CRISIL
Ratings

Rating Rationale

May 27, 2024 | Mumbai

PNB Housing Finance Limited

Long-term rating upgraded to 'CRISIL AA+/Stable'; Short-term rating reaffirmed

Rating Action

Total Bank Loan Facilities Rated	**Rs.4000 Crore**
Long Term Rating	**CRISIL AA+/Stable (Upgraded from 'CRISIL AA/Positive')**
Short Term Rating	**CRISIL A1+ (Reaffirmed)**

Rs.200 Crore Lower Tier II Bonds	**CRISIL AA+/Stable (Upgraded from 'CRISIL AA/Positive')**
Rs.20000 Crore Fixed Deposits	**CRISIL AA+/Stable (Upgraded from 'CRISIL AA/Positive')**
Lower Tier II Bonds Aggregating Rs.500 Crore	**CRISIL AA+/Stable (Upgraded from 'CRISIL AA/Positive')**
Non Convertible Debentures Aggregating Rs.4570 Crore (Reduced from Rs.4870 Crore)	**CRISIL AA+/Stable (Upgraded from 'CRISIL AA/Positive')**
Rs.26000 Crore Commercial Paper	**CRISIL A1+ (Reaffirmed)**
Rs.500 Crore Short Term Non Convertible Debenture	**CRISIL A1+ (Reaffirmed)**

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1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has upgraded its rating on the long-term debt instruments and bank facilities of PNB Housing Finance Ltd (PNB Housing) to '**CRISIL AA+/Stable**' from 'CRISIL AA/Positive'. The rating on the short-term bank facilities and debt instruments have been reaffirmed at 'CRISIL A1+'.

CRISIL Ratings has also withdrawn its rating on the redeemed non-convertible debenture (NCD) of Rs 300 crore (See 'Annexure - Details of Rating Withdrawn' for details) on receipt of independent third-party confirmation. The withdrawal is in-line with CRISIL Ratings' policy on withdrawal of ratings.

The rating action reflects improving profitability and asset quality metrics. Strong capitalisation and increased granularity with most of the legacy portfolio having been provided for, also supports the overall credit profile of the company.

Assets under management (AUMs) grew by 7% in fiscal 2024 to Rs 71,243 crore as on March 31, 2024, from Rs 66,617 crore a year earlier (Rs 66,983 crore as on March 31, 2022). Loan assets grew by 10% to Rs 65,358 crore in fiscal 2024 from Rs 59,273 crore in fiscal 2023. This is after reporting a degrowth in AUM in fiscals 2020 to 2023, as the management had slowed down disbursement and encouraged accelerated prepayments (in wholesale book). Disbursements have also gained momentum at Rs 17,583 crore in fiscal 2024; highest since fiscal 2019. The AUM growth in fiscal 2024 was driven by 10% growth in retail book while the corporate book continues to run down (3% of the overall AUM as on March 31, 2024). Going forward, retail loans will remain the key growth driver.

The company's profitability has improved with return on managed assets (ROMA) of 2% in fiscal 2024 as against 1.4% in fiscal 2023 and 1.1% in fiscal 2022, supported by improvement in credit costs. The credit costs (as a percentage of average managed assets) declined to 0.2% in fiscal 2024 from 0.9% and 0.7% in fiscals 2023 and 2022, respectively. The company's net interest margin (NIM) continues to be stable at ~4%. However, given the expansion into affordable and emerging segments, operating expenses witnessed a slight uptick and stood at 0.9% in fiscal 2024 as compared to 0.8% and 0.6%, in fiscals 2023 and 2022, respectively. Ability to maintain profitability, while further scaling up operations will remain a monitorable.

The asset quality of the company has also substantially improved driven by reduction in fresh slippages as well as resolutions/recoveries and write-offs. Gross stage III assets reduced to 1.5% (Rs 984 crore) as on March 31, 2024, from 3.8% (Rs 2270 crore) as on March 31, 2023, and 8.3% (Rs 4705 crore) as on March 31, 2022. The gross stage III assets were elevated in previous years due to the stress built up in corporate book and higher delinquencies in the self-employed non-professional segment within loan against property (LAP) on account of Covid impact as self-employed segment was impacted more. The management has largely provided for the legacy stress in the wholesale and in retail book and has tightened its credit underwriting and product strategy to arrest slippages in fresh originations. On a lagged basis as well, the gross stage III assets have reduced both in home loans and LAP. However, CRISIL Ratings notes that the company is diversifying into affordable and emerging market segment, which is relatively riskier than the prime segment it currently caters to; therefore, the asset quality performance will remain key monitorable.

