pnb Housing
Finance Limited
Ghar Ki Baat

March 03, 2021

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

Scrip Code: 540173

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

Symbol: PNBHOUSING

Dear Sirs,

Sub: Change in Outlook 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 revised the Outlook on Company's NCDs to 'Negative' while affirming rating at 'IND AA'.

The Company received the aforesaid communication from India Ratings & Research on March 02, 2021 which is attached herewith. This is for your information and records.

Thanking You,

For PNB Housing Finance Limited

Sanjay Jain
Company Secretary & Head Compliance

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India Ratings & Research
A Fitch Group Company

India Ratings Revises Outlook on PNB Housing Finance's NCDs to Negative; Affirms 'IND AA'

02

MAR 2021

By Karan Gupta

India Ratings and Research (Ind-Ra) has revised the Outlook on PNB Housing Finance Limited's (PNBHF) non-convertible debentures (NCDs) to Negative from Stable, while affirming the rating on 'IND AA'. 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*	-	-	-	INR155.17 (reduced from INR218.97)	IND AA/Negative	Affirmed; Outlook revised to Negative from Stable

*Details are given in Annexure

The Outlook revision reflects an added uncertainty around the timing and quantum of PNBHF's capital raising, which the agency believes could be critical in view of the stress in the loan portfolio, especially on the wholesale lending. This, if sustained, the agency believes, may require stronger stress absorbing buffers. The additional capital is also important to provide support for PNBHF's loan growth, without significantly raising leverage.

In its announcement dated 20 February 2021, PNBHF announced that its promoter Punjab National Bank ('IND AAA'/Stable) will no longer infuse capital in the company, and that it will be looking to raise INR18 billion through a qualified institutional placement; preferential issue; rights issue or a combination thereof in one or more tranches. The promoter had previously indicated that it would infuse INR5 billion-6 billion and was awaiting an approval from the Reserve Bank of India to complete the same. While the improvement in PNBHF's valuation augurs well, the promoter's decision to not infuse further capital raises the prospects of material dilution in its promoter's shareholding, which could have wider ramification.

KEY RATING DRIVERS

Sizable Player in Housing Finance Segment: PNBHF is amongst the top five players in the housing finance segment with assets under management of INR777 billion at end-9MFY20. It has experience of managing the mortgage business for over three decades, which has seen multiple business cycles. It is geographically diversified with 94 branches in 64 cities across the country, though the four large states of Karnataka, Maharashtra, Tamil Nadu and Uttar Pradesh contribute 58% of home loan portfolio. The product bouquet comprises retail and wholesale loans (83% and 17% of AUM, respectively at end-9MFY20) like individual home loans, loan against property, non-resident property loan, construction finance and lease rental discounting.

Leverage Reduced on Portfolio Consolidation but Equity Still Essential: While PNBHF's leverage (debt/tangible equity; FY19: 9.8x; FY20: 8.9x; 9MFY21: 7.6x) has declined primarily on account of loan portfolio reduction. it has been accompanied with the build-up of stress in its loan portfolio, which has aggravated on account of the pandemic. The company has, for some time, been planning to raise equity to bolster its equity buffers, which, in Ind-Ra's opinion, will be necessary to provide cushion to any unexpected sharp rise in delinquencies, as well as to tap emerging avenues of business. The disclosure by the company that its promoter will no longer participate in the equity infusion plans raises uncertainty on the timing and the quantum of the equity raising.

Pressure on Asset Quality: The disruption in economic activities brought about by the COVID-19 pandemic has resulted in rising delinquencies for PNBHF. The proforma non-performing assets (NPAs; including the ones that have not yet been classified as NPA on account of the Supreme Court's standstill on the recognition of NPA recognition) increased to 4.47% at end-9MFY21. The pressure is higher in the construction finance portfolio (gross NPA: 8.2% with Supreme Court relief at end-9MFY21; FY20: 8.9%).

