

PNB Housing Finance Limited

March 29, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	15,600.00	CARE AA+; Stable	Revised from CARE AA; Positive
Long Term / Short Term Bank Facilities	16,400.00	CARE AA+; Stable / CARE A1+	Revised from CARE AA; Positive / CARE A1+
Bonds	1,266.00	CARE AA+; Stable	Revised from CARE AA; Positive
Bonds	2,000.00	CARE AA+; Stable	Revised from CARE AA; Positive
Long Term Long Term Instruments	200.00	CARE AA+; Stable	Revised from CARE AA; Positive
Non Convertible Debentures	4,735.00	CARE AA+; Stable	Revised from CARE AA; Positive
Tier II Bonds	300.00	CARE AA+; Stable	Revised from CARE AA; Positive
Tier II Bonds	1,000.00	CARE AA+; Stable	Revised from CARE AA; Positive
Tier II Bonds	-	-	Withdrawn
Fixed Deposit	25,000.00	CARE AA+; Stable	Revised from CARE AA; Positive
Commercial Paper	10,000.00 (Enhanced from 5,000.00)	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Detailed Rationale and key rating drivers

The upgrade in ratings assigned to PNB Housing Finance Limited (PNBHFL) derive strengths from its improving asset quality as reflected in GNPA ratio of 1.73% as on December 31, 2023 as against 8% as on March 31, 2022. Further, revision of rating continues to factor in PNBHFL's strong market position as the third-largest housing finance company (HFC) in the country (on Loan Asset basis as on December 31, 2023) along with a well-diversified resource profile. The ratings continue to take into consideration the brand linkages with Punjab National Bank (PNB) (rated at CARE AAA; Stable); the promoter of PNBHFL and the consistent support derived from the promoters.

CARE Ratings notes that PNBHFL is increasing their focus on affordable segment under the product name ROSHNI, though it remains at nascent stage. As on December 31, 2023, the Loan Asset against affordable stood at 1,145 crore, which is approx. 1.8% of total Loan Asset of the company. As on December 31, 2023, 100 branches are operational for ROSHNI in the 12 states of India. Going forward, the performance of affordable portfolio remains a key rating monitorable.

These rating strengths are, however, partially offset by the moderate albeit improving profitability profile of the company with return on total assets (ROTA) of 2.09% for 9MFY24 on the back of modest net interest margins (NIMs). However, CARE Ratings expects that, profitability will improve further with PNBHFL's focus on scaling up its affordable portfolio.

Rating sensitivities: Factors likely to lead to rating actions

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Positive factors – Factors that could lead to positive rating action/upgrade:

- Significant improvement in scale of operations along with improvement in the profitability indicators, with return on total assets (ROTA) of more than 2.5% on sustained basis.
- Significant improvement in asset quality on sustained basis.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Deterioration in the capitalisation profile with overall capital adequacy ratio (CAR) falling below **20%**.
- Deterioration in asset quality parameters with an increase in GNPA beyond 3% on a sustained basis.
- Decline in profitability parameters, with ROTA of less than 1.5% on a sustained basis.
- Increase in construction finance portfolio above 10% of overall AUM.

Analytical approach: Consolidated; PNBHFL and its subsidiary, PHFL Home Loans and Services Pvt. Ltd due to managerial and operational linkages.

Outlook: Stable

The outlook is 'Stable' considering CARE Ratings Limited (CARE Ratings) expectation that the company will demonstrate profitable business growth complemented by healthy resource-raising ability and strong internal accrual.

Detailed description of the key rating drivers:**Key strengths**

Long-standing track record and market position: Established in 1988, PNBHFL has a long and profitable track record of operations of over three decades. PNBHFL is the third-largest HFC in India with Loan Asset of ₹ 62,337 crore as on December 31, 2023. The company's loan portfolio after degrowing in FY21 and FY22, has increased by 2.4% in FY2023 and 7% (annualized) in 9MFY2024.

