

January 18, 2019

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 Sirs,

Sub: Intimation regarding revision in NCD rating by India Rating

We wish to inform you that India Rating has downgraded the following rating of PNB Housing Finance Limited;

INR 280 billion Non-Convertible Debentures including INR 10 billion sub-limit for the subordinate debt programme to "INDAA+/stable from "INDAAA/RWN".

The rating action reflects a change in Ind-Ra's rating approach for PNBHFL whereby the credit assessment is based on the standalone intrinsic credit profile of PNBHFL compared with the erstwhile approach where Ind-Ra had factored in the credit strength of the sponsor Punjab National Bank (PNB; 'IND AA+'/'Negative'; owns 32.8% in PNBHFL) under Ind-Ra's rating criteria for FI Subsidiaries and Holding Companies. This change in the rating approach is in light of the weakened credit profile of the sponsor as well as its stated intention to divest its stake in the company. Ind-Ra has resolved the RWN because the outcome of the stake sale and clarity regarding the new shareholders and its philosophy is limited at this stage.

The information is filed under the provisions of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015.

The press release issued by India Rating is enclosed. Kindly acknowledge.

Thanking You,

For PNB Housing Finance Limited


Sanjay Jain
Company Secretary & Head Compliance
Membership No.: F2642

India Ratings Downgrades PNB Housing Finance's NCDs to 'IND AA+'/Stable; Off RWN

09

JAN 2019

By Siddharth Goel

India Ratings and Research (Ind-Ra) has downgraded PNB Housing Finance Limited's (PNBHFL) non-convertible debentures (NCDs) while resolving the Rating Watch Negative (RWN) as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
NCDs*	-	-	-	INR280	IND AA+/Stable	Downgraded; off RWN

*Details in annexure

The rating action reflects a change in Ind-Ra's rating approach for PNBHFL whereby the credit assessment is based on the standalone intrinsic credit profile of PNBHFL compared with the erstwhile approach where Ind-Ra had factored in the credit strength of the sponsor Punjab National Bank (PNB; 'IND AA+/Negative'; owns 32.8% in PNBHFL) under Ind-Ra's rating criteria for FI Subsidiaries and Holding Companies. This change in the rating approach is in light of the weakened credit profile of the

sponsor as well as its stated intention to divest its stake in the company. Ind-Ra has resolved the RWN because the outcome of the stake sale and clarity regarding the new shareholders and its philosophy is limited at this stage.

KEY RATING DRIVERS

Large Franchise in Housing Finance: PNBHFL is among the top five housing finance companies (HFCs) in India in terms of assets under management (AUM) with around a 6% market share of housing loans, and has a diversified funding profile with second largest outstanding deposits within HFCs. Its AUM is well diversified with west, north, and south India constituting 38%, 32%, 30% of loans, respectively. The company has a seasoned and largely stable management team, and its investments in technology as well as recalibration of certain processes, has the potential to enhance its competitiveness.

PNBHFL provides housing loans to individuals, which formed 58% of the total loans in 1HFY19. Loans against property to individuals, and wholesale loans such as high ticket construction finance to builders, commercial term loans and lease rental discounting together formed the balance. PNBHFL's loan products are mainly towards the medium-to-large ticket loans in metro and Tier-I cities (total 57 cities and towns across India), where competitive intensity in the mortgage space is on the higher side. However, the company has started expanding operations in Tier II cities as well, which Ind-Ra believes would provide balance to the portfolio.

Post the eventual sale by PNB, changes in board of directors and its composition, along with impact on the liability and asset franchise in case there is a ceding of brand name, would be a monitorable.

Healthy Asset Quality: PNBHFL reported healthy asset quality metrics as reflected in its low non-performing loan ratios. Loan book increased at a CAGR of 53% over FY13-1HFY19, which has resulted in lower seasonality of its certain portfolio. Its gross non-performing loans stood at 0.45% at 1HFYE19 (FYE18: 0.34%) and at 0.9% on a two-year-lagged basis (FY18: 0.7%, FY17: 0.5%). This although increasing, remains better than peer groups'. The steady state non-performing loan ratio is likely to be reflected in the medium term as the existing portfolio seasons. PNBHFL's pre-provisioning operating profitability (1HFY19: 2% of average earning assets) is likely to absorb credit costs even in a moderate stress scenario.

Diversified Funding: PNBHFL has a well-diversified funding profile with a wide range of lending partners (domestic and global) across multi-lateral agencies (such as International Finance Corporation and Asian Development Bank), mutual funds, pension funds, provident funds, trusts, corporate bodies and insurance companies other than banks and retail deposits. NCDs, bank funding, and deposits accounted 37%, 22%, and 20% of the total funding, respectively, at 1HFYE19. The commercial paper exposure reduced to 13% in 1HFYE19 (FYE18: 19%), while refinance from the National Housing Bank ('IND AAA'/Stable) remains at 6% and external commercial borrowing at 3%.

