

PNB Housing Finance Ltd

Issuer Profile

August 2018



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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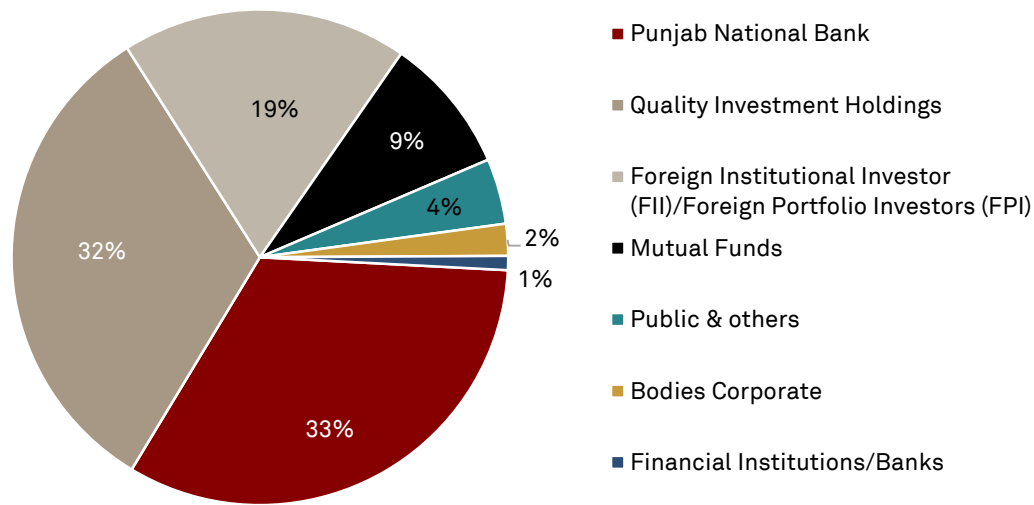
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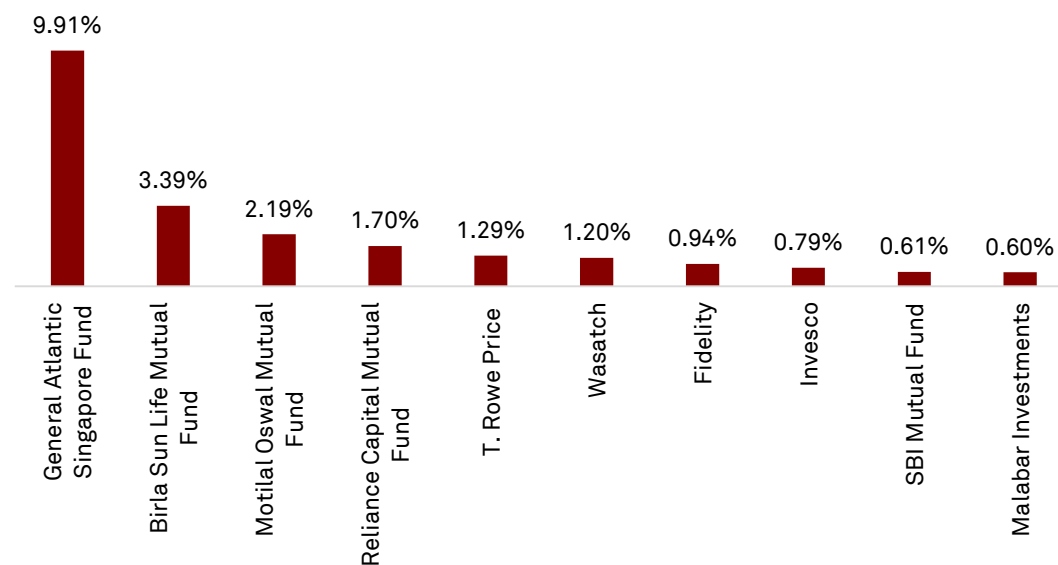
About the Company

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 deposit outstanding in India. Its customer-oriented business model enables it to maintain strong growth. It has a pan-India presence through 84 branches as on March 31, 2018. The company also derives Brand-sharing benefits from the parentage of Punjab National Bank (PNB). The company has a strong distribution network with pan India presence and over 13,000 channel partners across India.

Shareholding Pattern as on May 31, 2018







Other major investors (on group level basis) in PNB Housing



PNB Housing provides retail housing loans for construction, purchase, repair, and upgradation of houses, as well as purchase of residential plots. It also provides loans against property (LAP) and loans for commercial property. 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%: 2014-18 CAGR growth during 2013-18	NIMs	3.72	3.48	 Amongst the fastest growing large HFCs
Assets Under Management	56%, 2014-2018 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

