

PNB Housing Finance Ltd

Issuer Profile

March 2019



About CRISIL Issuer Profile

CRISIL Issuer Profile is part of CRISIL Ratings' ongoing efforts to enhance lenders' and investors' understanding of the credit risk profiles of large and regular issuers in India's debt market and banking system

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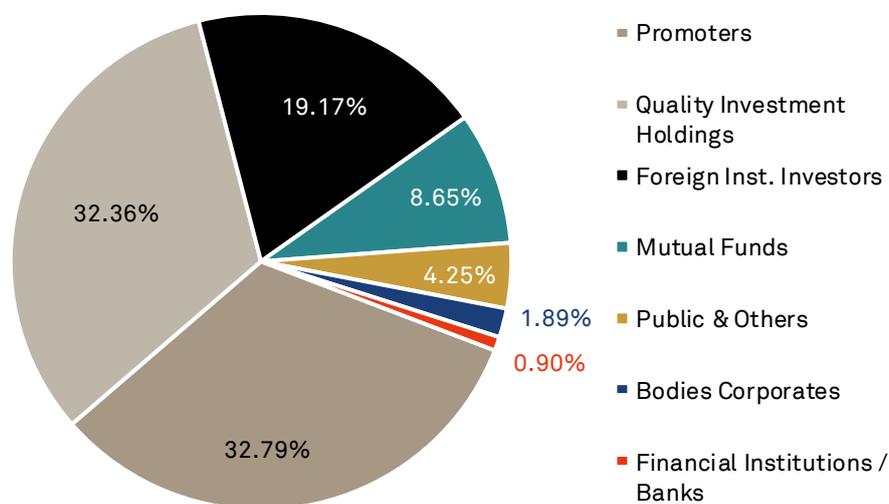
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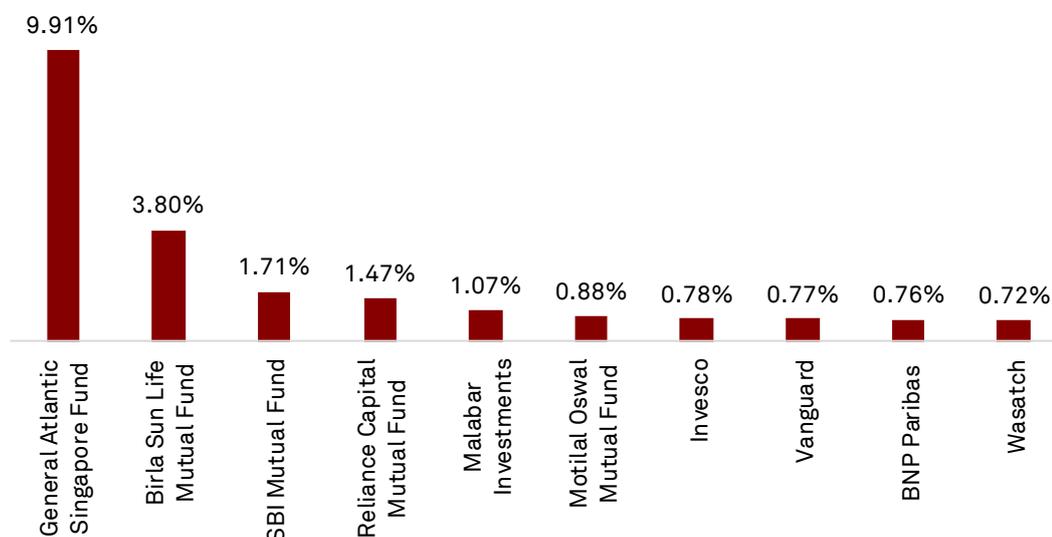
About the Company

PNB Housing Finance Ltd (PNB Housing) is among the top five housing finance companies (HFCs) in terms of assets under management (AUM) and the second largest in terms of depositor outstanding in India. Its customer-oriented business model enables it to maintain strong growth. It has a pan-India presence through 96 branches as on September 30, 2018. The company also derives brand-sharing benefits from the relationship with Punjab National Bank (PNB). The company has a strong distribution network of over 13,000 channel partners across India.

Shareholding Pattern as on December 31, 2018



Other major investors in PNB Housing



PNB Housing provides retail housing loans for construction, purchase, repair, and upgrade of houses, as well as purchase of residential plots. It also provides loans against property (LAP) and loans for commercial property with focus on mass organised retail segment. On the wholesale side, it provides construction finance, lease rental discounting (LRD), and corporate term loans (CTL), mainly to real estate developers.

Highlights

Operating		Financial ¹		General	
		2018 (%)	2017 %		
Disbursements	57%: CAGR growth during 2013-18	NIMs	3.72	3.48	 Amongst the fastest growing large HFCs
Assets Under Management	56%, CAGR growth during 2013-2018	CoB	7.85	8.55	 Certified as a great place to work
Asset quality	Significantly better than industry GNPA (including 2 year lagged GNPA)	RoA	1.55	1.40	 Implemented Target Operating Model
Resources	Diverse and cost effective funding mix.	Tier 1	12.75	16.48	 Independent and professional management team

¹: based on yearly average

PNB Housing in comparison with industry

Chart 1: Trend in AUM growth rate

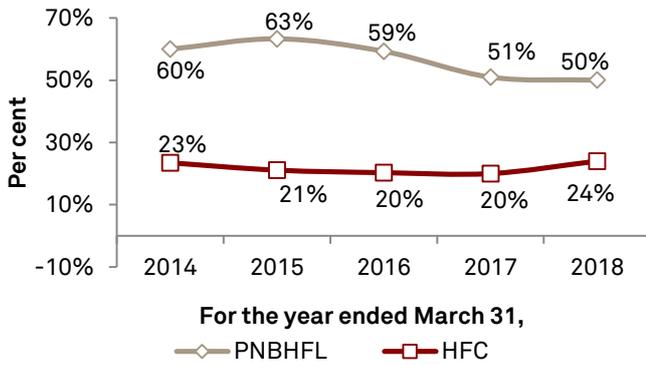


Chart 2: Trend in gross NPAs (2 year lagged)*

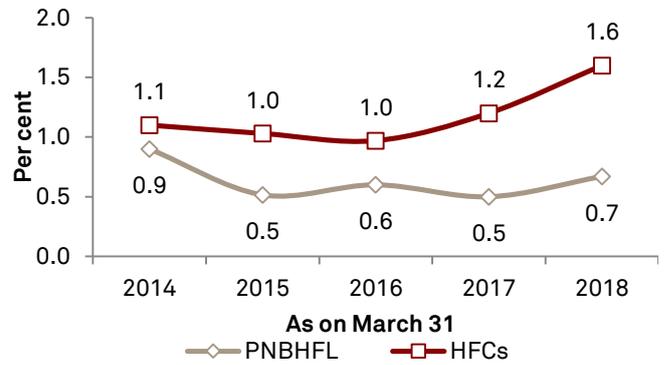


Chart 3: Trend in gross NPAs*

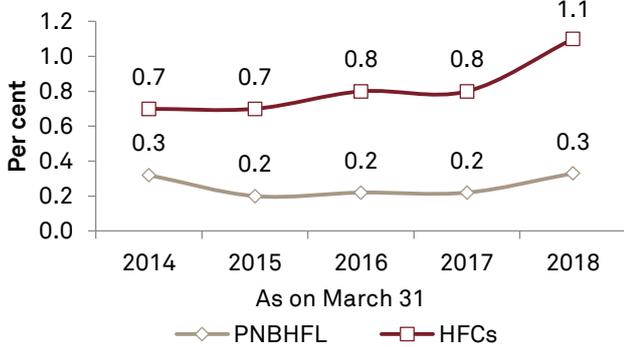


Chart 4: Trend in return on assets

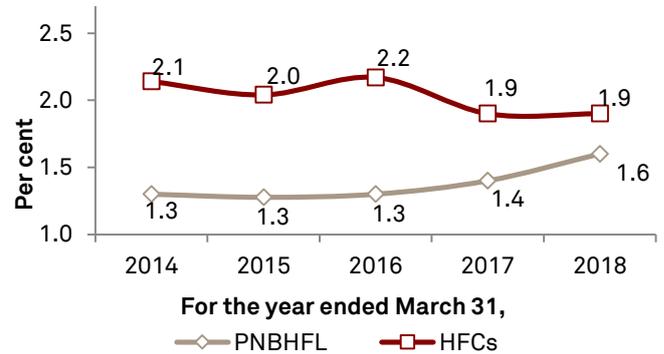


Chart 5: Trend in adjusted gearing

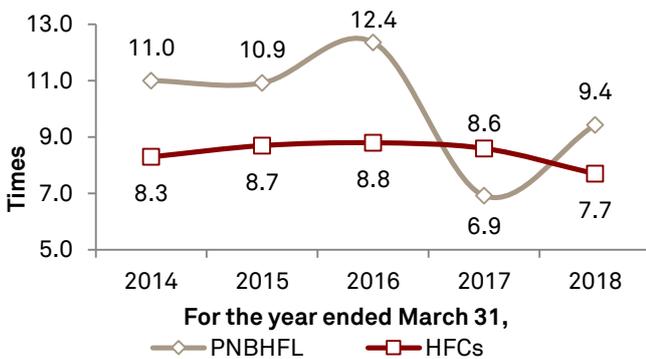
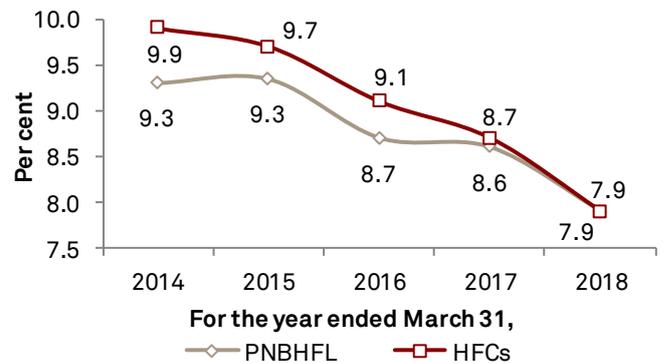
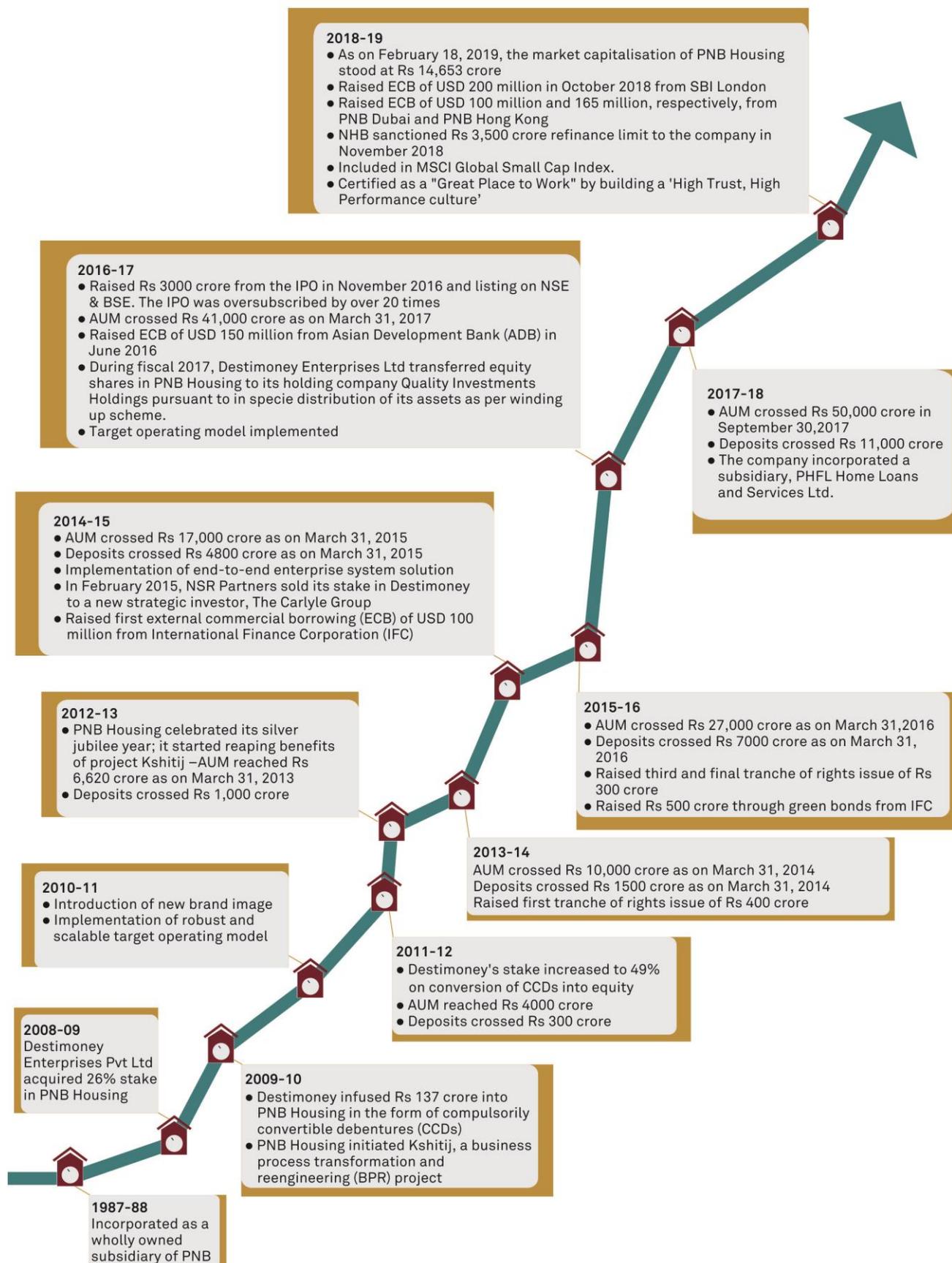


