

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

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

Scrip Code: 540173

Symbol: PNBHOUSING

Dear Sirs,

Sub: Reaffirmation of ratings and change in rating outlook by CRISIL

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we wish to inform you that the CRISIL has reaffirmed the ratings on the long-term debt instruments, fixed deposit programme and long term bank facilities of PNB Housing Finance Limited at 'CRISIL AA+/FAAA' while revising the rating outlook to 'Negative' from 'Stable'. The rating on the commercial paper programme has been reaffirmed at 'CRISIL A1+'.

A summary of the CRISIL rating on our instrument is as under:

S. No.	Instrument	Existing Rating	Revised Rating
1	Long-term debt instruments	'CRISIL AA+/Stable'	'CRISIL AA+/Negative'
2	Fixed deposit programme	'FAAA'/ Stable'	'FAAA'/ Negative'
3	Long term bank facilities	'CRISIL AA+/ Stable'	'CRISIL AA+/Negative'
4	Commercial paper	'CRISIL A1+'	'CRISIL A1'

The CRISIL has mentioned the following reason on revision of rating outlook:

“The outlook revision reflects the increase in leverage and moderation in capital adequacy ratios and increased vulnerability of asset quality in the developer loan portfolio.”

The Company received the aforesaid communication from CRISIL on 26th July, 2019 which is attached herewith.

This is for your information and records.

Thanking You,

For PNB Housing Finance Limited


Sanjay Jain
Company Secretary & Head Compliance

Rating Rationale

July 26, 2019 | Mumbai

PNB Housing Finance Limited

Rating outlook revised to 'Negative', ratings reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.4000 Crore
Long Term Rating	CRISIL AA+/Negative (Outlook revised from 'Stable' and rating reaffirmed)

Lower Tier II Bonds Aggregating Rs.400 Crore	CRISIL AA+/Negative (Outlook revised from 'Stable' and rating reaffirmed)
Lower Tier II Bonds Aggregating Rs.500 Crore	CRISIL AA+/Negative (Outlook revised from 'Stable' and rating reaffirmed)
Non-Convertible Debentures Aggregating Rs.5700 Crore [^]	CRISIL AA+/Negative (Outlook revised from 'Stable' and rating reaffirmed)
Rs.18500 Crore Fixed Deposit Programme	FAAA/Negative (Outlook revised from 'Stable' and rating reaffirmed)
Rs.26000 Crore Commercial Paper Programme	CRISIL A1+ (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

[^]Including Rs.1100 crore, previously classified as bonds

Detailed Rationale

CRISIL has revised its rating outlook on the long-term debt instruments, fixed deposit programme and long term bank facilities of PNB Housing Finance Limited (PNB Housing) to '**Negative**' from 'Stable' while reaffirming the ratings at '**CRISIL AA+/FAAA**'. The rating on the commercial paper programme has been reaffirmed at 'CRISIL A1+'.

The outlook revision reflects the increase in leverage and moderation in capital adequacy ratios and increased vulnerability of asset quality in the developer loan portfolio.

PNB Housing last raised equity capital of around Rs 3000 crores in fiscal 2017 during the initial public offering (IPO), post which the CRISIL-adjusted gearing (including securitisation) improved to 6.9 times as on March 31, 2017 from 12.4 times as on March 31, 2016 (on-book gearing of 6.4 times and 12.2 times respectively). However, since then, with the rapid growth in portfolio, the CRISIL-adjusted gearing of the company increased to 11.0 times (on-book gearing of 9.6 times) as on March 31, 2019, from 9.4 times (on-book gearing of 8.3 times) as on March 31, 2018. Further, the capital adequacy metrics too have moderated with Tier 1 and overall capital adequacy ratio at around 11.0% and 13.98% respectively as on March 31, 2019 compared to 12.75% and 16.67% as on March 31, 2018. While the company is cognizant of the same and is planning to raise equity in the current fiscal, the timing and quantum of the same and therefore the subsequent improvement in the gearing metrics is critical and a key monitorable.

In terms of business, the assets under management (AUM) for PNB Housing has grown at a CAGR of around 45% from fiscal 2016 to fiscal 2019 (36% year on year) reaching Rs 84,722 crores as on March 31, 2019. This has been driven by growth across both retail segments as well as the wholesale portfolio, albeit pace of growth in the latter has been higher due to low base. Consequently, share of individual housing loans to the AUM stands at 58% as on March 31, 2019, while share of the wholesale portfolio (including lease rental discounting (LRD)) is at 21%. However, amidst the current environment, with caution around the wholesale portfolio, the company intends to reduce the share of the same going forward and is taking steps towards this direction.