This degrowth primarily stemmed from a deliberate reduction in the wholesale book, aligning with management's strategy to mitigate high-ticket bulky exposures. Consequently, the share of the corporate book decreased from 24% of loan asset as of March 31, 2019, to a mere 3.5% by December 31, 2023. Concurrently, the retail loan asset witnessed an 11% (annualized) growth in the first nine months of FY2024, driven by an enhanced focus on lower-ticket size loans and salaried personnel.

As on December 31, 2023, retail loan book, i.e., individual housing loans-Prime (IHL; 69% including affordable portfolio of 1.8%), non-housing loan (NHL; 27%), while the wholesale loan book constituting construction finance contributes 3.5% of total Loan Asset. The on-balance sheet net loan book stood at ₹61,125 crore as on December 31, 2023 (up 6% Y-o-Y).

The company created a separate vertical for affordable segment and started disbursement in Q4 FY23 under the name of 'Roshni'. Currently, the average ticket size targeted under the Roshni segment is around ₹15 lakh (on sanction) and with increased focus on this segment, PNBHFL intends to expand its team and distribution network, particularly in Tier-2 and Tier-3 cities, to better serve the growing demand in these areas.

Going Forward, PNBHFL anticipates a shift in its business composition. While the corporate book is projected to decrease, the retail book is expected to experience growth of approximately 17% in FY25. Notably, the affordable housing finance segment is expected to gain increased traction, with it amounting to around 5-10% of incremental disbursements. Further, CARE Ratings notes that PNBHFL might resume disbursing funds for its corporate book in the upcoming year.

Regular track record of support from the promoters and brand linkages with PNB (promoter of PNBHFL): PNBHFL is promoted by PNB. The other major investor is the Carlyle group. Both these entities participated in the latest round of rights issue of ₹2,494 crore in May 2023. With PNB investing ₹500 crore, its shareholding has reduced to 28.1% as on December 31, 2023, from 32.5%, as on March 31, 2023. CARE Ratings notes that PNB cannot hold more than 30% stake in PNB Housing Finance Limited due to RBI guidelines, however, PNB intends to hold more than 26% to maintain its Promoter status.

Further, PNBHFL shares brand name with PNB along with benefits in terms of financial flexibility for fund raising and deposit mobilization. PNBHFL also received support from its promoter in the form of board representation, with the current managing director (MD) of PNB, Mr. Atul Goel and Mr. Dilip Kumar Jain (CGM at PNB) serving as non-executive nominee directors.

The Carlyle group holds 32.7% of shareholding, as on December 31, 2023 in PNBHFL and had invested ₹844 crore in the latest rights issue. Going forward too, CARE Ratings expects the Carlyle group to remain the major shareholder and support the company in the form of capital commitment, as and when required.

Diversified resource profile: PNBHFL has showcased strong resource-raising capacity to fund its business growth. Over the past few years, company has tapped into multiple diverse market instruments such as non-convertible debentures and commercial paper, deposits, external commercial borrowings as well as loans from various banks and financial institutions, including National Housing Bank (NHB). End-December 2023, the total borrowings of PNBHFL stood at ₹53,106 crore (excluding off balance sheet) as against ₹53,655 crore as on March 31, 2023. As on December 31, 2023, PNBHFL's funding profile (borrowings) comprised deposits (32.3%), loans from banks (42.0%), NCDs (10.5%), CPs (6.1%), NHB (6.3%) and external commercial borrowings (ECBs; 2.7%).

Going forward, resource profile is expected to be further diversified with company being able to raise higher borrowings from National Housing Bank and debt market.

Moderate asset quality profile, albeit improving: PNBHFL witnessed improvement in its asset quality from 8.13% as on March 31, 2022 to 1.73% as on December 31, 2023 driven by improving collection efficiency, write offs and resolution of its corporate accounts.

The asset quality for the corporate segment improved with GNPA ratio reducing from 37.13% as on March 31, 2022, to 22.25% as on March 31, 2023 and 3.35% as on December 31, 2023, driven by write offs and resolutions. On the retail side, the company has reduced its exposure to the self-employed segment which in turn has marginally improved the asset quality. Additionally, the company has also been able to recover through SARFAESI post the lifting of Supreme Court order in October 2021. Consequently, the retail GNPA improved to 1.67% as on December 31, 2023, from 3.89% as on March 31, 2022.

