



March 07, 2020

The BSE Limited  
Listing Department  
Phiroze Jeejeebhoy Towers  
Dalal Street  
Mumbai – 400 001

National Stock Exchange of India Limited  
Listing Department  
"Exchange Plaza"  
Bandra Kurla Complex  
Bandra (E), Mumbai – 400 051

Scrip Code: 540173

Symbol: PNBHOUSING

Dear Sir(s)

**Sub: Rating downgrade by India Ratings & Research ("India Ratings") of NCDs of PNB Housing Finance Limited ("the Company")**

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we wish to inform you that India Ratings has downgraded the rating of the Non-Convertible Debentures of the Company to 'IND AA' from 'IND AA+'. The Outlook is Stable.

As per India Ratings the downgrade reflects the challenging operating environment for majority of non-banks in the mid-to- higher ticket size housing loan segment, increasing pressure on asset quality and higher leverage in view of the portfolio composition. The rating takes into account the sizeable pan-India franchise of PNBHF, its fairly diversified funding sources, and sufficient access to funding, supported by the PNB brand, adequate liquidity, factoring in the asset profile, and experienced management.

The Company received the aforesaid communication from India Ratings & Research on March 06, 2020 which is attached herewith.

This is for your information and records.

Thank you

For PNB Housing Finance Limited

  
Sanjay Jain  
Company Secretary & Head Compliance

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CIN: L65922DL1988PLC033856

## India Ratings Downgrades PNB Housing Finance's NCDs to 'IND AA'; Outlook Stable

# 06

MAR 2020

By Pankaj Naik

India Ratings and Research (Ind-Ra) has downgraded PNB Housing Finance Limited's (PNBHF) non-convertible debentures' (NCDs) rating to 'IND AA' from 'IND AA+'. The Outlook is Stable. The detailed rating action is as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
NCDs*	-	-	-	INR218.97 (reduced from INR280)	IND AA/Stable	Downgraded

\*Details in Annexure

The downgrade reflects the challenging operating environment for majority of non-banks in the mid-to-higher ticket size housing loan segment, increasing pressure on asset quality and higher leverage in view of the portfolio composition. The rating takes into account the sizeable pan-India franchise of PNBHF, its fairly diversified funding sources, and sufficient access to funding, supported by the PNB brand, adequate liquidity factoring in the asset profile, and experienced management.

### KEY RATING DRIVERS

**Challenging Operating Environment:** Most housing finance companies (HFCs) operating in the mid-to-higher ticket housing segment have been facing an increase in funding costs as well as intensifying competition from banks. The funding cost has increased on account of the higher spreads demanded by capital market lenders as well as the reshuffling of the liability mix, with a reduction in the proportion of short-term borrowings. Furthermore, yield-accretive wholesale segment and loan against property could remain under pressure. In this environment, the risk adjusted returns are likely to be limited for PNBHF.

**Increasing Pressure on Asset Quality:** The ongoing challenges in the real estate sector and the wider economic slowdown have started impacting PNBHF's loan book. This could get amplified with the seasoning of the portfolio. PNBHF's assets under management (AUM) expanded at a CAGR of 44% to INR863 billion in December 2019 from INR106 billion in FY14. The pressure is higher in the wholesale lending portfolio, wherein the slippages are already rising in spite of the majority of the portfolio being under moratorium. However, based on the sale of residential units, PNBHF has received principal payments even from some of the accounts that are under moratorium. The gross NPA for PNBHF increased to 1.75% in 3QFY20 from 0.33% in FY18. Given the operating environment, Ind-Ra expects the delinquency in the wholesale segment to remain under pressure. The resultant credit costs could further constrain the operating metrics.

Ind-Ra understands that PNBHF has tightened its underwriting policies. Wholesale disbursements are only made to existing builders who have demonstrated construction progress. As per the management, no sanctions have been given to new developer projects. The proportion of home loans for under-construction houses has come down in the book, and incremental home loans are only being sanctioned for ready-to-occupy flats / resale. Furthermore, as per the management, the proportion of wholesale book would come down to below 10% of the AUM in next two-to-three years.