Chart 6: Trend in cost of borrowing



*based on advances

PNB Housing's key milestones



CRISIL-rated debt instruments

CRISIL has been rating PNB Housing's debt instruments since 1995. The rated debt instruments are:

Table 1: PNB Housing's CRISIL-rated debt instrument details

Instruments	Rs Crore	Rating
Fixed Deposit Programme	18500	FAAA/Stable
Non-convertible Debentures	4600	CRISIL AA+/Stable
Bonds	1100	CRISIL AA+/Stable
Lower Tier-II Bonds	500	CRISIL AA+/Stable
Long-Term Bank Facilities	4000	CRISIL AA+/Stable
Commercial Paper Programme	26000	CRISIL A1+

Rating History

Date	Rating	Outlook	Rating action
June 2018	CRISIL AA+/FAAA/CRISIL A1+	Stable	Ratings reaffirmed
June 2017	CRISIL AA+/FAAA/CRISIL A1+	Stable	Outlook revised
March 2016	CRISIL AA+/FAAA/CRISIL A1+	Negative	Outlook revised
December 2013	CRISIL AA+/FAAA/CRISIL A1+	Stable	Ratings on long-term debt instruments and fixed deposit programme upgraded
July 2013	CRISIL AA/FAA+/CRISIL A1+	Positive	Outlook revised
February 2010	CRISIL AA/FAA+/CRISIL A1+	Stable	Ratings on long-term debt instruments and fixed deposit programme downgraded
December 2009	CRISIL AA+/FAAA/CRISIL A1+	-	Ratings on long-term debt instruments and fixed deposit programme placed on 'Ratings Watch with Developing Implications'
April 2009	CRISIL AA+/FAAA/CRISIL A1+	Negative	Outlook revised
September 2004	CRISIL AA+/FAAA/CRISIL A1+	Stable	Ratings on long-term debt instruments and fixed deposit programme upgraded
September 2003	CRISIL AA/FAA+/CRISIL A1+	Stable	-
August 2002	CRISIL AA/FAA+	-	-
July 2002	FAA+	-	Rating on fixed deposit programme upgraded
October 2000	FAA-	-	Rating on fixed deposit programme upgraded
December 1999	FA+	-	Rating on fixed deposit programme upgraded
December 1998	FA-	-	Rating on fixed deposit programme downgraded
September 1995	FA	-	-

Board of Directors:

The Board constitutes 10 members: three non-executive directors, six independent directors, and the managing director and chief executive officer (CEO).

Name	Designation	Profile
Mr Sunil Mehta	Non-executive chairperson (PNB nominee; Since May 12, 2017)	He is the managing director and CEO of Punjab National Bank. Before that, he was the executive director of Corporation Bank. He started his banking career as an Agriculture Field Officer at Allahabad Bank in 1982 and has worked in various administrative and functional capacities at branches, zonal offices, and the head office. He has held various important positions in agriculture, retail, credit, and planning and development. He has over 35 years of experience in banking.
Mr L V Prabhakar	Non-executive director (PNB nominee; Since August 9, 2018)	He is a member of Nomination and Remuneration Committee, Corporate Social Responsibility Committee, and Risk Management Committee. He is currently the executive director of PNB. Prior to this, he served at Allahabad Bank in various capacities at Industrial Finance Branch, Mumbai, Lead District Office, and various Zonal Offices. He worked at Corporate Office as the head of various important verticals viz., Information Technology, Retail Banking, Priority Sector Credit, MSME Credit, Financial Inclusion, Human Resource Development, and Integrated Risk Management.
Mr Sunil Kaul	Non-executive director (Carlyle Group nominee; Since: March 5, 2015)	He is a member of Risk Management Committee and Nomination and Remuneration Committee. He was the president of Citibank Japan and the chairman of CitiCards Japan KK and CitiFinancial Japan KK. He was also the head of retail banking for Citibank in Asia, the head of international personal banking for Citibank in New York, and the head of Citibank's global transaction services at Citibank, Japan. He is presently the managing director of Carlyle Singapore Investment Advisors Pte Ltd and the head of South East Asia for the financial services sector of the Carlyle Asia Buyout Advisory Team and concurrently heads the financial services sector for the team in Asia. He has over 30 years of experience in private equity and corporate and consumer banking.
Mr Shital Kumar Jain	Independent director (Since: August 14, 2014)	He heads the Credit Committee of Board. He is also a member of Risk Management Committee. He has served as a member of the Beta Gamma Sigma Society of the Indiana University chapter. Before joining the PNB Housing board, he worked with Citibank in Hong Kong, Taiwan, the Philippines, and Canada. He has more than 31 years of experience in banking.
Mr R Chandrasekaran	Independent director (Since: October 7, 2015)	He is the chairman of the Corporate Social Responsibility Committee and a member of Nomination and Remuneration Committee. He has been the executive vice chairperson of Cognizant India since December 1, 1994, and earlier worked with Tata Consultancy Services for over 9 years. He has over 31 years of experience in information technology.
Mr Nilesh S Vikamsey	Independent director (Since: April 22, 2016)	He is the former president of The Institute of Chartered Accountants of India and has been a member since 1985. He is senior partner at Khimji Kunverji & Co., Chartered Accountants, Mumbai since 1985. He has over 30 years of experience in auditing, taxation, corporate and personal advisory services, business and management consulting services, due diligence, valuations, inspections, and investigations.

Ratings

Prof (Dr) Gourav Vallabh	Independent director (Since: April 22, 2016)	He heads the Risk Management Committee. He is also a member of Audit Committee of Board. He is a Professor of Finance at The Xavier School of Management, Jamshedpur, and was a professor at the Management Development Institute, Gurugram. He was a director at The Institute of Chartered Accountants of India. He has worked with the National Institute of Bank Management, a Reserve Bank of India (RBI) undertaking. He has more than 15 years of industry and academic experience and has published more than a dozen research papers in referred academic journals and presented papers in many national and international academic conferences.
Mr Ashwani Kumar Gupta	Independent director (Since: May 12, 2017)	He is a member of the Stakeholders Relationship Committee, Credit Committee of Board, and Corporate Social Responsibility Committee. He is a member of The Institute of Chartered Accountants of India, 1977 batch. He has also served as the Regional Council Member of Central India Regional Council of The Institute of the Chartered Accountants of India. He has been a government nominee on the board of joint sector companies and an RBI nominee on the boards of various banks. He is also associated with various charitable trusts and organisations. He is experienced in the management of corporate finance, planning, treasury, issue management, merchant banking, company law matters, taxation, and implementation of expansion activities. He has over 34 years of experience in finance, treasury, real estate, and securitisation, and reconstruction of assets.
Ms Shubhalakshmi Panse	Independent director (Since: July 7, 2017)	She is the chairperson of the Audit Committee of Board and Stakeholders Relationship Committee. She is the former chairperson and managing director of Allahabad Bank and executive director of Vijaya Bank. She started her stint in banking with Bank of Maharashtra. She has undergone trainings and courses at various prestigious institutes. She has over 38 years of experience in banking, particularly in corporate credit appraisal, credit monitoring, NPA management, planning, project appraisal, as well as in economics, finance, and information technology.
Mr Sanjaya Gupta	Managing director (Since: June 25, 2010)	He is the member of Credit Committee of Board, Stakeholders Relationship Committee, Corporate Social Responsibility Committee, and Risk Management Committee. Before his current assignment, he worked for large corporate houses such as HDFC Ltd, ABN Amro Bank NV, and AIG United Guaranty. He is an independent director at India Shelter Finance Corporation Ltd, where he also heads the Audit Committee of the Board and is on the NPS Committee of the PFRA to advise on investment in the housing sector. He was a nominee director for ADB on the board of Satin Creditcare Network Ltd and the board of HDFC Maldives. He is also a Fellow of the Royal Institution of Chartered Surveyors. Throughout his career of over 32 years, he has contributed to the expansion of the mortgage industry and allied risk management products across India. He is often consulted by policymakers for key changes in the sector.