Amidst the strong growth, the company's asset quality metrics have remained comfortable, better than industry average, with gross non-performing assets (GNPA) and 2 year lagged GNPA at 0.48% and 0.92%, respectively, as on March 31, 2019 (industry average: 1.4% and 2.1% respectively) compared to 0.33% and 0.68% as on March 31, 2018. Nevertheless, the concentration risk in the wholesale portfolio is high, with the top 20 group exposures constituting around 60% of the wholesale AUM as on March 31, 2019. Furthermore, some portion of the wholesale book is currently under moratorium with bullet or staggered repayments. While the company follows sound credit appraisal and risk management practices, has adequate collateral cover for its wholesale loans, and has also built strong recovery capabilities, asset quality in the past for the wholesale portfolio was also supported by an active refinance market, particularly for the real estate loans. PNB Housing has exposure to some stressed accounts, part of whom are in advanced stages of exits. Consequently, with the slowdown in the real estate sector and incipient stress for developers, ability to get timely refinance/exits and recover from some of these exposures and maintain asset quality metrics is a key monitorable.

From a funding perspective, even amidst the current challenging environment with lenders exercising caution in increasing exposures, CRISIL notes that PNB Housing has managed to raise over Rs 38,000 crores since September 2018 till June 30, 2019; 77% of which was in the form of bank loans and other long term borrowings such as non-convertible debenture, refinance from NHB and external commercial borrowings.

The ratings continue to reflect the established market position in the housing finance space and well diversified resource mix. The ratings also factors in the brand-sharing benefits that PNB Housing derives from its parentage of Punjab National Bank (PNB, rated: 'CRISIL

AA+/CRISIL AA-/Stable'), its largest shareholder.

CRISIL will continue to monitor the group's ability and timeliness and quantum of equity raise, as well as any increase in build-up of stress in the wholesale book. Based on these factors, CRISIL will take appropriate rating action.

Analytical Approach

CRISIL has fully consolidated the business and financial risk profile of PNB Housing and its subsidiary given the managerial, operational and financial linkages. The ratings also factor in the brand-sharing benefits from the parentage of PNB.

Please refer Annexure - Details of Consolidation, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

*** Established market position in the housing finance space**

The assets under management (AUM) for PNB Housing has grown at a CAGR of around 45% from fiscal 2016 to fiscal 2019 reaching Rs 84,722 crores as on March 31, 2019. This has been driven by growth across both retail segments as well as the wholesale portfolio, albeit pace of growth in the latter has been higher on account of the low base. Consequently, share of individual housing loans to the AUM has dropped to 58% as on March 31, 2019 compared to 64% as on March 31, 2014, while share of the wholesale portfolio (including lease rental discounting) increased to 21% from 11% during the same period. As on March 31, 2019, the AUM comprised of housing loans (58%), construction finance (13%), loan against property (LAP; 17%), lease rental discounting (LRD; 4%), non-residential property loan (NRPL; 4%), and corporate term loan (CTL; 4%). In terms of portfolio it is well diversified across India; with western, northern and southern India contributing 38%, 32% and 30%, respectively, as on March 31, 2019. However, amidst the current environment, with caution around the wholesale portfolio, the company intends to reduce the share of the same going forward and is taking steps towards this direction.

*** Well-diversified resource profile**

PNB Housing has maintained a healthy resource profile with better-than-peer cost of borrowings on account of its long-standing relationships with multilateral agencies (IFC and ADB), mutual funds, banks, insurance companies, provident funds, corporates and pension funds. The company has a diversified funding profile, with an adequate mix of retail and wholesale borrowings. A significant proportion of its funding is long-term to match the long tenure of its loan portfolio. Company has increased its focus on raising fixed deposits after December 2011; the share of fixed deposits in total borrowings stood at around 17% as on March 31, 2019. While the share of fixed deposits had earlier reduced from 27% as on March 31, 2016, this was due to a conscious decision by the company given the relatively higher cost of deposits. With the funding environment remaining challenging, PNB Housing now intends to focus on resource diversification and tapping the fixed deposits option. On a steady state basis, the share of granular fixed deposits to overall borrowings is expected to be around 23-25%.

