PNB Housing Finance Ltd

January 8, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	2485 (enhanced from Rs.775 Crore)	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Long-term/Short-term Bank Facilities	5515 (enhanced from Rs. 3225 Crore)	CARE AAA; Stable/CARE A1+ (Triple A; Outlook: Stable/A One Plus)	Reaffirmed
Total Bank Facilities	8000 **(Rs. Eight Thousand crore only)**		
Long term Bonds/Non-Convertible Debentures	8000 **(Rs. Eight Thousand crore only)**	CARE AAA; Stable (Triple A; Outlook Stable)	Assigned

Details of instruments/facilities in Annexure-1

Detailed Rationale& Key Rating Drivers

The ratings assigned to instruments/bank facilities of PNB Housing Finance Ltd (PNBHFL) continue to derive strength from its strong management team, consistent growth in loan portfolio, healthy asset quality, diversified resource profile, adequate capitalization levels, comfortable liquidity position and stable profitability margins of the company. The ratings continue to draw comfort from the strong promoter in Punjab National Bank [PNB] and the brand linkages with PNB. The ability of the company to maintain its profitability, asset quality and liquidity position and continued branding of PNB remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Strong promoters and management

PNBHFL has strong promoter in PNB which continues to be the largest shareholder in the company despite the recent sale of 5.89% stake bringing down the shareholding of PNB from 38.86% stake to 32.96% on November 29, 2017. PNBHFL shares the brand linkages with PNB. The shared brand name and logo indicates the strategic importance of the company to PNB. Although, as the company has grown, the reliance on PNB in the form of management and funding support has reduced. The company's operations are managed by an independent management team comprising of professionals with strong domain knowledge and extensive experience in the mortgage business.

The company is led by Mr Sanjaya Gupta (Managing Director) who has a rich experience of over 29 years in housing finance industry. Under his leadership, PNBHFL launched the business process re-engineering initiative namely 'Kshitij' which has improved the operational efficiency and has helped PNBHFL emerge as one of the largest HFCs in the country.

Healthy financial performance

PNBHFL registered significant increase in its AUM y-o-y which stood at Rs. 41,492 crore as on March 31, 2017, as against Rs. 27,555 crore as on March 31, 2016. The AUM of the company has further grown to Rs. 51,320 crore as on September 30, 2017. PNBHFL reported a growth of 45% in its income to Rs. 3908 crore during FY17 which was supported by robust growth in disbursements by 43% to Rs.20,639 crore in FY17. The total income was 2508 crore for H1FY18. The high growth in disbursement is primarily attributable to steps taken by the management of PNBHFL to improve its customer reach by penetrating existing markets and entering new territories besides various marketing initiatives including building of business tie-ups with various financers for sourcing of housing and non-housing loans, creation of visibility at project sites and expansion of direct sales team and launch of multimedia brand campaign. During FY17, 16 new branches were made operational while 10 new branches have been opened during H1FY18, totaling to 73 branches with presence in 41 unique cities as on Sept 30, 2017. The Company also services its customers through 29 outreach locations and 21 underwriting hubs (catering to the branches as outreach centers).

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Approximately 54.3% (P.Y. 59%) of the total disbursement in FY17 was for housing loans segment (yield of 9.46%), 31.24% (P.Y. 29%) for non-housing loans segment (yield of 11.22%) and 14.45% (P.Y. 12%) in construction finance segment (yield of 13.15%). There is higher growth seen in disbursement in the Non-Housing and construction segment given the higher yields and lower operating costs (origination and employee costs) in these segments as compared to the housing loan segment wherein there is intense competition from banks/FIs.

As per the management, the interest spread computed based on monthly average balances has increased marginally from 2.18% during FY16 to 2.21% in FY17 on account of marginally lower reduction in interest on advances as against reduction of borrowing costs particularly during Q4FY17 wherein interest spread improved to 2.37%. The interest on borrowed funds reduced during FY17 on account of reduction in policy rates by RBI, reduction in borrowing costs from various sources. PNBHFL was successful in maintaining its interest spreads owing to a prudent borrowing mix (reliance on public deposits, long term bonds and commercial paper as against the high cost bank borrowings) and higher growth seen in the higher yielding wholesale loan book although the yield on loans also reduced during the year with the lending rates being reduced particularly for housing loans by the company due to intense competition from banks and other HFCs.

Growth in portfolio as well as implementation of Enterprise System Solution (ESS) has resulted in operational efficiencies resulting in lower operating costs and higher returns. Consequently, ROTA (Adj.) has increased from 1.33% in FY16 to 1.38% for FY17 besides reduction in interest costs upon equity infusion due to reduction in overall gearing levels to 6.81x as on March 31, 2017 (P.Y. 13.84x) upon equity infusion of Rs. 3000 Crore, post the IPO issue in November 2016.

