pnb Housing Finance Limited

Ghar Ki Baat

June 1, 2019

The BSE Limited
Listing Department
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai – 400 001

National Stock Exchange of India Limited
Listing Department
"Exchange Plaza"
Bandra Kurla Complex
Bandra (E), Mumbai – 400 051

Dear Sir

Subject: Intimation on credit rating of NCDs by ICRA

We would like to inform you that the credit rating agency ICRA Ltd has reaffirmed the long term credit rating of non-convertible debentures and Tier- II bonds program to [ICRA] AA+. The credit rating agency ICRA has revised the outlook from Stable to Negative.

This is for your information under Regulation 30.

Thanking You.

For PNB Housing Finance Limited

Sanjay Jain
Company Secretary and Head Compliance

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CIN: L65922DL1988PLC033856

PNB Housing Finance Limited

May 31, 2019

PNB Housing Finance Limited: Rating reaffirmed; Outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture	2,900.00	1,475.00	[ICRA]AA+; reaffirmed, outlook revised to Negative from Stable
Tier-II bonds programme	200.00	200.00	[ICRA]AA+; reaffirmed, outlook revised to Negative from Stable
Total	**3,100.00**	**1,675.00**	

**Instrument details in Annexure-1*

Rationale

The revision in the outlook on the long-term rating for the long-term bonds programme of PNB Housing Finance Limited (PNBHFL) factors in the moderation in the capitalisation profile (gearing increased to 9.3 times as on March 31, 2019 from 7.6 times as on March 31, 2018), which has assumed more significance given the heightened portfolio vulnerability. The share of the wholesale loan portfolio (excluding lease rental discounting; LRD) increased from 18% of the on-book portfolio as on March 31, 2018 (15% as on March 31, 2017) to 20% of the overall on-book portfolio as on March 31, 2019, which coupled with rise in gearing levels, led to an increase in this portfolio in relation to net worth from 164% as on March 31, 2018 (106% as on March 31, 2017) to 196% as on March 31, 2019. Considering the inherent risk profile of the underlying asset class and the challenging operating environment, the company's economic capital requirements have increased. While PNBHFL has demonstrated the ability to maintain its asset quality indicators, a prolonged slowdown in the real estate market along with the liquidity crunch in the overall market and the real estate book could impact the asset quality indicators over the medium term. However, the risks are mitigated by the good collateral cover maintained by the company on such exposures as well as its risk management systems and processes, which support its ability to proactively manage the portfolio as demonstrated in the past. Nevertheless, it would be imperative for PNBHFL to raise capital in a timely manner to provide a cushion for absorbing contingencies, if any, and to support the planned portfolio growth.

The rating continues to factor in PNBHFL's established track record in the mortgage finance industry, experienced management team, good market standing in the housing finance sector (assets under management (AUM) of Rs. 84,722 crore as on March 31, 2019), diverse funding profile and stable profitability indicators. ICRA expects that the company will continue to benefit from the shared brand name with its promoter, Punjab National Bank (PNB; rated [ICRA]AA-(Stable)), which helps it in leveraging its franchise and in raising funds and hence support its financial flexibility.

Outlook: Negative

Owing to a moderation in the company's capitalisation profile and the rising share of the wholesale loan book, the outlook on the long-term rating has been revised to Negative from Stable. The outlook may be revised back to Stable if PNBHFL is able to reduce the concentration of exposures and raise capital on a timely basis to improve its loss-absorption capacity.

Key rating drivers

Credit strengths

Established player in mortgage lending market – PNBHFL had assets under management of Rs. 84,722 crore as on March 31, 2019 and has grown at a CAGR of 45% over the past three years. Of the total on-book portfolio of Rs 74,023 crore, 55% of the portfolio as on March 31, 2019 was towards individual housing loan, 15% towards loan against property, 20% towards construction finance and corporate term loans and 6% towards lease rental discounting and the balance being non-residential property loans.

Experienced management team and good systems – PNBHFL has a seasoned management team with sound knowledge of mortgage industry and board with prior experience in banking, insurance, retail lending, technology and economic policy. With support from the risk management and internal systems, PNBHFL's experienced management team has a track record of profitably scaling up businesses and has adequate experience in the retail and corporate lending segment of the housing finance industry.