The capital infusion of Rs 2,493.8 crore in May 2023 along with healthy accruals has increased networth to Rs 14,974 crore as on March 31, 2024, from Rs 11,014 crore. This led leverage levels to reduce to 3.7 times as on March 31, 2024, when compared to 4.9 times as on March 31, 2023. The leverage levels are expected to remain below 6.5 times on a steady state basis.

Moreover, the overall rating continues to factor in the brand-sharing benefits that PNB Housing derives from its parent, the Punjab National Bank (PNB, rated: 'CRISIL AAA/CRISIL AA+/Stable'), which supports the company in mobilising resources at competitive pricing and from banks, insurance companies, provident funds, corporates, pension funds, multilateral agencies and mutual funds, with whom the bank and PNB housing both have long standing relationships. These strengths are partially offset by intense competition in the housing finance segment and sustenance of the improvement in asset quality.

Analytical Approach

CRISIL Ratings has 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 - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation

Key Rating Drivers & Detailed Description

Strengths:

Strong capitalisation metrics

PNB Housing's capitalisation metrics have improved supported by the rights issue of Rs 2493.8 crore in April 2023. Consequently, the company's networth increased to Rs 14,974 crore as on March 31, 2024, from 11,014 crore as on March 31, 2023. Tier-I, and overall capital adequacy ratio (CAR) was 27.9%, and 29.3%, respectively, as on March 31, 2024 (22.4% and 24.4% as on March 31, 2023); leaving adequate headroom to support envisaged growth.

The leverage levels have also improved to 3.7 times as on March 31, 2024 (4.9 times as on March 31, 2023); substantially low from the peak levels of 9.6 times as on March 31, 2019. Gearing is expected to remain below 6.5 times on a steady state basis.

Established market position in the housing finance space

PNB Housing is the third largest housing finance company in India with AUM of Rs 71,243 crore as on March 31, 2024 (Rs 66,617 crore a year earlier). The company has regained growth momentum with disbursements of Rs 17,583 crore in fiscal 2024; highest since fiscal 2019.

The company's AUM has begun to see growth only since the second quarter of fiscal 2023 driven by a growth in the retail book. Over the past couple of years, AUM for PNB Housing was declining due to the cautious call on the part of the management to reduce its legacy corporate book, which got impacted due to slowdown in the real estate sector in 2019 followed by pandemic in 2020.

PNB Housing is focusing on building a strong retail franchise; given this, share of retail in overall AUM increased to 97% (97% of loan assets) at Rs 69,191 crore as on March 31, 2024, from 79% (76% of loan assets) at Rs 66,668 crore as on March 31, 2019. As part of retail strategy, the management traditionally has been focusing on prime lending; in fiscal 2024 the company started extending affordable loans and starting fiscal 2025, it will also target emerging markets for growth. Retail will continue to expand at a steady pace and will comprise the majority of overall loan assets. Residual corporate book stands at Rs 2,052 crore as on March 31, 2024. Going forward, on corporate lending, the company intends to take only selective exposures on projects which are near completion and of relatively lower ticket size.

Brand-sharing benefits with PNB as a promoter

PNB Housing continues to benefit from branding support from its parent, PNB (28.1% ownership currently). CRISIL Ratings believes PNB will remain amongst the largest shareholders of PNB Housing in the near term and infusion of Rs 500 crore in the rights issue in April 2023 reinforces PNB's commitment. CRISIL Ratings believes that PNB's continued association as promoter along with shared brand name, benefits PNB Housing in a trust-sensitive environment for non-banking finance companies (NBFCs) and housing finance companies (HFCs). CRISIL Ratings also notes that with the shareholding of PNB now falling under 30% post the rights issue, PNB Housing is paying a royalty which is the higher of 0.2% of revenue and 2% of profit after tax (PAT) subject to a minimum charge of Rs 14.97 crore and a maximum charge of Rs 30 crore per year.

The shared brand name has helped the company to maintain a well-diversified resource profile, wherein it has been able to raise funds at competitive rates. The shared brand name has also supported the company in deposit mobilisation, as the company has consistently raised fixed deposits and it now constitutes around 32% of overall on-book borrowings (excluding securitisation). Adding to the diversity in its resource profile (excluding securitisation), company has adequate proportion of bank loans constituting 40% of the total on-book borrowings, funding in the form of commercial papers is 6% and through debentures and subordinated debt is 10% as on March 31, 2024. Other funding sources include refinance from NHB (9%) and external commercial borrowings (ECBs; 3%).