PNBHFL reported Profit after Tax (PAT) of Rs. 524 crore on a total income of Rs. 3908 crore during FY17 (refers to the period April 01 to March 31), as compared with a PAT of 326 crore on a total income of Rs. 2699 crore during FY16. PNBHFL has reported PAT of Rs. 393 crore on a total income of Rs. 2508 crore during H1FY18.

Healthy asset quality

PNBHFL reported healthy asset quality parameters with Gross NPA ratio of 0.22% (P.Y.:0.22%) and Net NPA ratio of 0.15% (P.Y.: 0.14%) as on March 31, 2017. The Net NPA to net-worth ratio stood at 1.06% as on March 31, 2017 (2.01% as on March 31, 2016). The Gross NPA on 2 years lagged basis continues to be low at 0.51% as on March 31, 2017. The Gross NPA and Net NPA stood at 0.34% and 0.26% as on Sept 30, 2017.

The healthy asset quality can be attributed to adequate systems in place post the BPR exercise and success in resolution of NPAs using SARFESI Act. Also, PNBHFL, in addition to the provision on NPAs and Provision for Standard Assets as per NHB Directions, has provided for Provision for Contingency. As on 31st March, 2017 the Company was carrying total provision (Non-performing Assets and Standard Assets) of INR 220.75 crore (excluding contingent provisions) as against Gross Non-Performing Assets of Rs. 85.77 crore. The provision coverage ratio (Provision for Standard Assets and NPAs/ Gross NPAs) stood at 257% as on March 31, 2017 (254% as on March 31, 2016). However, there was marginal increase in delinquency since Q3FY17 (post announcement of demonetization) with PAR >0 days being 2.85% (Rs. 1097 crore) as on March 31, 2017 as against 1.59% (Rs. 431 crore) as on March 31, 2016. The maximum delinquency was seen in the retail housing loan portfolio (DPD>0 days) being 2.62% (P.Y. 1.33%) as on March 31, 2017 and LAP segment wherein DPD>0 days stood at 4.59% (P.Y. 1.90%). There are no delinquencies seen in the LRD book whereas DPD>0 days stood at 4.04% and 1.56% for the construction finance segment respectively.

Largely the NPAs are from older book (1.5% for the book > 36 months). The average ageing of housing loans is 19 months and for non-housing is 15 months as on March 31, 2017. Thus, the sustainability of the asset quality is to be seen with the seasoning of loans. Also, given the increasing proportion of non-housing retail loans in the overall book, the sustainability of the asset quality performance in this segment remains to be seen and will be critical for the credit profile of the company going ahead.

Diversified resource profile and comfortable capitalization

PNBHFL has demonstrated strong resource (both equity and debt) raising capacity to fund business growth. It has raised funds through various market instruments, public deposits as well as loans from various banks and financial institutions including NHB. PNBHF also raised funds from Asian Development Bank and International Finance Corporation. As on Sept 30, 2017, PNBHFL's debt profile comprised of NCDs (46%), Deposits (23%), Commercial Paper (15%), Bank loans (7%), National Housing Board finance (6%) and ECBs (3%). During FY17, PNBHFL had raised capital of Rs. 3000 crore from the IPO issue in November 2016. Consequently, the capitalization levels improved to 21.62% with Tier-I CAR of 16.48% (P.Y. 9.04%) as on March 31, 2017 (P.Y. 12.70%) as against the minimum prescribed CAR of 12% by National Housing Bank (NHB). The CAR and Tier-I CAR stood at 18.38% and 13.99% as on Sept 30, 2017. The leverage levels of the company are comfortable being 6.81 times as on March 31, 2017 (P.Y. 13.84 times). The overall gearing was 8.09 times as on Sept 30, 2017.

Comfortable liquidity profile

Liquidity profile of the company continues to remain comfortable. As on Sept 30, 2017, PNBHFL had well-matched liquidity profile as per the Structural Liquidity Statement prepared in line with NHB Guidelines and ALCO Policy.

PNBHFL has short term investments and balance in current accounts to the tune of Rs.2604 crore as on Sept 30, 2017 besides long term investments (SLR investments being maintained to the extent of 12.50% of the public deposits outstanding in the preceding quarter) and undrawn lines of credit.

Outlook

The housing finance segment in India has emerged as one of the most secured and resilient asset classes witnessing healthy growth rates and low delinquencies. As a result, housing finance has continued to be a focus segment for both banks as well as housing finance companies. Owing to the stress in their corporates portfolios, banks have been increasingly shifting their focus towards retail asset classes such as mortgage finance. As per CARE estimates, the size of mortgage finance market stood at over Rs.12.4 trillion as of March 2016 of which HFCs accounted for roughly 40% and banks for the remaining 60%. Although banks continue to dominate the housing finance space in India given their extensive reach and access to low cost funds which has resulted into a rise in balance transfers from HFCs to banks; HFCs continue to mark their presence with their focus, systems as well as specialization in their target segment and geographies.

