pnb Housing Finance Limited
Ghar Ki Baat

April 13, 2022

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 Sir,

Sub: Intimation under Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 regarding change in credit rating outlook for Non-Convertible Debentures by ICRA

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations), we wish to inform you that ICRA (Credit Rating Agency) has revised the outlook of the rating for the borrowing facility in the nature of Non-Convertible Debentures to ***Stable*** from Negative and reaffirmed the credit rating at AA. The rationale states that:

"The revision in the outlook factors in the improvement in PNBHFL's leverage and the reduction in the share of the wholesale segment in its total portfolio. Moreover, PNBHFL has witnessed some recoveries from its stressed corporate exposures. The rating reaffirmation continues to factor in PNBHFL's established track record in the mortgage finance industry, its experienced management team, and diverse funding profile with demonstrated refinancing ability.

Instrument	Rated Amount	Rating Action
Non-Convertible Debentures	600 Crore	ICRA AA; reaffirmed and outlook revised to **Stable** from Negative
Non-Convertible Debentures	-	ICRA AA; reaffirmed and outlook revised to **Stable** from Negative and simultaneously withdrawn
Tier II Bonds	200 Crore	ICRA AA; reaffirmed and outlook revised to **Stable** from Negative

A Copy of the press release issued by ICRA dated April 12, 2022 is enclosed herewith.

This is for your information and records.

Thanking You,

For PNB Housing Finance Limited

Sanjay Jain
Company Secretary & Head Compliance

April 12, 2022

PNB Housing Finance Limited: Rating reaffirmed and partly withdrawn; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debentures	600	600	[ICRA]AA; reaffirmed and outlook revised to Stable from Negative
Non-convertible Debentures	875	-	[ICRA]AA; reaffirmed and outlook revised to Stable from Negative and simultaneously withdrawn
Tier II Bonds	200	200	[ICRA]AA; reaffirmed and outlook revised to Stable from Negative
Total	**1,675**	**800**	

**Instrument details are provided in Annexure-1*

Rationale

The rating on the Rs. 875-crore non-convertible debenture (NCD) programme of PNB Housing Finance Limited (PNBHFL) has been withdrawn in accordance with ICRA's policy on the withdrawal and suspension of credit ratings and as requested by the company. The rated instrument had no amount outstanding against the same.

The revision in the outlook factors in the improvement in PNBHFL's leverage and the reduction in the share of the wholesale segment in its total portfolio. Moreover, PNBHFL has witnessed some recoveries from its stressed corporate exposures. The company reported a gearing of 5.6 times as on December 31, 2021 (managed gearing[1] of 6.6 times) against 6.7 times (managed gearing of 8.1 times) as on March 31, 2021. PNBHFL resolved 11 accounts amounting to ~Rs. 333 crore in 9M FY2022.

The rating reaffirmation continues to factor in PNBHFL's established track record in the mortgage finance industry, its experienced management team, and diverse funding profile with demonstrated refinancing ability. ICRA notes that PNBHFL has reduced its corporate exposure, which declined by ~50% since December 2019 and stood at ~12% of the assets under management (AUM) as on December 31, 2021 against ~16% as on March 31, 2021. This was supported by sell-down and accelerated prepayments of around Rs. 2,294 crore in the corporate book in 9M FY2022. Further, ICRA expects that the company will continue to benefit from the shared brand name with its promoter, i.e. Punjab National Bank {PNB; rated [ICRA]AA+ (Stable)}, which helps PNBHFL leverage its franchise and raise funds, thereby supporting its financial flexibility.

Nevertheless, the rating remains constrained by the weak asset quality indicators with reported gross non-performing assets (GNPAs) of 7.6% as on December 31, 2021 against 5.9% as on September 30, 2021 (4.4% as on March 31, 2021). ICRA notes that the reported GNPAs are elevated partly due to Reserve Bank of India's (RBI) clarification dated November 12, 2021[2], which has led to an increase in the GNPAs by 1.4% and due to reduction in loan book on account of stated objective of the company to reduce corporate exposure. A deterioration in the asset quality was witnessed in the retail as well as the corporate book. Additionally, PNBHFL had a restructured book of ~Rs. 2,483 crore (4.4% of its loan book) outstanding as on December 31, 2021, which was restructured under the Covid-19 restructuring packages announced by the RBI. The performance of the restructured book under moratorium remains a monitorable.