Additionally, supported by the long-standing relationships of both PNB Housing and PNB with banks, insurance companies, provident funds, corporates and pension funds, multilateral agencies (IFC and JICA) and mutual funds. Nevertheless, PNB Housing is managed by an independent management team, comprising professionals with strong domain knowledge and extensive experience in the mortgage business.

Improving earning profile
PNB Housing's profitability has improved with return on managed assets (ROMA) of 2% in fiscal 2024 from 1.4% in fiscal 2023 and 1.1% in fiscal 2022. This is driven by stable NIMs and lower credit costs.

The company has managed NIMs of 4% in fiscals 2024 and 2023 (3% in fiscal 2022) despite competitive pressure on yields and rising cost of funds. Credit costs fell to 0.2% in fiscal 2024 from 0.9% and 0.7% in fiscals 2023 and 2022, respectively, driven by lower incremental provisioning requirements due to lower slippages, recoveries/writeback of around Rs 100 crore and write offs in fiscal 2024.

However, the company is in expansion phase to grow into newer segments such as affordable housing and emerging market loans and therefore operating expenditure (opex) levels witnessed a slight uptick and was 0.9% and 0.8% for fiscals 2024 and 2023, respectively.

As management aims to focus on high yielding affordable and emerging market loans, it should support profitability.

Additionally, given that the company has an outstanding pool of over Rs 2,000 crore of written off accounts including retail and corporate, recoveries from these could also support profitability over the medium term. Nevertheless, the management's ability to continue to contain credit costs and maintain healthy earnings profile, remains a key monitorable.

Weaknesses:
Improved asset quality; sustenance monitorable
The asset quality metrics of PNB Housing had deteriorated in the past amidst degrowth and higher incremental slippages, especially from the wholesale portfolio, with gross stage III assets rising to 8.3% (Rs 4705 crore) as on March 31, 2022. The asset quality metrics have improved since then with gross stage III assets declining to 1.5% (Rs 984 crore) as on March 31, 2024, from 3.8% (Rs 2270 crore) as on March 31, 2023. The drop in gross stage III assets is driven by a sharp reduction in incremental slippages, recoveries/resolutions and write-offs.

CRISIL Ratings notes that most of the stressed accounts in the wholesale portfolio have slipped to gross stage III in the past couple of years. However, PNB Housing has also managed recovery from some of these accounts via exits. This is also evident from the reduction in absolute wholesale gross stage III assets to 3.3% (Rs 68 crore) as on March 31, 2024, from 22.3% (Rs 846 crore) and 37.1% (Rs 2738 crore) as on March 31, 2023, and March 31, 2022, respectively.

On the retail side too, the asset quality has improved due to decreased slippages and write-offs. The company has gradually reduced its exposure to the self-employed non-professional segment within the LAP segment as the same was adversely impacted during pandemic, containing stress from new originations. The gross stage III assets have improved to 1.4% (Rs 916 crore) as on March 31, 2024, from 2.6% (Rs 1424 crore) as on March 31, 2023, and 3.9% (Rs 1,967 crore) as on March 31, 2022 On a two-year lagged basis, gross stage III assets for March 2024 in home loans was 1.5% and one year lagged for non-housing retail loans was 2.5%. The company has tightened its underwriting policies and practices, relooked at business strategies and geographical presence to contain the stress in asset quality. Self-employed share in LAP book has also reduced to 62% of LAP book as on March 31, 2024, as against 79% in March 2020.

Going forward, CRISIL Ratings expects the slippages from the wholesale portfolio to remain relatively controlled with low legacy corporate book outstanding and most of the stressed exposures already recognised as non-performing asset (NPA). Even in the retail portfolio, the early bucket delinquencies have been improving in both home loan and LAP segments, which indicate that asset quality will remain rangebound.

However, performance of wholesale book as well as newer segments such as affordable housing and emerging market loans will remain a key rating sensitivity factor.

Intense competition in the housing finance segment
PNB Housing is one of the top three housing finance players; however, the company continues to face intense competition from banks, which account for a dominant share of the housing finance market. CRISIL Ratings believes that PNB Housing will remain one of the leading HFCs and maintain its market share, but it may face price-based competition over time amid increased focus by banks on this segment. PNB Housing, with focused efforts to grow into affordable and emerging loans segment and selectively augment its corporate book, should support its ability to maintain market position.

Liquidity: Strong
PNB Housing's asset-liability maturity profile is strong. As on March 31, 2024, the company had cash and equivalents of Rs 4414 crore and unutilised bank lines of Rs 5767 crore. This is sufficient to cover debt repayments of Rs10,053 crore till June 2024.

