PNB Housing Finance Limited

April 06, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore	Current Rated Amount (Rs. crore)	Rating Action
NCD programme	2,900.00	2,900.00	[ICRA]AA+ (stable); reaffirmed
Tier-II bonds programme	200.00	200.00	[ICRA]AA+ (stable); reaffirmed
Total	**3,100.00**	**3,100.00**	

*instrument details given in Annexure-1

Rating action

ICRA has reaffirmed the rating of [ICRA]AA+ (pronounced ICRA double A plus) for the Rs. 2,900.00-crore NCD programme and Rs. 200-crore Tier-II bonds programme of PNB Housing Finance Limited (PNBHFL)[1]. The outlook on the long-term rating is Stable. Instruments with this rating are considered to have a high degree of safety regarding the timely servicing of financial obligations. Such instruments carry very low credit risk. The sign of + (plus) or – (minus) may be appended to the rating symbols to indicate their relative position within the rating categories concerned.

Rationale

The rating factors in PNBHFL's good market standing in the housing finance sector being the fifth largest housing finance company in terms of asset size, its demonstrated ability to profitably scale up operations (loan assets of Rs. 55,296 crore as on December 31, 2017, which grew at 61% YoY) while maintaining asset quality (gross NPA of 0.42% as on December 31, 2017), diverse funding profile at competitive rates resulting in a moderate profitability profile with PAT/ATA and ROE of 1.58% and 13.94%, respectively, during 9M FY2018, and adequate capitalisation indicators (CRAR of 17.39% (tier-1 capital: 13.33%), gearing of 7.24 times and net worth/advances of 11.02%). The rating factors in the strong profile of the investors, the experienced and professional management team, which has a good understanding of the self-employed segment, which stood at 34% for individual housing loans and nearly 82% for the loan against property (LAP) segment and 46% on a combined retail book of individual housing loans and LAP portfolio, robust systems and processes. Given nearly 30.3% of the overall portfolio comprised of the non-housing loans, the company's ability to manage asset quality indicators and maintain a prudent capital structure would have an important bearing on the credit profile.

Outlook: Stable

ICRA believes that PNBHFL will continue to benefit from the experience of its management, good systems and processes. The outlook may be revised to Positive on the company's ability to maintain its asset quality indicators in the builder book and LAP segments as the portfolio seasons. The outlook may be revised to Negative if the asset quality deteriorates weakening the company's financial risk profile.

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

Key rating drivers

Credit strengths

Strong investor profile and experienced board and management team - The rating factors in the presence of Carlyle Group and Punjab National Bank (rated [ICRA]AA+@/[ICRA]AA+(hyb)@/MAAA@/[ICRA]A1+) that had a stake of 37.33% and 32.96%, respectively, as on December 31, 2017. Additionally, General Atlantic Singapore Fund had an 8.52% stake in the company out of the 17.06% held by Foreign Portfolio Investors (FPI) while mutual funds had a stake of nearly 6.46% in the company. The company is controlled by an experienced board that has 10 members with seven independent directors. To support operations, PNBHFL has a strong senior management team with experience across verticals in the BFSI industry.

Established player in the mortgage lending market - PNBHFL was the fifth largest housing finance company (HFC) in terms of asset base that stood at Rs. 55,296 crore as on December 31, 2017 with a reported growth of 55% (C.A.G.R) over the past three years on the back of opportunities in the housing finance sector. The portfolio was geographically diversified across 80 branches across 44 cities spread across the western (38% of the portfolio), northern (33%) and southern (29%) regions of India.

Diversified funding profile at competitive rates and comfortable liquidity profile - PNBHFL has managed to maintain a healthy funding mix comprising debt market instruments (NCDs and CP forming 43.2% and 17.3%, respectively, of the funding mix as on December 31, 2017), deposits (21%), bank borrowings (10.5%), NHB (5.1%) and ECBs (2.9%). It managed to source funds at competitive rates and reduce the cost of borrowings to 7.78% during 9M FY2018 from 8.55% in FY2017. 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 from debt market instruments and its plans to keep a large share of unutilised lines to meet the gaps.

Adequate capitalisation indicators - The capitalisation profile is comfortable with CRAR of 17.39% (as on December 31, 2017) as against the regulatory requirements of 12% and gearing of 7.24 times. Net worth, in relation to advances, was nearly 11.02% as on December 31, 2017, providing necessary cushion.