Top Management

Name	Designation	Profile
Mr Sanjaya Gupta	Managing director	He is the member of Credit Committee of Board, Stakeholders Relationship Committee, Corporate Social Responsibility Committee, and Risk Management Committee. Before his current assignment, he worked for large corporate houses such as HDFC Ltd, ABN Amro Bank NV, and AIG United Guaranty. He is an independent director at India Shelter Finance Corporation Ltd, where he also heads the Audit Committee of the Board and is on the NPS Committee of the PFRA to advise on investment in the housing sector. He was a nominee director for ADB on the board of Satin Creditcare Network Ltd. and on the board of HDFC Maldives. He is also a Fellow of the Royal Institution of Chartered Surveyors. Throughout his career of over 32 years, he has contributed to the expansion of the mortgage industry and allied risk management products across India. He is often consulted by policymakers for key changes in the sector.
Mr Shaji Varghese	ED- Business development	Mr Shaji Varghese has more than 23 years of experience in retail assets, liabilities, and wealth management. He has been an integral contributor in setting up large successful businesses across geographies and managing high performance teams. His forte is retail distribution and managing sustainable and profitable businesses. Prior to this assignment, he was the senior vice president and business head of Secured Assets at IndusInd Bank. He has also handled assignments with leading financial institutions and banks such as ABN AMRO Bank NV, ICICI Bank Ltd, and Transamerica Apple Distribution Finance Ltd. He holds a Bachelor's degree in Law (LLB) and a Master's degree in Management Science (MMS).
Mr Ajay Gupta	ED- Risk management	Mr Ajay Gupta holds a Bachelor's Degree in Commerce from the University of Delhi. He is also a Chartered Accountant from ICAI. He is an accomplished risk management professional with over 28 years of experience in credit cycle management across a diverse product group comprising SME loans, LAP, home loans, builder finance, construction equipment loans, commercial vehicle loans, business/personal loans, and auto lease. His areas of expertise include credit policy and underwriting, collection management, fraud control, risk analytics, and portfolio management. He has worked with Religare Finvest Ltd as director and CRO, India Bulls Financial Services as risk head, and has also served GE Money, ANZ Grindlays Bank, and Standard Chartered Bank in various roles.
Mr Kapish Jain	Chief financial officer	Mr Kapish Jain is a business-focused, solution-oriented finance professional with more than 21 years of experience in the BFSI sector. He has a strong analytical mind and rich experience across all facets of finance: treasury, business planning and MIS, accounts, audit, secretarial, and compliance. He is a qualified rank holder Chartered Accountant, Company Secretary, and Cost Accountant. Previously, he was chief financial officer and principal officer at Xander Finance. Before that, he has held various assignments with leading finance organisations and banks such as AU Small Finance Bank, ICICI Prudential Life Insurance, and Deutsche Bank.
Mr Nitant Desai	Chief operations and technology officer	Mr Nitant Desai is an astute professional with more than 34 years of varied and relevant experience in retail finance with leading banks and financial institutions in India and the Middle East. He has extensive knowledge of operations management, client servicing, quality and compliance, and business process reengineering. Prior to PNB Housing, he worked with reputed organisations such as HDFC Life Insurance Co Ltd, Union National Bank – Abu Dhabi, ICICI Bank Ltd, GE Countrywide, TATA Finance Ltd, and HDFC Ltd.
Mr Anshul Bhargava	Chief people officer	Mr Anshul Bhargava is a dynamic and result-oriented HR professional with over 26 years of experience. He has excellent understanding and domain expertise in a variety of spheres relating to human capital. He has keen interest in mentoring and training, performance management, and cadre building. His last assignment was with Asset Reconstruction Company (India) Ltd. He has also served the Indian Army.
Mr Sanjay Jain	Company Secretary and head of compliance	Mr Sanjay Jain is a professional with more than 30 years of experience as Company Secretary, in corporate finance, treasury, regulatory compliances, legal issues and internal audit. He has held various positions in PNB Housing in the past two decades. He is a fellow member of Institute of Companies Secretaries of India and Bachelor of Law from the University of Delhi. Before joining PNB Housing, he worked for 7 years with a leading construction group.

Awards and recognition

2013



PNB Housing Change intervention story got featured in Bloomsbury India's publication called SWITCH



Listing of PNB Housing on National Stock Exchange



Recognized for Contribution in Promoting Green Buildings' Initiative



Adjudged Winners for Brand excellence in Banking, Finance and Insurance sector



Awarded 'Certificate of Merit' as 'Housing Finance Company of the Year'



Awarded for Brand Excellence in NBFC Category



Awarded 'Housing Finance Company of the Year'



'Best Adversity Management Stories of Asia Study 2016'



Awarded for contribution towards CSR at the India Pride Awards

2017



Awarded for 'Excellence in Financial Services'



Certified as a "Great Place to Work" by building a "High Trust, High Performance Culture"



Felicitated for Valuable Contribution to CREDAI Skilling Programme at CREDAI Conclave 2017



Awarded 'Best Project Finance Company of the Year' at Construction Times Builders Award



Awarded 'Excellence in Customer Relation' at GIHED CREDAI Property Show 2017



Awarded "IPO of the Year" by Finance Monthly Magazine (M&A Award)- a leading international business publication



Honored in the field of 'IT Security' at CSO 100 Awards organized by CSO 100 Award and IDG Security



Mr. Nitant Desai (Chief Centralized Operation & Technology Officer) has been awarded amongst Top 100 CIOs of India



Won bronze award at Outdoor Advertising Awards 2017, in the financial services category for its innovative outdoor campaign executed during the IPO



'Leading Housing Finance Company 2017' at National Awards for Best Housing Finance Companies organized by CMO Asia

2018



Recognized as 'Symbol of Excellence in the BFSI Sector' at The Economic Times Best BFSI Brands 2018



Conferred as the 'Best Housing Finance Company of the Year' by ET Now Rise with India – BFSI Awards



PNB Housing Penguin TV Commercial has bagged the Gold Award at FICCI's Best Animated Frames (BAF) Awards 2018



Certified as a "Great Place to Work" second year in a row. This is a testament to our work culture which is based on our core values and on the tenants of Trust, Pride and Camaraderie.



Received the 'Best Stand-out IR' award in the 'Large Cap' category by the IR Society of India in association with Bloomberg and BNY Mellon



Conferred bronze award at the SKOCH Awards 2018. The award was felicitated for uConnect, a collaboration service platform for underwriting partners.



Bagged award at Trescon BIG 50 BFSI Leaders Awards. The award recognises leaders who identify need of the hour and leverage emerging technologies to provide holistic solutions



Winner at the Economic Times Innovative Tribe Awards 2018: Winning trophy in BFSI category for its innovative digital solution iBox.

2019



Mr. Gupta recognised as one of the 'Most Promising Business Leaders of Asia 2019' at the Economic Times Asian Business Leaders Conclave

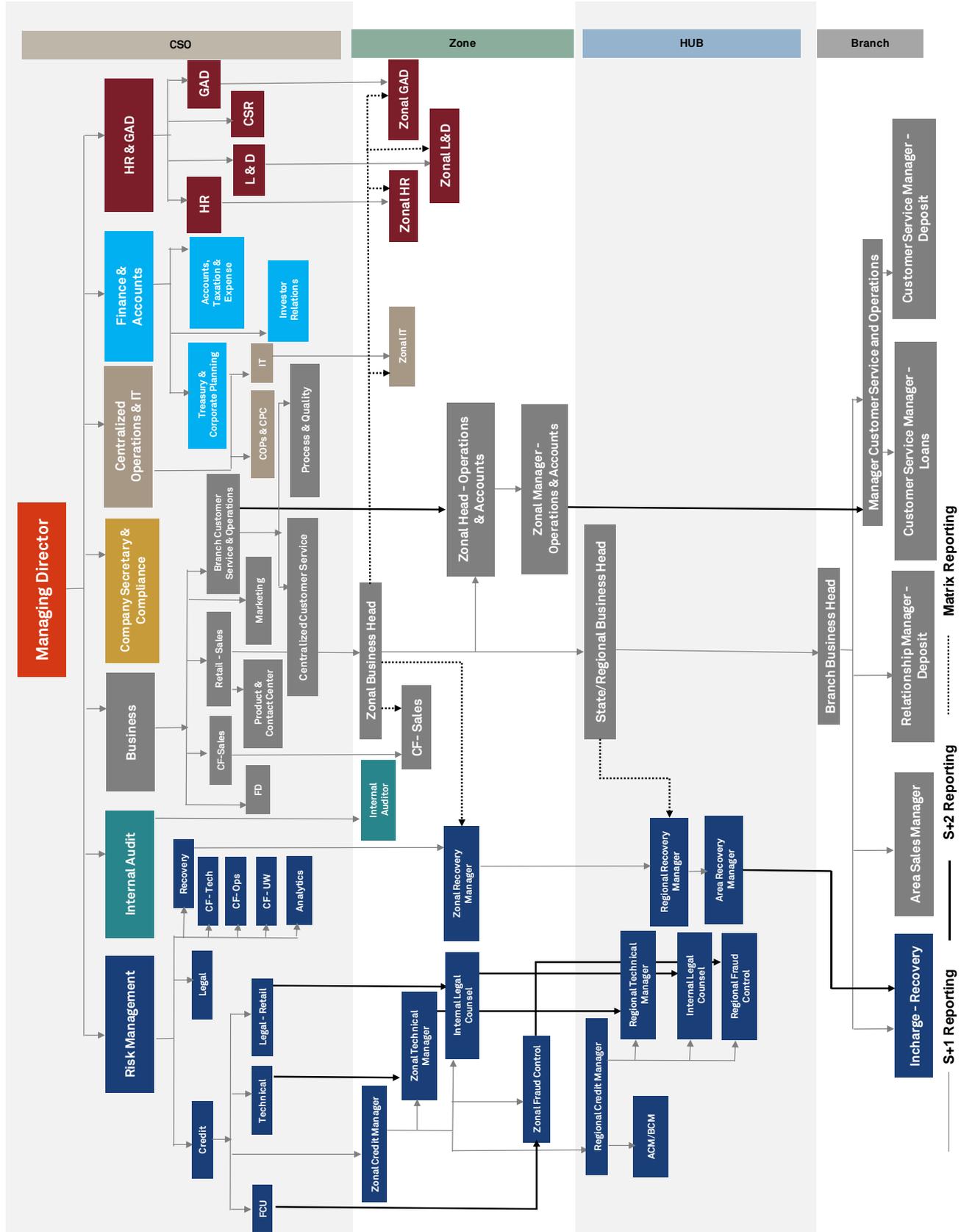


PNB Housing Finance bags Gold in 'Home Loan provider of the year 2018's



PNB Housing Annual Report wins Bronze at 58th Annual Awards Nite organised by ABCI

PNB Housing's Organisation Structure



Summary Credit Risk Profile

Business Risk Profile		Financial Risk Profile	
Market Position		Capital Adequacy	
<ul style="list-style-type: none"> • Among top five HFCs by AUM and the second largest HFC by deposit outstanding. • AUM grew 43% (y-o-y) to Rs 73,482 crore as on September 30, 2018; company to maintain higher-than-industry average growth over the medium term. • AUM comprised housing loans (58%), construction finance (12%), LAP (16%), LRD (6%), NRPL (3%), and CTL (5%) as on September 30, 2018. • Portfolio is well diversified across India; with western, northern and southern India contributing 38%, 32% and 30%, respectively, as on September 30, 2018 		<ul style="list-style-type: none"> • Comfortable capitalisation, with networth and capital adequacy ratio (CAR) of Rs 6,920 crore and 14.9%, respectively, as on September 30, 2018. • Adjusted gearing increased to 10.2 times (gearing 9.2 times) as on September 30, 2018, from 8.1 times (gearing 7.7 times) a year earlier. Over the medium term, adjusted gearing is expected at 11-12 times (gearing: 10-11 times) on a steady state basis. • Comfortable networth coverage of net non-performing assets (NPAs) provides cushion against asset-side risks. 	
Asset Quality		Earnings	
<ul style="list-style-type: none"> • Robust credit underwriting, monitoring, and collection processes. Two-year lagged gross NPAs (based on loan assets) were comfortable at 0.93% as on September 30, 2018, which is half of the industry average (HFC average: 1.9%), supported by improved systems and processes. • NPA in the wholesale segments, primarily construction finance and corporate term loans (together accounting for around 17% of the loan book), is low (nil as on September 30, 2018); performance over a longer period remains to be seen. • Ability to maintain comfortable asset quality over the medium term as the loan book seasons will remain a key monitorable. 		<ul style="list-style-type: none"> • Average earnings with return on assets (RoA, annualised) of 1.5% in the first half of fiscal 2019. Profitability to remain in line with the industry average over the near term. • Profitability expected to improve gradually over the medium term, supported by enhanced operating efficiency with ramp-up of operations. • NIMs are expected to benefit from the high proportion of high-yield non housing retail loans. However, this will be partially offset by the impact of competition on yields in the salaried housing loan segment. 	

