April 4, 2020

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: Rating downgrade by ICRA 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 ICRA has downgraded the rating of the Non-Convertible Debentures and Tier II bonds of the Company to [ICRA]AA (Negative); downgraded from [ICRA]AA+ (Negative).

As per ICRA;

"The revision in the rating factors in the weakening of PNB Housing Finance Limited's (PNBHFL) asset quality, especially in the wholesale loan portfolio, and the delays in its capital-raising programme along with the lower-than-expected planned equity infusion. PNBHFL recently took the board's approval to raise up to Rs. 1,700 crore of equity, which is lower than the previously envisaged amount. Moreover, given the current market conditions, the complete equity raise may be challenging in the near term and any delays in the same will further delay the expected improvement in the leverage profile and limit the cushion available for absorbing contingencies.

The risks are mitigated by the good collateral cover maintained by the company for such exposures, its risk management systems and processes, which support its ability to proactively manage the portfolio as demonstrated in the past, and the reduction in the leverage level (gearing declined to 8.48 times as on December 2019 from 9.75 times as on March 31, 2019)."

The Press release dated April 3 of ICRA is enclosed herewith. This is for your information and records.

Thanking You,

For PNB Housing Finance Limited

SANJAY JAIN
Digitally signed by SANJAY JAIN
Date: 2020.04.04 16:09:31 +05'30'

Sanjay Jain
Company Secretary & Head Compliance

April 3, 2020

PNB Housing Finance Limited: Rating downgraded to [ICRA]AA(Negative)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture	1,475.00	1,475.00	[ICRA]AA (Negative); downgraded from [ICRA]AA+ (Negative)
Tier-II bonds programme	200.00	200.00	[ICRA]AA (Negative); downgraded from [ICRA]AA+ (Negative)
Total	**1,675.00**	**1,675.00**	

**Instrument details in Annexure-1*

Rationale

The revision in the rating factors in the weakening of PNB Housing Finance Limited's (PNBHFL) asset quality, especially in the wholesale loan portfolio, and the delays in its capital-raising programme along with the lower-than-expected planned equity infusion. The share of the wholesale loan portfolio (including lease rental discounting; LRD) declined to 18% of the overall assets under management (AUM) as on December 31, 2019 from 21% as on March 31, 2019 as the company focused on growing its retail book and limited the growth of its corporate book. However, with three major accounts slipping into the Stage 3 category, the gross non-performing assets (NPAs) increased to 1.75% as on December 31, 2019 from 0.48% as on March 31, 2019. While PNBHFL is making efforts to recover from delinquent accounts, the continued slowdown in the real estate market could impact the recoveries from the stressed portfolio. Further, considering the concentrated risk in this profile and the challenging operating environment, the company's economic capital requirements have increased. PNBHFL recently took the board's approval to raise up to Rs. 1,700 crore of equity, which is lower than the previously envisaged amount. Moreover, given the current market conditions, the complete equity raise may be challenging in the near term and any delays in the same will further delay the expected improvement in the leverage profile and limit the cushion available for absorbing contingencies. In addition, the company has witnessed moderation in growth in portfolio given the market conditions and the same is expected to remain so in the near term.

The risks are mitigated by the good collateral cover maintained by the company for such exposures, its risk management systems and processes, which support its ability to proactively manage the portfolio as demonstrated in the past, and the reduction in the leverage level (gearing declined to 8.48 times as on December 2019 from 9.75 times as on March 31, 2019).

The operating environment for non-banking financial companies (NBFCs) and housing finance companies (HFCs) with sizeable real estate exposure continues to be challenging. The resulting slowdown in disbursements by NBFCs and HFCs has constrained the funding access of the real estate sector (especially residential), which has already been facing a prolonged slowdown due to subdued sales. This has heightened the portfolio vulnerability, resulting in higher delinquencies in the developer loan book over the past three quarters. The risks are further aggravated by the large ticket-size nature of the exposures and the likely impact on cash flows of the developers on account of coronavirus outbreak, which can result in a material impact on the asset quality. While the recent announcements by the Government of India (GoI) and the Reserve Bank of India (RBI), such as permitting an extension (for NPA recognition) in the date of commencement of commercial operations by one year (from the scheduled date) for commercial real estate project loans, the setting up of a Rs. 25,000-crore alternative investment fund and three-month moratorium announced on term loan instalments are expected to provide some respite to the real estate sector, ICRA expects the challenges in maintaining the asset quality to continue over the medium term.