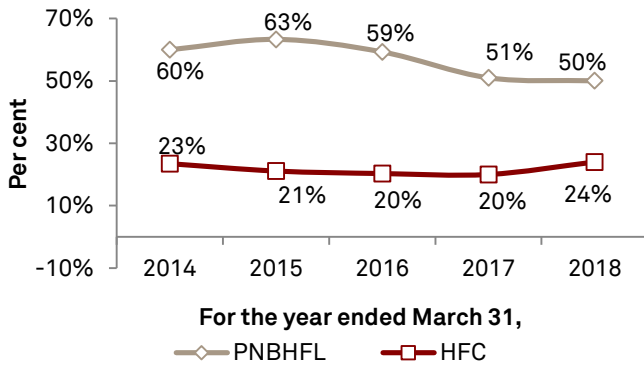


Chart 2: Trend in gross NPAs (2 year lagged)*

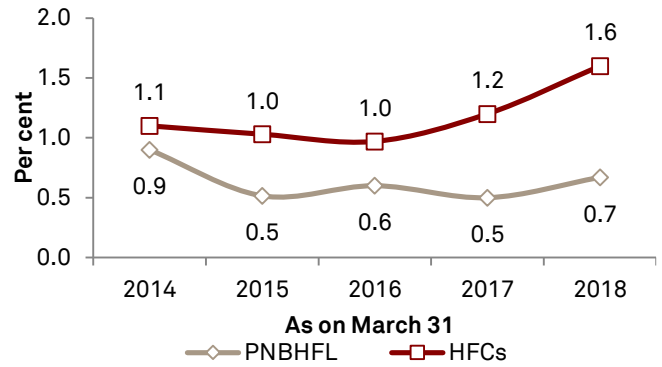


Chart 3: Trend in gross NPAs*

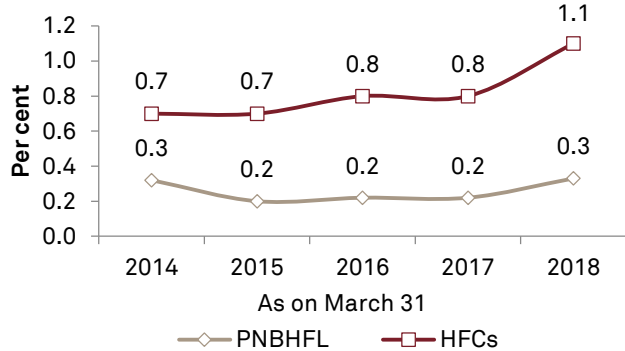


Chart 4: Trend in return on assets

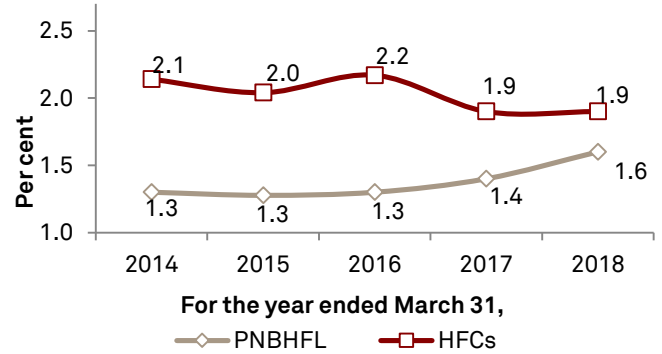


Chart 5: Trend in adjusted gearing

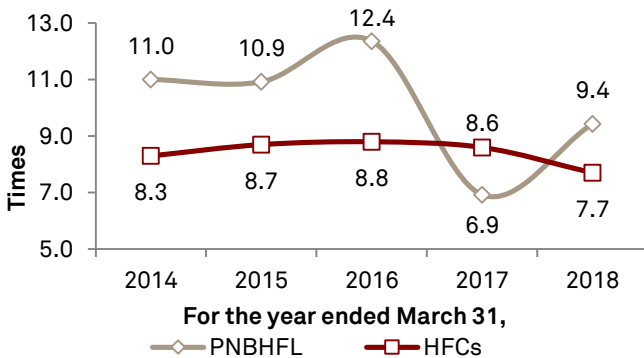
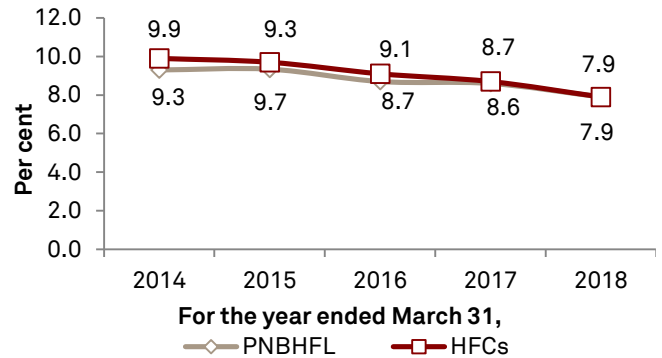
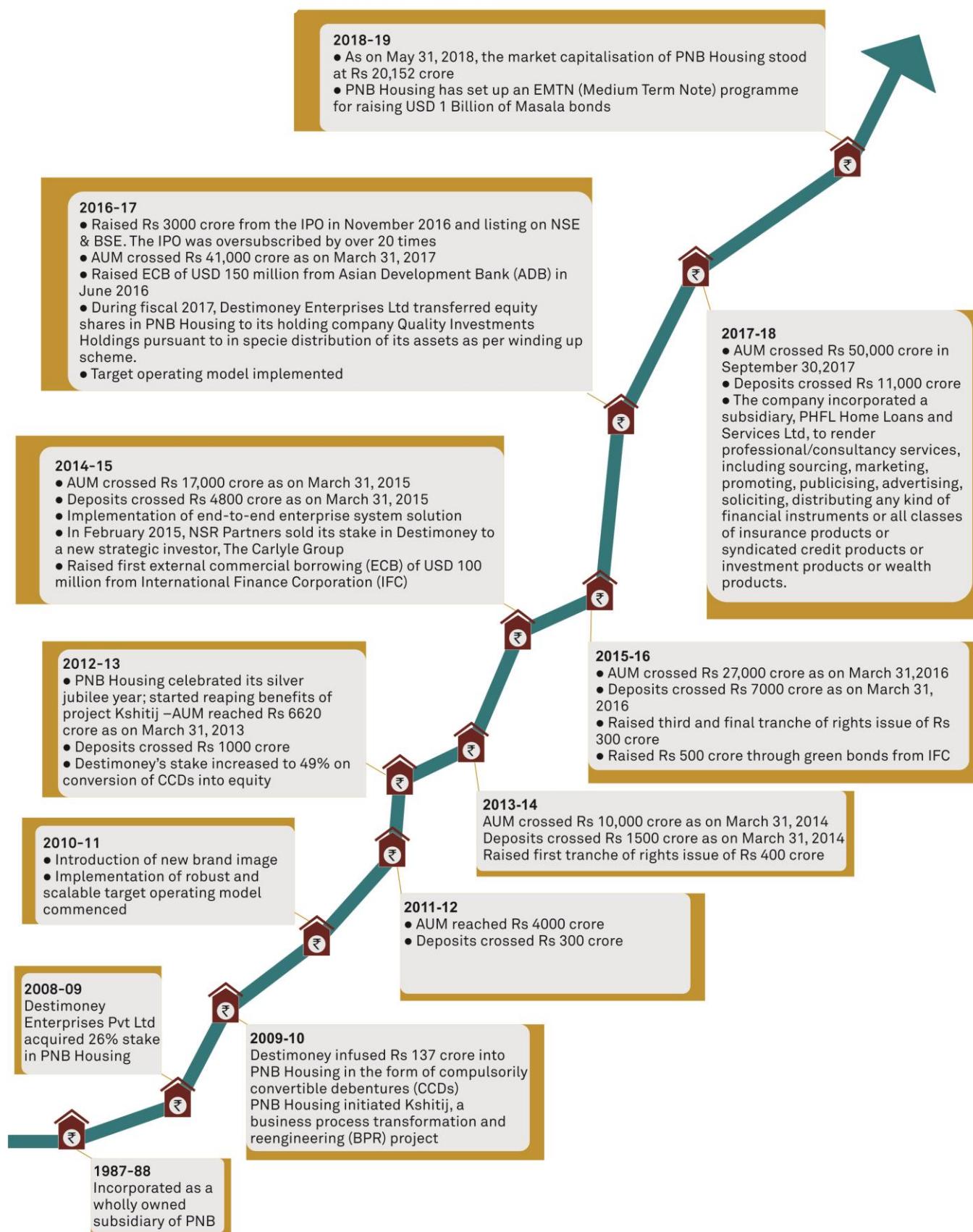


Chart 6: Trend in cost of borrowing



*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:

Board constitutes 9 members: 2 non-executive directors, 6 independent directors, and the managing director (MD) 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 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 at the head office. He has held various important positions in agriculture, retail, credit and planning & development. He has over 35 years of experience in banking.
Mr Sunil Kaul	Non-executive director (Carlyle Group nominee; Since: March 5, 2015)	He is a member of Risk Management Committee, Corporate Social Responsibility 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 Citi'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 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 Nomination and Remuneration Committee and Credit Committee of Board. He is also a member of Risk Management Committee. He has also 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 member of Audit Committee of Board. He has been the executive vice chairperson of Cognizant India since December 1st, 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 member of Audit Committee of Board and Nomination and Remuneration Committee. He is a former president of The Institute of Chartered Accountants of India and has been a member since 1985. He has worked with Khimji Kunverji and Co 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.
Prof. (Dr) Gourav Vallabh	Independent director (Since: April 22, 2016)	He heads the Audit Committee of Board and Risk Management Committee. He is a Professor of Finance at The Xavier School of Management, Jamshedpur, and was a professor at the Management Development Institute, Gurgaon. 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.

Ratings

Mr Ashwani Kumar Gupta	Independent director (Since: May 12, 2017)	He is a member of the Stakeholders Relationship 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 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 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, and also in economics, finance, and information technology.
Mr Sanjaya Gupta	Managing director & Chief Executive Officer (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 has 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 advice on investment in the housing sector. He is a nominee director for ADB on the board of Satin Creditcare Network Ltd. He was ADB-nominated director 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 ontogenesis of mortgage industry and allied risk management products across India. He is often consulted by policy makers for key changes in the sector.

Top Management

Name	Designation	Profile
Mr Sanjaya Gupta	Managing director & Chief Executive Officer	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 has 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 advice on investment in the housing sector. He is a nominee director for ADB on the board of Satin Creditcare Network Ltd. He was ADB nominated director 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 ontogenesis of mortgage industry and allied risk management products across India. He is often consulted by policy makers 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 business. Prior to this assignment, he was the senior vice president and business head, 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 Master's degree in Management Science (MMS).
Mr Ajay Gupta	ED- Risk management	Mr Ajay Gupta holds a Bachelor's Degree in Commerce from University of Delhi. He is also a Chartered Accountant from ICAI. 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 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 has 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 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 & 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 Xander, he has held various assignments with leading finance organizations and banks such as Au Small Finance Bank, ICICI Prudential Life Insurance, and Deutsche Bank.
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 University of Delhi. Before joining PNB Housing, he worked for seven years with a leading construction Group.

Awards and recognition



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



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 tenets of Trust, Pride and Camaraderie.



