PNB Housing Finance Ltd

May 29, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Commercial paper	25000 (enhanced from Rs.15000 Crore)	CARE A1+ (A One Plus)	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale& Key Rating Drivers

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

Detailed description of the key rating drivers

Key Rating Strengths

Comfort from PNB being a promoter and brand linkages and experienced management team of PNBHFL

PNBHFL has promoter in PNB which continues to be the largest shareholder in the company despite the 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 32 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 growth in its asset under management (AUM), which increased by 50% in FY18 from Rs.41,492 crore as on March 31, 2017 to Rs.62,252 crore as on March 31, 2018. PNBHFL's disbursements increased by 61% to Rs.33,195 crore in FY18. 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. As on March 31, 2018, PNBHFL had 84 branches with presence in 47 unique cities, and 21 Hubs. This includes 21 new branches and 3 hubs made operational during FY18. The Company also services the customers through 34 outreach locations. As on March 31, 2018, PNBHFL's AUM comprised on-balance sheet loan book of Rs.57,014 crore (91.6% of loan book) and balance was in the form of securitized / assigned loan book. Within on-balance sheet loan book, housing loans comprised 56.2% of loan book, non-housing loans (LAP, LRD, Corporate Term Loans etc.) comprised 30.2% of loan book and balance being construction finance at 13.6% of loan book as on March 31, 2018.

PNBHFL reported a growth of 41% in its total income to Rs.5,517 crore during FY18 which was supported by robust growth in AUM by 50% in FY18 to Rs.62,252 crore as on March 31, 2018. PNB's profitability profile is also supported by some improvement in net interest margin (NIMs) during FY18, marginal reduction in operating expenses ratio as well as control on asset quality profile. PNBHFL reported PAT of Rs.829 crore in FY18 vs. PAT of Rs.524 crore in FY17.

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

Overall, Return on total assets (ROTA) has improved from 1.44% in FY17 to 1.56% in FY18. Going forward, PNBHFL's ability to control its funding cost / pass on the increase in funding cost to the borrowers (given rising interest rate scenario) and maintaining its asset quality will be critical for its profitability profile.

Healthy asset quality

PNBHFL reported healthy asset quality parameters with Gross NPA ratio of 0.33% (P.Y.:0.22%) and Net NPA ratio of 0.25% (P.Y.: 0.15%) as on March 31, 2018. The Net NPA to net-worth ratio stood at 2.3% as on March 31, 2018 (1.1% as on March 31, 2017). The Gross NPA on 2 years lagged basis continues to be low at 0.69% as on March 31, 2018. 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 March 31, 2018 the Company was carrying total provision (including Non-performing Assets, Standard Assets and contingent provision) of Rs.425 crore as against Gross Non-Performing Assets of Rs.188 crore.

Given sizeable part of loan book originated over last 2-3 years, 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. PNBHFL also raised funds from Asian Development Bank and International Finance Corporation. As on March 31, 2018, PNBHFL's debt profile comprised of NCDs (41% of total borrowings), Deposits (21%), Commercial Paper (19%), Bank loans (8%), National Housing Bank finance (7%) and balance being external commercial borrowings (ECBs). Besides, PNBHFL has also raised funds through off balance sheet transactions (securitization / direct assignment) which accounted for 8.4% of its AUM as on March 31, 2018.

During FY17, PNBHFL had raised capital of Rs.3000 crore from the IPO issue in November 2016. PNB's CRAR and Tier 1 capital was 16.67% and 12.75% respectively as on March 31, 2018 against regulatory minimum required CRAR of 12%. PNBHFL's tier 2 capital was 3.92% as on March 31, 2018.

The leverage levels of the company are comfortable at 8.60 times as on March 31, 2018 (P.Y. 6.81 times).

Comfortable liquidity profile

Liquidity profile of the company continues to remain comfortable as reflected in Structural Liquidity Statement as on March 31, 2018. PNBHFL had short term investments and balance in current accounts to the tune of around Rs.4,000 crore as on March 31, 2018 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. As for share of shorter tenure commercial paper borrowings, PNBHFL intends to maintain commercial paper borrowings at not more than 20% of its total funding on an ongoing basis. PNBHFL's liquidity profile is expected to remain comfortable on the back of its diversified funding profile and financial flexibility as reflected in its ability to raise funding from diversified set of investors.

Outlook

HFC's 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, availability of long term funding and maintaining asset quality are the key challenges for the sector. Further, there are some industry level concerns on the LAP book with many players witnessing rise in the delinquency level.

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. 62,252 crore (including securitized / direct assignment loan portfolio of Rs.5,238 crore) as on March 31, 2018. Its on-balance sheet loan book comprised housing loan portfolio of Rs. 32,043 crore, Non-Housing Loans (LAP, LRD, Corporate Term Loans) of Rs. 17,244 crore and Construction Finance Loans of Rs.7,727 crore.

PNBHFL reported Profit after Tax (PAT) of Rs. 829 crore on a total income of Rs. 5,517 crore during FY18 (refers to the period April 01 to March 31), as compared with a PAT of 524 crore on a total income of Rs. 3,908 crore during FY17.

Brief Financials (Rs. crore)	**FY17 (A)**	**FY18 (A)**
Total operating income	**3908**	**5517**
PAT	524	829
Interest coverage (times)	1.30	1.23
Total Assets	42619	63802
Net NPA (%)	0.15	0.25
ROTA (%)	1.44	1.56

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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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
Commercial Paper	-	-	-	25000.00	CARE A1+

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
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)
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)
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)
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)
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)

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)
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)
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)
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)
10.	Commercial Paper	ST	25000.00	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)
11.	Fund-based - LT-Term Loan	LT	2485.00	CARE AAA; Stable	-	1)CARE AAA; Stable (08-Jan-18) 2)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;	-	1)CARE AAA; Stable	1)CARE AAA; Stable	1)CARE AAA (02-Jul-15)

				Stable		(18-Jul-17)	(07-Feb-17) 2)CARE AAA (19-Aug-16)	
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+ (08-Jan-18) 2)CARE AAA; Stable / CARE A1+ (18-Jul-17)	-	-
19.	Debentures-Non Convertible Debentures	LT	8000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (08-Jan-18)	-	-

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