[1] Managed gearing = (On-book debt + Off-book portfolio) / (Net worth)

[2] RBI clarification – Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances – Clarifications dated November 12, 2021

ICRA, however, notes that with the increase in the pace of legal proceedings, recoveries, especially in the retail book, are expected to increase. Further, the risks are partly mitigated by the good collateral cover maintained by the company and the healthy provision coverage ratio (PCR) as on December 31, 2021. Its overall provisions stood at 4.4% of total assets as on December 31, 2021 compared to 4.1% as on March 31, 2021. Though the provision cover provides comfort as well as cushion to absorb further losses, the increased credit cost has impacted the profitability, which remains moderate.

PNBHFL had been in the process of raising equity to reduce its leverage and to meet the envisaged growth. However, there has been a significant delay in the same, given the challenging environment and the bottlenecks faced for the previously planned preferential issue. In March 2022, PNBHFL's board approved fund raising of up to Rs. 2,500 crore by way of a rights issue, which would be material for the company to further reduce its leverage and support its growth plans.

The Stable outlook reflects ICRA's expectations that the company will be able to arrest further sizeable slippages and recover from its delinquent book. Moreover, it is expected to maintain and improve its credit profile, aided by its experienced board and management.

Key rating drivers and their description

Credit strengths

Established player in mortgage lending market – PNBHFL has an established presence and a long track record of operations in the housing finance industry. It has a presence in 18 states/Union Territories (UTs) in India and it witnessed a healthy growth in its scale of operations till September 2019. Post that, it increased its focus on the retail segment and started reducing its wholesale exposure. This led to degrowth of ~14% (annualised) in the AUM to Rs. 66,539 crore as on December 31, 2021 (Rs. 74,469 crore as on March 31, 2021). PNBHFL registered a degrowth of ~12% (annualised) in its on-book portfolio in 9M FY2022.

As on December 31, 2021, ~61% of the on-book portfolio was towards individual housing loans (HL), ~21% towards retail loan against property (LAP), ~5% towards retail non-residential premises loans (NRPLs), ~11% towards construction finance (CF), ~2% towards corporate term loans (CTLs) and ~1% towards corporate LRD. The company also reported an off-book portfolio of Rs. 9,741 crore as on December 31, 2021 against Rs. 12,215 crore as on March 31, 2021. With focus on the retail book including the affordable segment "Unnati", the Company in FY22 opened 13 Unnati only locations primarily in Tier 2 and 3. The Company plans to open more locations to cater to the Affordable segment.

Experienced management 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 management team has taken various initiatives related to cost rationalisation, technological upgradation and resolution of stressed corporate exposures.

Shared brand name and benefits with PNB as the promoter – With PNB being its promoter and holding a stake of 32.6% as on December 31, 2021, PNBHFL has a competitive advantage. The common brand name supports its financial flexibility and deposit mobilisation. PNBHFL's board comprised two directors from PNB as on December 31, 2021. As per the revised trademark agreement entered between PNBHFL and PNB in May 2021, PNBHFL is required to pay a royalty for the use of PNB's brand name if PNB's stake falls below 30%. Further, in case PNB's shareholding falls below 20%, it would have the right to terminate the revised agreement. In case of such termination, PNBHFL shall be allowed a transition period of up to 24 months to change its brand name.

Diversified funding mix and demonstrated refinancing ability – PNBHFL has managed to maintain a healthy funding mix comprising debt market instruments (non-convertible debentures (NCDs) and commercial paper (CP) formed 14.2% and 0.2%, respectively, of the funding mix as on December 31, 2021), deposits (~28%), bank borrowings (~24%), National Housing Bank (NHB; ~9%), external commercial borrowings (ECBs; ~9%) and direct assignments (~15%). The cost of borrowings[3] declined to

[3] *Cost of borrowing computed as per PNBHFL's calculations*

7.4% in 9M FY2022 from 7.9% in FY2021 owing to the low-rate incremental funding and the replacement of high-cost borrowings by low-cost borrowings in 9M FY2022.