The management has informed the agency that it has resolved one large wholesale account and plans to resolve few more in the wholesale book assets with last-mile funding from the Special Window for Completion of Construction of Affordable and Mid-Income Housing Projects fund. PNBHF has restructured assets both pre- and post-COVID-19, a part of which are factored in stage-3 and some part under various stages of stage-1 and stage-2. The company has also extended an emergency credit line guarantee scheme to the tune of INR1.3 billion to its borrowers to tide over liquidity stress. The company increased the overall provision coverage ratio on stage-3 assets to 47%, as of 3QFY21 (FY20: 36%), this, the agency believes should provide reasonable cover for the stage-3 assets. On the overall corporate book, the provision was 11.3%, as of December 2020. PNBHF also made COVID-19 related provisions of 0.6% of total AUM by end- December 2020. Ind-Ra believes the increase in provision cover should limit incremental credit cost impact on the operating performance from the assets which have slipped into stage-3.

The agency believes the company would be cautious to take on any additional wholesale exposure and towards that end, 97% of the disbursement in 9MFY21 was towards retail. PNBHF has also received INR9.9 billion in 9MFY21 through accelerated prepayment and the sell down of accounts from the corporate book with the remaining total wholesale loan portfolio of INR132.3 billion at end-3QFY21 (FYE20: INR146.1 billion).

Multiple Levers to Manage Profitability: Given the competition from banks, PNBHF reduced lending rates by 68bp quarter-on-quarter in 3QFY21; however, the funding cost also softened by around 29bp quarter-on-quarter, which helped in protecting the margins. The agency believes PNBHF will have to manage the pressure on yields, given the continuing stiff competition from banks. As a strategy, it has decided to increase its focus on retail housing, including the higher-yielding Unnati segment. On a more immediate basis, Ind-Ra believes the credit costs trend is likely to have a material impact on its operating performance.

PNBHF reduced operating cost during 9MFY21 and plans to make a sustainable reduction by automating processes through digital means. However, smaller ticket size loan offering would bring with it increased operating cost, which PNBHF is looking to manage with the adoption of digital processes so that it could have a beneficial impact on its profit and loss statement.

Diversified Resource Profile: PNBHF has a fairly diversified resource profile, with an ability to raise funds from banks and capital markets. It also has a deposit-taking license and public deposits comprised 21% of the total funding mix as of 3QFY21. The proportion of retail deposit is 85% in the deposit mix. Further, PNBHF has banking lines from over 20 banks comprising public, private sector banks and foreign banks, lending diversity to its resource profile. During 9MFY21, PNBHF raised around INR130 billion of funds through bank loans, NCDs and commercial paper and external commercial borrowing. Securitisation also serves as an additional avenue for raising funds.

Liquidity Indicator– Adequate: PNBHF's asset liability profile (on behavioural basis including net interest flows) has cumulative negative gap of INR29 billion in the six month-to-one-year bucket. The management has informed the agency that this is because PNBHF has made moderate assumptions, regarding the prepayment of loans in the retail and corporate segments and it has also not assumed any securitisation related inflows. PNBHF has unutilised bank lines of INR26 billion and it has the ability to raise funds from banks and can securitise assets to raise resources. Given the increased competition from banks, the outward balance transfer rate has increased leading to faster repayment of loans. As per the December 2020 asset liability statement, 17.5% of the loan book (INR113 billion) gets repaid in the one-year period as against 35% of the borrowings (INR223 billion) that mature within the same time period. The on-balance sheet liquidity of about INR80 billion as of 3QFY21, supports the liquidity profile further. PNBHF plans to maintain 60 days of liquidity (without including unutilised bank lines) on a steady-state basis.

Expansion faces Competitive Headwinds: PNBHF witnessed a decline in the loan portfolio since FY19 due to the COVID-19 led operational disruption; increased delinquencies in the retail and wholesale book, and stiff competition from banks in the retail business. PNBHF's disbursement for FY20 was 52% of FY19, due to reduced disbursement in 4QFY20 owing to the COVID-19 led lockdown and no incremental sanctions for corporate loans. Post FY20, the pandemic impacted the business environment and disbursements got impacted across the industry. The sharp drop in banks' lending rates have led to stiff competition for PNBHF in the retail loan segment as outward balance transfer in its portfolio accelerated.

RATING SENSITIVITIES

Positive: Strengthened equity buffers in line with the asset profile; expansion in franchisee while maintaining strong asset quality; comfortable access to diversified funding avenues and the maintenance of adequate liquidity buffers would be positive for the ratings.