Ratings

Resources

- Well-diversified resource profile comprising bank loans, bonds, debentures, fixed deposits, NHB refinance, ECBs, and Securitisation (through DA route). Better than peers' cost of borrowing.
- Second largest deposit base among HFCs, with deposits constituting 20% of borrowings as on September 30, 2018.
- Significant increase in focus on relatively stable fixed deposits over the past 2 years will lend stability and diversify the investor profile.

Liquidity

- Adequate asset-liability management (ALM) profile with no negative cumulative mismatches in up to 1 year bucket.
- Policy of maintaining unutilised bank lines/liquid investments.
- Adequate unutilised lines (including securitisation, ECB, term loans, and overdraft lines) of Rs 12,550 crore as on September 30, 2018, along with liquid investments of Rs 4368 crores and SLR investments of Rs 1,281 crores

Management

- Management has strong domain knowledge and established track record; instrumental in transformation of PNB Housing into a professionally managed company. Stable management with attrition in the top 100 employees being 3.2%.
- Successful implementation of Project Kshitij (BPR exercise) to aid high growth and risk orientation of the management

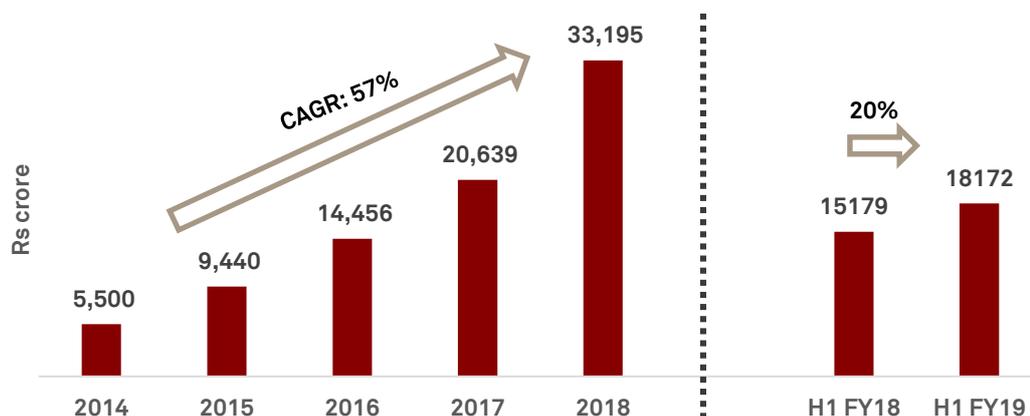
Brand-sharing benefits from the parentage of PNB

- PNB Housing continues to benefit from branding support from its parent, PNB (33% ownership currently)

Detailed Credit Risk Profile

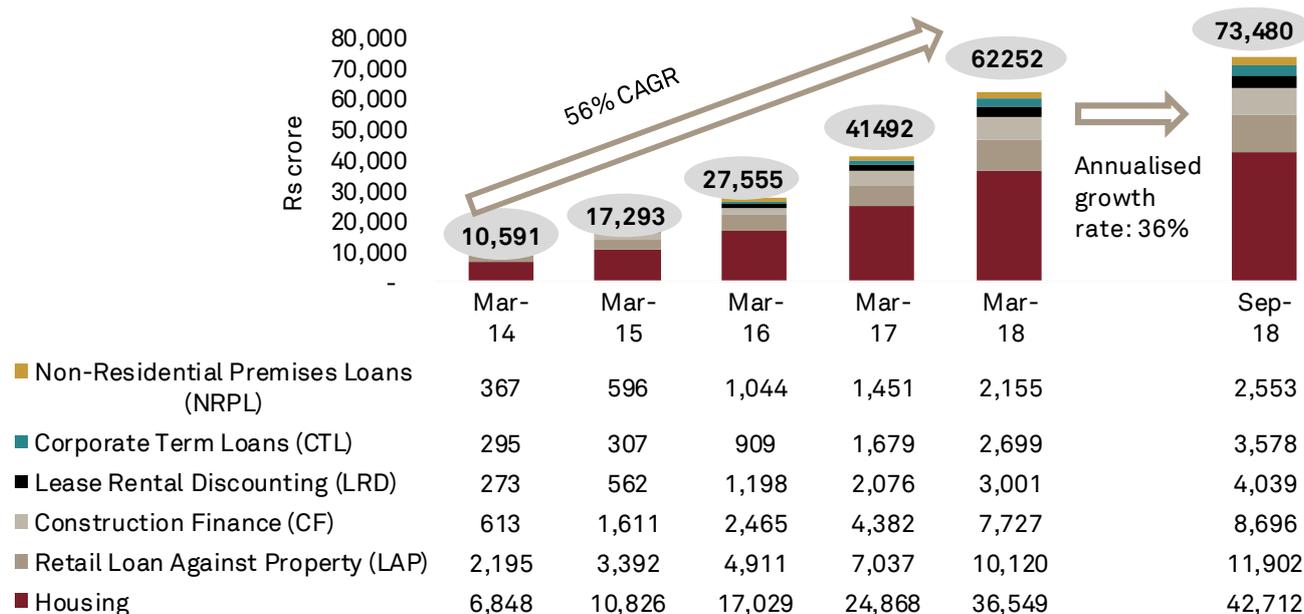
Market Position

Chart 7 – Trend in Disbursement



PNB Housing’s disbursements surged to 57% between fiscals 2014 and 2018, reaching Rs 33,195 crore in fiscal 2018 from Rs 5,500 crore in fiscal 2014. This was driven by branch expansion and technological advancement that helped bring in efficiency by speeding up turnaround time (TAT). Growth in disbursements has remained healthy in the first half of the current fiscal, growing at 20% year-on-year. It has also led to a strong growth in AUM in the 5 years through March 31, 2014 to March 31, 2018, with AUM reaching Rs 62,252 crore as on March 31, 2018, and Rs 73,482 crore as on September 30, 2018, growing by 36% (annualised) September over March. PNB Housing has become the fastest-growing large HFC in India.

Chart 8 – Trend in AUM



*above LRD including Retail LRD +Wholesale LRD

CRISIL believes PNB Housing will maintain above-industry-average growth over the next few years, which will result in an increase in its market share in the highly competitive industry.

Chart 9 – Portfolio Constitution*

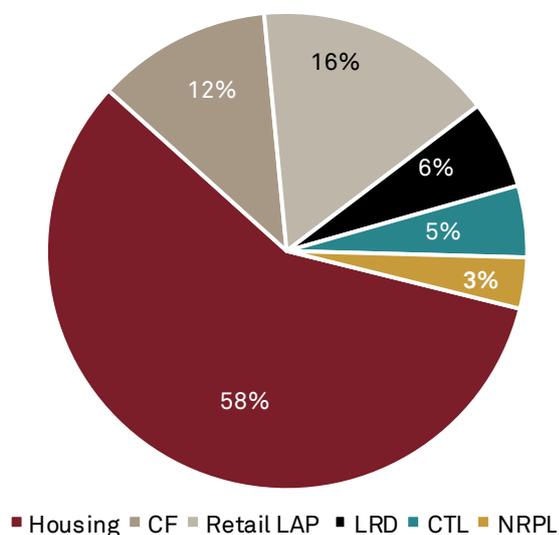
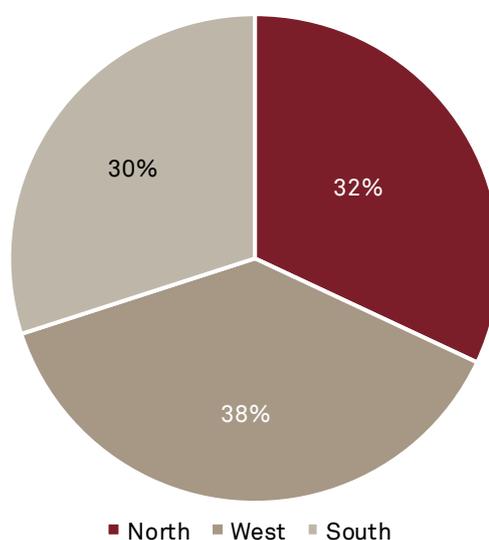


Chart 10 – Geographical Split*



*based on AUM as on March 31, 2018

Over the medium term, PNB Housing is likely to maintain the segmental AUM break-up.

- Within the housing loan segment, focus remains on sourcing business from employees of reputed/medium/large corporates. In the home loan portfolio, salaried segment accounted for 69% of loan book as on September 30, 2018, compared to 67% as on March 31, 2018.
- About 31% of the incremental housing loan business continues to be from self-employed: higher-income individuals with relatively larger ticket-size loans and better debt servicing capacity. The company also intends to focus on the mass housing segment given the strong demand potential and impetus given to the sector by the Government of India.
- In line with target customer and product strategy, PNB Housing expanded its branch network to 96 by September 30, 2018 and opened 12 new branches in the first half of fiscal 2019.

PNB Housing is among the top five and the fastest-growing large HFCs, the second largest by depositor base, in India. However, it faces intense competition from banks and other HFCs, given their strong focus on mortgage finance. Nevertheless, CRISIL believes PNB Housing is well poised to continue to report higher than industry average growth in AUM.

