India Ratings Upgrades PNB Housing Finance’s NCDs to 'IND AA+'/Stable; Rates New Bank Loan

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India Ratings and Research (Ind-Ra) has upgraded PNB Housing Finance Limited’s (PNBHF) non-convertible debentures (NCDs) to ‘IND AA+’ from ‘IND AA’. The Outlook is Stable. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
NCDs*	-	-	-	INR35.85 (reduced from INR90.84)	IND AA+/Stable	Upgraded
Bank loan	-	-	-	INR50	IND AA+/Stable	Assigned

NCD limit has been split into bank loans and NCD
*Details in Annexure

Analytical Approach: Ind-Ra continues to take a standalone view of PNBHF while arriving at the ratings.

The upgrade reflects the completion of PNBHF’s plan of granularisation of loan book, with 96% of the book being retail, and almost complete rundown of the corporate book. It is a significant player in the mortgage space with assets under management (AUM) of INR674 billion. The upgrade also factors in a considerable easing of asset quality pressure due to recoveries, and write-offs and sale of delinquent assets to asset reconstruction companies (ARCs). Ind-Ra expects credit cost to be modest, given the retail and granular nature of the loan book. The equity infusion of INR25 billion in the form of rights issue in April 2023 offers the necessary growth capital to expand the franchisee in the granular mortgage space. However, the performance of the affordable housing portfolio, which is at a nascent stage, remains a monitorable.

Key Rating Drivers

Significant Player in Housing Finance Space: PNBHF is the one of the largest player in the housing finance space with an AUM of INR674 billion at 1HFYE24 (FYE23: INR666 billion, FYE22: INR670 billion) and has a long track record of operations with more than three decades of operational experience. It has witnessed multiple business cycles and has a pan-India presence with 200 branches. With the equity infusion of around INR25 billion, the company is favourably placed in increasing the franchisee. It also entered into an affordable housing finance business in February 2023 and has plans to grow this book, which is yield accretive but heavy on operating cost.

Completion of Granularisation of Book: PNBHF has reduced the proportion of wholesale book in the portfolio (4% of AUM at 2QFYE24, 2QFYE23: 9%) due to sell down of loans, accelerated repayment, and write-offs & sale of non-performing assets (NPAs) to ARCs. Ind-Ra derives comfort from the fact that the corporate book would be capped at 10% of AUM with wholesale lending starting in two-to-three quarters in select geographies, ticket size and builders. The current AUM comprises of home loans (1HFY24: 69%), loan against property (23%), non-residential premises loan (4%) and wholesale (4%). The management's focus is on home loans over loan against property and targeting salaried customers over self-employed. This, in Ind-Ra's opinion, could reduce the volatility in credit cost.

Robust Capital Buffers: Post the equity infusion of INR25 billion, the tangible net worth increased to INR140 billion at 1HFYE24 (FYE23: INR108 billion, FYE22: INR94 billion) and leverage (debt/tangible equity) reduced to 3.8x (5.0x, 5.7x). PNBHF is well poised to grow the book in the retail segment. Management has guided for a 17%-18% yoy growth in loan book in FY24 and aims at increasing the leverage to 6.0x-6.5x in the next two-to-three years. Ind-Ra believes the leverage of 6.5x is reasonable for a housing finance company operating in a retail space with control on asset quality. Even under a stress case scenario, which assumes an increase in credit cost, the capital buffers are reasonable. The agency believes that the Reserve Bank of India's circular on increase in risk weights for consumer credit is likely to result in increase in weights on loan against property towards the salaried segment. PNBHF is still evaluating the impact of the same and while clarity is awaited on this, the company has robust equity buffers that could absorb the impact of the same while maintaining strong Tier I ratio (1HFY24: 28.5%, FY23: 22.4%).

Improvement in Asset Quality: There has been a significant reduction in credit cost (1HFY24: 0.36%, FY23: 1.2%, FY22: 1%) due to a reduction in headline GNPA which declined to 1.8% at 1HFY24 (FY22: 8%). There has been an improvement in retail NPAs (1HFYE24: 1.74%, FYE23: 2.6%, FYE22: 3.9%) as well as corporate NPAs (2.9%, 22.2%, 37%). The steep reduction in corporate GNPAs is due to sale to ARC and write-offs. During FY23 and1HFY24 INR9.7 billion of corporate NPAs were sold to ARCs. Around INR7 billion of NPAs have been written off during the 12 months ended September 2023. The sale of a large NPA of principal outstanding of INR7.8 billion in 2QFY24 on a cash basis with no haircut, resulted in write back of provisions to the extent of INR2 billion. There was also some write-off in retail NPAs in 2QFY24, supporting the reduction in NPA.

Provisioning on stage 3 assets (1HFY24 2023: 34%) and stage 1&2 assets (1.4%) seems adequate, given the retail nature of the book. Further, provisioning on stage 3 assets for corporate book was 67% in 1HFY24. The restructured pool of assets (1HFY24: INR15 billion, 2.2% of AUM) are out of moratorium; and this book is unlikely to cause asset quality stress. It is provided to the extent of 14%-15%. Since the overhang of corporate book stress is over, the credit cost trajectory for PNBHF would be more predictable and Ind-Ra believes that operating buffers would be sufficient to cushion the impact of credit cost. PNBHF's ability to manage the affordable housing book remains monitorable.