On the other hand, the rating continues to factor in PNBHFL's established track record in the mortgage finance industry, experienced management team, good standing in the housing finance sector (AUM of Rs. 86,297 crore as on December 31, 2019), diverse funding profile and stable profitability indicators. ICRA expects that the company will continue to benefit from the shared brand name with its promoter, Punjab National Bank (PNB; rated [ICRA] AA-%[1]), which helps it in leveraging its franchise and in raising funds, thereby supporting its financial flexibility.

The Negative outlook reflects ICRA's expectations that managing the asset quality metrics will remain challenging in the current environment wherein NBFCs and HFCs with sizeable real estate exposure have witnessed increased portfolio vulnerability. Thus, the company's ability to manage its wholesale loan book proactively and prevent further significant slippages and/or manage recoveries from the delinquent accounts will be critical from a credit perspective. In addition, the timing and quantum of the equity raise will remain key monitorable.

Key rating drivers and their description

Credit strengths

Established player in mortgage lending market – PNBHFL had assets under management of Rs. 86,297 crore as on December 31, 2019 and has grown at a CAGR of 22% since FY2017. This comprises of 59% of the AUM as on December 31, 2019 towards individual housing loan, 19% towards retail loan against property, 4% towards Retail Non-Residential Premises Loans, 16% towards construction finance and corporate term loans and 2% towards lease rental discounting. The total on-book portfolio is Rs 69,194 crore as on December 31, 2019,

Experienced management team and good systems – PNBHFL has a seasoned management team with sound knowledge of the mortgage industry and its board has prior experience in banking, insurance, retail lending, technology and economic policy. With support from the risk management and internal systems, PNBHFL's experienced management team has a track record of profitably scaling up businesses and has adequate experience in the retail and corporate lending segment of the housing finance industry.

Shared brand name and benefits with PNB as the promoter –PNB being the promoter and having a stake of 32.65% in PNBHFL as on December 31, 2019 provides competitive advantage to PNBHFL by virtue of a common brand name, which supports its financial flexibility and deposit mobilisation. Further, PNB's commitment to stay invested in the company and to provide liquidity support to meet PNBHFL's growth plans provide added comfort.

Diversified funding mix – PNBHFL has managed to maintain a healthy funding mix comprising debt market instruments (NCDs and CP formed 22% and 3%, respectively, of the funding mix as on December 31, 2019), deposits (19%), bank borrowings (23%), National Housing Bank (NHB- 7%), external commercial borrowings (ECBs-6%) and direct assignments (20%). The cost of borrowings increased to 8.00% in FY2019 and further to 8.30% in 9M FY2020 from 7.70% in FY2018 owing to the market conditions. While the company remains exposed to asset-liability related risks, given the higher tenor of the assets, its liquidity is supported by a good share of long-term and short-term borrowings in the form of debt market instruments and its plans to keep adequate liquid investments and unutilised lines to meet the gaps. Further, PNBHFL has been securitising a part of its portfolio, which should help in reducing the ALM risk.

[1] *% - Under Rating Watch with Positive Implications*

Stable profitability profile – The stable profitability profile resulted from the steady spreads, moderate operating expense ratios and low credit costs with profit after tax (PAT), in relation to assets, of 1.44% and return on equity of 14.99% in 9M FY2020 (1.61% and 17.44%, respectively, in FY2019 and 1.56% and 14.20%, respectively, in FY2018). Going forward, the company's ability to manage the interest spreads and credit costs will be critical for maintaining the profitability indicators.

Credit challenges

Moderate economic capitalisation indicators and delay in raising capital – PNBHFL reported a moderate capitalisation position with a gearing of 8.48 times as on December 31, 2019 (9.75 times as on March 31, 2019) and a capital adequacy ratio (CRAR) of 17.06% as on December 31, 2019 with Tier I of 14.09% (CRAR stood at 13.98% with Tier I of 11.00% as on March 31, 2019) against the regulatory requirement of CRAR at 13%. Nevertheless, the company's regulatory capital adequacy is supported by the relatively lower risk weights prescribed by the NHB for smaller ticket loans, which formed a part of its portfolio. ICRA notes that PNBHFL has limited cushion to absorb losses in the event of stress in the construction finance book, given the prolonged slowdown in the real estate market.

