ICRA

April 03, 2017

PNB Housing Finance Limited (Revised)

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debenture Programme	Rs. 2,900	[ICRA]AA+(stable); Reaffirmed
Sub-debt/Tier-II Bonds Programme	Rs. 200	[ICRA]AA+(stable); Reaffirmed

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]AA+ (pronounced ICRA double A plus)[1] to the Rs. 2,900 crore NCD programme and the Rs. 200 crore of Lower Tier-II bonds programme of PNB Housing Finance Limited (PNBHFL). The outlook on the long-term rating is 'Stable'.

Detailed rationale

The rating factors in PNBHFL's demonstrated ability to grow its book profitably, its good understanding of the self-employed assessed income segment and its good systems and processes. The rating continues to factor in PNBHFL's diverse funding profile, its ability to maintain good asset quality (gross NPAs of 0.37%[2] as on December 31, 2016 and 0.22% as on March 31, 2016) and good capitalisation profile supported by the initial public offer (IPO) of around Rs. 3,000 crore in November 2016. Going forward, the company's ability to maintain asset quality on a growing book would be important for its credit profile. The rating continues to factor in the company's strong parentage, with 39% equity as on December 31, 2016, being held by Punjab National Bank (PNB rated [ICRA]AA+ (stable)/[ICRA]A1+).

Despite a decline in yields with the softening of interest rates, the company's spreads remained steady at around 2.08% during 9MFY2017 (2.15% as in FY2016) mainly supported by a decline in average cost of borrowings to 8.81% during 9MFY2017 (9.10% during FY2016). The company reported a steady earnings profile (return on equity of 17.03% during 9MFY2017 vis-a-vis 17.52% during FY2016) with a steady return on assets (Profit After Tax/Average Total Assets) of 1.32% as on December 31, 2016 (1.34% as on March 31, 2016) supported by lower cost of funds, which was mainly because of the favourable rates on commercial paper and non-convertible debentures.

Key rating drivers

Credit Strengths

- Ownership (39% equity) and demonstrated support from PNB ([ICRA]AA+(stable)/[ICRA]A1+)
- Professional management team with experience in mortgage lending
- Diversified funding profile at competitive rates
- Good capitalisation indicators

Credit Weaknesses

- Relatively high share of the self-employed segment, however, the company relies on accessing formal income for all borrowers
- Ability to maintain asset quality given the relatively high pace of growth

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[1] For complete grading scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications

[2] Considering 60 days relaxation given by National Housing Bank (NHB) for recognition of sub-standard assets after demonetisation; without the relaxation, gross NPAs were 0.43% as on December 31, 2016

Detailed description of key rating drivers

The ratings factors in the financial and operational support from PNB, which currently holds 39% stake in the company. The rating is supported by the company's stable asset quality and geographic diversity of the portfolio; the branch network is well distributed with 37%, 33% and 30% contribution respectively from the north, west and south as on December 31, 2016.

The portfolio increased to Rs. 34,330 crore as on December 31, 2016 (Rs. 27,177 crore as on March 31, 2016) at a 3-year CAGR of 48%. The portfolio mix remained largely unchanged in December 2016 as compared with March 2016; housing loans, Loans against property and construction finance formed 61%, 28% and 11% respectively as on December 31, 2016 and 60%, 29% and 9% as on March 31, 2016. The mix of salaried to non-salaried in the retail portfolio stood at 63:37 in housing loans and 13:87 in the non-housing loans as on December 31, 2016 as compared with 61:39 in housing loans and 11:89 in non-housing loans as on March 31, 2016. The company maintained a healthy sourcing mix of in-house expertise (60%) and direct sales agents (40%).

Owing to the borrowings primarily being long term in nature, the company has been able to manage its asset liability maturity profile well and had lower gaps in the medium term buckets vis-a-vis peer housing finance companies. While the company carries interest rate risk on its portfolio given the relatively higher tenure of fixed rate liabilities, it has been successfully replacing the same with cheaper sources of funds.

As on December 31, 2016, PNBHFL's capitalisation profile was comfortable (net-worth/loan advances at 15.78%), supported by funds raised through the IPO and steady internal capital generation (ROE of 17.03% in 9MFY2017). Further, given its financial flexibility and comfortable capital structure after the IPO, PNBHFL has a well-matched asset liability maturity profile and therefore a comfortable liquidity position.

PNBHFL reported a blended yield of 10.89% on its portfolio in 9MFY2017; the portfolio yield has remained largely stable over the years owing to a steady product mix. With its cost of funds at 8.81%, the company earned interest spreads of 2.08% in 9MFY2017 leading to an ROE of 17.03%. With the recent reduction in its interest rates, the company's ability to maintain its interest spreads and profitability indicators will be important for its credit profile.

Links to applicable criteria

http://www.icra.in/Files/Articles/RM,%20Housing%20Finance%20-%20April%202016.pdf

About the company

Incorporated in 1988, PNBHFL is a deposit accepting housing finance company. The company's shareholding pattern changed after it raised funds through an IPO in November 2016). The shareholding of PNB reduced to 39% from 51%, of Destimoney Enterprises Limited (Carlyle Group) reduced to 37.5% from 49% as on December 31, 2016.

PNBHFL offers home loans, loans against property, builder loans and lease rental discounting. The company's portfolio mix as on December 31, 2016 included housing loans (61.2%), construction finance loans (11.2%) and non-housing loans (27.6%) aggregating to Rs 34,330 crore. In the retail portfolio, 72% was accounted by housing loans with an average ticket size of Rs 0.32 crore and 28% by non-housing loans with an average ticket size of Rs. 0.74 crore.

During 9MFY2017, PNBHFL reported a PAT of Rs. 371 crore on loan assets of Rs. 34,330 crore as compared with a PAT of Rs. 224 crore on loan assets of Rs. 24,305 crore during 9MFY2016. Following the public issues, the company is adequately capitalised with a CRAR of 24.62% (Tier-1 capital 18.80%) as on December 31, 2016.

PNBHFL reported a PAT of Rs. 326 crore on loan assets of Rs. 27,177 crore in FY2016 vis-a-vis PAT of Rs 196 crore on loan assets of Rs. 16,819 crore in FY2015.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S. No.	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years			
		Type	Rated amount	April 2017	FY2016		FY2015	FY2014
					Mar 2016	Sept 2015	Oct 2014	Dec 2013
1	Non-convertible debentures	Long Term	Rs. 2,900 crore	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AAA (Stable)	[ICRA]AA+ (Positive)	[ICRA]AA+ (Stable)
2	Lower Tier-2 bonds programme	Long Term	Rs. 200 crore	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AAA (Stable)	[ICRA]AA+ (Positive)	-

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

Details of Instruments

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Amount Outstanding (Rs. crore)	Current Rating and Outlook
9.59% Non-Convertible Debentures 2017	20-Jan-14	9.59%	20-Jul-17	300.0	[ICRA]AA+(stable)
9.53% Non-Convertible Debentures 2019	31-Jan-14	9.53%	31-Jan-19	300.0	[ICRA]AA+(stable)
9.48% Non-Convertible Debentures 2017	31-Jan-14	9.48%	31-Jan-24	300.0	[ICRA]AA+(stable)
8.23% Non-Convertible Debentures 2017	09-Oct-15	8.23%	9-Apr-19	1,125.0	[ICRA]AA+(stable)
8.70% Subordinated Debt 2024 – Tier II	24-Nov-14	8.70%	24-Nov-24	200.0	[ICRA]AA+(stable)

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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.

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