

March 28, 2024

PNB Housing Finance Limited: Rating upgraded to [ICRA]AA+; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debentures (NCD)	1,600	1,600	[ICRA]AA+ (Stable); upgraded from [ICRA]AA and outlook revised to Stable from Positive
Tier II bonds	200	200	[ICRA]AA+ (Stable); upgraded from [ICRA]AA and outlook revised to Stable from Positive
Total	1,800	1,800	

*Instrument details are provided in Annexure-I

Rationale

The rating action factors in the sustained improvement in PNB Housing Finance Limited's (PNBHFL) credit profile, driven by the improved asset quality metrics and the strengthened capitalisation profile. The company has an established track record in the mortgage finance industry with assets under management (AUM) of Rs. 68,549 crore and loan book of Rs. 62,337 crore as on December 31, 2023. The reported gross non-performing assets (NPAs) declined to 1.7% as on December 31, 2023 from 3.8% as on March 31, 2023 (8.1% as on March 31, 2022), aided by the sale to asset reconstruction companies (ARCs), write-offs, recoveries and lower incremental slippages. Further, the company's managed gearing declined to 3.9 times in December 2023 from 5.6 times in March 2023 (6.3 times in March 2022), driven by the Rs. 2,494-crore fresh equity capital raised in 9M FY2024. In ICRA's opinion, PNBHFL is well capitalised to support its envisaged growth plans in the near-to-medium term.

ICRA has also revised its rating approach and applied the implicit parent or group support approach for arriving at the rating for PNBHFL. The change in the rating approach factors in Punjab National Bank's (PNB; rated [ICRA]AAA (Stable)/[ICRA]A1+, [ICRA]AA+ (Stable) for Basel III Tier I Bonds) clear articulation that it intends to remain the sole promoter of PNBHFL and extend financial and other forms of support, when required, to the extent allowed within the regulatory guidance/framework. PNB is expected to hold a stake of more than 26% in PNBHFL's equity. The company also benefits from the shared brand name, which helps it leverage its franchise and raise funds, supporting its financial flexibility.

The rating remains constrained by the moderate, albeit improving, profitability metrics. While PNBHFL has been able to improve its yields and interest margin with the revision in the lending rates, it was partially offset by an increase in operating expenses on account of investments in information technology (IT) infrastructure upgradation as well as branch expansion for affordable business vertical.. Given the intense competition in the mortgage finance business, the company's ability to maintain its net interest margin while improving its operating efficiency and controlling the credit costs will be important from a credit perspective.

The Stable outlook on the rating reflects ICRA's expectation that PNBHFL would be able to maintain a steady credit profile as it continues to scale up its operations while maintaining a prudent capitalisation. The company is expected to keep benefiting from its association and support from PNB as a promoter.

Key rating drivers and their description

Credit strengths

Established player in mortgage lending market – PNBHFL has an established presence and a long track record of operations in the housing finance industry with a presence in 20 states/Union Territories (UTs) in India. It is led by a skilled management team and board with a notable track record and experience in banking, insurance, retail lending, technology and economic

policy. Over the last few years, the company has focused on the retail segment while reducing its wholesale exposure. With a loan book of Rs. 62,337 crore (AUM of Rs.68,549 crore, IGAAP valuation) as on December 31, 2023, PNBHFL registered an annualised growth of ~7% in 9M FY2024 compared to a growth of ~2% in FY2023. The company's retail segment portfolio reported growth at an annualised growth of ~11% in 9M FY2024, closing with retail loan book of Rs. 60,129 crore. ICRA expects PNBHFL to continue scaling up its operations with a focus on the retail segment.

Shared brand name and benefits with PNB as the promoter – The common brand name and parentage of PNB support the company's financial flexibility and deposit mobilisation. PNBHFL pays a royalty to its promoter for using the brand name as the bank's stake in the company declined below 30%, post the rights issue in Q1 FY2024. Nevertheless, PNB's stated intent to remain the sole promoter and maintain its stake above 26% provides comfort that PNBHFL would be able to use the brand name, going forward as well. As a promoter, PNB remains committed to providing support to PNBHFL including capital, if needed, subject to board and regulatory approvals. Further, PNBHFL's board comprised two directors from PNB as on December 31, 2023. ICRA expects the bank to continue aiding the company by sharing the brand name and providing board-level supervision and financial support, subject to regulatory approvals, if required.

Comfortable capitalisation profile – PNBHFL's reported capital-to-risk weighted assets ratio (CRAR) of 29.5% (Tier I capital of 28.0%) as on December 31, 2023 [CRAR: 24.4% (Tier I: 22.4%) as on March 31, 2023] was well above the regulatory requirement. With the Rs. 2,494-crore fresh equity capital raised in 9M FY2024, the managed gearing declined to 3.9 times in December 2023 from 5.6 times in March 2023 (6.3 times in March 2022). In ICRA's opinion, the company is well capitalised to meet its near-to-medium term growth plans with the managed gearing remaining below 6 times.

Improved asset quality – PNBHFL's reported asset quality has been improving with the gross NPAs declining to 1.7% as on December 31, 2023 from 3.8% as on March 31, 2023 (8.1% as on March 31, 2022). The improvement was largely driven by the sale of a large NPA corporate exposure (1.3% of loan portfolio) to an ARC. This, along with write-offs, recoveries, moderation in slippages and the growth in the loan portfolio, aided the improvement in the reported asset quality. Nonetheless, the company's ability to manage the asset quality and contain incremental slippages shall remain monitorable, especially in the relatively new product segments such as affordable housing finance.