Outlook: Stable
CRISIL Ratings believes the company will continue to maintain its comfortable leverage and should also be able to improve its earnings profile and maintain healthy asset quality while scaling up operations.

Rating Sensitivity factors
Upward factors:
- Significant and sustained improvement in market position while maintaining healthy asset quality
- Improvement in earnings profile with RoMA sustaining over 2.5 to 3%

Downward factors:
- Deterioration in asset quality over an extended period
- Weakening of capitalisation metrics with steady state gearing remaining beyond 7 times
- Weakening of earnings profile

About the Company
PNB Housing was set up in 1988, as a deposit taking HFC registered with the National Housing Bank (NHB), promoted by PNB. 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 specific distribution of its assets as per winding up scheme.

Subsequently, in April 2023, with the successful completion of the rights issue, Carlyle group has become the largest shareholder with 32.7% shareholding as on March 31, 2024 and PNB's shareholding has reduced to 28.2% with the remaining shareholding being held by large domestic and foreign institutional investors.

Key Financial Indicators

Particulars	Unit	Mar-24	Mar-23	Mar-22
Total assets	Rs crore	72405	66,874	65,730
Total income (net off interest expense)	Rs crore	2784	2620	2125
Profit after tax	Rs crore	1508	1,046	836
Gross NPA	%	984	2,270	4,705
On-book Gearing	Times	3.7	4.9	5.4
Return on total assets*	%	2.2	1.6	1.2
Return on managed assets%	%	2.0	1.4	1.1

On-book borrowings + off-book assignment / securitisation by networth
**PAT by average Total Assets*
%PAT by average Managed Assets (Total Balance Sheet assets + Off-book assigned / securitised assets)

Any other information: Not Applicable

Note on complexity levels of the rated instrument:
CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. 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.Crore)	Complexity level	Rating outstanding with outlook
NA	Short-term debentures	NA	NA	7-365 days	500	Simple	CRISIL A1+
INE572E07092	Debenture	17-Mar-2023	8.70%	17-Sep-2024	150	Simple	CRISIL AA+/Stable
INE572E07100	Debenture	28-Jun-2023	8.60%	28-Jun-2026	350	Simple	CRISIL AA+/Stable
INE572E07118	Debenture	28-Jun-2023	8.53%	29-Dec-2024	150	Simple	CRISIL AA+/Stable
INE572E09262	Lower Tier II Bonds	24-Nov-2014	8.70%	24-Nov-2024	200	Complex	CRISIL AA+/Stable
NA	Debenture^	NA	NA	NA	1011	Simple	CRISIL AA+/Stable
INE572E07142	Debenture	22-Dec-2023	8.13%	22-Dec-2033	29	Simple	CRISIL AA+/Stable
INE572E09627	Lower Tier II bonds	07-Jan-2019	9.40%	05-Jan-2029	24.7	Complex	CRISIL AA+/Stable
INE572E09627	Lower Tier II bonds	24-Jan-2019	9.40%	05-Jan-2029	15	Complex	CRISIL AA+/Stable
NA	Lower Tier II Bonds^	NA	NA	NA	460.3	Complex	CRISIL AA+/Stable
NA	Fixed deposit programme	NA	NA	NA	20000	Simple	CRISIL AA+/Stable
NA	Commercial paper programme	NA	NA	7-365 days	26000	Simple	CRISIL A1+
NA	Long-term loan	NA	NA	29-Mar-2026	995	NA	CRISIL AA+/Stable
NA	Term loan	NA	NA	NA	975	NA	CRISIL A1+
NA	Proposed long-term bank loan facility	NA	NA	NA	2030	NA	CRISIL AA+/Stable

^Yet to be issued

Annexure – Details of Rating Withdrawn

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity level	Rating outstanding with outlook
INE572E09239	Debenture	31-Jan-2014	9.48%	31-Jan-2024	300	Simple	Withdrawn

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
PHFL Home Loans and Services Ltd.	Full	Subsidiary

Annexure - Rating History for last 3 Years

	Current			2024 (History)		2023		2022		2021		Start of 2021
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT/ST	4000.0	CRISIL AA+/Stable / CRISIL A1+		--	20-10-23	CRISIL AA/Positive / CRISIL A1+	21-10-22	CRISIL AA/Stable	26-10-21	CRISIL AA/Negative	CRISIL AA/Negative
			--		--	29-08-23	CRISIL A1+ / CRISIL AA/Stable	20-06-22	CRISIL AA/Negative	20-08-21	CRISIL AA/Negative	--
			--		--	23-05-23	CRISIL AA/Stable		--	09-06-21	CRISIL AA/Negative	--
			--		--		--		--	30-04-21	CRISIL AA/Negative	--
Commercial Paper	ST	26000.0	CRISIL A1+		--	20-10-23	CRISIL A1+	21-10-22	CRISIL A1+	26-10-21	CRISIL A1+	CRISIL A1+