Concentrated wholesale book exposures – Despite having multiple relationships in the wholesale book, the top 10 wholesale book exposures accounted for nearly 41% of the wholesale book as on December 31, 2019. While PNBHFL maintains a security cover as a cushion to absorb losses, if any, arising from slippages in this segment, the slowdown in the real estate sector might impact the completion of the projects and actual sales. Further, the coronavirus outbreak is expected to exacerbate the weakness in the real estate sector, with sales and collections expected to witness some moderation and consequent decline in net cash flows of the developers. This would lead to stress in the exposures and weakening of the capitalisation profile of the company. Accordingly, the capital requirements have heightened to enhance the company's loss-absorption capacity.

Ability to manage asset quality indicators given the challenging environment – Although the overall asset quality deteriorated, it was comfortable with gross and net NPAs of 1.75% and 1.44%, respectively, as on December 31, 2019 (0.48% and 0.38%, respectively, as on March 31, 2019). Given the typical maturity profile of the loans in the real estate sector and the significant prepayments/exits through refinance, the share of the loan book under moratorium remains high. While PNBHFL has been able to contain its asset quality in the past, the recent increase in delinquencies has increased the risk, and its ability to manage the same in a challenging environment will be critical especially after the lockdown is over amid the Covid 19 crisis. Further, the share of self-employed borrowers in the retail book (comprising mainly individual home loans (IHL), LAP and non-residential premises loan (NRPL)) was high at 37% as on December 31, 2019, which are expected to be impacted more amid the Covid 19 crisis. PNBHFL's ability to maintain its asset quality indicators in the current scenario will remain a monitorable. The risks are, however, mitigated to some extent by the collateral cover maintained by the company on such exposures, and its risk management and monitoring processes, which enhance its ability to proactively manage the portfolio.

Rating sensitivities

Positive triggers – Given the Negative outlook, a rating upgrade is not likely in the near term. However, the outlook may be revised to Stable if the company witnesses an improvement in the asset quality in the corporate as well as retail book with an improvement in its profitability profile. Further, a reduction in its leverage on a sustainable basis will be a positive trigger.

Negative triggers – Pressure on the rating would arise if the company witnesses a further deterioration in its asset quality, impacting its profitability, an increase in its gearing and/or delays in raising equity. In addition, challenges in fund raising, restricting PNBHFL's ability to lend or leading to a deterioration in its liquidity profile, could exert pressure.

Liquidity position: Strong

The company has been maintaining liquid investments to cater to any contingency. The liquidity, as on December 31, 2019, was strong with cash and liquid investments (excluding SLR investments) of nearly Rs. 9,258 crore, expected collections of nearly Rs. 5,896 crore and sanctioned and undrawn lines of around Rs. 6,355 crore to cover the repayments of nearly Rs. 10,839 crore over the next six months. Though PNBHFL would be dependent on additional borrowings for maintaining normal business growth, it is expected to continue borrowing from multiple sources given its diversified funding profile. Also, the company has a deposit franchise that helps in raising funds. While PNBHFL remains exposed to asset-liability related risks, given the higher tenor of the assets, its liquidity is supported by a diverse funding mix as well as its plans to keep unutilised lines to meet the gaps. Further, the company has been securitising a part of its portfolio, which should help in reducing the ALM risk.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA Rating Methodology for Housing Finance Companies
Parent/Group	NA
Consolidation/Standalone	The rating is based on the consolidated financial profile of the company

About the company

Incorporated in 1988, PNBHFL is a deposit-accepting housing finance company. PNB and The Carlyle Group had a stake of 32.65% and 32.22%, respectively, as on December 31, 2019. The company offers home loans, LAP, builder loans and LRD. The AUM mix, as on December 31, 2019, included individual housing loans (59% of the AUM), retail LAP (19%), retail NRPL (4%) and wholesale loans including LRD (18%) aggregating Rs. 86,297 crore. PNBHFL is geographically diversified with a portfolio spread across the western (41%), northern (30%) and southern (29%) regions of India. As on December 31, 2019, the company had 105 branches (3 branches made operational in 9M FY2020), 23 hubs and 27 outreach locations with a presence in 64 cities.