Asset Quality

PNB Housing’s gross NPAs (GNPAs) have remained better than the industry average, supported by complete revamp of the business model and strong credit underwriting, monitoring, and collection mechanisms. Its GNPAs and 2-year lagged GNPAs, at 0.45% and 0.93%, respectively, as on September 30, 2018, were better than the industry average. **The 2-year lagged GNPAs for HFCs stood at 1.9%, as on September 30, 2018**

Chart 11 – Trend in Gross NPAs

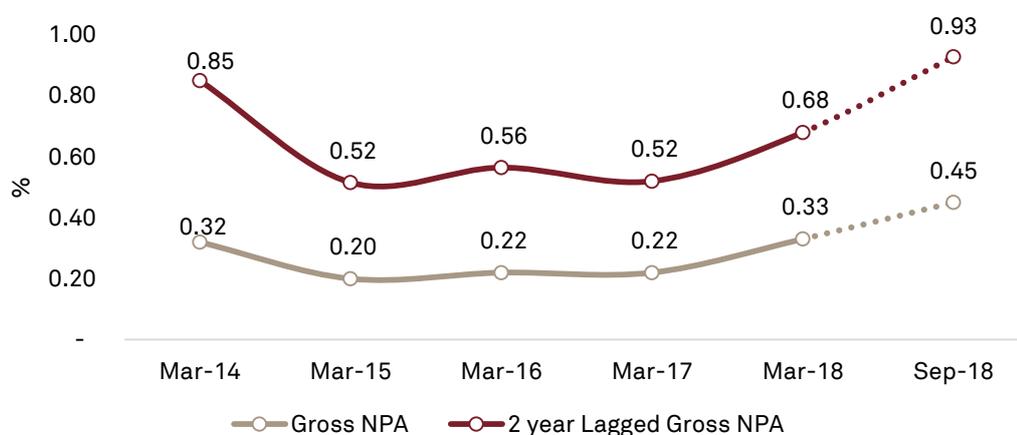
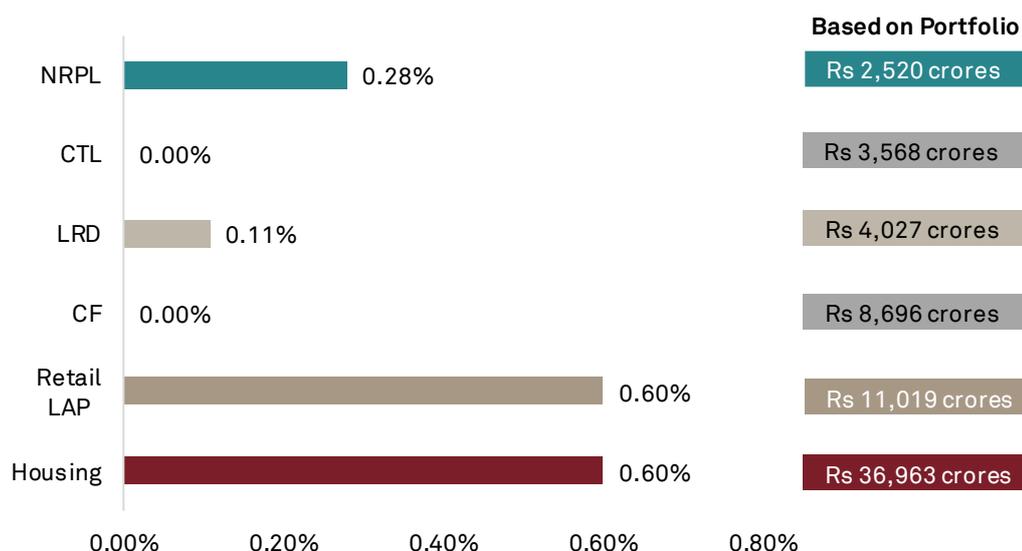


Chart 12 – Segment wise Gross NPAs



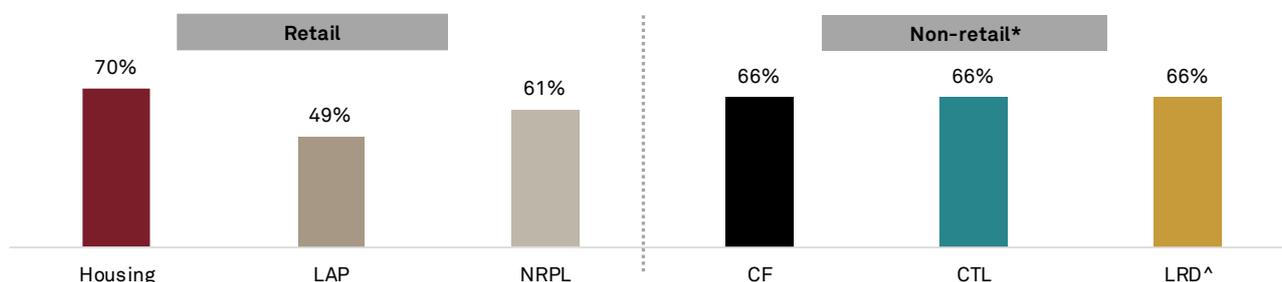
Even on a segmental basis, GNPAs remain comfortable. However, the impact of seasoning is yet to be seen as, given the strong growth in recent years, nearly 78% of the loan book is relatively new, having been on the books for less than 24 months. Furthermore, given the rising proportion of large-ticket wholesale loans, asset quality performance in this segment remains to be seen. Strong credit underwriting, monitoring, and collection mechanisms support its asset quality:

Ratings

- Centralised hubs for standardised credit decision-making process.
- Underwriting team strengthened by induction of qualified and experienced subject matter experts.
- Dedicated team at the head office for underwriting corporate finance.
- Regular review of all large value loans and the delinquent portfolio.
- Focused risk management team for monitoring the portfolio risk characteristics; detailed portfolio analysis on a regular basis for quality evaluation.
- Regular portfolio review by the Credit Committee of Board to identify early warning signs.
- Streamlined collection process through centralised recovery monitoring, dedicated collection resources at branches, and regular follow-up in addition to various digitised means implemented to correct operational risk/frauds, such as know-your-customer norms and Hunter application.

Furthermore, PNB Housing's average weighted loan-to-value (LTV) ratio across segments is comfortable.

Chart 13 – Segment wise LTVs



*average security cover of around 1.5-2.5X during the tenure of the loan

^Retail LRD LTV is 41%

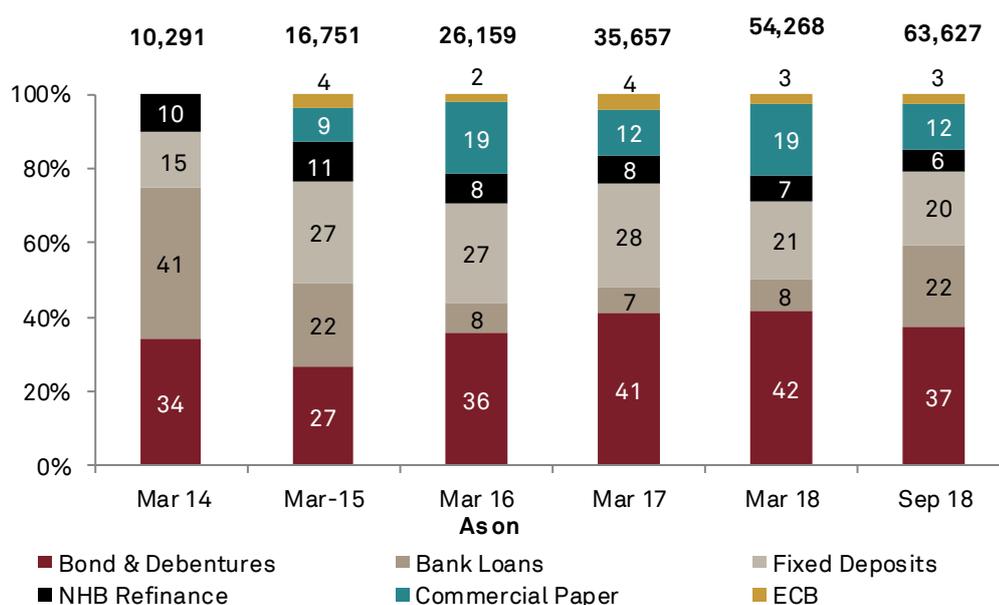
CRISIL believes PNB Housing's focus on strengthening and standardising its systems and processes has started to yield benefits. On a 2-year lagged basis, GNPA's stood at 0.93%, which is half the industry average (1.9%). PNB Housing has revamped its business model and has put in place strong credit underwriting, monitoring, and collection mechanisms to support asset quality. While the current level of NPA in the corporate finance, primarily construction finance and corporate term loans (together accounting for around 17% of the loan book), was nil as on September 30, 2018, performance over a longer period remains to be seen. Hence, PNB Housing's ability to maintain its comfortable asset quality over the medium term as the loan book seasons will remain a key monitorable.

Resources

The company has a well-diversified borrowing mix, both in terms of investors and instrument type. As of September 30, 2018, PNB Housing met its funding requirement through multiple sources, including term loans from banks and financial institutions, deposits, ECBs, commercial paper, refinancing from NHB, non-convertible debentures (NCDs), zero coupon bonds (ZCBs), and unsecured subordinated debt. The company has built strong relationships with its lenders. Even post September 30, 2018, it has managed to raise funds including Rs 13,075 crore of commercial paper (for rollover of maturities), refinance from NHB of Rs 3,500 crore, and ECB of USD 465 million (~Rs 3,325 crore) under automatic route.

As on September 30, 2018, PNB Housing’s lenders included lending institutions across public, foreign, and private sector banks, mutual funds, insurance companies, provident funds, gratuity funds, pension funds, superannuation funds, foreign portfolio investors, and multilateral institutions such as ADB and IFC.

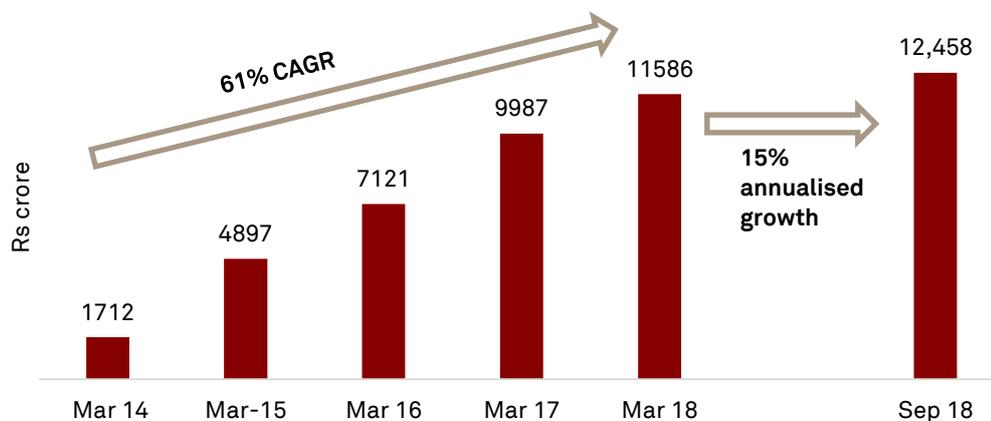
Chart 14 – Resource profile



Note: figures in boxes represent total borrowing in Rs crore

A significant proportion of the company’s funding is long term to match the long tenure of its loan portfolio. It has increased its focus on mobilising stable retail fixed deposits by making significant investment in building teams, technology, and systems, also enhancing customer service. It is one of the few HFCs to have a sizeable proportion of stable retail fixed deposits and plans to increase the share of deposits in the near term.

Chart 15 – Trend in deposits



In fiscal 2019, PNB Housing availed refinance of Rs 3,500 crore (Rs 1,500 crore in the previous fiscal) from NHB. These are long-term funds raised for 7 to 15 years. The outstanding refinance from the NHB as on January 31, 2019, was Rs 6,521.57 crore (Rs 2,570 crore a year earlier), all secured by hypothecation of specific loans/book debts against which refinance has been availed.

The company has ECBs of USD 250 million in the form of term loan facilities from IFC and ADB, raised under RBI's low-cost, affordable housing scheme. The proceeds have been utilised for financing prospective owners of low-cost affordable housing units. The ECBs have an average tenure of 5 years, and the foreign exchange risk on the principal has been hedged in accordance with the guidelines prescribed by RBI.