Furthermore, all the loans in both housing and non-housing segments are backed by adequate security which provides further support to the asset quality. The average ticket size of the loan in prime and affordable housing segment is around ₹29 lakh and ₹15 lakh (on sanction) respectively, whereas for non-housing loan (NHL), it is around ₹32 lakhs. Currently, the company is maintaining a provision coverage ratio of 34%.

Going forward, CARE Ratings expects that the company will be able to maintain its overall gross NPA ratio below 2% on a sustainable basis, which will remain a key rating sensitivity.

Key Weaknesses

Moderate profitability profile, although improving: PNBHFL maintains a moderate profitability profile, albeit with an improving trend. During 9MFY24, NIMs remain largely stable at 3.6% (vs 3.5% in FY23) with the effect of slight moderation in the spreads getting largely mitigated by reduced gearing. Further, due to its relatively large size and corresponding economies of scale, operating expenses to average total asset ratio remained low at 0.94%, although increased from 0.70% in FY22, as the company is expanding its affordable portfolio.

Further, with the increasing share of affordable portfolio, Yields and NIMs are expected to improve. Going forward, CARE Ratings expects profitability to further improve with ROTA remaining above 2% on a sustainable basis.

Liquidity: Strong

As per the asset liability maturity (ALM) statement dated December 31, 2023, the liquidity profile of PNBHFL is strong with no cumulative mismatches in any of the time buckets. As on December 31, 2023, the company has debt repayments of ₹12,452 crore for the next six months, against this it had cash & cash equivalent of ₹2,591 crore and sanctioned and unutilised bank lines of ₹6,660 crore. Apart from this, PNBHFL has shared brand name with PNB which aids in deposit mobilization.

Environment, social, and governance (ESG) risks

Given that PNBHFL is engaged in the lending business, it is exposed to the environmental risks indirectly through their portfolio of assets. If the entities on whom PNBHFL has an exposure faces environmental or regulatory risk, it could translate into credit risks for PNBHFL.

PNBHFL has undertaken various programmes under Environment and Water Conservation in MP, Rajasthan, UP, Haryana and Maharashtra. The company supported solar Electrification in 23 government schools in Haryana and UP. It has been promoting quality education through infrastructure development viz. upgradation of Aganwadi Centers and government school, e-learning infrastructure development amongst others.

Applicable criteria

[Definition of Default](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios - Financial Sector](#)

[Withdrawal Policy](#)

[Housing Finance Companies](#)

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[Consolidation](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Housing Finance Company

PNBHFL, established in 1988, is a deposit-taking HFC registered with the NHB. It is engaged in retail loans (housing loans for construction, purchase, repair and up-gradation of houses, loan against property [LAP] and non-residential premise loans and LRD loans to individuals) and wholesale loans, viz., corporate term loans, construction finance and LRD. It is the third-largest HFC in India with reported outstanding AUM of ₹68,549 crore as on December 31, 2023.

PNB is the promoter of PNBHFL with 28.1% shareholding in the company as on December 31, 2023 and Quality Investments Holdings (QIH), part of the Carlyle group, holding 32.7% stake as on December 31, 2023.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	December 31, 2023 (UA)
Total income	6,190	6,518	5,232
PAT	836	1,046	1,069
Interest coverage (times)	1.27	1.35	1.44
Total assets	65,229	66,715	69,961
Net NPA (%)	5.06	2.76	1.14
ROTA (%)	1.23	1.58	2.09