Shared brand name and benefits as an associate of PNB – As an associate of PNB (PNB rated [ICRA]AA-(stable)), which had a stake of 32.79% in PNBHFL as on March 31, 2019, the company benefits from a common brand name, which supports its financial flexibility.

Diversified funding mix – PNBHFL has managed to maintain a healthy funding mix comprising debt market instruments (NCDs and CP formed 27.9% and 9.6%, respectively, of the funding mix as on March 31, 2019), deposits (17.2%), bank borrowings (18.2%), NHB (8.5%), ECBs (5.7%) and direct assignments (12.9%). The cost of borrowings increased to 8.00% in FY2019 from 7.70% in FY2018 owing to the market conditions. While the company remains exposed to asset liability related risks, given the higher tenor of the assets, its liquidity is supported by a good share of long-term and short-term borrowings in the form of debt market instruments and its plans to keep adequate liquid investments and unutilised lines to meet the gaps. Further company has been securitising some part of its portfolio which should help in reducing ALM Risk.

Stable profitability profile – The stable profitability profile resulted from steady spreads, moderate operating expense ratios and low credit costs with profit after tax (PAT) in relation to assets of 1.61% and a return on equity of 17.44% in FY2019 (1.56% and 14.20%, respectively, in FY2018). Going forward, the company's ability to manage interest spreads and credit costs will be critical for maintaining the profitability indicators.

Credit challenges

Moderate economic capitalisation indicators – PNBHFL's capitalisation profile moderated with the gearing increasing to 9.30 times as on March 31, 2019 from 7.60 times as on March 31, 2018. Considering the inherent risk profile of the underlying asset class and the challenging operating environment, the company's economic capital requirements have increased Timely raising of capital would be critical for supporting the capitalisation profile of the company and ICRA will monitor progress on the same closely.

Rising share of wholesale book in overall portfolio mix and concentrated wholesale book exposures – The share of the individual home loans declined to 55% of the portfolio mix as on March 31, 2019 (59% as on March 31, 2017). Accordingly, the share of the wholesale book (excluding LRD) in the on-book portfolio mix increased to 20% of the portfolio as on March 31, 2019 from nearly 15% as on March 31, 2017. While the company maintains a good security cover to absorb losses, if any, arising from slippages in this segment, the slowdown in the real estate sector might impact the completion of projects and actual sales, leading to stress in exposures and weakening of the company's capitalisation profile. As a result, the capital requirements are higher to enhance the company's loss-absorption capacity and to support its growth plans.

To maintain asset quality indicators given rising share of wholesale portfolio - While the company has demonstrated its ability to maintain adequate asset quality (GNPA% of 0.48% as on March 31, 2019) a prolonged slowdown in the real estate industry, coupled with the liquidity crunch in the overall market, could have an adverse impact on the wholesale book of the company where the exposures are relatively concentrated as compared with the retail book Further, considering the relatively high share of the self-employed segment in the retail portfolio, which is more vulnerable to economic shocks, maintaining the asset quality indicators over the medium term will be critical from a credit perspective.

Liquidity position

The Company has been maintaining liquid investment to cater any contingency. As on March 31, 2019, the company's liquidity profile was supported by cash and liquid investments of nearly Rs. 7,058 crore, expected collections (only principal component) of nearly Rs. 4,180 crore over the next three months (expected collections of ~Rs. 8,056 crore over the next six months) and sanctioned and undrawn lines of Rs. 2,000 crore to cover repayments of nearly Rs. 7,808 crore (only principal component) falling due over the next three months (expected repayments of nearly Rs. 13,600 crore over the next six months). The expected inflows from advances will adequately support the repayments though PNBHFL would be dependent on additional borrowings for maintaining normal business growth with the diversified funding profile of PNBHFL the Company is expected to continue its borrowings from multiple sources. Also the company has a deposit franchise that helps in raising funds. While the company remains exposed to asset-liability related risks, given the higher tenor of the assets, its liquidity is supported by a diverse funding mix as well as its plans to keep unutilised lines to meet the gaps. Further company has been securitising some part of its portfolio which should help in reducing ALM Risk.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA Rating Methodology for Housing Finance Companies ICRA Policy on Withdrawal and Suspension of Credit Ratings
Parent/Group	NA
Consolidation/Standalone	The rating is based on the standalone financial profile of the company