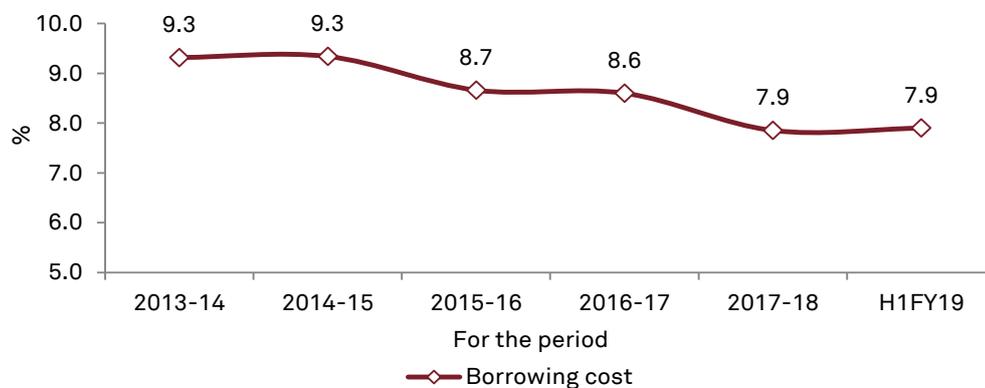
In addition, the company raised ECBs of USD 465 million in the current fiscal year from foreign branches of Indian Nationalised Banks.

The company also issued ZCBs of Rs 889 crore in fiscal 2018 and Rs 300 crore till September 2018 in fiscal 2019.

In the current fiscal, PNB Housing down-sold loans amounting to Rs 5,849 crore, comprising a mix of housing loans and retail LAP loans, under direct assignment route to four large institutions. The company is likely to continue to explore further down-selling of quality assets, which will help bring down leverage and cost of funds.

Amid all these efforts, PNB Housing's cost of borrowing was stable at 7.9% for the first half of fiscal 2019.

Chart 16– Trend in Cost of Borrowing*



*based on yearly average

Further, PNB Housing has managed to attract a diversified set of investors for the issuances.

Chart 17 – investors in bonds

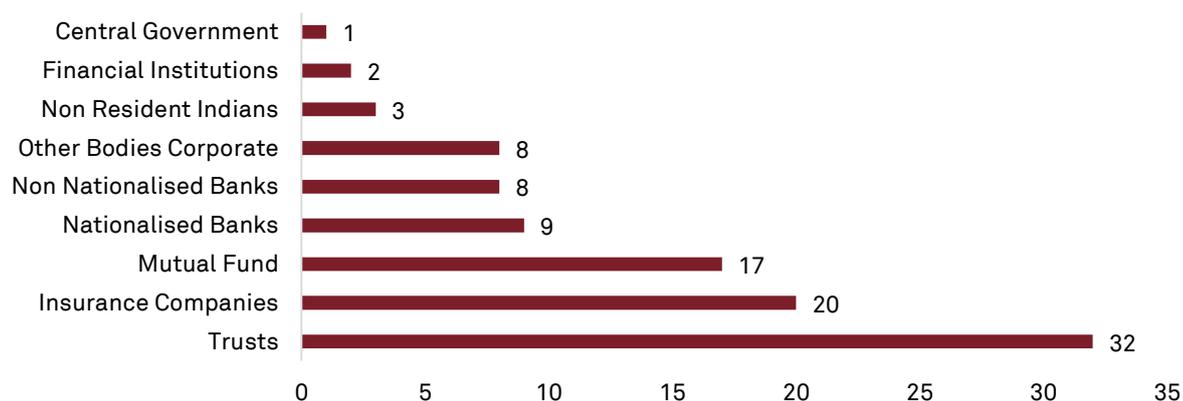
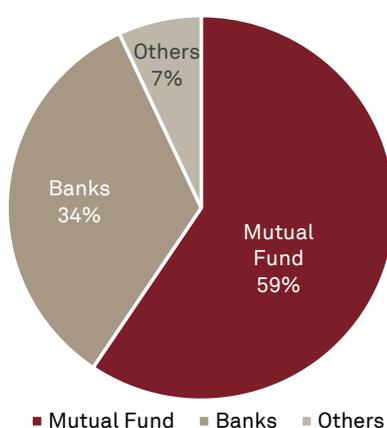


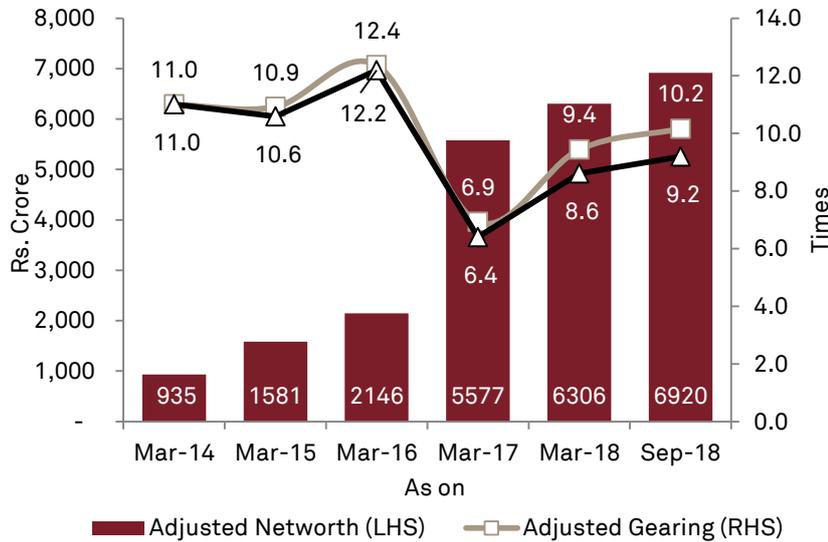
Chart 18 – investors in CP



CRISIL believes PNB Housing will maintain a well-diversified resource profile and competitive borrowing cost over the medium term.

Capitalisation

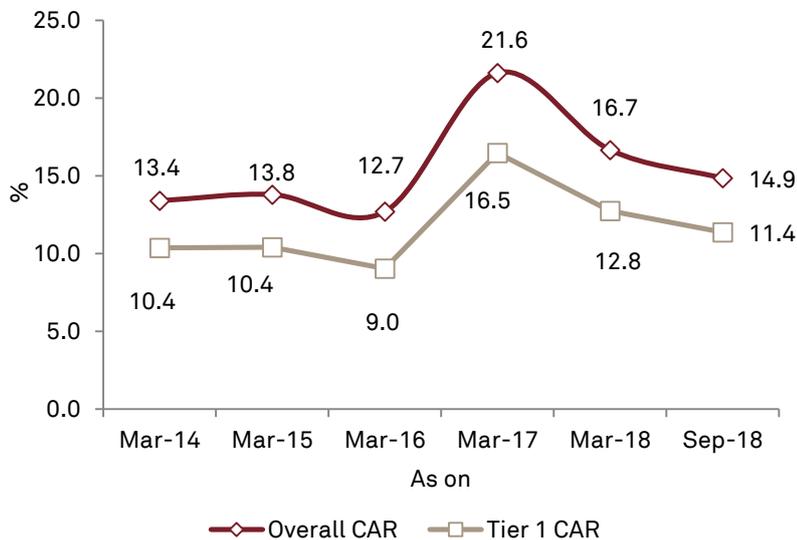
Chart 19 – Trend in Net worth and Net worth to Net NPAs



PNB Housing has comfortable capitalisation metrics: networth, Tier-I, and overall capital adequacy ratio (CAR) were Rs 6,920 crore, 11.4%, and 14.9%, respectively, as on September 30, 2018.

Adjusted gearing¹ (including securitisation) was 10.2 times as on September 30, 2018. PNB Housing plans to maintain adjusted gearing between 11-12 times (gearing of 10-11 times) on a steady-state basis over the medium term.

Chart 20 – Trend in Capital Adequacy Ratios



PNB Housing had high networth coverage of net NPAs at 30 times as on September 30, 2018, providing adequate cushion against asset-related risks.

CRISIL believes PNB Housing’s successful listing has enhanced its ability to raise equity capital and will regularly support its ambitious growth plan, improve accretion to networth, and maintain steady-state adjusted gearing at 11-12 times.

¹ Gearing: 9.2 times as on September 30, 2018

Earnings

Chart 21 – Trend in RoA and RoE

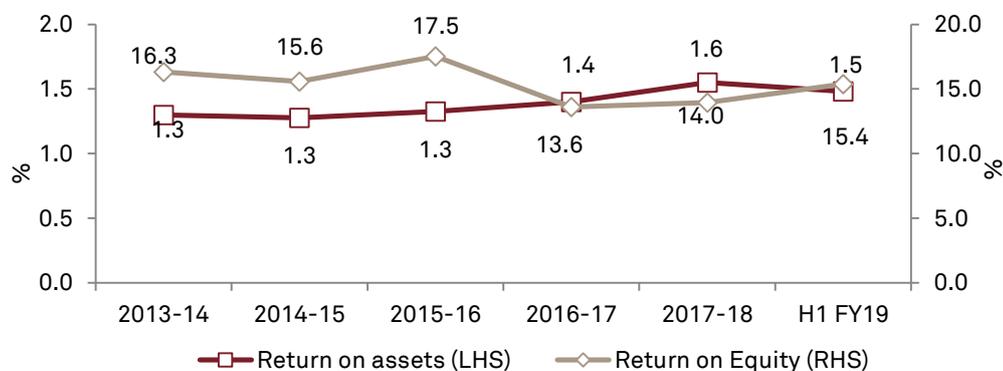


Chart 22- RoA breakup for first half of fiscal 2019



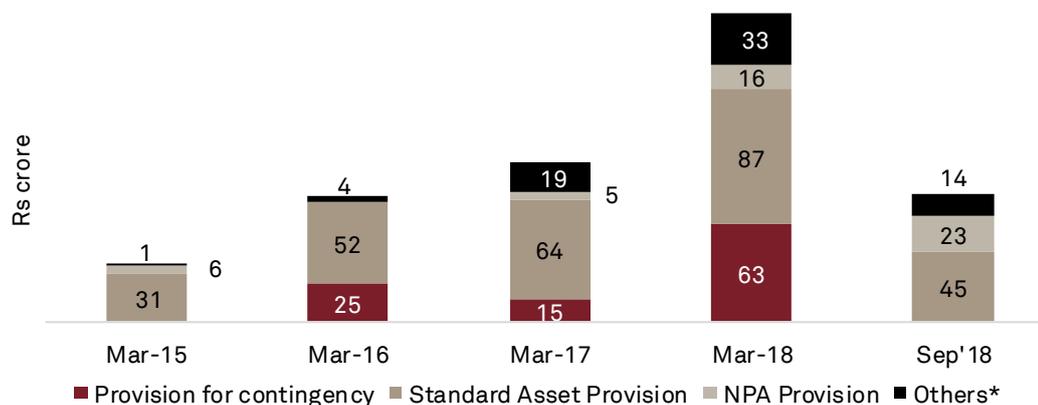
* Including cost of acquisition

PNB Housing's return on assets (RoA) stood at 1.5% (annualised) for the first half of fiscal 2019 compared to 1.6% for fiscal 2018 owing to compression in NIMs amidst need for maintaining excess liquidity and intensifying competition from banks.