Credit challenges

Moderate, albeit improving, profitability – PNBHFL reported a profit after tax (PAT) of Rs. 1,069 crore in 9M FY2024, translating into a return on managed assets (RoMA) of 1.9%¹ and a return on average net worth (RoNW) of 10.0% against Rs. 1,046 crore, 1.4% and 10.0%, respectively, in FY2023. While the company has been able to improve its yields and interest margin with the revision in the lending rates, this was partially offset by higher operating expenses. Nevertheless, the decline in the credit costs with the improvement in the asset quality and the write-back of provisions upon the sale of a large NPA account supported the earnings profile. Given the intense competition in the mortgage finance business, the company's ability to maintain its net interest margin while improving its operating efficiency and controlling the credit costs will be important from a credit perspective.

Environmental and social risks

Environmental – While housing finance companies (HFCs) like PNBHFL do not face material physical climate risks, they are exposed to environmental risks indirectly through their portfolio of assets. If the borrowers, to whom such HFCs have an exposure, face livelihood disruption because of physical climate adversities, it could translate into credit risks for the HFCs. However, such risk is not material for PNBHFL as it benefits from portfolio diversification.

Social – With regard to social risks, data security and customer privacy are among the key sources of vulnerability for HFCs as material lapses could be detrimental to their reputation and invite regulatory censure.

¹ RoMA computed based on estimated managed assets value as on December 31, 2023; ratio as per ICRA's calculations

Liquidity position: Adequate

The company remains exposed to asset-liability related mismatches, given the inherent risk in the segment due to the relatively higher tenure of the assets vis-à-vis the liabilities. The expected inflows from advances, as per the asset liability management (ALM) statement as on December 31, 2023, stood at Rs. 12,625 crore for the next one year against debt obligations of Rs. 19,359 crore during this period. PNBHFL held Rs. 5,008 crore of free on-book liquidity and had undrawn sanctions and working capital lines of Rs. 6,660 crore, which support its liquidity profile. The company's liquidity coverage ratio of 111% for the quarter ended December 31, 2023 was well above the regulatory requirement. PNBHFL's liquidity profile is also supported by its diversified funding mix and demonstrated track record of raising funds from diverse sources, including deposits.

Rating sensitivities

Positive factors – A significant increase in the scale of operations while maintaining prudent capitalisation and comfortable asset quality along with an improvement in the profitability on a sustained basis could positively impact the rating.

Negative factors – A significant deterioration in the asset quality, thereby affecting the profitability, or a significant increase in the gearing level could put pressure on the rating. Weakening in the credit profile of PNB, a change in the bank's support philosophy towards PNBHFL or a stake sale could also adversely impact the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies (NBFCs)
Parent/Group support	The rating factors in ICRA's expectation that PNB would be willing to extend support to PNBHFL, if needed, given its importance as well as the shared brand name
Consolidation/Standalone	The rating is based on the consolidated financial profile of the company

About the company

Incorporated in 1988, PNBHFL is a deposit-accepting housing finance company. PNB, the promoter of the company, held a 28.1% stake while Carlyle Group held 32.7% as on December 31, 2023. PNBHFL offers home loans, loan against property, builder loans and lease rental discounting. Its operations are geographically diversified with its portfolio spread across 20 states/UTs. As on December 31, 2023, it reported an AUM of Rs. 68,549 crore (Rs. 66,617 crore in March 2023).

Key financial indicators (audited; consolidated)

PNB Housing Finance Limited	FY2022	FY2023	9M FY2024*
Total income	6,201	6,530	5,243
PAT	836	1,046	1,069
Total managed assets	77,377	75,730	76,088
Return on managed assets	1.0%	1.4%	1.9%
Managed gearing	6.3x	5.6x	3.9x
Gross stage 3	8.1%	3.8%	1.7%
CRAR	23.4%	24.4%	29.5%

Source: Company, ICRA Research; *As per limited review financials and ICRA's estimates; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years				
		Amount Rated (Rs. crore)	Amount Outstanding as of Feb 29, 2024 (Rs. crore)	Date & Rating in FY2024				Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
				Mar 28, 2024	Sep 04, 2023	Aug 22, 2023	Apr 11, 2023	Apr 12, 2022	May 28, 2021	Apr 3, 2020
1	NCD programme	600	450	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	[ICRA]AA (Positive)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Negative)	[ICRA]AA (Negative)
2	Tier II bonds	200	200	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	[ICRA]AA (Positive)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Negative)	[ICRA]AA (Negative)
3	NCD programme	-	-	-	-	-	-	[ICRA]AA (Stable); withdrawn	[ICRA]AA (Negative)	[ICRA]AA (Negative)
4	NCD programme	1,000	-	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	-	-	-	-	-

Instrument	Complexity Indicator
NCD programme	Very simple
Tier II bonds	Very simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE572E09239	NCD	Jan-31-2014	9.48%	Jan-31-2024	300^	[ICRA]AA+ (Stable)
INE572E07092	NCD	Mar-17-2023	8.70%	Sep-17-2024	150	[ICRA]AA+ (Stable)
INE572E07126	NCD	Sep-06-2023	8.52%	Sep-06-2028	400	[ICRA]AA+ (Stable)
INE572E07134	NCD	Sep-14-2023	8.43%	Mar-14-2025	650	[ICRA]AA+ (Stable)
Not issued	NCD	NA	NA	NA	100	[ICRA]AA+ (Stable)
INE572E09262	Tier II bonds	Nov-24-2014	8.70%	Nov-24-2024	200	[ICRA]AA+ (Stable)

Source: Company; ^the instrument has redeemed in January 2024

Annexure II: List of entities considered for consolidated analysis

Company Name	PNBHFL Ownership	Consolidation Approach
PHFL Home Loans and Services Ltd.	100.00%	Full Consolidation

Source: PNBHFL's annual report for FY2023

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