**High Leverage:** PNBHF's leverage (debt/equity) has gone up considerably, owing to the robust growth in the AUM. Post its initial public offering in November 2016 wherein it raised INR30 billion, the leverage declined to 6.1x at FYE17 (FY16: 12.5x); however, the gearing increased considerably to reach 9.8x at FYE19 and moderated to 8.5x in December 2019. Given that the company is engaged in discussions to raise equity (up to INR17 billion), the resultant leverage would moderate. However, Ind-Ra would regularly monitor the leverage in line with the portfolio composition.

**Sizeable Player in Housing Finance Segment:** PNBHF is among the top five players in the housing finance segment, with AUM of INR863 billion as of December 2019. The mortgage business, which the company has been operating for over three decades, has seen multiple business cycles, though the portfolio witnessed major expansion only from FY14. PNBHF is geographically well diversified, with 105 branches in 64 cities across the country. The product bouquet comprises retail (82% of AUM, including housing loans and loan against property, as of December 2019) and wholesale loans (18% of AUM, including construction finance and lease rental discounting).

**Diversified Resource Profile, Supported by PNB brand:** PNBHF has the ability to raise funds from banks and capital markets. It also has a deposit-taking license, and public deposits account for 19% of the total resource mix. Furthermore, PNBHF has banking lines from more than 30 large public and private sector banks. The company's borrowings from banks are at fairly competitive rates, though its capital market borrowing costs have moved up post September 2018.

Additionally, assignments (portfolio sale) serve as an additional avenue for raising funds. PNBHF tapped this source aggressively in 9MFY20, raising close to INR92 billion and taking the total off-balance sheet funding to 20% of the total resources. PNBHF raised INR12 billion through the external commercial borrowings route in 9MFY20; on a cumulative basis, these borrowings constituted 6% of the total funding in December 2019.

**Liquidity Indicator – Adequate:** PNBHF's asset liability tenor profile in various buckets (on behavioural basis including net interest flows) is matched; the inflows include prepayment assumptions built in the asset inflows reducing asset tenors. As per the December 2019 ALM profile, 20% of the loan book (INR134 billion) gets repaid in the one-year period as against 32% of the borrowings (INR224 billion) that mature within the same time period. Also, the company had cash and liquid investments of around INR92 billion at the end of December 2019. While the past behaviour, especially in institutional inflows, could be tested in the prevailing environment, the company had unutilised funding lines of INR63 billion to cushion any gap in the maturity profile. Moreover, the availability of large securitisable assets opens up additional sources of funding for PNBHF.

## RATING SENSITIVITIES

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**Positive:** Lower leverage in line with the portfolio and control over the asset quality, while strengthening the franchise and maintaining operating performance, could lead to a positive rating action.

**Negative:** A negative rating action could result from signs of significant deterioration in PNBHF's liquidity and/or access to funding, and from any trend of rising delinquencies that, in Ind-Ra's opinion, could lead to a significant weakening of the profitability buffers. Consistently high leverage (above 9x) could also be credit negative.

## COMPANY PROFILE

PNBHF is a deposit-accepting HFC registered under the National Housing Bank ('IND AAA'/Stable) and the Companies Act, 1956. PNBHF provides housing loans to individuals for purchase, construction, repair, and upgrade of houses. It also provides loans against property, loans for commercial property, and loans for purchase of residential plots, and real estate development loans. PNBHF's network has 105 branches mainly located across metro, and Tier I and Tier II cities across the country.

### FINANCIAL SUMMARY (standalone)

Particulars	FY19	FY18
Total assets^ (INR billion)	836.76	629.54
Total equity^ (INR billion)	73.60	65.04
PAT (INR billion)	10.81	8.42
Return on average assets (%)	1.5	1.6
Tier 1 capital (%)	11.0	12.8
Source: PNBHF, Ind-Ra analysis		
^Equity and total assets are net of deferred tax and intangible assets		

## RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Rating Watch/Outlook		
	Rating Type	Rated Limits (billion)	Rating/Outlook	9 January 2019	17 February 2018	17 May 2016
NCDs	Long-term	INR218.97	IND AA/stable	IND AA+/stable	IND AAA/RWN	IND AAA/Stable