Good profitability indicators supported by stable interest spreads and low operating expenses - The profitability profile was a result of steady spreads, which were a result of lower cost of borrowings despite decline in yields. Moreover, the high share of non-housing loans at 30.3% as on December 31, 2017 has enabled the company to maintain interest margins. The operating expenses were moderate given the scale up of existing operations and hence a stable profitability profile with PAT/ATA and ROE of 1.58% and 13.94% respectively during 9M FY2018.

Credit challenges

To protect margins while ensuring business growth in an extremely competitive environment - There has been an increase in the number of new entrants in the housing finance market, including HFCs promoted by existing NBFCs, new companies started by entrepreneurs and supported by private equity players. This has led to increased competition in the industry across segments with the players operating in traditional home loan and LAP segments as well as the affordable segment. The competitive intensity is expected to remain high over the medium term. Given PNBHFL's growth plans, it will be important to maintain its interest margins while managing growth in the current operating environment.

To maintain asset quality indicators in the relatively risky large ticket commercial real estate (CRE) and LAP portfolio - As on September 30, 2017, nearly 9% of the portfolio was towards CRE loans and 16% towards LAP. While the LAP segment is comparatively risky, the company has strong systems and processes to manage this business. Given the large ticket size and the high inherent risks associated with these exposures, the corporate mortgage loan book remains exposed to concentration risks. While the portfolio asset quality has been steady (gross NPA of 0.42% as on December 31, 2017), the company's ability to maintain asset quality will be critical given the relatively high share of self-employed people in the retail portfolio and concentration risk in the higher ticket builder book segment.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:
[ICRA rating methodology for Housing Finance Companies]

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 32.96% from 51%, while that of Quality Investment Holdings (QIH), earlier Destimoney Enterprises Limited (Carlyle Group), reduced to 37.33% from 49% as on December 31, 2017.

PNBHFL offers home loans, loans against property, builder loans and lease rental discounting. The company's portfolio mix as on December 31, 2017 included housing loans (57.2%), construction finance loans (12.5%) and non-housing loans (30.3%) aggregating Rs. 55,296 crore. PNBHFL is geographically diversified with its portfolio spread across the western (38%), northern (33%) and southern (29%) regions of India.

During 9M FY2018, PNBHFL reported PAT of Rs. 610 crore vis-à-vis PAT of Rs. 371 crore in 9M FY2017. It had an adequate capitalisation profile with a CRAR of 17.39% and asset quality characterised by GNPA and NNPA of 0.42% and 0.33%, respectively, as on December 31, 2017.

Key financial indicators

Amounts in Rs. crore	FY2016	FY2017	9MFY2018
Assets Under Management	27,555	41,492	57,668
Average Yield	11.25%	10.76%	10.12%
Avg. Cost of borrowings	9.07%	8.55%	7.78%
Spread	2.18%	2.21%	2.34%
PAT	326	524	610
GNPA	0.22%	0.22%	0.42%
NNPA	0.14%	0.15%	0.33%
Average Gearing ratio (times)	10.77	8.72	7.24
CRAR	12.70%	21.62%	17.39%

PAT: Profit after Tax; NIM: Net Interest Margin; AMA: Average managed assets;
ROMA: Return on Managed Assets; ROE: Return on Equity
All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Sr. No.	Name of Instrument	Current Rating (FY2019) Type	Rated amount (Rs. crore)	Amount Outstanding (Rs. Crore)	Apr 2018	Feb 2018	Chronology of Rating History for the past 3 years FY2017 Mar/Apr 2016	FY2016 Mar 2016	FY2016 Sept 2015	FY2015 Oct 2014
1	NCD Programme	Long Term	2,900	1,725	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+(stable)	[ICRA]AA+ (stable)	[ICRA]AAA (stable)	[ICRA]AA+ (Positive)
2	Lower Tier-II Bonds Programme	Long Term	200	200	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+(stable)	[ICRA]AA+ (stable)	[ICRA]AAA (stable)	[ICRA]AA+ (Positive)

Source: ICRA research

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 /Sanction	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+(stable)
INE572E09221	NCD	31-Jan-14	9.53%	31-Jan-19	300.00	[ICRA]AA+(stable)
INE572E09296	NCD	09-Oct-15	8.23%	09-Apr-19	1,125.00	[ICRA]AA+(stable)
NA	NCD: redeemed/to be placed	NA	NA	NA	1,175.00	[ICRA]AA+(stable)
Sub-total (A)					**2,900.00**	
INE572E09262	Sub-debt/ tier-II bonds	24-Nov-14	8.70%	24-Nov-24	200.00	[ICRA]AA+(stable)
Sub-total (B)					**200.00**	
Total (A)+(B)					**3,100.00**	

Source: Company

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