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



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



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



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



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



Silver award from ABCI (Association of business communication of India) for FY16-17 Annual Report



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



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



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



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



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



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



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



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'



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



Awarded for 'Excellence in Financial Services'



'Best Adversity Management Stories of Asia Study 2018'

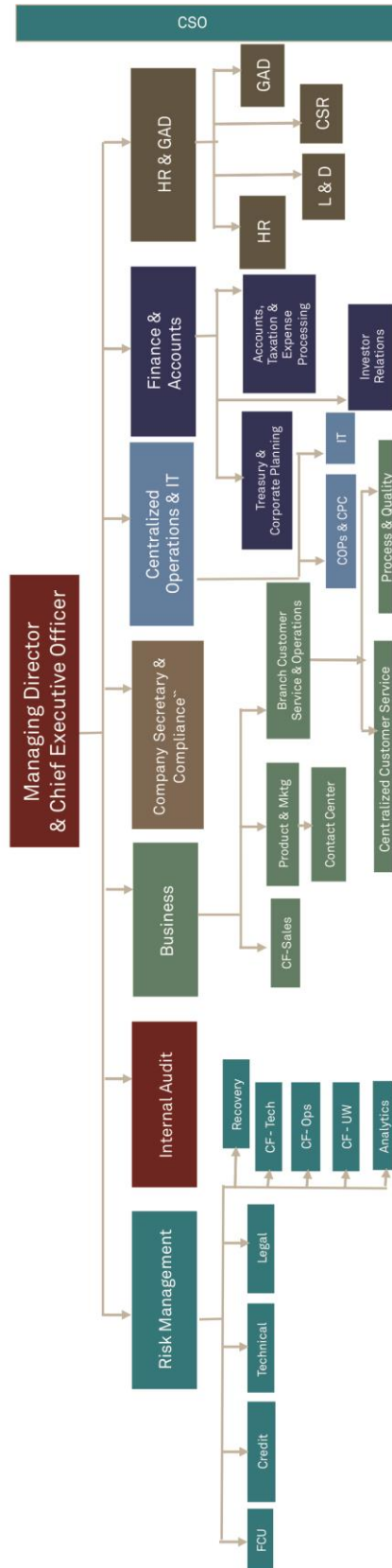


Awarded for contribution towards CSR at the India Pride Awards



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

PNB Housing's Organisation Structure: Summary



Summary Credit Risk Profile

Business Risk Profile		Financial Risk Profile	
Market Position		Capital Adequacy	
<ul style="list-style-type: none"> • Among top 5 HFCs by AUM and the second largest HFC by deposit outstanding. • AUM grew 50% (y-o-y) to Rs 62,252 crore as on March 31, 2018; company to maintain higher-than-industry average growth over the medium term. • AUM comprised housing loans (59%), construction finance (12%), LAP (16%), LRD (5%), NRPL (4%), and CTL (4%) as on March 31, 2018. • AUM is well diversified across India; with northern, western, and southern India contributing 32%, 39% and 29%, respectively, as on March 31, 2018. 		<ul style="list-style-type: none"> • Comfortable capitalisation with net worth and capital adequacy ratio (CAR) of Rs 6306 crore and 16.67%, respectively, as on March 31, 2018. • The company raised Rs 3000 crore through an IPO in November 2016, which will support its strong growth plans over the medium term. • Adjusted gearing increased to 9.4 times (gearing 8.6 times) as on March 31, 2018, from 6.9 times (gearing 6.4 times) a year earlier. The gearing as on March 31, 2017, was supported by Rs 3000 crore of capital raised through an IPO in November 2016. Over the medium term, adjusted gearing is expected at 11-12 times (gearing: 10-11 times) on a steady state basis. • Comfortable net worth 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 0.67% as on March 31, 2018, which is less than half of the industry average (HFC average: 1.6%), 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 at 0.2%, performance over a longer period remains to be seen • Ability to maintain its 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) of 1.55% in fiscal 2018. 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 loans. However, this will be partially offset by the impact of competition on yields in the salaried housing loan segment. 	

Resources

- Well-diversified resource profile comprising bank loans, bonds, debentures, fixed deposits, NHB refinance, ECBs, and green bonds. Better than peers cost of borrowings.
- Second largest deposit outstanding among HFCs with deposits constituting 21% of borrowings as on March 31, 2018.
- Significant increase in focus on relatively stable fixed deposits over the past two years will lend stability and diversify the investor profile.

Liquidity

- Comfortable asset-liability management (ALM) profile with marginal negative cumulative mismatches in up to 1 year bucket.
- Policy of maintaining unutilised bank lines/liquid investments.
- Adequate bank line of Rs 4250 crore as on March 31, 2018, along with bank balance of Rs 2817 crore and liquid investment of Rs 1219 crore.

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

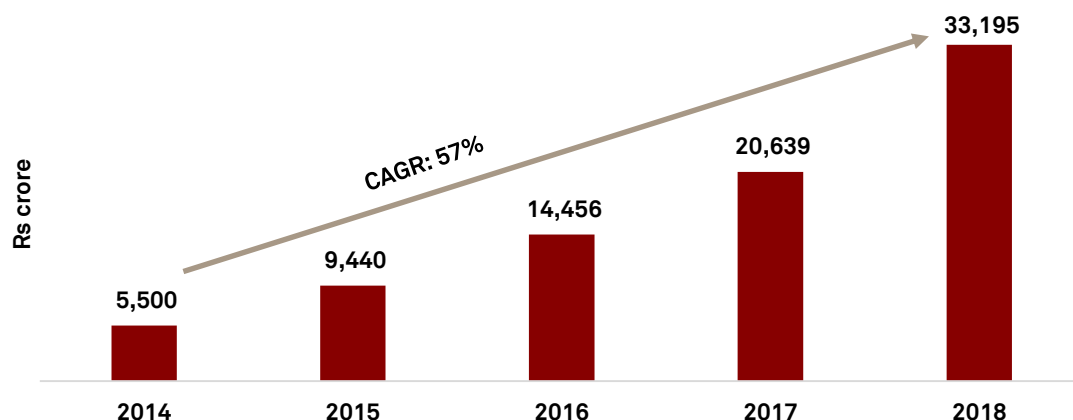
Brand-sharing benefits from the parentage of PNB

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

Detailed Credit Risk Profile

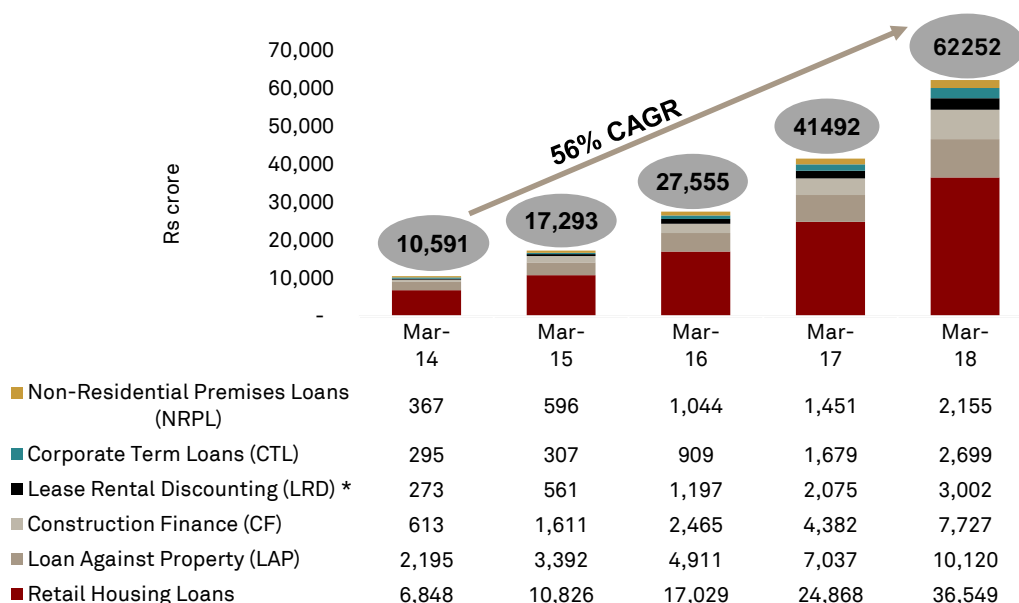
Market Position

Chart 7 – Trend in Disbursement



Disbursement by PNB Housing surged 57% between fiscals 2014 and 2018, reaching Rs 33,195 crore in fiscal 2018 from Rs 5,500 crore in fiscal 2014. This growth was driven by branch expansion and technological advancement that helped bring in efficiency by speeding up turnaround time (TAT). This led to a strong 56% growth in AUM during the past five years, with AUM reaching Rs 62,252 crore as on March 31, 2018. PNB Housing has over the past five years 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 enhance in its market share in a highly competitive industry sector.