## COMPLEXITY LEVEL OF INSTRUMENTS

Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook
NCDs	INE572E09312	12 January 2016	8.36	12 July 2019	INR7.8	WD (paid in full)
NCDs	INE572E09379	1 July 2016	8.65	28 June 2019	INR7.53	WD (paid in full)

NCDs	INE572E09395	19 September 2016	7.95	18 October 2019	INR8	WD (paid in full)
NCDs	INE572E09445	15 June 2017	7.55	15 June 2020	INR5	WD (paid in full)
NCDs	INE572E09502	5 September 2017	7.25	5 September 2019	INR10	WD (paid in full)
NCDs	INE572E09510	19 September 2017	7.1	19 March 2019	INR2	WD (paid in full)
NCDs	INE572E09528	26 September 2017	7.28	26 September 2019	INR7.1	WD (paid in full)
NCDs	INE572E09536	31 October 2017	7.44	31 October 2019	INR8.6	WD (paid in full)
NCDs	INE572E09577	31 January 2018	Zero coupon bond	28 February 2020	INR5.0	WD (paid in full)
NCDs	INE572E09320	18 January 2016	8.42	17 January 2026	INR2.1	IND AA/Stable
NCDs	INE572E09346	28 April 2016	8.39	28 April 2026	INR2.9	IND AA/Stable
NCDs	INE572E09387	26 July 2016	8.57	26 July 2023	INR4.99	IND AA/Stable
NCDs	INE572E09270	17 June 2015	8.59	17 June 2020	INR7	IND AA/Stable
NCDs	INE572E09288	28 July 2015	8.56	28 July 2020	INR7	IND AA/Stable
NCDs	INE572E09304	9 November 2015	8.19	9 November 2020	INR5	IND AA/Stable
NCDs	INE572E09338	3 February 2016	8.33	3 July 2021	INR5	IND AA/Stable
NCDs	INE572E07019	31 March 2016	8.01	31 March 2021	INR5	IND AA/Stable
NCDs	INE572E09353	1 June 2016	8.33	1 September 2021	INR3	IND AA/Stable
NCDs	INE572E09361	1 July 2016	8.47	1 July 2021	INR14.64	IND AA/Stable
NCDs	INE572E09403	29 September 2016	7.91	29 March 2022	INR2.5	IND AA/Stable

NCDs	INE572E09411	31 January 2017	7.46	30 April 2020	INR10.25	IND AA/Stable
NCDs	INE572E09429	8 May 2017	7.8	7 May 2021	INR3.2	IND AA/Stable
NCDs	INE572E09437	26 May 2017	7.77	25 September 2020	INR3.05	IND AA/Stable
NCDs	INE572E09452	15 June 2017	7.63	15 December 2020	INR5	IND AA/Stable
NCDs	INE572E09460	14 July 2017	7.63	14 July 2020	INR9.5	IND AA/Stable
NCDs	INE572E09478	27 July 2017	7.5	15 September 2020	INR8	IND AA/Stable
NCDs	INE572E09486	27 July 2017	7.59	27 July 2022	INR7	IND AA/Stable
NCDs	INE572E09494	27 July 2017	Zero coupon bond	3 August 2020	INR2	IND AA/Stable
NCDs*	INE572E09478	3 August 2017	7.5	15 September 2020	INR2	IND AA/Stable
NCDs	INE572E09551	31 October 2017	7.53	31 December 2020	INR5	IND AA/Stable
NCDs	INE572E09569	15 November 2017	7.58	15 March 2021	INR5.2	IND AA/Stable
NCDs	INE572E09585	31 January 2018	Zero coupon bond	6 April 2021	INR1.89	IND AA/Stable
		Utilized			INR121.22	
		Unutilized			INR97.75	
		Total			INR218.97	

## SOLICITATION DISCLOSURES

Additional information is available at [www.indiaratings.co.in](http://www.indiaratings.co.in). The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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## ABOUT INDIA RATINGS AND RESEARCH

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**About India Ratings and Research:** India Ratings and Research (Ind-Ra) is India's most respected credit rating agency committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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## Applicable Criteria

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[Financial Institutions Rating Criteria](#)

[Non-Bank Finance Companies Criteria](#)

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