

November 28, 2024

PNB Housing Finance Limited: [ICRA]AA+ (Stable) assigned to Rs. 5,000-crore bank facilities programme; Rating reaffirmed; Rating withdrawn for Rs. 150-crore NCD programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debentures (NCDs)	1,150	1,150	[ICRA]AA+ (Stable); reaffirmed
NCDs**	150	0	[ICRA]AA+ (Stable); reaffirmed and simultaneously withdrawn
Tier II bonds	200	200	[ICRA]AA+ (Stable); reaffirmed
Long-term bank facilities programme (others)	0	5,000	[ICRA]AA+ (Stable); assigned
Total	1,500	6,350	

*Instrument details are provided in Annexure I; **Instrument redeemed on September 17, 2024

Rationale

The rating factors in PNB Housing Finance Limited's (PNBHFL) established track record in the mortgage finance industry with assets under management (AUM) of Rs. 74,724 crore as on September 30, 2024. The rating also considers the sustained improvement in the asset quality metrics with the gross stage 3 assets (GS3) declining to 1.2% as of September 2024 from 1.5% as of March 2024 (3.8% as of March 2023). However, the performance of the affordable housing finance (AHF) and emerging market (EM) segments, which grew at sharp rates in the recent past, shall remain a monitorable.

The company remains comfortably capitalised with a net worth of ~Rs. 15,868 crore, a capital adequacy ratio (CAR) of 29.1% and a managed gearing¹ of 3.9 times as on September 30, 2024. The rating continues to factor in the expectation of support from Punjab National Bank (PNB; rated [ICRA]AAA (Stable)/[ICRA]A1+, [ICRA]AA+ (Stable) for Basel III Tier I bonds), given the bank's stated intent to remain the company's sole promoter and provide 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. PNBHFL reported a net profit of Rs. 1,508 crore in FY2024, translating into a return on average managed assets (RoMA) of 1.9% and a return on average net worth (RoNW) of 11.6%. The profitability improved further in H1 FY2025, with recoveries from written-off loan accounts. Nonetheless, the overall earnings profile remains moderate on account of the higher operating expenses due to investment in information technology (IT) infrastructure upgradation as well as branch expansion for the AHF and EM business verticals. ICRA expects the operating efficiency to improve gradually, positively impacting the profitability over the medium term.

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 prudent capitalisation. The company is expected to keep benefiting from its association and support from PNB as a promoter.

¹ Managed gearing = (On-book debt + Off-book portfolio) / Net worth

ICRA has withdrawn the [ICRA]AA+ (Stable) rating assigned to PNBHFL's Rs. 150.00-crore NCD programme upon redemption of instrument on September 17, 2024 and no amount is outstanding against the same. This is in accordance with ICRA's policy on the withdrawal of credit ratings.

Key rating drivers and their description

Credit strengths

Established player in mortgage lending market – PNBHFL is an established player with a long track record of operations in the housing finance industry and a presence in 20 states/Union Territories (UTs) in India. It is led by an experienced management team and board with a notable track record and expertise 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. 69,501 crore (AUM of Rs. 74,724 crore) as on September 30, 2024, PNBHFL registered an annualised growth of ~13% in H1 FY2025 compared to the growth of ~10% in FY2024. ICRA expects the company to continue scaling up its operations with primary focus on the retail segment.

Improved asset quality – PNBHFL's reported asset quality has been improving with the GS3 declining to 1.2% as on September 30, 2024 from 1.5% as on March 31, 2024 (3.8% as on March 31, 2023). This was driven by recoveries, moderation in slippages and the growth in the loan portfolio. The relatively new product segments, i.e. AHF and EM, grew by 297% and 22%, respectively, during September 2023 to September 2024. Thus, the performance of these segments, as the portfolio seasons, shall remain a monitorable.

Comfortable capitalisation profile – PNBHFL's reported capital-to-risk weighted assets ratio (CRAR) of 29.1% (Tier I capital of 28.1%) as on September 30, 2024 [CRAR: 29.3% (Tier I: 27.9%) as on March 31, 2024] was well above the regulatory requirement. With the Rs. 2,494-crore fresh equity capital raised in FY2024, its managed gearing had declined to 4.1 times as of March 2024 from 5.6 times as of March 2023, remaining comfortable at 3.9 times as of September 2024. 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.