Adding to the diversity in its resource profile, company has adequate proportion of capital market funding, with bonds and non-convertible debentures comprising 28% of total borrowings. Other funding sources include banks borrowings (18%), refinance from NHB (8%), commercial paper (10%), and external commercial borrowings (6%) and securitization (13%). Even amidst the current environment, with lenders exercising caution in increasing exposures, PNB Housing has managed to raise over Rs 38,000 crores since September 2018 till June 30, 2019; 77% of which was in the form of bank loans and other long term borrowings such as non-convertible debenture, refinance from NHB and external commercial borrowings. However, borrowing costs have risen for PNB Housing as seen for many other non-banks as well. Nevertheless, the increase has been moderate with the company's borrowing cost (based on yearly average) reaching around 8.2% for fiscal 2019 compared to 7.9% for the previous fiscal.

*** Brand-sharing benefits from the parentage of PNB**

PNB Housing continues to benefit from branding support from its parent, PNB (33% ownership currently). While the latter's stake has reduced from 51% following the IPO and the stake sale in November 2017, CRISIL believes PNB will remain amongst the largest shareholders of PNB Housing in the near term. PNB Housing is being managed by an independent management team, comprising professionals with strong domain knowledge and extensive experience in the mortgage business.

Weaknesses:

*** Moderate capitalisation**

PNB Housing last raised equity capital of around Rs 3000 crores in fiscal 2017 during the IPO, post which the CRISIL-adjusted gearing (including securitisation) improved to 6.9 times as on March 31, 2017 from 12.4 times as on March 31, 2016 (on-book gearing of 6.4 times and 12.2 times respectively). However, since then, with the rapid growth in portfolio, the CRISIL-adjusted gearing of the company increased to 11.0 times (on-book gearing of 9.6 times) as on March 31, 2019, from 9.4 times (on-book gearing of 8.6 times) as on March 31, 2018. Further, the capital adequacy metrics too have moderated with Tier 1 and overall capital adequacy ratio at around 11.0% and 13.98% respectively as on March 31, 2019 compared to 12.75% and 16.67% as on March 31, 2018.

While the networth coverage for net non-performing assets remains adequate at 27 times as on March 31, 2019, adjusted gearing metrics (including securitization) have inched up beyond 10 times, making it imperative for the company to raise capital. While the company is cognizant of the same and is planning to raise equity in the current fiscal, the timing and quantum of the same and therefore the subsequent improvement in the gearing metrics is critical and a key monitorable.

*** Susceptibility to asset quality risks arising from the wholesale book**

Amidst the strong growth, the company's reported asset quality metrics have remained comfortable, with GNPA and 2 year lagged GNPA at 0.48% and 0.92%, respectively, as on March 31, 2019 (industry average: 1.4% and 2.1% respectively) compared to 0.33% and 0.68% as on March 31, 2018. Nevertheless, the concentration risk in the wholesale portfolio is high, with the top 20 group exposures constituting around 60% of the wholesale AUM as on March 31, 2019.

Furthermore, some portion of the wholesale book is currently under moratorium with bullet or staggered repayments. While the company follows sound credit appraisal and risk management practices, has adequate collateral cover for its wholesale loans, and has also built strong recovery capabilities, asset quality in the past for the wholesale portfolio was also supported by an active refinance market, particularly for the real estate loans. PNB Housing has exposure to some stressed accounts, part of whom are in advanced stages of

exits. Consequently, with the slowdown in the real estate sector and incipient stress for developers, ability to get timely refinance/exits and recover from some of these exposures and maintain asset quality metrics is a key monitorable.

*** Average, albeit improving, profitability**

PNB Housing has average, albeit improving, earnings profile. The return on total managed assets (RoMA; profit after tax by total assets + securitisation) stood at 1.46% for fiscal 2019 same as last year. Net interest margins (NIMs: interest income- interest expense by yearly average of total assets) at 2.2% for fiscal 2019 have decreased from 2.9% in fiscal 2018 amidst increasing competition in the housing finance segment and an increase in the cost of borrowings owing to the environment. However, improvement in NIMs going forward would hinge upon the company's ability to lower its cost of funds as it reduces the share of wholesale portfolio leading to a higher share of the low yielding retail asset classes.

Nevertheless, over the past five fiscals, operating costs for PNB Housing have remained high owing to investments in infrastructure, systems and processes and people to support its strong growth plans, and increase in provisions (mainly for standard assets) and maintenance of excess liquidity to overcome with current challenging volatile market. With the new branches and investments in technology achieving scale, the same is expected to improve which would support the earnings profile.

On the other hand, credit costs, have been low till date, even including the additional voluntary provisions made by the company. However, given the susceptibility of asset quality to potential slippages in the developer portfolio, credit costs could spike. Therefore, the ability of the company to manage asset quality going ahead specifically in the wholesale segment, will be a key determinant of profitability going ahead.