Credit challenges

Deterioration in asset quality metrics due to pandemic; restructured book under moratorium remains monitorable – PNBHFL's overall asset quality deteriorated in FY2021 owing to the Covid-19 pandemic-induced disruptions. The impact was further compounded because of the second wave in H1 FY2022 and decline in loan book. PNBHFL reported gross and net NPAs of 5.9% and 3.3%, respectively, as on September 30, 2021 compared to 4.4% and 2.4%, respectively, as on March 31, 2021. However, incremental slippages were limited in Q3 FY2022 because of the tightened norms by RBI on NPA recognition and the upgradation led to an increase in the gross and net NPAs to 7.6% and 4.9%, respectively, as on December 31, 2021. Excluding the revised asset classification norms by RBI, the Gross NPA is 6.2% of Loan Asset as on December 31, 2021. Further, 4.8% of book was in Stage 2 as on December 31, 2021 and the total outstanding restructured book was ~Rs. 2,483 crore (3.7% of AUM and 4.4% of on-book portfolio).

Its overall provision increased to 4.4% of the total assets as on December 31, 2021 from 4.1% as on March 31, 2021. The share of the loan book under moratorium is relatively high and recoveries from the restructured book remain monitorable. ICRA notes that the collateral cover maintained on corporate exposures and the loan-to-value (LTV) for the retail segment (~72% in HL and ~49% in LAP) mitigate the risk to some extent. The management's ability to arrest further slippages and make healthy recoveries shall remain critical from a credit perspective.

Elevated credit costs keep profitability moderate – Given the increased stress in the asset quality, PNBHFL raised its provisioning requirement during the pandemic and also undertook some write-offs. The increased credit cost has impacted its profitability adversely, despite maintaining the lending spreads. While ICRA expects PNBHFL's pre-provision operating profit to be adequate to cover incremental credit costs, the management's ability to keep its incremental credit cost under control will be important. It reported a profit after tax (PAT) of Rs. 667 crore, translating into a return on average managed assets of 1.3% and a return on average net worth of 9.6% in 9M FY2022 (Rs. 930 crore, 1.0% and 11.0%, respectively, in FY2021)[4]. Going forward, the company's ability to manage the interest spreads and credit costs will be critical for maintaining the profitability indicators.

Liquidity position: Strong

While the company remains exposed to asset-liability related risks given the longer tenor of the assets, its liquidity is supported by a good share of long-term and short-term borrowings and its plans to keep adequate liquid investments and unutilised lines to meet the gaps. It had cash and cash equivalents of Rs. 5,190 crore as on December 31, 2021 (as per provisional asset liability management (ALM), excluding investments) and collections due (as per behavioural analysis of ALM) of Rs. 5,239 crore (excluding NPAs, including restructured book) against debt repayments (including short-term overdraft (OD) facility) of Rs. 10,868 crore till June 30, 2022. Further, PNBHFL had unavailed lines of more than Rs. 5,500 crore as on December 31, 2021. The cumulative mismatch up to 1 year bucket as per provisional structured liquidity statement (SLS) for December 2021 is positive 1% thereby denoting strong ALM position. The Company has maintained healthy Liquidity Coverage Ratio (LCR) more than the regulatory requirement of 50%.

Rating sensitivities

Positive factors – PNBHFL's rating could be upgraded or the outlook could be revised to Positive if the company is able to grow its scale of operations while improving its overall asset quality and profitability profile and maintain a prudent capitalisation profile.

