In the event that any of these risks or uncertainties materialise, or should the underlying assumptions prove incorrect, the actual outcomes may significantly differ from those projected. The Company expressly disclaims any obligation to update or revise any forward-looking statements in this document, should the future developments deviate from those initially anticipated.

### For and on behalf of the Board of Directors

**R. Venkataraman**

Director  
(DIN: 00011919)

**Place:** Mumbai

**Date:** May 06, 2024

**Monu Ratna**

Executive Director & CEO  
(DIN: 07406284)

**Place:** Mumbai

**Date:** May 06, 2024