Negative: Future developments that could, individually or collectively, lead to a negative rating action include:
- an inability to raise equity capital, which would delay deleveraging with simultaneous pressure on asset quality
- deterioration in the asset quality, reflected by an increase in the gross NPA (stage-3 assets exceeding 5%) and restructured assets, which in Ind-Ra's opinion could lead to a significant weakening of the buffers
- significant deterioration in PNBHF's liquidity and/or access to funding, which could be due to brand dilution or otherwise
- significant contraction in the franchise

COMPANY PROFILE

PNBHF is a deposit-accepting housing finance company registered under the National Housing Bank ('IND AAA'/Stable) and the Companies Act, 1956. It has second largest deposits outstanding within housing finance companies. 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

Particulars (INR billion)	**FY20**	**FY19**
Total assets*	785.74	836.76
Tangible equity*	76.47	73.60
Profit after tax	6.82	10.81
Return-on-average assets (%)	0.8	1.5
Tier-1 capital (%)	15.2	11.0
Source: PNBHF, Ind-Ra *adjusted for deferred tax assets and intangible items		

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Rating Watch/Outlook		
	Rating Type	Rated Limits (billion)	Rating/Outlook	6 March 2020	9 January 2019	17 February 2018
NCDs	Long-term	INR155.17	IND AA/Negative	IND AA/Stable	IND AA+/Stable	IND AAA/RWN

ANNEXURE

Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook
NCDs	INE572E09478	3August 2017	7.5	15 September 2020	INR2	WD (paid in full)
NCDs	INE572E09494	27 July 2017	Zero coupon bond	3 August 2020	INR2	WD (paid in full)
NCDs	INE572E09478	27 July 2017	7.5	15 September 2020	INR8	WD (paid in full)
NCDs	INE572E09460	14 July 2017	7.63	14 July 2020	INR9.5	WD (paid in full)
NCDs	INE572E09437	26 May 2017	7.77	25 September 2020	INR3.05	WD (paid in full)
NCDs	INE572E09411	31 January 2017	7.46	30 April 2020	INR10.25	WD (paid in full)
NCDs	INE572E09304	9 November 2015	8.19	9 November 2020	INR5	WD (paid in full)
NCDs	INE572E09288	28 July 2015	8.56	28 July 2020	INR7	WD (paid in full)
NCDs	INE572E09270	17 June 2015	8.59	17 June 2020	INR7	WD (paid in full)
NCDs	INE572E09452	15 June2017	7.63	15 December 2020	INR5	WD (paid in full)
NCDs	INE572E09551	31 October 2017	7.53	31 December 2020	INR5	WD (paid in full)
NCDs	INE572E09569	15 November2017	7.58	15 March 2021	INR5.2	IND AA/Stable
NCDs	INE572E07019	31March 2016	8.01	31 March 2021	INR5	IND AA/Stable
NCDs	INE572E09585	31January 2018	Zero coupon bond	6 April 2021	INR1.89	IND AA/Stable
NCDs	INE572E09429	8 May 2017	7.8	7 May 2021	INR3.2	IND AA/Stable
NCDs	INE572E09361	1 July 2016	8.47	1 July 2021	INR14.64	IND AA/Stable
NCDs	INE572E09338	3 February 2016	8.33	3 July 2021	INR5	IND AA/Stable
NCDs	INE572E09353	1 June 2016	8.33	1 September 2021	INR3	IND AA/Stable
NCDs	INE572E09403	29 September 2016	7.91	29 March 2022	INR2.5	IND AA/Stable
NCDs	INE572E09486	27 July 2017	7.59	27 July 2022	INR7	IND AA/Stable
NCDs	INE572E09387	26 July 2016	8.57	26 July 2023	INR4.99	IND AA/Stable
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	INE572E09643	19 August 2020	7.75	18 February 2022	INR11.15	IND AA/Stable

NCDs	INE572E09650	21 October 2020	7.5	21 April 2022	INR3.5	IND AA/Stable
NCDs	INE572E09668	18 November 2020	7.25	18 May 2022	INR2.25	IND AA/Stable
		Utilised amount			INR74.32	
		Unutilised amount			INR80.85	
		Total rated amount			INR155.17	

COMPLEXITY LEVEL OF INSTRUMENTS

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

ABOUT INDIA RATINGS AND RESEARCH

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.

India Ratings is a 100% owned subsidiary of the Fitch Group.

For more information, visit www.indiaratings.co.in.

DISCLAIMER

Applicable Criteria

Financial Institutions Rating Criteria
Non-Bank Finance Companies Criteria

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