Liquidity

The liquidity profile of the company is comfortable. As on March 31, 2019, the adjusted asset liability management profile (excluding pending disbursements and lines of credit) of PNB Housing is adequate with positive cumulative mismatches in the upto 1 year bucket. This is largely due to significant on-balance sheet liquidity maintained by the company.

As on June 30, 2019, the company has debt repayments of Rs 16,018 crore till Sept 2019 of which commercial paper repayments stand at Rs 6,350 crores. Against the same, the company estimates steady inflow of average monthly collections of around Rs 1,600 crores. In addition, PNB Housing has estimated liquid funds of around Rs 4700 crore and estimated unutilised bank and ECB lines of around Rs 1800 crore as on June 30, 2019.

Outlook: Negative

CRISIL believes that PNB Housing will continue to grow backed by their resource raising ability and maintain an adequate liquidity profile. The rating may be downgraded, in case of a delay in the equity raising plans or lower quantum of the same which in CRISIL's view may continue to lead to elevated gearing metrics and/or increase in risks/stress in the company's wholesale portfolio, leading to stress on capitalisation and earnings profile and/or lack of reduction in the wholesale book composition. Conversely, the outlook may be revised to 'Stable' in case of sustained improvement in the capitalisation metrics and continued strong asset quality performance while maintaining the same in the wholesale portfolio.

About the Company

PNB Housing was set up in 1988, as a deposit-taking housing finance company (HFC) registered with National Housing Bank (NHB), promoted by Punjab National Bank. In December 2009, PNB sold 49% stake in PNB Housing and entered into a strategic partnership with Destimoney Enterprises Pvt Ltd (owned by NSR Partners). During fiscal 2017, Destimoney Enterprises Ltd transferred equity shares in PNB Housing to its holding company i.e. Quality Investments Holdings (part of the Carlyle Group) pursuant to in specie distribution of its assets as per winding up scheme.

Key Financial Indicators

Particulars	Unit	Mar-19	Mar-18
Total assets	Rs crore	83869	63014
Total income	Rs crore	7683	5489
Profit after tax	Rs crore	1192	841
Gross NPA	%	0.48	0.33
Adjusted gearing (including securitisation)	Times	11.0	9.1
Return on total managed assets*	%	1.46	1.47

* PAT by Total Assets + Securitisation

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL complexity levels are assigned to various types of financial instruments. The CRISIL complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs. Cr)	Rating Outstanding with Outlook
INE572E09072	Debenture	16-Jan-08	9.20%	16-Jan-20	30	CRISIL AA+/Negative
INE572E09080	Debenture	16-Jan-08	9.20%	16-Jan-21	30	CRISIL AA+/Negative
INE572E09098	Debenture	16-Jan-08	9.20%	16-Jan-22	30	CRISIL AA+/Negative
INE572E09106	Debenture	16-Jan-08	9.20%	16-Jan-23	30	CRISIL AA+/Negative
INE572E09130	Debenture	9-Nov-09	8.85%	9-Nov-19	125	CRISIL AA+/Negative
INE572E09148	Debenture	26-Jul-11	9.50%	26-Jul-21	200	CRISIL AA+/Negative
INE572E09155	Debenture	12-Sep-11	9.55%	12-Sep-21	200	CRISIL AA+/Negative
INE572E09163	Debenture	29-Jun-12	9.25%	29-Jun-22	300	CRISIL AA+/Negative

INE572E09171	Debenture	14-Sep-12	9.15%	14-Sep-22	200	CRISIL AA+/Negative
INE572E09189	Debenture	21-Dec-12	9.00%	21-Dec-22	200	CRISIL AA+/Negative
INE572E09197	Tier II Bonds	21-Dec-12	9.10%	21-Dec-22	200	CRISIL AA+/Negative
INE572E09205	Debenture	16-May-13	8.58%	16-May-23	600	CRISIL AA+/Negative
INE572E09239	Debenture	31-Jan-14	9.48%	31-Jan-24	300	CRISIL AA+/Negative
INE572E09262	Tier II Bonds	24-Nov-14	8.70%	24-Nov-24	200	CRISIL AA+/Negative
NA	Debenture^	NA	NA	NA	1650.3	CRISIL AA+/Negative
INE572E09627	Debenture	7-Jan-2019	9.40%	5-Jan-2029	24.7	CRISIL AA+/Negative
INE572E09627	Debenture	24-Jan-2019	9.40%	5-Jan-2029	15	CRISIL AA+/Negative
INE572E07050	Debenture	28-Feb-2019	8.77%	28-May-2020	235	CRISIL AA+/Negative
NA	Tier II Bonds^	NA	NA	NA	100	CRISIL AA+/Negative
NA	Tier II Bonds^	NA	NA	NA	400	CRISIL AA+/Negative
NA	Fixed Deposit Programme	NA	NA	NA	18500	FAAA/Negative
N.A	Commercial Paper Programme	N.A	N.A	7-365 days	26000	CRISIL A1+
N.A	Term Loan	N.A	N.A	1-Jul-19	1198	CRISIL AA+/Negative
N.A	Proposed Long-Term Bank Loan Facility	N.A	N.A	NA	2802	CRISIL AA+/Negative