Chart 9 – Portfolio Constitution*

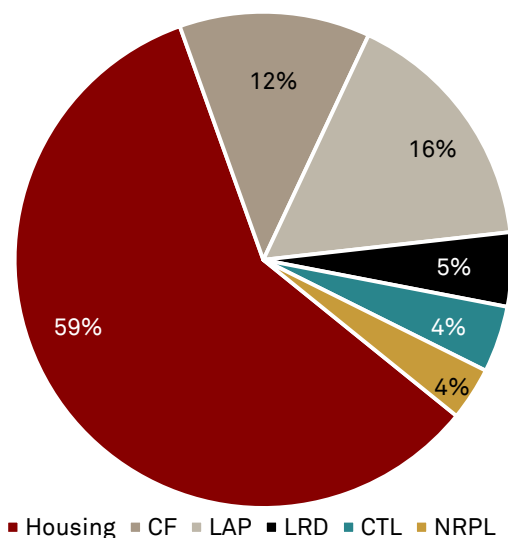
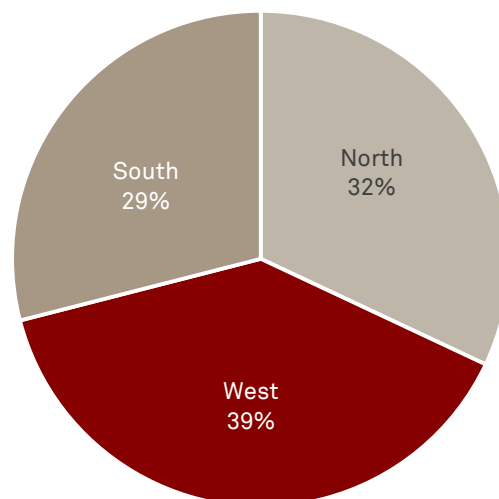


Chart 10 – Geographical Split*



*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 by offering competitive value proposition in comparison to other lenders. In the home loan portfolio, salaried segment accounted for 67% of loan book as on March 31, 2018, compared to 63% as on March 31, 2017.
- About 30% of the incremental housing loan business continues to be from self-employed—higher-income individuals i.e. mass affluent segment having better debt servicing capacity. PNB Housing also intends to focus on mass housing segment given the strong demand potential and strong impetus given to the sector by the Government of India.
- In line with target customer and product strategy, PNB Housing has expanded its branch network to 84 by March 31, 2018. The company opened 21 new branches during fiscal 2018.

PNB Housing is among the top 5 and the fastest-growing large HFC and the second largest by deposit outstanding 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 business model and strong credit underwriting, monitoring, and collection mechanisms. Its GNPAs and two-year lagged GNPAs, at 0.33% and 0.68%, respectively, as on March 31, 2018, were significantly lower than the industry average at 1.1% and 1.6%, respectively.

Chart 11 – Trend in Gross NPAs

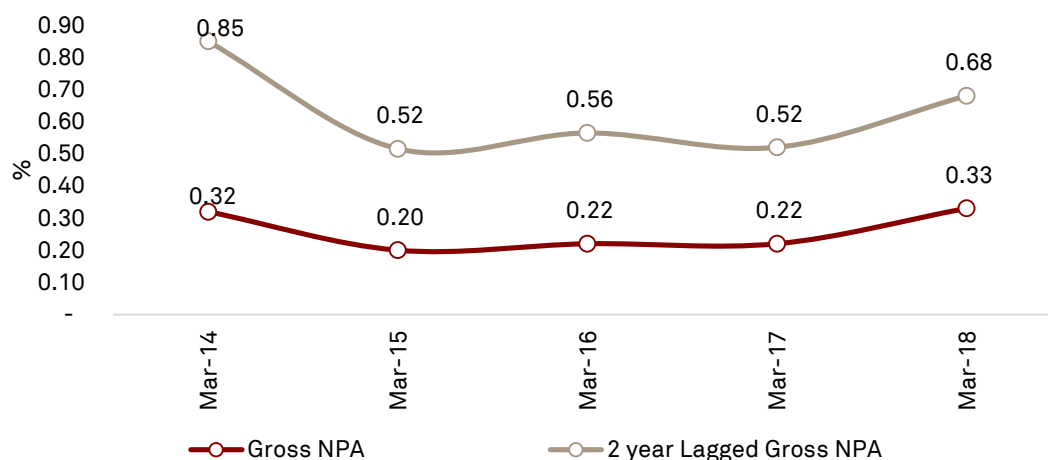
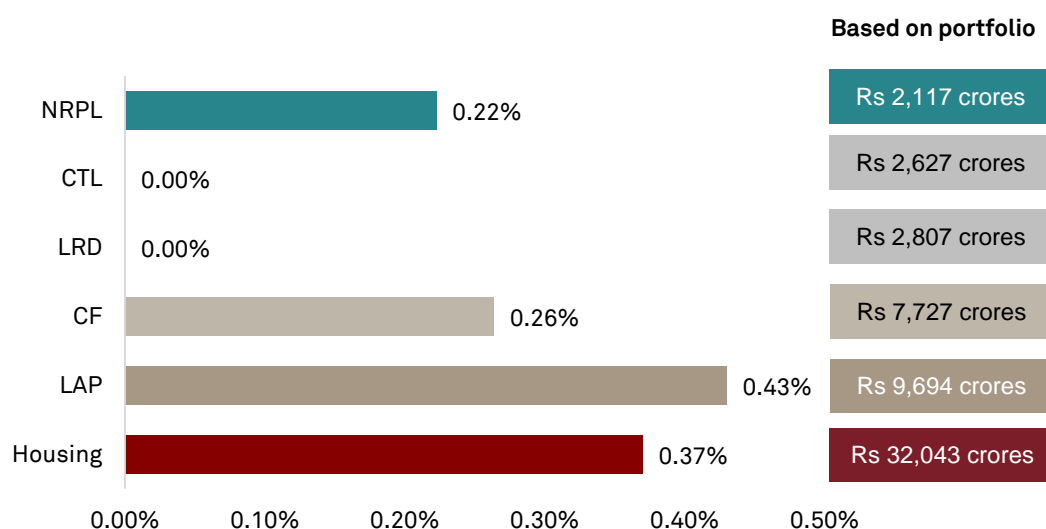


Chart 12 – Segment wise Gross NPAs



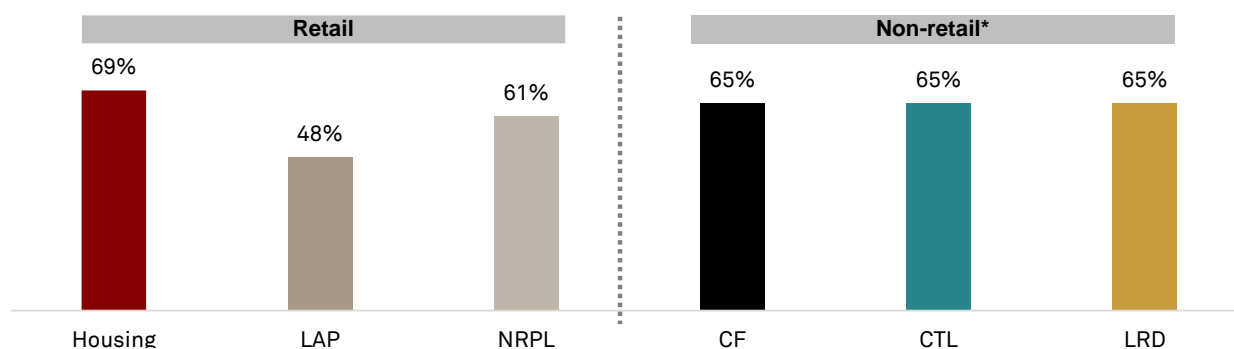
Even on a segmental basis, GNPAs remain comfortable. However, impact of seasoning is yet to be seen as nearly 78% of the loan book is relatively new, having a tenor of less than 24 months. Furthermore, given the rising proportion of large-ticket wholesale loans, asset quality performance in this segment remains to be seen.

Strong credit underwriting, monitoring, and collection mechanisms support its asset quality:

- Regional hubs for standardised credit decision-making process.
- PNB Housing has Financial, fraud control, legal and technical SMEs are available at all hubs.
- Strong underwriting team consisting of qualified and experienced subject matter experts.
- Dedicated centralized team for underwriting wholesale 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 to evaluate the portfolio quality.
- 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 like know-your-customer norms and Hunter application.