			--		--	29-08-23	CRISIL A1+	20-06-22	CRISIL A1+	20-08-21	CRISIL A1+	--
			--		--	23-05-23	CRISIL A1+		--	09-06-21	CRISIL A1+	--
			--		--		--		--	30-04-21	CRISIL A1+	--
Fixed Deposits	LT	20000.0	CRISIL AA+/Stable		--	20-10-23	CRISIL AA/Positive	21-10-22	CRISIL AA/Stable	26-10-21	F AA+/Negative	F AA+/Negative
			--		--	29-08-23	CRISIL AA/Stable	20-06-22	CRISIL AA/Negative	20-08-21	F AA+/Negative	--
			--		--	23-05-23	CRISIL AA/Stable		--	09-06-21	F AA+/Negative	--
			--		--		--		--	30-04-21	F AA+/Negative	--
Lower Tier II Bonds	LT	700.0	CRISIL AA+/Stable		--	20-10-23	CRISIL AA/Positive	21-10-22	CRISIL AA/Stable	26-10-21	CRISIL AA/Negative	CRISIL AA/Negative
			--		--	29-08-23	CRISIL AA/Stable	20-06-22	CRISIL AA/Negative	20-08-21	CRISIL AA/Negative	--
			--		--	23-05-23	CRISIL AA/Stable		--	09-06-21	CRISIL AA/Negative	--
			--		--		--		--	30-04-21	CRISIL AA/Negative	--
Non Convertible Debentures	LT	4570.0	CRISIL AA+/Stable		--	20-10-23	CRISIL AA/Positive	21-10-22	CRISIL AA/Stable	26-10-21	CRISIL AA/Negative	CRISIL AA/Negative
			--		--	29-08-23	CRISIL AA/Stable	20-06-22	CRISIL AA/Negative	20-08-21	CRISIL AA/Negative	--
			--		--	23-05-23	CRISIL AA/Stable		--	09-06-21	CRISIL AA/Negative	--
			--		--		--		--	30-04-21	CRISIL AA/Negative	--
Short Term Non Convertible Debenture	ST	500.0	CRISIL A1+		--	20-10-23	CRISIL A1+	21-10-22	CRISIL A1+	26-10-21	CRISIL A1+	CRISIL A1+
			--		--	29-08-23	CRISIL A1+	20-06-22	CRISIL A1+	20-08-21	CRISIL A1+	--
			--		--	23-05-23	CRISIL A1+		--	09-06-21	CRISIL A1+	--
			--		--		--		--	30-04-21	CRISIL A1+	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Long Term Loan	995	Punjab National Bank	CRISIL AA+/Stable
Proposed Long Term Bank Loan Facility	2030	Not Applicable	CRISIL AA+/Stable
Term Loan	975	HDFC Bank Limited	CRISIL A1+

Criteria Details

Links to related criteria
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Finance Companies
CRISILs criteria for rating fixed deposit programmes
Rating criteria for hybrid debt instruments of NBFCs/HFCs
CRISILs Criteria for rating short term debt
CRISILs Criteria for Consolidation

Media Relations	Analytical Contacts	Customer Service Helpdesk
Aveek Datta Media Relations	Ajit Velonie Senior Director	Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301

CRISIL Limited M: +91 99204 93912 B: +91 22 3342 3000 AVEEK.DATTA@crisil.com **Prakruti Jani** Media Relations **CRISIL Limited** M: +91 98678 68976 B: +91 22 3342 3000 PRAKRUTI.JANI@crisil.com **Rutuja Gaikwad** Media Relations **CRISIL Limited** B: +91 22 3342 3000 **Rutuja.Gaikwad@ext-crisil.com**	**CRISIL Ratings Limited** B:+91 22 3342 3000 ajit.velonie@crisil.com Malvika Bhotika Director **CRISIL Ratings Limited** B:+91 22 3342 3000 malvika.bhotika@crisil.com Leena Gupta Manager **CRISIL Ratings Limited** B:+91 22 3342 3000 Leena.Gupta@crisil.com	For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com For Analytical queries: ratingsinvestordesk@crisil.com

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