Operating expenses are high due to investments in infrastructure, systems and processes, and people to support its strong growth plan. However, over the medium term, operating costs are expected to improve as investments in technology and newly opened branches achieve economies of scale.

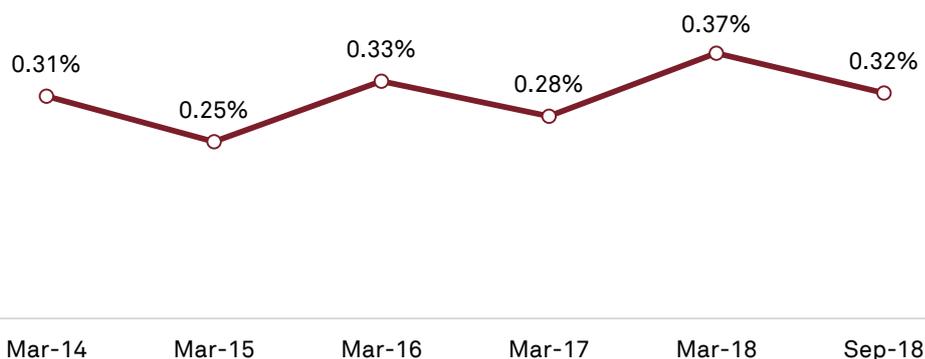
The credit costs for PNB Housing have remained low over the 5 years through fiscal 2014-2018.

Chart 23– Break up of credit costs



* Others includes write offs, provision for diminution in investment value and provision on stock of acquired property

Chart 24– Trend in credit costs



As a prudent measure, PNB Housing's provision for contingency stood at Rs 146 crore as on September 30, 2018, as a steady-state provision for unforeseeable macro-economic factors.

CRISIL believes PNB Housing's profitability will improve gradually, with RoA increasing to 1.7-1.8% over the medium term, driven by economies of scale. However, while credit costs have been low till date, even including the additional voluntary provisions made by the company, the ability of the company to manage asset quality, especially in the mass affluent non-retail portfolio, will be a key determinant of profitability

PNB Housing's ability to scale up operations to leverage significant upfront investments while maintaining asset quality, and hence controlling credit costs, will be key to achieving gradual improvement in earnings.

ALM and Liquidity

PNB Housing has an adequate ALM profile, with no negative cumulative mismatches in maturity buckets of up to 1 year as on September 30, 2018. Positive cumulative mismatches in the first maturity bucket of up to 30 days are supported by liquid investment and unutilised sanctioned overdraft lines from banks.

The ALM process involves close monitoring of mismatches in asset-liability to ensure that there is no imbalance or excessive concentration on either side of the balance sheet beyond the permissible and defined threshold. Being a board-nominated committee, Asset-Liability Committee (ALCO) closely reviews the external interest rate, liquidity scenario, asset portfolio, lending rates, borrowing profile, and cost of funds on a periodic basis and provides directions and broad framework of operations to the treasury and business team.

The ALM position of the company is based on the maturity buckets as per the guidelines issued by NHB. In computing this, the relevant assumptions, estimates, and adjustments are made by the management in line with past trends and expected performance of the loan assets currently in the book. In this regard, an asset is calculated on the basis of behavioural maturity and a liability is calculated on the basis of contractual maturity. Hence, these shall not be in line with what has been reported in the audited financials since they are all based on contractual maturities of assets as well as liabilities.

PNB Housing Finance under direction of its risk management committee also tracks liquidity & ALM through multiple voluntary ALM & Liquidity Ratios.

PNB Housing has a policy of maintaining unutilised bank lines/liquid investments to meet cash outflow over the next 2 months.

- PNB Housing had adequate bank line of Rs 4,950 crore as on December 31, 2018, of which Rs 4,412 crore was utilised(Incl. sublimits for short term loans), along with bank balance of Rs 4,740 crore.
- In addition, the company had investment in Statutory Liquidity Ratio (SLR) securities of Rs 1,311 crore against a requirement of Rs 1,280 crore, and current investment of Rs 1,267 crore as on December 31, 2018.

Management

PNB Housing is managed by an independent and stable management team. The management team, under the leadership of Mr Sanjaya Gupta, has played a key role in transforming PNB Housing's business model and improving its performance over the past 8 years.

The top management team has strong domain knowledge and average experience of over 25 years in the mortgage business with leading private sector financial services companies. Experienced professionals from the industry have been inducted to lead business verticals. About 65% of the employees are post graduates or have professional qualifications.

PNB Housing's focus is on building capacity, improving efficiency, and fostering a performance-driven culture across the organisation.

Brand-sharing benefits from the parentage of PNB

PNB Housing continues to benefit from branding support from its parent, PNB (33% ownership), which has started the process of selling its stake in PNB Housing, whose timelines and subsequent change in promoter shareholder remain key monitorables. The company is managed by an independent management team, comprising professionals with strong domain knowledge and extensive experience in the mortgage business.

Key Financials

As at / For the Year ended March 31		2018	2017	2016	2015	2014
Total loan disbursements	Rs crore	33,195	20,639	14,456	9,440	5,500
Assets under Management	Rs crore	62,252	41,492	27,555	17,297	10,591
Loan Assets	Rs crore	57,014	38,531	27,177	16,819	10,591
Off-balance sheet assets	Rs crore	5,238	2,961	378	521	-
Equity capital	Rs crore	167	166	127	104	66
Reported networkth	Rs crore	6,306	5,577	2,146	1,581	935
Total borrowing (including securitisation)	Rs crore	59,506	38,618	26,537	17,272	10,289
Total assets	Rs crore	63,799	42,960	29,671	19,033	11,530
Interest income	Rs crore	5,123	3,640	2,544	1,671	1,056
Other Income	Rs crore	394	268	152	106	60
Total income	Rs crore	5,517	3,908	2,696	1,777	1,116
Interest expense	Rs crore	3,531	2,644	1,860	1,265	801
Operating expenses	Rs crore	509	357	248	178	109
Credit costs	Rs crore	199	103	81	38	30
Profit after tax	Rs crore	829	524	326	196	127
Ratios						
Interest income/ Average total assets	%	9.60	10.02	10.45	10.88	10.82
Interest expense/Average borrowings	%	7.90	8.60	8.70	9.34	9.32
Cost to income [#]	%	25.61	28.24	29.66	34.75	34.50
Cost to income (net of cost of acquisition)*		19.5	22.4	25.2	30.9	30.8
Operating expenses/Average total assets	%	0.95	0.98	1.02	1.16	1.11
PAT/ Average total assets	%	1.55	1.44	1.34	1.28	1.30
PAT/ Average adjusted networkth	%	13.96	13.57	17.49	15.59	16.33
Gross NPA	%	0.33	0.22	0.22	0.20	0.32
Gross NPA (2-year lagged)	%	0.68	0.52	0.56	0.52	0.85
NNPA	%	0.25	0.15	0.14	0.07	0.20
Capital adequacy	%	16.67	21.59	12.70	13.76	13.40
Gearing	Times	8.61	6.39	12.19	10.59	11.01
Total adjusted gearing (including securitisation)	Times	9.44	6.92	12.37	10.92	11.01

[#]Cost to income ratio is calculated as: operating expense/ (Total Income-Interest Expense)*100

*as reported by the company

Ratings

		Sep-18	Sep-17
Total Loan Disbursements	Rs crore	18,172	15,179
Assets Under Management	Rs crore	73,482	51,320
Equity Capital	Rs crore	168	167
Reported Net Worth	Rs crore	6,920	5,880
Total Adjusted Borrowing (including Securitisation)	Rs crore	70,316	47,643
Total Assets	Rs crore	73,630	53,740
Interest Income	Rs crore	3,136	2,319
Total Income	Rs crore	3,457	2,434
Interest Expense	Rs crore	2,329	1,589
Total Income (net of interest expenses)	Rs crore	1,128	845
Operating Expenses	Rs crore	272	218
Provisioning Costs	Rs crore	109	143.72
Profit After Tax	Rs crore	509	360
PAT/Average Total Assets	%	1.5	1.6
PAT/Average Adjusted Net Worth	%	15.4	13.7
Gross NPAs	%	0.45	0.34
Net NPAs	%	0.35	0.27
Overall Capital Adequacy Ratio	%	14.9	18.4
Reported Gearing	Times	9.2	7.7
Adjusted Gearing (including Securitisation)	Times	10.2	8.1

Annexures

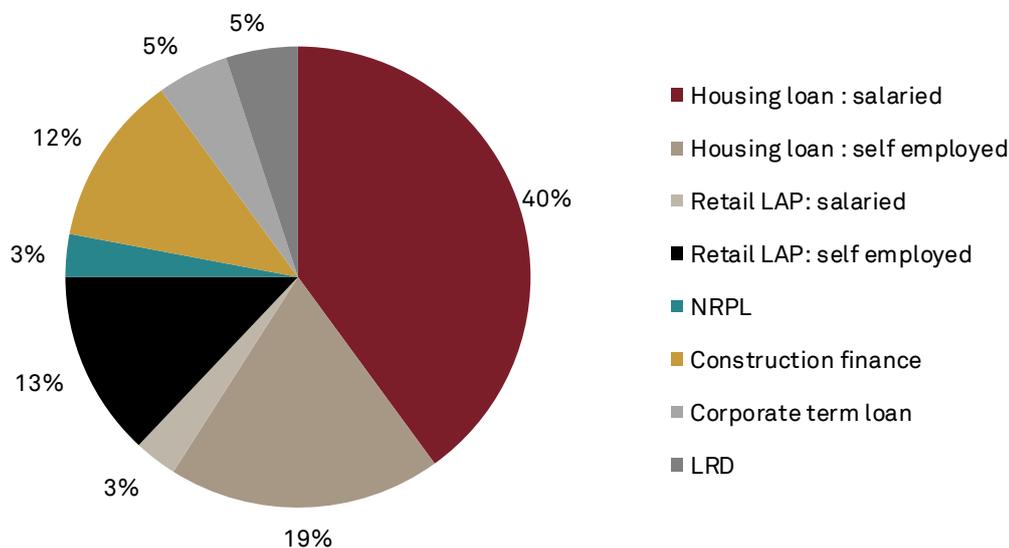
Product Overview

- PNB Housing provides retail housing loans for construction, purchase, repair, and upgrade of houses. It also provides retail LAP, loans for commercial property, and loans for purchase of residential plots. On the corporate finance front, it provides construction finance to builders/developers and LRD/CTLs to corporates.