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 fee to its promoter for using the brand name as the bank's stake in the company declined below 30%, post the rights issue in FY2024. However, PNB's stated intent to remain the sole promoter and maintain its stake above 26% provides comfort. As a promoter, PNB remains committed to providing support to PNBHFL including capital, if needed, subject to board and regulatory approvals. Further, the company's board comprised two directors from PNB as on September 30, 2024.

Credit challenges

Moderate, albeit improving, profitability – PNBHFL reported a profit after tax (PAT) of Rs. 1,508 crore in FY2024, translating into RoMA of 1.9% and RoNW of 11.6% against Rs. 1,046 crore, 1.4% and 10.0%, respectively, in FY2023. PNBHFL reported a PAT of Rs. 902 crore in H1 FY2025, with RoMA of 2.2% and RoNW of 11.7%. While the company has been able to improve its yields and interest margin with the revision in the lending rates and the increasing share of the relatively higher-yielding EM and AHF segments, this was partially offset by rising operating expenses. Nevertheless, the reversal of credit costs on account of recoveries from written-off loans supported the earnings profile in H1 FY2025. 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 an earnings 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.

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 September 30, 2024, stood at Rs. 12,633 crore for the next one year against debt obligations of Rs. 20,489 crore during this period. PNBHFL held Rs. 8,793 crore as free on-book liquidity and had undrawn sanctions and working capital lines of Rs. 5,578 crore, which support its liquidity profile. The company's liquidity coverage ratio of 106% for the quarter ended September 30, 2024 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 substantial 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	Non-banking Finance Companies (NBFCs) Policy on Withdrawal of Credit Ratings
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 as on September 30, 2024. 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 September 30, 2024, it reported an AUM of Rs. 74,724 crore (Rs. 71,243 crore in March 2024).

Key financial indicators (audited; consolidated)

PNB Housing Finance Limited	FY2023	FY2024	H1 FY2025*
Total income	6,530	7,057	3,712
PAT	1,046	1,508	902
Total managed assets	75,730	79,618	81,721
Return on managed assets	1.4%	1.9%	2.2%
Managed gearing	5.6x	4.1x	3.9x
Gross stage 3	3.8%	1.5%	1.2%
CRAR	24.4%	29.3%	29.1%

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

Current (FY2025)						Chronology of rating history for the past 3 years					
FY2025						FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Nov-28-2024	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Long-term others – Fund based	Long term	5,000.00	[ICRA]AA+ (Stable)	-	-	-	-	-	-	-	-
NCD programme	Long term	1,150.00	[ICRA]AA+ (Stable)	10-MAY-2024	[ICRA]AA+ (Stable)	11-APR-2023	[ICRA]AA (Stable)	12-APR-2022	[ICRA]AA (Stable)	27-MAY-2021	[ICRA]AA (Negative)
						22-AUG-2023	[ICRA]AA (Positive)				
						04-SEP-2023	[ICRA]AA (Positive)				
						28-MAR-2024	[ICRA]AA+ (Stable)				
Tier II bonds	Long term	200.00	[ICRA]AA+ (Stable)	10-MAY-2024	[ICRA]AA+ (Stable)	11-APR-2023	[ICRA]AA (Stable)	12-APR-2022	[ICRA]AA (Stable)	27-MAY-2021	[ICRA]AA (Negative)
						22-AUG-2023	[ICRA]AA (Positive)				
						04-SEP-2023	[ICRA]AA (Positive)				
						28-MAR-2024	[ICRA]AA+ (Stable)				

Complexity level of the rated instruments

Instrument	Complexity Indicator
NCD programme	Very simple
Tier II bonds	Very simple
Long-term bank facilities programme (others)	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
INE572E07092	NCD	Mar-17-2023	8.70%	Sep-17-2024	150	[ICRA]AA+ (Stable); withdrawn
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)
Not applicable	Long-term bank facilities (others)	NA	NA	NA	5,000	[ICRA]AA+ (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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 FY2024

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