In 9M FY2020, PNBHFL reported PAT of Rs. 888.3 crore on AUM of Rs. 86,297 crore as on December 31, 2019 vis-à-vis PAT of Rs. 1,191.5 crore in FY2019 (PAT of Rs. 841.2 crore in FY2018) on AUM of Rs. 84,721.9 crore as on March 31, 2019 (AUM of Rs. 62,252.0 crore as on March 31, 2018). The company reported a CRAR of 17.06% (Tier I capital of 14.09%) and gearing of 8.48 times as on December 31, 2019. It reported GNPA and NNPA of 1.75% and 1.44%, respectively, as on December 31, 2019 vis-à-vis 0.48% and 0.38%, respectively, as on March 31, 2019.

Key financial indicators

Accounting as per	FY2017 IGAAP	FY2018 IGAAP	FY2019* IndAs	9M FY2020# IndAs
Total income (Rs. crore)	3,907.9	5,516.9	7,683.2	6,537.7
PAT (Rs. crore)	523.7	841.2	1,191.5	888.3
Net worth (Rs. crore)	5,577.3	6,305.6	7,543.9	8,325
On-book portfolio (Rs. crore)	38,531.3	57,014.4	74,287.9	69,194.0
Assets under management (Rs. crore)	41,492.0	62,252.0	84,721.9	86,297
Average yield	10.76%	10.26%	10.09%	10.86%
Average cost of borrowings	8.55%	7.90%	8.08%	8.30%
Spread	2.21%	2.56%	2.01%	2.56%
Return on assets	1.46%	1.56%	1.62%	1.44%
Return on equity	14.92%	13.98%	16.89%	14.99%
Gearing (times)	6.39	8.61	9.75^	8.48
Gross NPA (%)	0.22%	0.33%	0.48%	1.75%
Net NPA (%)	0.15%	0.25%	0.38%	1.44%
Net worth/Managed advances (%)	13.4%	10.1%	8.9%	9.7%
CRAR (%)	21.62%	16.67%	13.98%	17.06%

**all ratios as per ICRA calculations (averaging used in calculation of ratios for FY2019 considers IndAS reported numbers of FY2018)*

^the gearing calculated here is basis the debt figures as given in company's annual report as against company's investor presentation

#Based on investor presentation for Q3 FY2020; all ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

S. No.	Name of Instrument	Type	Rated amount (Rs. crore)	Amount Outstanding (Rs. crore)	Current Rating FY2020 April 2020	FY2020 May 2019	Chronology of Rating History for the Past 3 Years FY2019 Apr 2018	FY2018 Feb 2018	FY2018 Apr 2017	FY2016 Mar 2016	FY2016 Sept 2015
1	NCD Programme	Long Term	1,475	300	[ICRA]AA (Negative)	[ICRA]AA+ (Negative)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AAA (stable)
2	NCD Programme	Long Term	1,125	-	-	[ICRA]AA+ (Negative); rating withdrawn	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AAA (stable)
3	Tier-II Bonds Programme	Long Term	200	200	[ICRA]AA (Negative)	[ICRA]AA+ (Negative)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AAA (stable)
4	NCD Programme	Long Term	300	-	-	Withdrawn	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AA+ (stable)	[ICRA]AAA (stable)

Source: ICRA research

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

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Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE572E09239	NCD	31-Jan-14	9.48%	31-Jan-24	300.00	[ICRA]AA (Negative)
NA	NCD: Unallocated	NA	NA	NA	1,175.00	[ICRA]AA (Negative)
Sub-total (A)					**1,475.00**	
INE572E09262	Tier-II bonds	24-Nov-14	8.70%	24-Nov-24	200.00	[ICRA]AA (Negative)
Sub-total (B)					**200.00**	
Total (A)+(B)					**1,675.00**	

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
PHFL Home Loans and Services Ltd.	100%	Full Consolidation

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About ICRA Limited

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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