Continued healthy portfolio growth, stable margins and operating efficiencies as well as low credit costs have contributed to healthy profitability parameters of HFCs. While some of the players are witnessing rising NPA levels in their loans against property (LAP) and non- housing loans portfolio; the fact that individual housing loans (excluding LAP) account for bulk of the total mortgage finance portfolios of HFCs, the overall delinquencies are still low.

Over the last few years, many new HFCs backed by private equity players and or strong promoters with a focus on affordable housing have started operations. Recent initiatives such as lowering of risk weights for housing loans, revision in interest rates and on-lending spread caps under Rural Housing Fund by NHB in addition to Housing for All by 2022 are expected to boost credit growth in the affordable housing segment. Furthermore, initiatives such as RERA, 100% tax exemption to developers on profits from building affordable housing and services tax exemption are expected to help transparency and supply side issues.

HFCs are expected to maintain their good profitability on the basis of strong business growth and stable asset quality over the medium term. However, rising competition and the resultant possible dilution in credit underwriting norms, long-term funding and asset quality are the key challenges for the sector.

PNBHFL with its long track record and experienced management has been able to achieve stable and sustainable growth in business. However, continued branding of PNB, the ability of the company to maintain its profitability, asset quality and liquidity position remain the key rating sensitivities.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short-term Instruments
Sector Methodology – Housing Finance Companies
Financial Sector Ratios

About the Company

PNBHFL (CIN: L65922DL1988PLC033856) was promoted by PNB as a 100% subsidiary, in the year 1988, with the objective of venturing into housing finance business. In December 2009, PNB entered into a strategic financial partnership with QIH (Quality Investments Holdings) earlier Destimoney Enterprises Limited (DEL). The company raised an amount of Rs. 3000 crore through the IPO issue in November 2016, post which the shareholding of PNB had naturally diluted to 38.86%. PNB's shareholding declined further to 32.96% on November 29, 2017 from 38.86% following share sale by PNB.

PNBHFL is registered as a deposit- accepting housing finance company with National Housing Bank. It is engaged in providing housing loans and loan against property (LAP) to individuals for construction, purchase, repair and up-gradation of houses. It also provides wholesale loans viz corporate term loans, construction finance and lease rental discounting (LRD). It is the fifth largest housing finance company in India and reported an outstanding Assets Under Management (AUM) of Rs. 51,320 crore (including securitized loan portfolio of Rs.2571 crore) as on Sept 30, 2017 with housing loan portfolio of Rs. 28,648 crore, Non-Housing Loans (LAP, LRD, Corporate Term Loans) of Rs. 14,342 crore and Construction Finance Loans of Rs.5749 crore as on Sept 30, 2017.

PNBHFL reported Profit after Tax (PAT) of Rs. 524 crore on a total income of Rs. 3908 crore during FY17 (refers to the period April 01 to March 31), as compared with a PAT of 326 crore on a total income of Rs. 2699 crore during FY16. PNBHFL has reported PAT of Rs. 393 crore on a total income of Rs. 2508 crore during H1FY18

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	**2697**	**3908**
PAT	326	524
Interest coverage (times)	1.27	1.30
Total Assets	29415	42619
Net NPA (%)	0.14	0.15
ROTA (%)	1.35	1.44