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[4] *9M FY2022 ratios as per PNBHFL's calculations; ratios for FY2021 as per ICRA's calculations*

Negative factors – Pressure on the rating would arise in case of a further deterioration in PNBHFL's asset quality and/or its inability to make a meaningful recovery out of its stressed assets. Pressure on its profitability, a material decline in the scale of operations, increase in its gearing and challenges in fund raising, restricting PNBHFL's ability to lend or leading to a deterioration in its liquidity profile, could also exert pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Non-Banking Finance Companies Policy on Withdrawal of Credit Ratings
Parent/Group Support	Not Applicable
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 32.6% and 32.1%, respectively, as on December 31, 2021. The company offers home loans, LAP, builder loans and LRD. The on-book portfolio mix included individual HLs (61% of the loan book), retail LAP (21%), retail NRPL (5%) and wholesale loans including CF, CTL and LRD (13%), aggregating Rs. 56,798 crore of the on-book portfolio, as on December 31, 2021. PNBHFL is geographically diversified with a portfolio spread across 18 states/UTs. The Company also operationalized 13 Unnati only locations in Q3 FY2022 and plans to open more locations to cater to the affordable segment.

PNBHFL reported a PAT of Rs. 667 crore in 9M FY2022 on AUM of Rs. 66,539 crore as on December 31, 2021 vis-à-vis a PAT of Rs. 930 crore in FY2021 on AUM of Rs. 74,469 crore as on March 31, 2021. The company reported a CRAR of 21.59% (Tier I capital of 18.90%) and a gearing of 5.57 times as on December 31, 2021. It reported GNPAs and net NPAs of 7.64% and 4.87%, respectively, as on December 31, 2021.

Key financial indicators (audited)

PNBHFL	FY2019	FY2020	FY2021	9M FY2022*
Total income (Rs. crore)	7,683	8,490	7,624	4,775
Profit after tax (Rs. crore)	1,192	646	930	667
Net worth (Rs. crore)	7,544	7,998	8,923	9,616
Loan book (Rs. crore)	74,023	67,571	62,254	56,798
Total assets (Rs. crore)	84,328	80,695	73,936	NA
Return on average managed assets (%)	1.5%	0.7%	1.0%	1.3%
Return on average net worth (%)	16.9%	8.3%	11.0%	9.6%
Reported gearing (times)	9.8	8.6	6.7	5.6
Managed gearing[5] (times)	11.1	10.5	8.1	6.6
Gross Stage 3 (%)	0.48%	2.75%	4.44%	7.64%
Net Stage 3 (%)	0.38%	1.75%	2.43%	4.87%
Solvency (Net stage 3/Net worth)	3.72%	14.80%	16.96%	28.73%
CRAR (%)	14.0%	18.0%	18.7%~	21.6%

***Source**: Company, ICRA Research; * As per limited review 9M FY2022 financials – Ratios for 9M FY2022 as per PNBHFL's calculations*
All ratios and values are as per ICRA's calculations

[5] *Managed gearing = (on-book debt + off-book portfolio) / (Net worth)*

~ *Adjusted for deposits made with companies in same Group (parent), CRAR was 20.61% as on March 31, 2021*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Feb 28, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Apr 12, 2022	May 28, 2021	Apr 3, 2020	May 31, 2019
1	NCD programme	Long term	600	300	**[ICRA]AA (Stable)**	**[ICRA]AA (Negative)**	**[ICRA]AA (Negative)**	**[ICRA]AA+ (Negative)**
2	Tier II bonds	Long term	200	200	**[ICRA]AA (Stable)**	**[ICRA]AA (Negative)**	**[ICRA]AA (Negative)**	**[ICRA]AA+ (Negative)**
3	NCD programme	Long term	875	-	**[ICRA]AA (Stable); withdrawn**	**[ICRA]AA (Negative)**	**[ICRA]AA (Negative)**	**[ICRA]AA+ (Negative)**

Complexity level of the rated instruments

Instrument	Complexity Indicator
NCD programme	Very simple
Tier II bonds	Very simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE572E09239	NCD	Jan-31-2014	9.48%	Jan-31-2024	300	[ICRA]AA (Stable)
Not issued	NCD	NA	NA	NA	300	[ICRA]AA (Stable)
INE572E09262	Tier II Bonds	Nov-24-2014	8.70%	Nov-24-2024	200	[ICRA]AA (Stable)
Not issued	NCD	NA	NA	NA	875	[ICRA]AA (Stable); withdrawn

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	PNBHFL Ownership	Consolidation Approach
PHFL Home Loans and Services Ltd.	100.00%	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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