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue(₹ crore)	Rating Assigned along with Rating Outlook
Fixed Deposit		-	-	-	25000	CARE AA+; Stable
Fund-based-Long Term		-	-	31-Mar-30	15600	CARE AA+; Stable
Fund-based-LT/ST		-	-	17-Jun-24	16400	CARE AA+; Stable / CARE A1+
Commercial Paper-Commercial Paper (Standalone)				< 1 year	10000	CARE A1+
Long Term Bonds – Tier-II	INE572E09320	18-Jan-16	8.42%	17-Jan-26	210	CARE AA+; Stable
Long Term Bonds – Tier-II	INE572E09346	28-Apr-16	8.39%	28-Apr-26	290	CARE AA+; Stable
Long Term Bonds – Tier-II	INE572E09627	07-Jan-19	9.40%	05-Jan-29	39.7	CARE AA+; Stable
Long Term Bonds	INE572E07068	07-Nov-19	8.75%	05-Nov-25	2500	CARE AA+; Stable
Long Term Bonds	INE572E07076	25-Jun-21	6.50%	25-Jun-24	130	CARE AA+; Stable
Long Term Bonds	INE572E07084	27-Sep-21	6.50%	27-Sep-24	325	CARE AA+; Stable
Long Term Bonds	INE572E07100	28-Jun-23	8.60%	26-Jun-26	222	CARE AA+; Stable
Long Term Bonds	INE572E07118	28-Jun-23	8.53%	27-Dec-24	150	CARE AA+; Stable
Long Term Bonds	INE572E07126	06-Sep-23	8.52%	06-Sep-28	400	CARE AA+; Stable
Long Term Bonds	INE572E07134	14-Sep-23	8.43%	14-Mar-25	650	CARE AA+; Stable
Long Term Bonds	INE572E07142	22-Dec-23	8.13%	22-Dec-33	29	CARE AA+; Stable
Long Term Bonds – Tier-II	INE572E09387	26-Jul-16	8.57%	26-Jul-23	0	Withdrawn
Proposed-Tier II					760.3	CARE AA+; Stable
Proposed-subordinate debt					200	CARE AA+; Stable
Proposed-NCD					3595	CARE AA+; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Bonds	LT	-	-	-	1)Withdrawn (30-Jun-22)	1)CARE AA; Stable (02-Jul-21)	1)CARE AA; Stable (03-Jul-20) 2)CARE AA+; Negative (24-Apr-20)
2	Debt-Subordinate Debt	LT	200.00	CARE AA+; Stable	1)CARE AA; Positive (29-Jun-23)	1)CARE AA; Stable (30-Jun-22)	1)CARE AA; Stable (02-Jul-21)	1)CARE AA; Stable (03-Jul-20) 2)CARE AA+; Negative (24-Apr-20)
3	Bonds	LT	-	-	-	1)Withdrawn (30-Jun-22)	1)CARE AA; Stable (02-Jul-21)	1)CARE AA; Stable (03-Jul-20) 2)CARE AA+; Negative (24-Apr-20)
4	Bonds	LT	-	-	-	1)Withdrawn (30-Jun-22)	1)CARE AA; Stable (02-Jul-21)	1)CARE AA; Stable (03-Jul-20) 2)CARE AA+; Negative (24-Apr-20)
5	Bonds	LT	-	-	-	1)Withdrawn (30-Jun-22)	1)CARE AA; Stable (02-Jul-21)	1)CARE AA; Stable (03-Jul-20)

								2)CARE AA+; Negative (24-Apr-20)
6	Bonds-Non Convertible Bonds	LT	-	-	-	1)Withdrawn (30-Jun-22)	1)CARE AA; Stable (02-Jul-21)	1)CARE AA; Stable (03-Jul-20) 2)CARE AA+; Negative (24-Apr-20)
7	Bonds	LT	-	-	-	1)Withdrawn (30-Jun-22)	1)CARE AA; Stable (02-Jul-21)	1)CARE AA; Stable (03-Jul-20) 2)CARE AA+; Negative (24-Apr-20)
8	Commercial Paper-Commercial Paper (Standalone)	ST	10000.00	CARE A1+	1)CARE A1+ (29-Jun-23)	1)CARE A1+ (30-Jun-22)	1)CARE A1+ (02-Jul-21)	1)CARE A1+ (03-Jul-20) 2)CARE A1+ (24-Apr-20)
9	Fund-based-Long Term	LT	15600.00	CARE AA+; Stable	1)CARE AA; Positive (29-Jun-23)	1)CARE AA; Stable (30-Jun-22)	1)CARE AA; Stable (02-Jul-21)	1)CARE AA; Stable (03-Jul-20) 2)CARE AA+; Negative (24-Apr-20)
10	Bonds	LT	-	-	-	1)Withdrawn (30-Jun-22)	1)CARE AA; Stable (02-Jul-21)	1)CARE AA; Stable (03-Jul-20) 2)CARE AA+; Negative (24-Apr-20)