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

Chart 13 – Segment wise LTVs



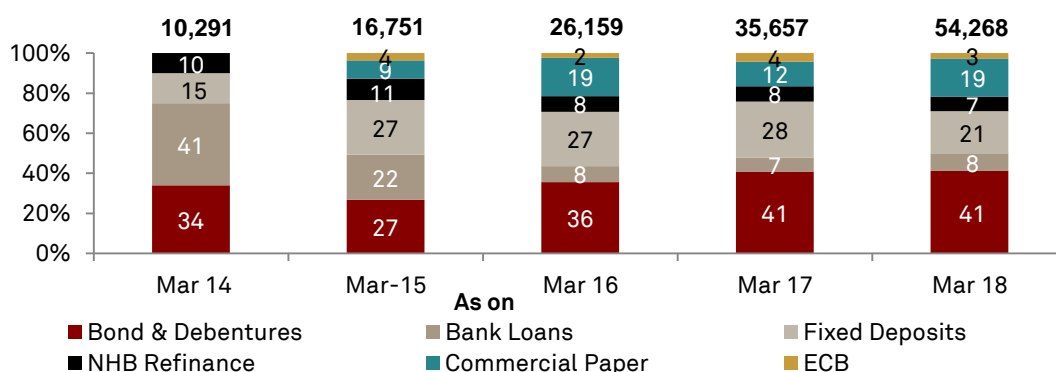
* average security cover of around 1.5-2.5X during the tenure of the loan

CRISIL believes PNB Housing’s focus on strengthening and standardising its systems and processes has started to yield benefits. On a two-year lagged basis, gross NPA stood at 0.67%, which is less than half of the industry average (1.6%). 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 relatively wholesale segments, primarily construction finance and corporate term loans (together accounting for around 17% of the loan book) is low at 0.2%, 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 March 31, 2018, it met its funding requirement through multiple sources, including term loans from banks and financial institutions, non-convertible debentures, deposits, ECBs, commercial paper, refinancing from NHB, zero coupon bonds (ZCBs), and unsecured subordinated debt. The company has built strong relationships with its lenders. As on March 31, 2018, its lenders included 800 lending institutions across public 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.

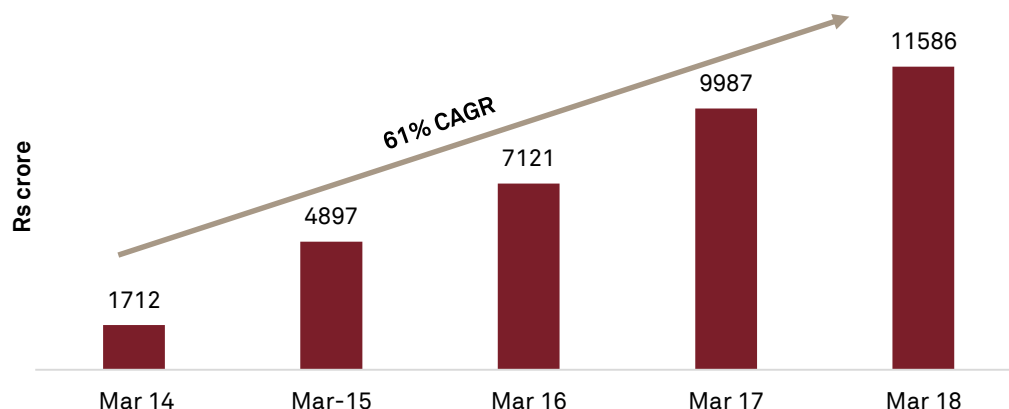
Chart 14 – Resource profile



Note: figures in boxes represent total borrowing in Rs crore

A significant proportion of its funding is long-term to match the long tenure of its loan portfolio. PNB Housing has increased focus on mobilising stable retail fixed deposits. It has made significant investment in building teams, technology, and systems to mobilise retail fixed deposits and enhance customer service. It is one of the few HFCs to have a large proportion of stable retail fixed deposits and plans to increase the share of deposits in the near term.

Chart 15 – Trend in deposits



During fiscal 2018, PNB Housing availed refinance of Rs 1500 crore (Rs 1000 crore in the previous fiscal) from NHB. These are long-term funds raised for 10 years. The outstanding refinance from the NHB as on March 31, 2018, was Rs 3891.97 crore (Rs 2748.40 crore a year earlier) and is secured by hypothecation of specific loans/book debts against which refinance has been availed.

The company has ECBs of USD 225.62 million in the form of term loan facilities from IFC and ADB, raised under the low-cost, affordable housing scheme of the RBI. 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 the RBI.

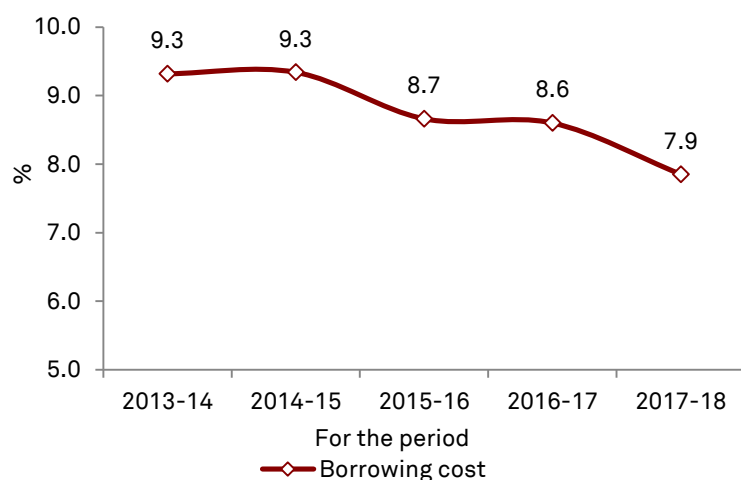
To further diversify the resource profile, the company has established a medium term note (MTN) programme of USD 1 billion to issue debt instrument in the international capital markets, subject to regulatory approvals. Under this programme, the company can raise USD 1 billion through the issuance of rupee denominated bonds (masala bonds) to overseas investors through the approval route. The programme has been listed on the London Stock Exchange. The company has received approval from RBI to issue rupee-denominated bonds up to USD 500 million where IFC is an anchor investor with a commitment of USD 150 million. These rupee denominated bonds are issued in foreign currency and the currency risk is borne by the investor.

In addition, the company issued ZCBs of Rs 889 crore in fiscal 2018.

During the year, PNB Housing down sold loans amounting to Rs 3128.40 crore under direct assignment route to four large institutions consisting a mix of priority sector loans (PSL) and non-PSL assets. The company is likely to continue to explore further down selling of good quality assets which will help bring down leverage and cost of funds.

Amid all these efforts, PNB Housing had a competitive cost of borrowing which has been reducing over the years. The cost of borrowing stood at 7.9% for fiscal 2018 against 8.6% for fiscal 2017 and 8.7% for fiscal 2016.

Chart 16– Trend in Cost of Borrowing*



*based on yearly average

Further, PNB housing has managed to attract diversified set of investors for their issuances

Chart 17 – investors in bonds

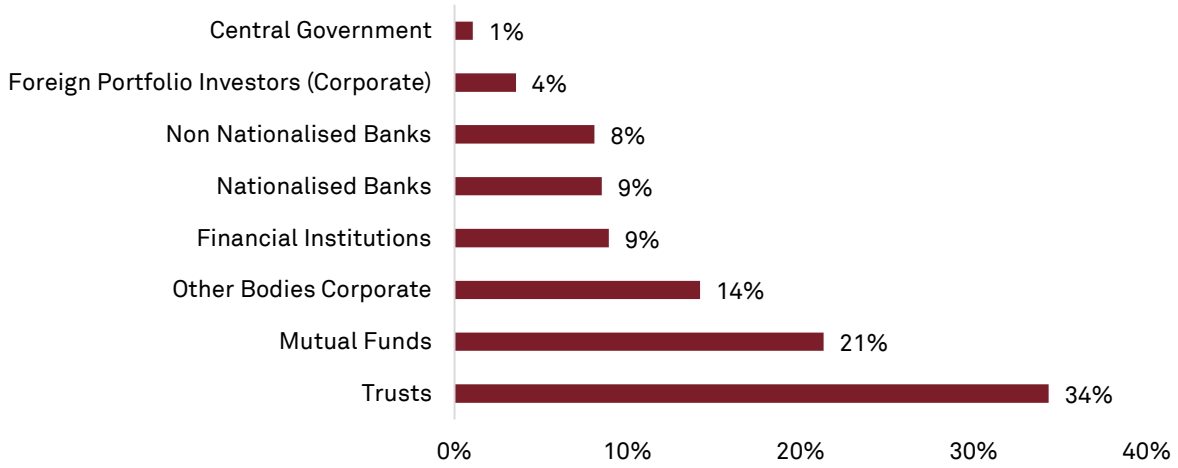
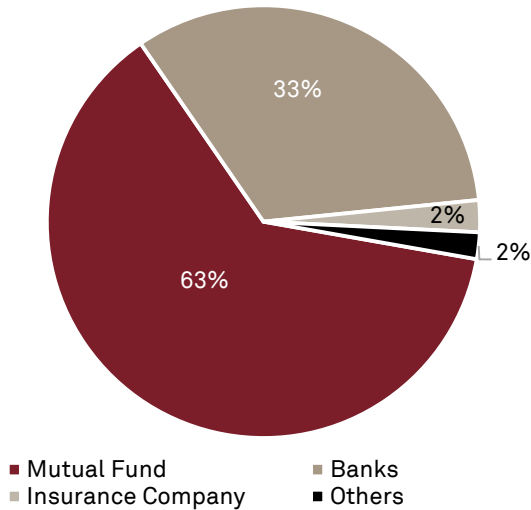