As on September 30, 2018	Average Ticket Size (Rs Crore)	Average LTV (%)	Residual Tenor (Years) ^{\$}
Home Loans Retail	0.31	69.8%	19
Salaried	0.28	72.7%	20
Self-employed	0.40	63.4%	16
Loan Against Property Retail	0.48	48.8%	13
Salaried	0.24	50.4%	15
Self-employed	0.65	48.4%	12
NRPL Retail	0.50	60.6%	13
LRD Retail	4.51	40.7%	10
Corporate finance			
Construction Finance	67.56	66.67%^	3
LRD	165.26	66.67%^	14
Corporate Term Loan	80.78	66.67%^	5

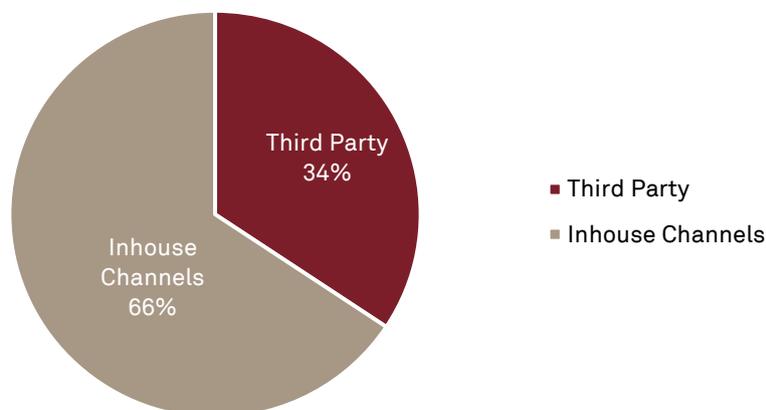
[^]average security cover of around 1.5X during the tenure of the loan; ^{\$}: for fully disbursed cases

Chart 25 – Occupation-wise portfolio break-up as on September 30, 2018*



*based on AUM

Incremental sourcing mix



PNB Housing intends to significantly increase its focus on in-house channels for business; direct sales team and branches/referrals continue to contribute more than 65% to the overall disbursement in the first half of fiscal 2019. The company also plans to increase construction finance business through relationship management with real estate developers.

On August 22, 2017, PNB Housing set up a subsidiary, PHFL Home Loans and Services Ltd. The entity offers distribution doorstep services for housing loans, property search services, and LAP to individuals and corporate bodies for home purchase, loan for construction, repair, upgrade of home, loan for compound space, loan against residence and commercial property. Apart from home loan products and property services, the company provides distribution of financial solutions to individuals, covering fixed deposits, life insurance, and credit card.

Process overview

Loan underwriting and risk structure

- The entire loan appraisal and monitoring process happens through enterprise system solutions.
- Underwriting at hubs: To manage the increasing scale of business and for better control and standardised processes, PNB Housing follows a hub-and-spoke model. It has 22 hubs fully equipped hubs (Noida, Bengaluru [3], Jaipur, Chandigarh, South Delhi, Chennai, Hyderabad, Dehradun, Lucknow, Vijaywada, Kolkata, Kochi, Ahmedabad, Pune [2], Indore, Coimbatore, Mumbai [2], and Surat) to process the business of 84 branches across India. Each hub has a team of underwriters and subject-matter experts, such as legal, technical, and fraud containment unit to manage end-to-end credit processing for all branches within their vicinity. Underwriters have authority limits as per their experience.
- Technical services group: A group of civil engineers formulates policies and processes to evaluate projects for home loans, conducts periodic reviews of the approved projects, and undertakes valuation of non-home loans.
- Legal team: There is a team of internal legal experts for legal verification of all cases.
- Fraud control unit (FCU): A team of experts has been set up to identify frauds in the early stages of loan processing. PNB Housing has empanelled FCU vendors for its branches. Each hub will have one FCU expert to strengthen the fraud control process.

Furthermore, with ongoing technological innovations in the lending space, PNB Housing has introduced various digital initiatives to not only replace some of the physical processes in part/full, but to also mitigate the risk of fraud.

Enterprise Risk Management practices

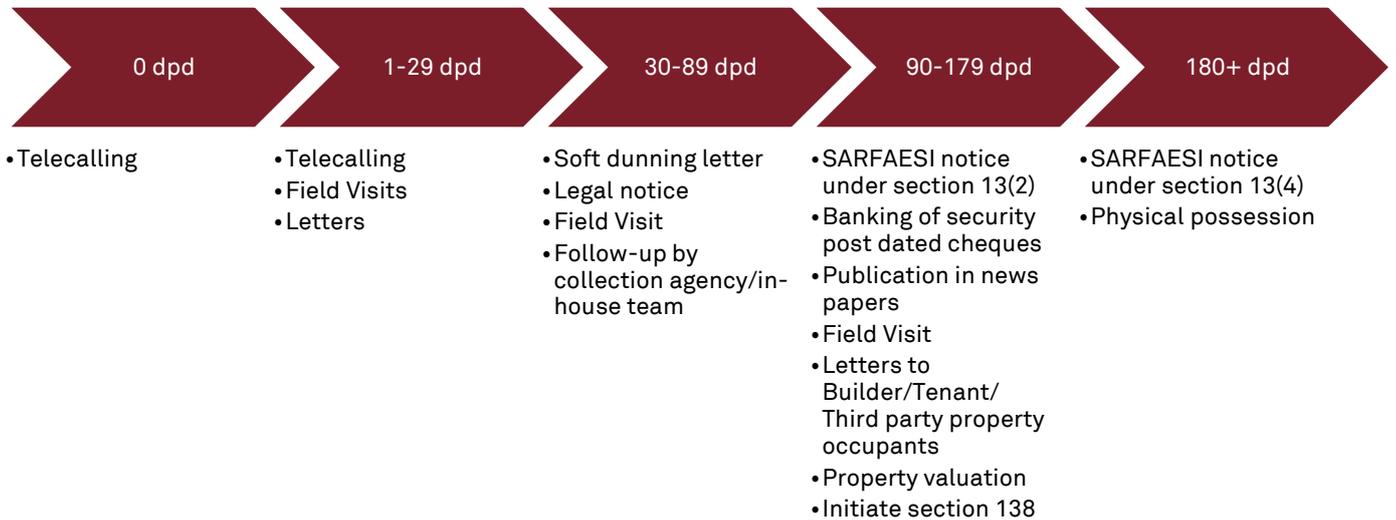
The company has formulated a comprehensive enterprise risk management policy to take care of major risks, such as credit risk, market risk, liquidity risk, legal risk, interest rate risk, and operational risk. PNB Housing has an integrated risk management policy (IRM) in place, which communicates the risk management strategy, framework, and risk processes across the organisation, and has been approved by the board. The risk management framework broadly includes governance, risk appetite approach, risk-specific guidelines, risk measurement, mitigation, monitoring reporting, and key risk indicators (KRIs). The company has developed a clearly articulated risk appetite statement, functional policies, and KRIs to explicitly define the level and nature of risk that an organisation willing to take in order to pursue the articulated mission on behalf of various stakeholders. The board has delegated the responsibility of risk management to its risk management committee (RMC), which reviews the efficacy of our risk management framework, provides important oversight, and assesses whether it is consistent with the risk tolerance levels laid down. The RMC gives directions to executive risk management committee (ERMC), comprising senior management.

Ratings

Collection process

PNB Housing has created a robust collection mechanism. Some of the initiatives are:

- Increased focus on replacing external agencies with in-house collection resources for better control and cost effectiveness
- New incentive scheme for recovery executives
- Periodical portfolio scrub through credit bureaus to counter early warning signals
- Development of mobile application framework for collection resources for better supervision



ISO certified operations

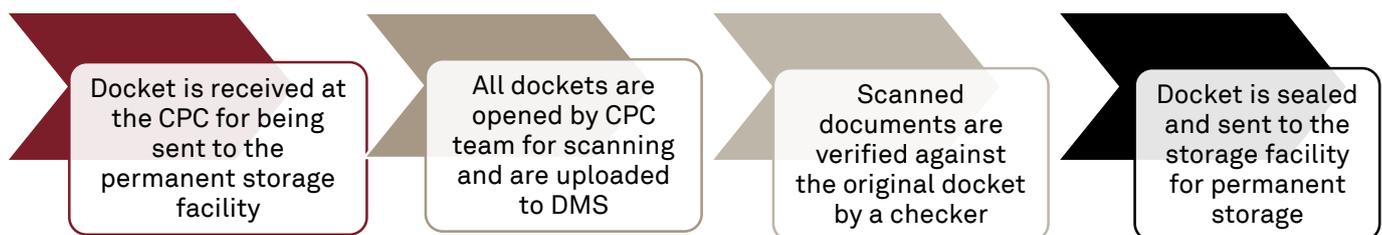
Central Processing Centre of PNB Housing is an ISO 9001:2015 certified unit. ISO 9001:2015 is the international standard that specifies requirements for a quality management system. The certificate was awarded on the basis of first stage assessment, process document review, and certification assessment conducted by an external audit team.

Benefits of this certification:

- Process documentation and standardisation
- Structural framework for all existing processes
- Consistency in processes leading to operational excellence
- Efficient and effective operational activities
- Continual improvement culture
- Reduction of waste and increase in productivity

The system is maintained by ongoing verification activities, together with appropriate training and education of those involved and the overall improvements sought. These are monitored as part of the regular management review of the system.

Digitisation has been initiated for title documents of incremental business, which mitigates operational and transit risk, reduces retrieval cost, increases data security, and helps improve customer satisfaction by providing the documents over the counter.



Digitising of documents makes it easy to preserve, access, and share data in an effective and efficient manner.

Scalable operating model and centralised and streamlined operational structure

The current operating model for PNB Housing is scalable, with processing hubs designed to support additional branches, which will help deepen the penetration of key geographies in which PNB Housing is currently active by opening new branches.

The branches, processing hubs, and CSO are supported by the COPS and CPC, which provide centralised and standardised backend and administrative activities, payments and processing for the business, relying on the new ESS. Furthermore, centralisation of payments and banking enables timely collection of funds, better fund management, stronger control and early, and proactive alerts to the collections department if there is an overdue payment.

The ESS is a configurable and flexible system that integrates all activities and functions within the organisation under a single technology and data platform. This single platform utilises automated and standardised processes. The ESS enables stakeholders, including external service providers, to share information with PNB Housing on a real-time basis, which increases the speed with which loans are processed and improves oversight in their activities and reporting. The ESS is scalable and is utilised across the entire network, making it easy to replicate in new locations.

The COPS, CPC, Outbound contact centre, Inbound contact centre and branch operations are certified under ISO 9001:2015, which is a globally accepted standard on quality management. Housed within the CPC is a modern and innovative document digitisation centre. With the help of cost-effective innovations, all property and loan documents are digitised at CPC and are made available to the customers at the click of a button. Scanned security and title documents are stored on a dedicated private cloud. This technology facility has improved the systems in mitigating operational and transit risk, reducing retrieval cost, and increasing data security, thereby resulting in increased customer satisfaction.

This streamlined operational structure has resulted in improved TAT for loan applications processed to loans being sanctioned. For fiscal 2018, 84% of housing loans to salaried customers had a TAT of 3 days and 89% of housing loans to self-employed customers had a TAT of 7 days.

The inbound contact centre provides a multichannel service platform for a quarter of a million customers. Under Project Anubhav, the CRM system has been upgraded to enable standardised and quicker service delivery to new-age customers, who use toll-free numbers, emails, e-portals (web and mobile), and webchat. An automated IVR system and the mobile portal allow customers to access various services 24 x 7. These e-channels supplement and complement the brick and mortar structure of the 100+ branches.

Note

Ratings

Note

Note

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It is India's foremost provider of ratings, data, research, analytics and solutions, with a strong track record of growth, culture of innovation and global footprint.

It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers.

It is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

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