11	Fixed Deposit	LT	25000.00	CARE AA+; Stable	1)CARE AA; Positive (29-Jun-23)	1)CARE AA; Stable (30-Jun-22) 2)CARE AA; Stable (22-Jun-22)	1)CARE AA (FD); Stable (03-Jul-20) 2)CARE AA+ (FD); Negative (24-Apr-20)
12	Bonds-Tier II Bonds	LT	300.00	CARE AA+; Stable	1)CARE AA; Positive (29-Jun-23)	1)CARE AA; Stable (30-Jun-22)	1)CARE AA; Stable (03-Jul-20) 2)CARE AA+; Negative (24-Apr-20)
13	Bonds-Non Convertible Bonds	LT	-	-	-	1)Withdrawn (30-Jun-22)	1)CARE AA; Stable (03-Jul-20) 2)CARE AA+; Negative (24-Apr-20)
14	Bonds-Tier II Bonds	LT	-	-	1)CARE AA; Positive (29-Jun-23)	1)CARE AA; Stable (30-Jun-22)	1)CARE AA; Stable (03-Jul-20) 2)CARE AA+; Negative (24-Apr-20)
15	Bonds	LT	1266.00	CARE AA+; Stable	1)CARE AA; Positive (29-Jun-23)	1)CARE AA; Stable (30-Jun-22)	1)CARE AA; Stable (03-Jul-20) 2)CARE AA+; Negative (24-Apr-20)
16	Fund-based-LT/ST	LT/ST	16400.00	CARE AA+; Stable / CARE A1+	1)CARE AA; Positive / CARE A1+	1)CARE AA; Stable / CARE A1+ (30-Jun-22)	1)CARE AA; Stable / CARE A1+

					(29-Jun-23)		(02-Jul-21)	(03-Jul-20) 2)CARE AA+; Negative / CARE A1+ (24-Apr-20)
17	Bonds	LT	2000.00	CARE AA+; Stable	1)CARE AA; Positive (29-Jun-23)	1)CARE AA; Stable (30-Jun-22)	1)CARE AA; Stable (02-Jul-21)	1)CARE AA; Stable (03-Jul-20) 2)CARE AA+; Negative (24-Apr-20)
18	Bonds-Tier II Bonds	LT	1000.00	CARE AA+; Stable	1)CARE AA; Positive (29-Jun-23)	1)CARE AA; Stable (30-Jun-22)	1)CARE AA; Stable (02-Jul-21)	1)CARE AA; Stable (03-Jul-20) 2)CARE AA+; Negative (24-Apr-20)
19	Debentures-Non Convertible Debentures	LT	4735.00	CARE AA+; Stable	1)CARE AA; Positive (29-Jun-23)	1)CARE AA; Stable (30-Jun-22)	1)CARE AA; Stable (02-Jul-21)	1)CARE AA; Stable (03-Jul-20) 2)CARE AA+; Negative (24-Apr-20)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Bonds-Tier II Bonds	Complex
2	Bonds	Simple
3	Commercial Paper-Commercial Paper (Standalone)	Simple
4	Debentures-Non Convertible Debentures	Simple
5	Debt-Subordinate Debt	Complex
6	Fixed Deposit	Simple
7	Fund-based-Long Term	Simple
8	Fund-based-LT/ST	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Annexure-6: List of all the entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	PHFL Home loans & Services Limited	Full consolidation	Wholly owned subsidiary

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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