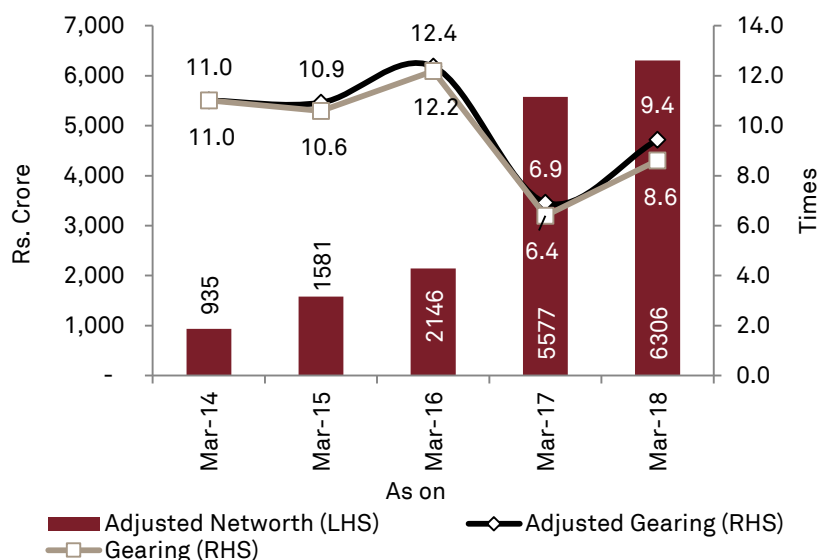
Chart 18 – investors in CP



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

Capitalisation

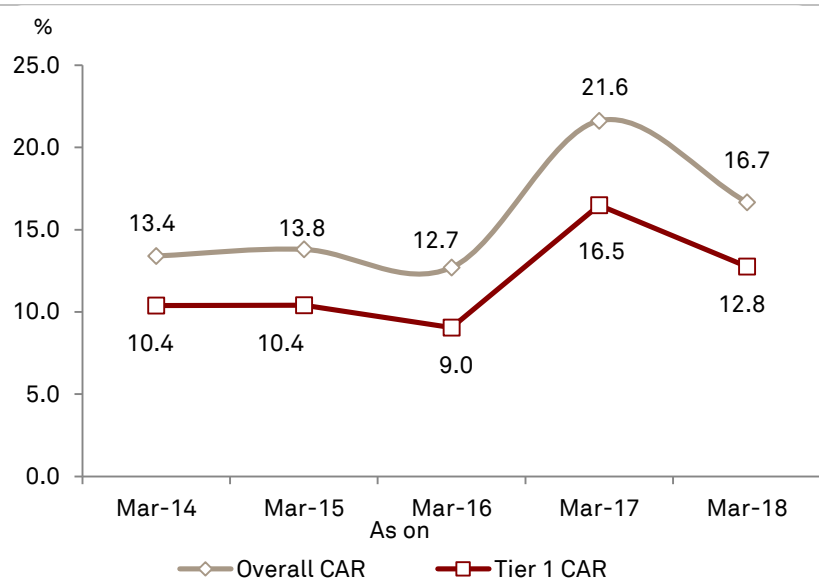
Chart 19 – Trend in Net worth and Net worth to Net NPAs



PNB Housing has comfortable capitalisation metrics with networth, and Tier-I, and overall capital adequacy ratio (CAR) of Rs 6306 crore, 12.8%, and 16.7%, respectively, as on March 31, 2018.

Adjusted gearing¹ (including securitisation) was 9.4 times as on March 31, 2018. PNB Housing plans to maintain adjusted gearing between 11-12 times (gearing at 10-11 times) on a steady-state basis over the medium term.

Chart 20 – Trend in Capital Adequacy Ratios



Capitalisation has been supported by regular equity capital support from its shareholders over the past few years. In November 2016, PNB Housing raised Rs 3000 crore through an IPO, which will support its strong growth plans over the medium term.

PNB Housing had high networth coverage of net NPAs at 44 times, as on March 31, 2018, which provides adequate cushion against asset-side 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 net worth, and maintain steady-state adjusted gearing at 11-12 times.

¹ Gearing: 8.6 times as on March 31, 2018

Earnings

Chart 21 – Trend in RoA and RoE

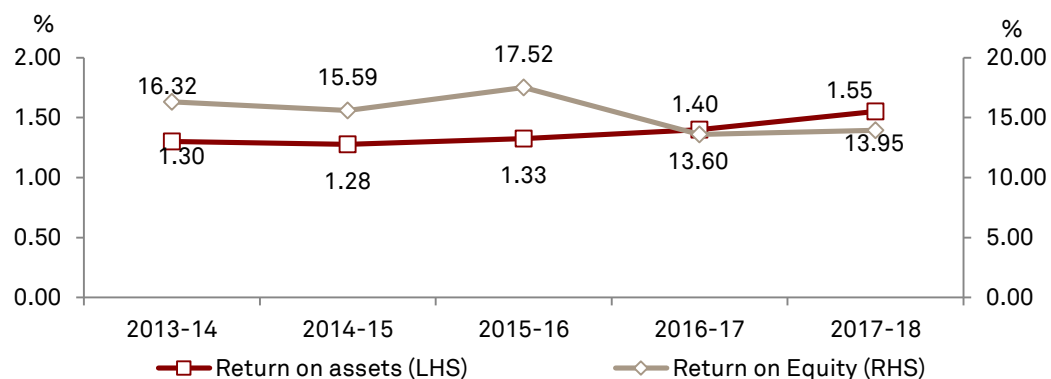
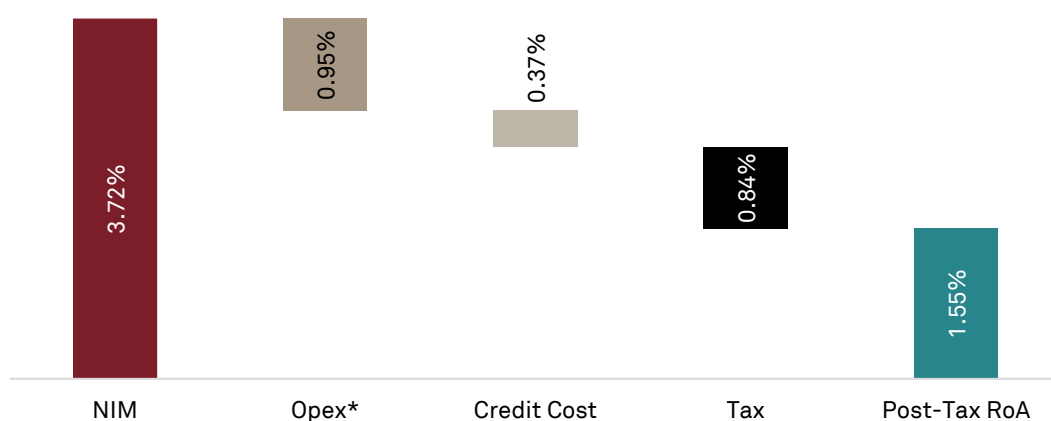


Chart 22- RoA breakup for fiscal 2018



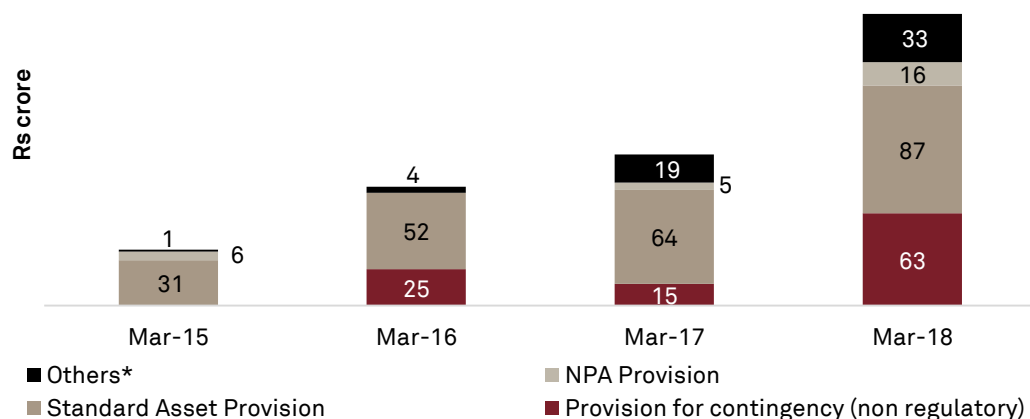
* Including cost of acquisition

PNB Housing's return on assets (RoA) improved to 1.55% for fiscal 2018 from 1.4% for fiscal 2017, in line with the industry average. Sustainability of the improvement in profitability needs to be demonstrated.