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	04-Dec-2022	2485.00	CARE AAA; Stable
Fund-based-LT/ST	-	-	-	5515.00	CARE AAA; Stable / CARE A1+
Debentures-Non Convertible Debentures	-	-	-	8000.00	CARE AAA; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Bonds	LT	150.00	CARE AAA; Stable	1)CARE AAA; Stable (18-Jul-17)	1)CARE AAA; Stable (07-Feb-17) 2)CARE AAA (19-Aug-16)	1)CARE AAA (02-Jul-15)	1)CARE AAA (10-Sep-14)
2.	Debt-Subordinate Debt	LT	-	-	1)Withdrawn (18-Jul-17)	1)CARE AAA; Stable (07-Feb-17) 2)CARE AAA (19-Aug-16)	1)CARE AAA (02-Jul-15)	1)CARE AAA (10-Sep-14)
3.	Debt-Subordinate Debt	LT	200.00	CARE AAA; Stable	1)CARE AAA; Stable (18-Jul-17)	1)CARE AAA; Stable (07-Feb-17) 2)CARE AAA (19-Aug-16)	1)CARE AAA (02-Jul-15)	1)CARE AAA (10-Sep-14)
4.	Bonds	LT	125.00	CARE AAA; Stable	1)CARE AAA; Stable (18-Jul-17)	1)CARE AAA; Stable (07-Feb-17) 2)CARE AAA (19-Aug-16)	1)CARE AAA (02-Jul-15)	1)CARE AAA (10-Sep-14)
5.	Bonds	LT	-	-	1)Withdrawn (18-Jul-17)	1)CARE AAA; Stable (07-Feb-17) 2)CARE AAA (19-Aug-16)	1)CARE AAA (02-Jul-15)	1)CARE AAA (10-Sep-14)
6.	Bonds	LT	200.00	CARE AAA; Stable	1)CARE AAA; Stable (18-Jul-17)	1)CARE AAA; Stable (07-Feb-17) 2)CARE AAA (19-Aug-16)	1)CARE AAA (02-Jul-15)	1)CARE AAA (10-Sep-14)
7.	Bonds	LT	500.00	CARE AAA; Stable	1)CARE AAA; Stable (18-Jul-17)	1)CARE AAA; Stable (07-Feb-17) 2)CARE AAA (19-Aug-16)	1)CARE AAA (02-Jul-15)	1)CARE AAA (10-Sep-14)
8.	Debentures-Non Convertible Debentures	LT	1000.00	CARE AAA; Stable	1)CARE AAA; Stable (18-Jul-17)	1)CARE AAA; Stable (07-Feb-17) 2)CARE AAA (19-Aug-16)	1)CARE AAA (02-Jul-15)	1)CARE AAA (10-Sep-14)
9.	Debentures-Non Convertible Debentures	LT	1500.00	CARE AAA; Stable	1)CARE AAA; Stable (18-Jul-17)	1)CARE AAA; Stable (07-Feb-17) 2)CARE AAA (19-Aug-16)	1)CARE AAA (02-Jul-15)	1)CARE AAA (10-Sep-14)

10.	Commercial Paper	ST	15000.00	CARE A1+	1)CARE A1+ (29-Aug-17) 2)CARE A1+ (18-Jul-17)	1)CARE A1+ (07-Feb-17) 2)CARE A1+ (19-Aug-16) 3)CARE A1+ (07-Jun-16)	1)CARE A1+ (02-Jul-15)	1)CARE A1+ (24-Mar-15)
11.	Fund-based - LT-Term Loan	LT	2485.00	CARE AAA; Stable	1)CARE AAA; Stable (18-Jul-17)	1)CARE AAA; Stable (07-Feb-17) 2)CARE AAA (19-Aug-16)	1)CARE AAA (02-Jul-15)	-
12.	Debentures-Non Convertible Debentures	LT	4000.00	CARE AAA; Stable	1)CARE AAA; Stable (18-Jul-17) 2)CARE AAA; Stable (29-May-17)	1)CARE AAA; Stable (07-Feb-17) 2)CARE AAA (19-Aug-16)	1)CARE AAA (02-Jul-15)	-
13.	Fixed Deposit	LT	12500.00	CARE AAA (FD); Stable	1)CARE AAA (FD); Stable (18-Jul-17)	1)CARE AAA (FD); Stable (07-Feb-17) 2)CARE AAA (FD) (19-Aug-16) 3)CARE AAA (FD) (07-Jun-16)	1)CARE AAA (FD) (02-Jul-15)	-
14.	Bonds-Tier II Bonds	LT	500.00	CARE AAA; Stable	1)CARE AAA; Stable (18-Jul-17)	1)CARE AAA; Stable (07-Feb-17) 2)CARE AAA (19-Aug-16)	1)CARE AAA (02-Jul-15)	-
15.	Debentures-Non Convertible Debentures	LT	6501.00	CARE AAA; Stable	1)CARE AAA; Stable (18-Jul-17) 2)CARE AAA; Stable (29-May-17)	1)CARE AAA; Stable (07-Feb-17) 2)CARE AAA (19-Aug-16) 3)CARE AAA (07-Jun-16)	-	-
16.	Bonds-Tier II Bonds	LT	499.00	CARE AAA; Stable	1)CARE AAA; Stable (18-Jul-17) 2)CARE AAA; Stable (29-May-17)	1)CARE AAA; Stable (07-Feb-17) 2)CARE AAA (19-Aug-16) 3)CARE AAA (07-Jun-16)	-	-
17.	Debentures-Non Convertible Debentures	LT	8500.00	CARE AAA; Stable	1)CARE AAA; Stable (29-Aug-17) 2)CARE AAA; Stable (18-Jul-17)	-	-	-

18.	Fund-based-LT/ST	LT/ST	5515.00	CARE AAA; Stable / CARE A1+	1)CARE AAA; Stable / CARE A1+ (18-Jul-17)	-	-	-
19.	Debentures-Non Convertible Debentures	LT	8000.00	CARE AAA; Stable				

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