



## PNB Housing Finance Limited

	Amount	Rating Action
Lower Tier 2 Bonds Programme	Rs 200 crore	[ICRA]AA+(positive) reaffirmed
Non Convertible Debenture Programme	Rs 900 crore	[ICRA]AA+(positive) reaffirmed

ICRA has reaffirmed the rating of [ICRA]AA+(pronounced ICRA double A plus) with a positive outlook assigned earlier to the Rs 900 crore Non Convertible Debenture programme and Rs 200 crore Lower Tier 2 bonds programme of PNB Housing Finance Limited (PNBHFL).

The reaffirmation in rating factors in PNB's experienced management team, its good understanding of the mortgage finance market especially assessed income based lending which has helped the company in maintaining very low delinquencies despite operating in this segment and access to diversified funding sources at competitive rates of interest which have enabled the company to report good earnings (ROA of 1.3% and ROE of 16% despite significant capital expenditure on branch expansion and system improvement in 2014-15). The ratings also favourably factor in the good asset quality indicators (gross NPA% of 0.20% as on March 31, 2015) and PNBHFLs strong parentage in the form of Punjab National Bank (PNB)\*. The rating is however constrained by PNBHFLs high pace of growth (3 year CAGR of 63% till March 2015), moderate risk profile of its loan book owing to relatively higher share of self-employed borrowers (54% of the overall retail portfolio as on March 31 2015), and relatively higher share of portfolio at higher leveraging levels (both salaried as well as self employed) which could impact the asset quality indicators of the company in case of continued stress. The ratings also factor in higher geographical concentration risk with around 31% of the retail portfolio concentrated in National Capital Region, Further, so far the company has been able to maintain its capitalisation levels despite high growth in business volumes of the support in the form of capital to the tune of Rs. 700 crore from its shareholders in FY13-15. However, based on ICRA's estimates, PNBHFL would require approximately Rs. 1600- 2000 crore (100-130% of its existing net worth) of additional capital till March 2017 to meet its growth plans (the company is estimated to grow at a 3 year CAGR of 30-40%). Therefore, over the next 12-18 months, PNBHFL would be dependent on its shareholders to infuse the capital. In February 2015, New Silk Route Partners divested their stake in Destimoney Enterprises to Carlyle group. Therefore Carlyle Group has become the indirect (49%) shareholder of the company. Though equity support from Carlyle Group should be forthcoming, as for PNB's contribution, it would be subject to approval from Department of Financial Services(DFS). PNB itself would require large amount of additional capital (CET1 of Rs 13000-Rs 17000 crore from FY15-19) to meet the regulatory requirements under Basel III and for growth. In the event that PNB is unable to infuse required capital, the company might have to prune down the growth plans or could lead to dilution in PNB's shareholding in the company. Overall, ability of the company to maintain its asset quality and prudent capitalisation levels on a growing book, with relatively higher ticket sizes and higher share of self employed segment would remain a key rating sensitivity.

PNBHFLs had a well diversified funding profile, with 24% funding as on March 31, 2015 being from banks, 27% from Non Convertible Debentures, 29% through Fixed deposits, 11% through NHB Refinance and 10% through Commercial paper. Owing to the borrowings primarily being long term in nature, the company has been able to manage its asset liability maturity profile better and had lower gaps in the medium term buckets vis-a-vis peer HFCs. However, like other HFCs, the company carries interest rate risk on its portfolio given the relatively higher tenure of fixed rate liabilities vis-a-vis assets which could impact its interest rate risk on its portfolio. Further, the company would need a regular flow of funds to meet its growth plans.

As for profitability, the company charges an interest rate of around 10.25-11.25% for its home loan portfolio and 11.5-15% for its non housing loan book, leading to a weighted average yield on earning assets of 11.10% in 2014-15 (11.11% in 2013-14). Some rise in portfolio yields coupled with stable cost of funds of around 9.26% enabled the company to report stable interest spreads of 1.85%(1.81% in 2013-14), which coupled with some decline in gearing levels led to a 12 bps increase in net interest

\* PNB had 51% stake in PNBHFL as on March 31, 2015. PNB is rated [ICRA]AAA(stable)/[ICRA]A1+.



margins of the company. Although, operating expenses increased owing to system implementation and branch expansion, increase in fee based income and in Net Interest Margins resulted in improvement in profitability indicators with PBT /ATA from 1.80% in 2013-14 to 1.93% in 2014-15. However, owing to the provisions made for deferred tax liability<sup>†</sup>, the Return on Assets (ROA) reported a marginal decline from 1.30% in 2013-14 to 1.28% in 2014-15. Going forward ICRA expects profitability indicators to improve to around 1.4-1.5% with some increase in Net Interest Margins owing to the expected increase in the share of higher yielding non housing segment and moderation of operating expenses provided the company is able to keep its credit costs under control.