Operating expenses are high due to investments being made 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 the newly opened branches achieve economies of scale.

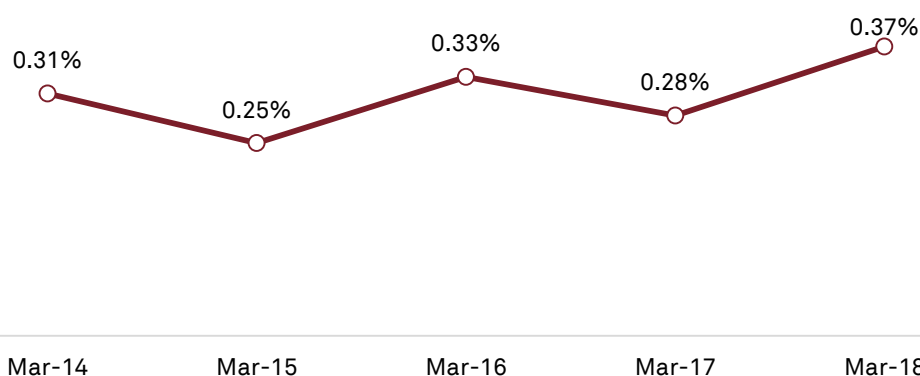
The credit costs for PNB Housing have remained low over the past five years.

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



Furthermore, NIMs are expected to benefit from the relatively high proportion of high-yield non-housing loans. However, this will be partially offset by the impact of competition on yields in the salaried housing loan segment. 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 (Rs 102 crore as on March 31, 2018), the ability of the company to manage asset quality, especially in the chunkier non-retail portfolio, will be a key determinant of profitability.

CRISIL believes 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 a comfortable ALM profile, with negligible negative cumulative mismatches in maturity buckets of up to one year as on March 31, 2018. The company has positive cumulative mismatches in the first maturity bucket of up to 30 days, 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 the NHB. In computing the same, the relevant assumptions, estimates, and adjustments have been made by the management in line with past trend and expected performance of the loan assets currently in the book. In this regard, an asset is calculated on the behavioural maturity basis and a liability on the contractual maturity basis, and hence, the same shall not be in line with what has been reported in the audited financials since they are all based on contractual maturities of both assets and liabilities.

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

- PNB Housing had adequate bank line of Rs 4250 crore as on March 31, 2018, of which Rs 1705 crore was unutilised, along with bank balance of Rs 2817 crore and liquid investment of Rs 1218 crore.
- In addition, the company had investment in Statutory Liquidity Ratio (SLR) securities of Rs 1176 crore against a requirement of Rs 1162 crore, and current investment of Rs 1218 crore as on March 31, 2018.

Management

PNB Housing is being managed by an independent and stable management team. The management team under the leadership of Mr Sanjaya Gupta has played a key role in transformation of PNB Housing's business model and improvement in its performance over the past eight 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). The latter's stake has reduced from 51% following the IPO and stake sale in November 2017. PNB Housing is being 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
Networth (as per financials)	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
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 network	%	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)	%	0.67	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

Annexures

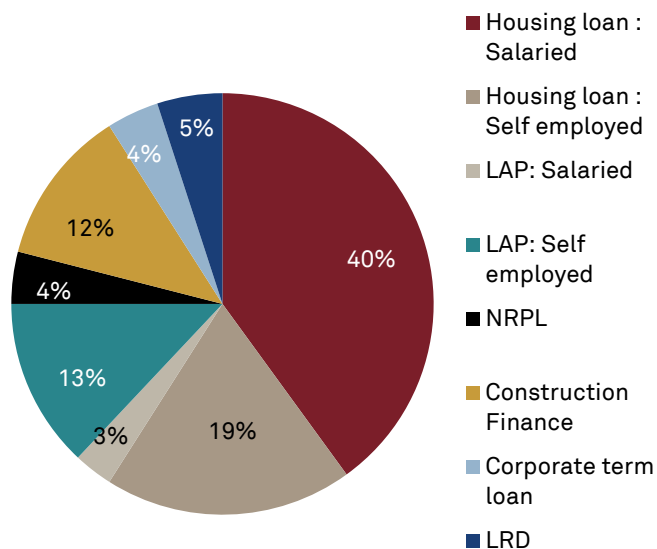
Product Overview

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

As on Mar 31, 2018	Average Ticket Size (Rs Crore)	Average LTV (%)	Weighted average residual tenor (Years) [§]
Home Loans Retail	0.31	69.3%	17
Salaried	0.28	72.3%	19
Self-employed	0.40	63.2%	15
Loan Against Property Retail	0.48	47.8%	12
Salaried	0.23	48.6%	14
Self-employed	0.65	47.7%	12
NRPL Retail	0.53	60.5%	12
LRD Retail	4.63	41.7%	11
<u>Non Retail :-</u>			
Construction Finance	67.06	65%^	4
LRD	139.32	65%^	13
Corporate Term Loan	62.19	65%^	6

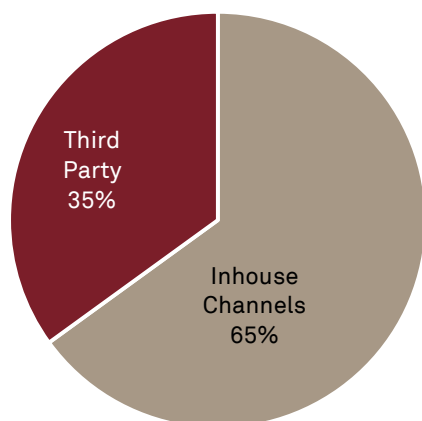
^average security cover of around 1.5-2.5X during the tenure of the loan; §: for fully disbursed cases

Chart 25 – Occupation-wise portfolio break-up as on March 31, 2018*



*based on AUM

Chart 26 –break up of 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 of fiscal 2018. PNB Housing also plans to focus on increased construction finance business through relationship management with the real estate developers.

On August 22, 2017, PNB Housing set up a subsidiary PHFL Home Loans and Services Ltd. The entity offers doorstep services to provide 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 financial solutions to individuals covering fixed deposits, life insurance, and credit card.