About the company

Incorporated in 1988, PNBHFL is a deposit-accepting housing finance company. PNB and The Carlyle Group had a stake of 32.79% and 32.36%, respectively, as on March 31, 2019. The company offers home loans, LAP, builder loans and LRD. The portfolio mix, as on March 31, 2019, included individual housing loans (58% of the AUM), construction finance loans (13%) and non-housing loans (29%) aggregating Rs. 84,722 crore. PNBHFL is geographically diversified with a portfolio spread across the western (39%), northern (31%) and southern (30%) regions of India. As on March 31, 2019, the company had 102 branches (18 branches made operational in FY2019), 23 hubs and 29 outreach locations with a presence in 62 cities.

In FY2019, PNBHFL reported PAT of Rs. 1,191.5 crore on AUM of Rs. 84,721.9 crore as on March 31, 2019 vis-à-vis PAT of Rs. 841.2 crore in FY2018 on AUM of Rs. 62,252.0 crore as on March 31, 2018. The company reported a CRAR of 13.98% (Tier-1 capital of 11.00%) and gearing of 9.30 times as on March 31, 2019. It reported GNPA and NNPA of 0.48% and 0.38%, respectively, as on March 31, 2019 and 0.33% and 0.25%, respectively, as on March 31, 2018.

Key financial indicators (audited)

	FY2017	FY2018	FY2019*
Total income (Rs. crore)	3,907.9	5,516.9	7,683.2
PAT (Rs. crore)	523.7	841.2	1,191.5
Net worth (Rs. crore)	5,577.3	6,305.6	7,543.9
On-book portfolio (Rs. crore)	38,531.3	57,014.4	74,023.0
Assets under management (Rs. crore)	41,492.0	62,252.0	84,721.9
Average yield	10.76%	10.24%	10.35%
Average cost of borrowings	8.55%	7.70%	8.00%
Spread	2.21%	2.54%	2.35%
Return on assets	1.46%	1.56%	1.61%
Return on equity	14.92%	14.20%	17.44%
Gearing (times)	8.72	7.60	9.30
Gross NPA (%)	0.22%	0.33%	0.48%
Net NPA (%)	0.15%	0.25%	0.38%
Net worth/Managed advances (%)	13.4%	10.1%	8.9%
CRAR (%)	21.62%	16.67%	13.98%

**Based on investor presentation for FY2019; all ratios as per ICRA calculations*

Status of non-cooperation with previous CRA: NA

Any other information: None

Rating history for last three years

S. No.	Name of Instrument	Type	Current Rating Rated amount (Rs. crore)	Amount Outstanding (Rs. crore)	Chronology of Rating History for the Past 3 Years FY2020 May 2019	FY2019 Apr 2018	FY2018 Feb 2018	FY2018 Apr 2017	FY2016 Mar 2016	FY2016 Sept 2015
1	NCD Programme	Long Term	1,475	300	[ICRA]AA+ (Negative)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AAA (stable)
2	NCD Programme	Long Term	1,425*	0.0	[ICRA]AA+ (Stable); rating withdrawn	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AAA (stable)
3	Tier-II Bonds Programme	Long Term	200	200	[ICRA]AA+ (Negative)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AAA (stable)

Source: ICRA research

** Rating withdrawn for Rs. 1,425-crore NCD programme as there was no outstanding amount against the said instrument*

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE572E09239	NCD	31-Jan-14	9.48%	31-Jan-24	300.00	[ICRA]AA+ reaffirmed; outlook revised to Negative from Stable
NA	NCD: unallocated	NA	NA	NA	1,175.00	[ICRA]AA+ reaffirmed; outlook revised to Negative from Stable
Sub-total (A)					**1,475.00**	
INE572E09262	Tier-II bonds	24-Nov-14	8.70%	24-Nov-24	200.00	[ICRA]AA+ reaffirmed; outlook revised to Negative from Stable
Sub-total (B)					**200.00**	
Total (A)+(B)					**1,675.00**	

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

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About ICRA Limited

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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