Comfortable Liquidity: PNBHFL has strengthened its liquidity profile in the wake of tough market conditions. As on 31 December 2018, PNBHFL had cash of INR47.4 billion and liquid investments of INR12.7 billion. While there are asset-liability gaps in the short tenor buckets, these are well covered by undrawn funding lines of around INR60 billion.

Above Average Leverage: PNBHFL's leverage has been rising with debt-tangible equity of 9.3x at 1HFYE19 (FYE18: 8.6x). Considering the unavailability of support, the agency expects PNBHFL to moderate its leverage. Given the aggressive growth plans, the company would need to raise equity in the next 12-18 months (last equity infusion of INR30 billion in FY17). PNBHFL's ability to raise capital at regular intervals will be a key rating sensitivity. The planned increase in proportion of portfolio sell-downs through securitisation transactions would benefit the overall capitalisation level.

Interest Margin to Face Pressure: PNBHFL is unlikely to adequately pass on the rise in borrowing costs in the current rising interest rate environment to the borrowers due to its lending towards formal and organised retail borrower profile, as well as towards large developers. The net interest margin declined to 2.8% in 1HFY19 (FY18: 3.07%, FY17: 2.97%) and may face further pressure in the near-to-medium term. While this could impact the bottom line (return on average assets 1HFY19: 1.3%, FY18: 1.6%, FY17: 1.4%), PNBHFL may benefit from the improvement in operating leverage with scale. This is in addition to the benefits stemming from PNBHFL's business process re-engineering exercise started in October 2011, wherein it made large investments in people and systems, and revamped its business and risk management processes.

RATING SENSITIVITIES

Positive: Significantly strengthened funding profile with a dominant proportion of granular retail liability which is stickier in nature, stronger liquidity and equity buffers, stable through-the-cycle credit costs across segments (with seasoning and vintage) while sustaining superior incremental market position in its core product segments would be positive for the ratings.

Negative: A negative rating action could result from signs of significant deterioration in PNBHFL's liquidity and/or access to funding, as also from a trend of rising delinquencies that in Ind-Ra's opinion could lead to a significant weakening of the profitability buffers. Any material rise in leverage is also likely to be a credit negative.

COMPANY PROFILE

PNBHFL is a deposit-accepting HFC registered under the National Housing Bank and the Companies Act, 1956. It has second largest deposits outstanding within HFCs. PNBHFL 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. PNBHFL's network has 96 branches mainly located across metro, and Tier I and Tier II cities across the country.

FINANCIAL SUMMARY (STANDALONE)

Particulars	FY18	FY17
Total tangible assets (INR billion)	637.4	429.2
Total tangible equity (INR billion)	62.9	55.7
Net profit (INR billion)	8.3	5.2
Tangible equity/assets (%)	9.9	13.0

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook/Rating Watch		
	Rating Type	Rated Limits (billion)	Rating	21 September 2018	17 February 2018	17 May 2016
NCDs	Long-term	INR280	IND AA+/Stable	IND AAA/RWN	IND AAA/RWN	IND AAA/Stable

ANNEXURE

Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook
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	INE572E09312	12 January 2016	8.36	12 July 2019	INR7.8	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	INE572E09379	1 July 2016	8.65	28 June 2019	INR7.53	IND AA+/Stable
NCDs	INE572E09395	19 September 2016	7.95	18 October 2019	INR8	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	7.80	7 May 2021	INR3.2	IND AA+/Stable

NCDs	INE572E09437	26 May 2017	7.77	25 September 2020	INR3.05	IND AA+/Stable
NCDs	INE572E09445	15 June 2017	7.55	15 June 2020	INR5	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	7.50	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	7.50	15 September 2020	INR2	IND AA+/Stable
NCDs	INE572E09502	5 September 2017	7.25	5 September 2019	INR10	IND AA+/Stable
NCDs	INE572E09510	19 September 2017	7.10	19 March 2019	INR2	IND AA+/Stable
NCDs	INE572E09528	26 September 2017	7.28	26 September 2019	INR7.1	IND AA+/Stable
NCDs	INE572E09536	31 October 2017	7.44	31 October 2019	INR8.6	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	INE572E09577	31 January 2018	Zero coupon bond	28 February 2020	INR5.0	IND AA+/Stable
NCDs	INE572E09585	31 January 2018	Zero coupon bond	6 April 2021	INR1.89	IND AA+/Stable
		Utilised			INR182.25	
		Unutilised			INR97.75	
		Total			INR280.00	

*Reissuance

COMPLEXITY LEVEL OF INSTRUMENTS

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity_indicators.

SOLICITATION DISCLOSURES

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ABOUT INDIA RATINGS AND RESEARCH

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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

[Financial Institutions Rating Criteria](#)

[Non-Bank Finance Companies Criteria](#)

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