Process overview

Loan underwriting and risk structure

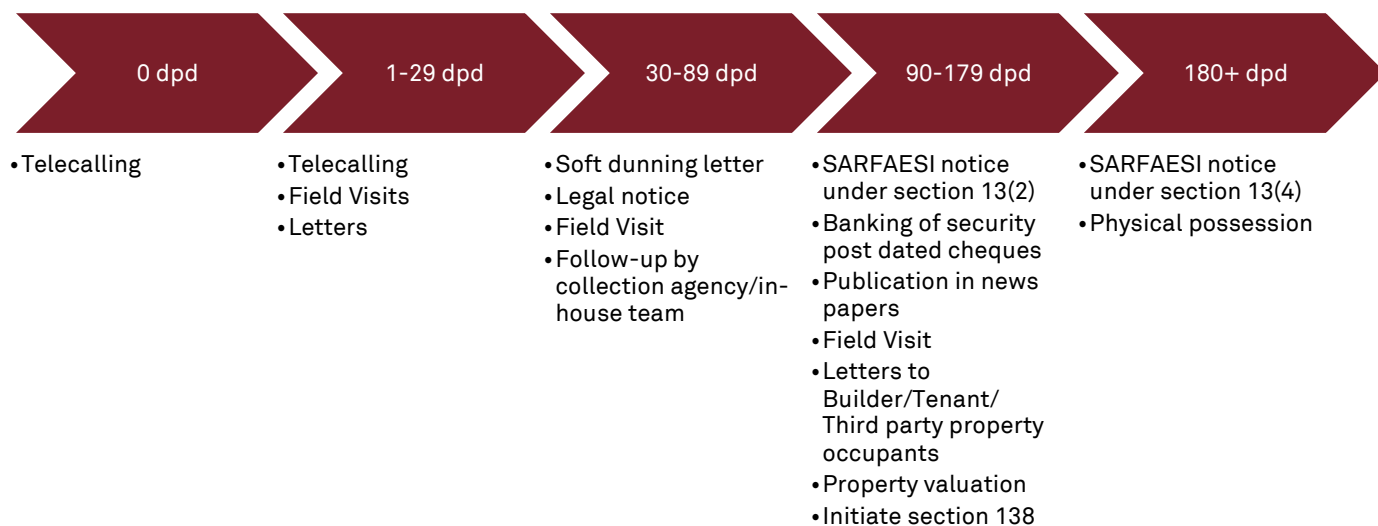
- The entire loan appraisal and monitoring happens through the enterprise system solutions.
- Underwriting at hubs: to manage the increasing scale of business and for better control and standardised processes, PNB Housing follows a hub-and-spoke model. It has 21 fully equipped hubs (Noida, Bengaluru (3), Jaipur, Chandigarh, South Delhi, Chennai, Hyderabad, Dehradun, Lucknow, 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 control unit to manage end-to-end credit processing for all branches within their vicinity. Underwriters have authority limits as per their experience and vintage.
- Technical services group: a group of civil engineers formulates policies and processes to evaluate projects for home loans, conducts periodic review of the approved projects, and conducts valuation of non-home loans also.
- Legal team: 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 at the early stage of loan processing. PNB Housing has empanelled FCU vendors for its branches. Each hub to have one FCU expert to strengthen fraud control process.

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

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 to have 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

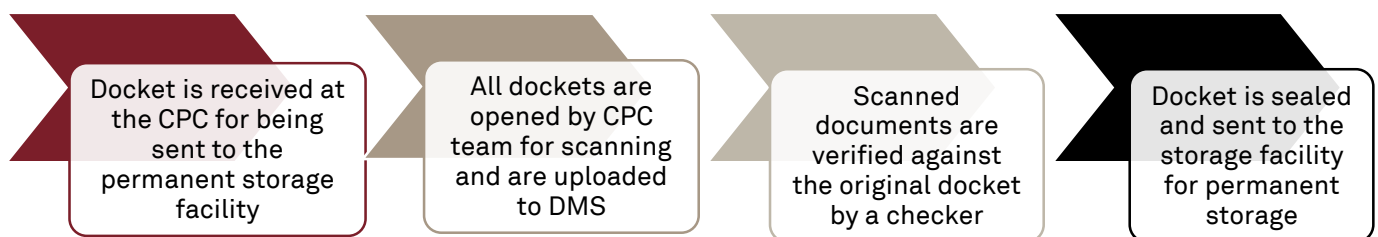
Central Processing Centre of PNB Housing is ISO 9001:2015 Customer Service Operations 9001 certified. The company's contact centre is ISO 9001:2008 certified. The ISO 9001:2008 certification is the international standard that specifies requirements for a quality management system. The certificate was 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
- Provides a structural framework to all existing processes
- Consistency in processes leads to operational excellence
- Ensures efficient & effective operational activities
- Creates a continual improvement culture
- Reduces waste and increases productivity

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

Digitisation has been initiated for title documents of incremental business. Digitisation of title documents mitigates operational and transit risk, reduces retrieval cost, increases data security, and will help improve customer satisfaction by providing the document images over a mobile telephone.



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 scaleable with the processing hubs designed to support additional branches, which will help deepen the penetration in key geographies in which PNB Housing is currently active by opening new branches.

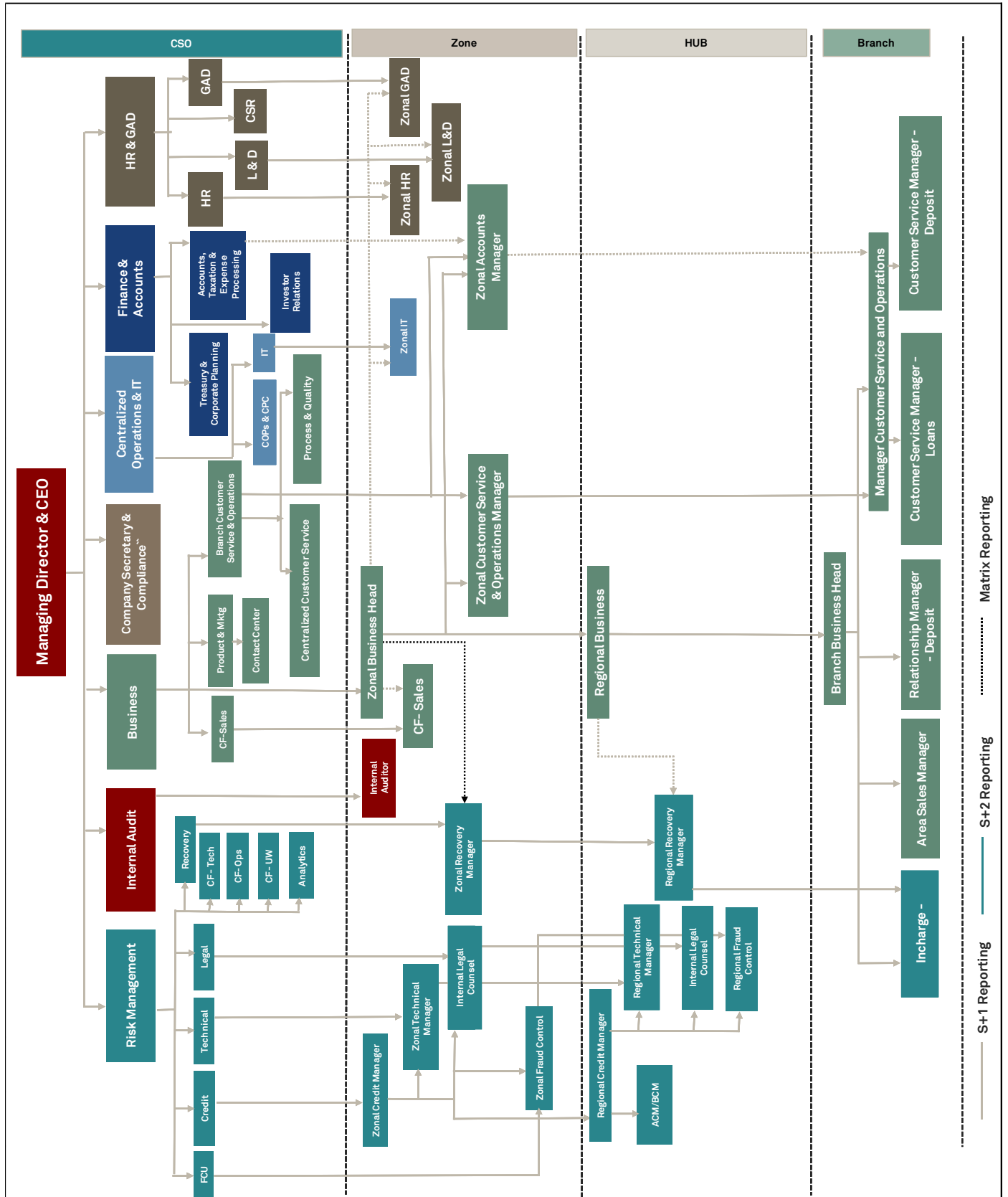
The branches, processing hubs, and central team are supported by the COPS and CPC, which provide centralised and standardised back-end and administrative activities, payments and processing for the business, relying on the new ESS. Furthermore, centralisation of payments and banking has enabled timely collection of funds, better fund management, stronger control and early, 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 of their activities and reporting. The ESS is also scaleable and is utilised across the entire network, making it easy to replicate in new locations.

COPS, CPC, 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 is 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 higher customer satisfaction.

This streamlined operational structure has resulted in improved TAT for processing loan applications until loan sanction. For fiscal 2018, 84% of housing loans to salaried customers had a TAT of three days and 89% of housing loans to self-employed customers had a TAT of seven days.

Detailed organisation structure



Ratings

Ratings

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

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