### **About the Company**

Incorporated in 1988, PNBHFL is a deposit accepting housing finance company 51% owned by PNB and 49% by Destimoney Enterprises Private Limited. In February 2015, New Silk Route Partners divested their stake in Destimoney Enterprises to Carlyle group. PNBHFL offers home loans, loans against property and Builder loans as well as Lease Rental Discounting. As for the company's portfolio mix, of the total managed portfolio of Rs 17297 crore outstanding as on March 31, 2015, 87 % was retail portfolio and 13% was Wholesale Finance. In the retail portfolio 72 % portfolio comprises of housing loans having average ticket size of Rs 0.30 crore and 28% comprises of non-housing loans having average ticket size of Rs. 0.52 cr. PNBHFL reported a PAT of Rs 196.41 crore on a managed asset base of Rs. 19453 crore vis-a-vis PAT of Rs 127.4 crore on an asset base of Rs. 11684 crore in 2013-14 The company reported a CRAR of 13.76% as on March 31, 2015.

**May 2015**

*For further details please contact:*

**Analyst Contacts:**

**Ms. Vibha Batra**, (Tel. No. +91-124-4545 302)  
vibha@icraindia.com

**Relationship Contacts:**

**Mr. Vivek Mathur** (Tel. No. +91-124-4545310)  
vivek@icraindia.com

© Copyright, 2015, ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.

<sup>†</sup> National Housing Bank has issued a circular on 27th May 2014 advising HFCs to create deferred tax liability (DTL) on income tax benefit availed under section 36(1)(viii) of the Income Tax Act, 1961 (Act). HFCs are allowed under the Act to transfer 20% of the profits created out of income on long term housing loans to a special reserve.

**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001  
Tel: +91-11-23357940-50, Fax: +91-11-23357014

**Corporate Office****Mr. Vivek Mathur**

Mobile: 9871221122

Email: [vivek@icraindia.com](mailto:vivek@icraindia.com)

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002  
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

**Mumbai****Mr. L. Shivakumar**

Mobile: 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

1802, 18th Floor, Tower 3,  
Indiabulls Finance Centre,  
Senapati Bapat Marg,  
Elphinstone, Mumbai 400013,  
Board : +91-22-61796300; Fax: +91-22-24331390

**Kolkata****Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: [jayanta@icraindia.com](mailto:jayanta@icraindia.com)

A-10 & 11, 3rd Floor, FMC Fortuna  
234/3A, A.J.C. Bose Road  
Kolkata—700020  
Tel +91-33-22876617/8839 22800008/22831411,  
Fax +91-33-22870728

**Chennai****Mr. Jayanta Chatterjee**

Mobile: 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

5th Floor, Karumuttu Centre  
634 Anna Salai, Nandanam  
Chennai—600035  
Tel: +91-44-45964300; Fax: +91-44 24343663

**Bangalore****Bangalore****Mr. Jayanta Chatterjee**

Mobile: 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

'The Millenia'  
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,  
Murphy Road, Bangalore 560 008  
Tel: +91-80-43326400; Fax: +91-80-43326409

**Ahmedabad****Mr. L. Shivakumar**

Mobile: 989986490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

907 & 908 Sakar -II, Ellisbridge,  
Ahmedabad- 380006  
Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-  
79-25569231

**Pune****Mr. L. Shivakumar**

Mobile: 989986490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

5A, 5th Floor, Symphony, S.No. 99, CTS 3909, Range Hills  
Road, Shivajinagar, Pune-411 020  
Tel: + 91-20-25561194-25560196; Fax: +91-20-25561231

**Hyderabad****Mr. Jayanta Chatterjee**

Mobile: 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

4th Floor, Shobhan, 6-3-927/A&B, Somajiguda, Raj  
Bhavan Road, Hyderabad—500083  
Tel:- +91-40-40676500