^Yet to be Issued

Annexure - List of entities consolidated		
Entity Consolidated	Extent of Consolidation	Rationale for Consolidation
PHFL Home Loans and Services Ltd.	Full	Subsidiary

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2019 (History)		2018		2017		2016		Start of 2016	
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating	
Bond	LT					19-02-18	CRISIL AA+/Stable	19-09-17	CRISIL AA+/Stable	13-07-16	CRISIL AA+/Negative	CRISIL AA+/Stable	
								12-07-17	CRISIL AA+/Stable	10-03-16	CRISIL AA+/Negative		
Commercial Paper	ST	26000.00	CRISIL A1+	05-04-19	CRISIL A1+	13-07-18	CRISIL A1+	19-09-17	CRISIL A1+	13-07-16	CRISIL A1+	CRISIL A1+	
				04-03-19	CRISIL A1+	05-06-18	CRISIL A1+	12-07-17	CRISIL A1+	10-03-16	CRISIL A1+		
						19-02-18	CRISIL A1+						
Fixed Deposits	FD	18500.00	FAAA/Negative	05-04-19	FAAA/Stable	13-07-18	FAAA/Stable	19-09-17	FAAA/Stable	13-07-16	FAAA/Negative	FAAA/Stable	
				04-03-19	FAAA/Stable	05-06-18	FAAA/Stable	12-07-17	FAAA/Stable	10-03-16	FAAA/Negative		
						19-02-18	FAAA/Stable						
Lower Tier II Bonds	LT	500.00 26-07-19	CRISIL AA+/Negative	05-04-19	CRISIL AA+/Stable	13-07-18	CRISIL AA+/Stable	19-09-17	CRISIL AA+/Stable	13-07-16	CRISIL AA+/Negative	CRISIL AA+/Stable	
				04-03-19	CRISIL AA+/Stable	05-06-18	CRISIL AA+/Stable	12-07-17	CRISIL AA+/Stable	10-03-16	CRISIL AA+/Negative		
						19-02-18	CRISIL AA+/Stable						
Non Convertible Debentures	LT	5700.00 26-07-19	CRISIL AA+/Negative	05-04-19	CRISIL AA+/Stable	13-07-18	CRISIL AA+/Stable	19-09-17	CRISIL AA+/Stable	13-07-16	CRISIL AA+/Negative	CRISIL AA+/Stable	
				04-03-19	CRISIL AA+/Stable	05-06-18	CRISIL AA+/Stable	12-07-17	CRISIL AA+/Stable	10-03-16	CRISIL AA+/Negative		
						19-02-18	CRISIL AA+/Stable						
Fund-based Bank Facilities	LT/ST	4000.00	CRISIL AA+/Negative	05-04-19	CRISIL AA+/Stable	13-07-18	CRISIL AA+/Stable	19-09-17	CRISIL AA+/Stable	13-07-16	CRISIL AA+/Negative	CRISIL AA+/Stable	
				04-03-19	CRISIL AA+/Stable	05-06-18	CRISIL AA+/Stable	12-07-17	CRISIL AA+/Stable	10-03-16	CRISIL AA+/Negative		
						19-02-18	CRISIL AA+/Stable						

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Long Term Loan	1198	CRISIL AA+/Negative	Long Term Loan	1198	CRISIL AA+/Stable
	2802			2802	

Proposed Long Term Bank Loan Facility		CRISIL AA+/Negative	Proposed Long Term Bank Loan Facility		CRISIL AA+/Stable
Total	4000	--	Total	4000	--

Links to related criteria

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating Criteria for Finance Companies](#)

[CRISILs Criteria for Consolidation](#)

[CRISILs Criteria for rating short term debt](#)

[Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support](#)

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