Diversified Resource Profile: PNBHF has a fairly diversified resource profile with the ability to raise funds from banks and the capital markets. It also has a deposit-taking licence and deposits comprised 31% of the total funding mix as of September 2023. The proportion of retail deposits (up to INR 5 million) was 90% in the deposit mix, while the renewal rate, as per the management, was 34%. PNBHF has banking lines from multiple banks comprising public, private and foreign banks. PNBHF mobilised INR147 billion of funds in 1HFY24. The funding cost improved in 1QFY24 and 2QFY24. External commercial borrowing comprised 10% of the total borrowings in 1HFY24; however, a major portion of this will get refinanced by FY24 with lower cost of domestic funds. With its focus on the affordable housing business, PNBHF would be raising higher amount of funds through the National Housing Bank ('IND AAA'/Stable) under the various schemes. It can expand its presence in the bond market as the rates have stabilised. Securitisation is always an avenue available for raising funds for PNBHF.

Liquidity Indicator - Adequate: PNBHF's asset-liability profile (on a behavioural basis excluding net interest flows, inflows from the line of credit from financial institutions and pending disbursements) had a cumulative negative gap of INR29 billion in the six months-to-one-year bucket. However, as on 30 September 2023, PNBHF had unutilised bank lines of INR44 billion and can also securitise assets to raise resources. The prepayment in the asset-liability profile is based on the prepayment trend observed over the past two-to-three years. PNBHF has assumed that around 20% of advances flow back in a one-year time frame as per its past trends. At 1HFYE24, PNBHF's liquidity and unutilised bank lines was sufficient to cover next three months of debt repayments without factoring in its collections. PNBHF plans to maintain matched asset-liability profile in the near-term buckets and keep adequate liquidity to support its fixed obligations over the short term.

**Low-ticket Granular Mortgage Portfolio to Play Key Role in Operating Performance over Medium-to-Long

Term: PNBHF's profitability improved in 1HFY24 with return on assets of 2.2% (FY23: 1.6%, FY22: 1.2%) due to an improvement in net interest margins as PNBHF was able to transfer increase in the cost of funding. Credit cost also eased due to improvement in asset quality. PNBHF has been able to raise funding at competitive rates both from the bond market and banks. It was in a favourable position to negotiate spreads with banks post the equity infusion. Its net interest margins improved to 3.6% (as per Ind-Ra's calculations) in 1HFY24 (FY23: 3.4%, FY22: 2.5%).

PNBHF is looking to grow its prime segment home loan book, which is fairly a competitive segment and also plans to grow the affordable housing segment which offers better yields. This would help the company improve yields, provided the credit cost is under control. Even in the prime segment, the ticket size was lowered, offering better yields. However, the operating cost could increase due to the rise in the proportion of low-ticket loans in the disbursements. Overall, PNBHF's profitability hinges on better control on delinquencies, a successful ramp up of small ticket business and a sustainable reduction in its operating cost.

Rating Sensitivities

Positive: A substantial proportion of granular stable funding in the borrowing mix, a sizeable expansion in the franchisee, gaining market leadership, and expanding its presence across multiple geographies while maintaining its credit costs will be positive for the ratings.

Negative: Future developments that could, individually or collectively, lead to a negative rating action include:
- inability to expand franchisee on account of competitive headwinds or otherwise,
- elevated delinquency levels such that GNPA exceeding 5% on a sustained basis,
- a significant deterioration in PNBHF's liquidity buffer on a sustained basis.

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on PNBHF, either due to their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

Company Profile

PNBHF is a deposit-accepting housing finance company registered under the National Housing Bank and the Companies Act, 1956. PNBHF provides housing loans to individuals for purchase, construction, repair, and upgrade of houses. It also provides loans against property, loans for commercial property, and loans for purchase of residential plots, and real estate development loans (no new sanctions of real estate development loans since April 2019). PNBHF's network has 200 branches/outreaches mainly located across metro, Tier I and Tier II cities across the country. It has dedicated 89 branches for affordable business as on 30 September 2023.

FINANCIAL SUMMARY

Particulars	FY23	FY22
Total adjusted assets (INR million)*	666,426	652,292
Total adjusted equity (INR million)*	107,902	93,805
Profit after tax (INR million)	10,562	8,219
Return on average assets (%)	1.6	1.2

Tier 1 capital (%)	22.4	20.7
Source: PNBHF; Ind-Ra *adjusted for deferred tax assets and intangible assets		

Non-Cooperation with previous rating agency

Not applicable

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (billion)	Rating/Outlook	27 February 2023	1 March 2022	2 March 2021
NCDs	Long-term	INR35.85	IND AA+/Stable	IND AA/Stable	IND AA/Negative	IND AA/Negative
Bank loan	Long-term	INR50	IND AA+/Stable	-	-	-

Annexure

Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook
NCDs	INE572E09320	18 January 2016	8.42	17 January 2026	INR2.1	IND AA+/Stable
NCDs	INE572E09346	28 April 2016	8.39	28 April 2026	INR2.9	IND AA+/Stable
NCDs	INE572E09387	26 July 2016	8.57	26 July 2023	INR4.99	WD (Paid in full)
NCDs	INE572E07076	25 June 2021	6.50	25 June 2024	INR1.3	IND AA+/Stable
		Utilised			**INR6.3**	
		Unutilised			**INR29.55**	
		Total			**INR35.85**	

Bank wise Facilities Details

Click here to see the details

Complexity Level of Instruments

Instrument Type	Complexity Indicator
NCDs	Low
Bank loans	Low

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

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Financial Institutions Rating Criteria

Non-Bank Finance Companies Criteria

Evaluating Corporate Governance

The Rating Process

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