

## House Building Finance Corporation Limited

Chairman & CEO: Mr. Azhar A. Jaffri

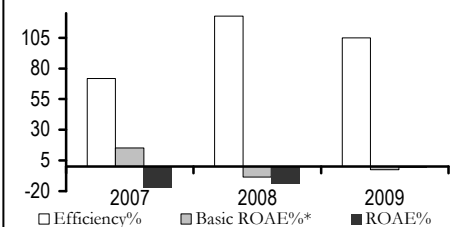
July 23, 2010

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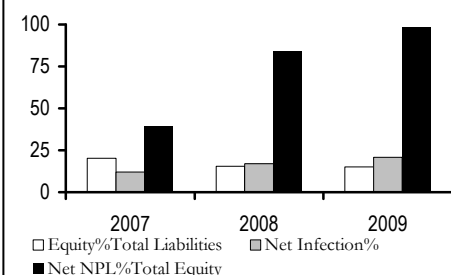
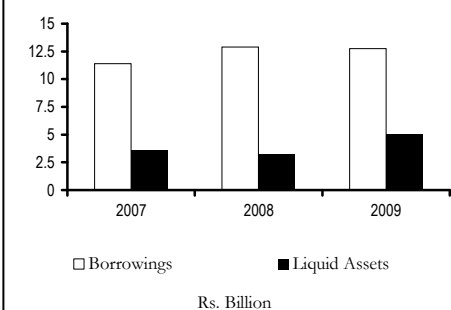
Category	Latest	Previous
Entity *	A/A-2 July 21, '10	N/A
Outlook**	N/A July 21, '10	N/A

\* Initial \*\* Rating Watch - Developing Status

### Key Financial Trends



\* based on profit before provisions, extraordinary items & taxation



### Rating Rationale

House Building Finance Corporation Limited (HBFCL) was incorporated under Companies Ordinance, 1984 in 2007. Prior to incorporation, the body was operating under an act of parliament. The prime function of the company is to provide loans for construction / purchase as well as renovation of houses. The ownership of HBFCL is jointly held by the Ministry of Finance (MOF) and the State Bank of Pakistan (SBP). Furthermore, SBP is also HBFCL's major creditor with all credit lines of the central bank being backed by federal government guarantees.

Total assets of HBFCL amounted to Rs. 18.44b as at year-end FY09 and further increased to Rs. 18.7b in 1Q10. In line with the prime objective, over 60% of resource base is still deployed in housing finance, though this proportion has declined subsequent to positive change at the helm of the organization and at other senior management positions in 2009. Cognizant of the rising credit risk amidst a challenging economic environment, the management has adopted a cautious lending approach in FY09 and 1Q10 with disbursements of Rs. 0.72b and Rs. 0.05b, respectively compared to Rs. 3.8b in FY08. Gross advances amounted to Rs. 15.9b as of end of FY09 with 39.7% (FY08: 36.7%) being in the classified category. Despite increased focus on recovery, NPLs have remained around prior year level at Rs. 6.3b during FY09 (FY06: Rs. 6.1b) on account of fresh accretion of NPLs. With 62% of NPLs provided for, net infection was 20.8% (FY08: 16.9%) as at year-end 2009. Increase in infection is on account of decline in outstanding portfolio. There have been notable efforts to improve credit control systems and governance standards recently; however, infection in new schemes like Ghar Assan Flexi Scheme (1Q10: 15.72%); Ghar Assan Scheme (1Q10: 33.09%) and Shandar Ghar Scheme (1Q10: 37.81%) has remained high.

In addition to loan recoveries, liquidity has also been supported by recovery of prior claims from the government during FY09 and HY10. As of March 31, 2010, the company has total borrowing of Rs. 12.75b, largely from SBP (Rs. 11.2b), though also including Rs. 1.35b Sukuk and Rs. 155m from the government. HBFCL had overdue payments due to sponsors of Rs. 7.6b while liquid assets amounted to Rs. 6.1b as of March 31, 2010, major proportion of which comprised government securities. Cognizant of future operational needs and lack of diversity in sources of funding, the management is currently negotiating with the sponsors for restructuring of SBP credit lines into equity and quasi equity. Total equity has been eroded considerably over the last few years and stood at Rs. 2.4b as at year-end FY09 with un-provided NPLs also comprising 98.5% of the same. HBFCL is currently not in compliance with minimum capital requirement (MCR) of Rs. 6b for DFIs; however, the issue is being addressed in the restructuring process.

SBP's credit lines are on profit and loss sharing mechanism and carry no financial charge. However, financial charges are being incurred against overdue credit lines. Administrative expenses were Rs. 1.29b (FY08: Rs. 1.22b) during FY09 and higher than net revenues of Rs. 1.23b. The recently announced Voluntary Separation Scheme (VSS), to be wholly funded by Federal Government grant is expected to not only help in rationalizing operational cost but also provide room to induct suitable professionals, thereby also improving efficiency. Net loss of Rs. 28.4m was posted in FY09. The amount of overall loss was reduced on account of loss participation by SBP. While efforts were made in the past to address lack of diversity in sources of funding through issuance of Sukuk, cost of the same is high considering operating expenses and delinquencies. Completion of the restructuring process, particularly in relation to meeting MCR; improvement in MIS and the implementation of other initiatives to be taken in light of the business process re-engineering exercise will be key factors in achieving turnaround in the institution.

### Overview of the Institution

HBFCL [initially named House Building Finance Corporation (HBFC)] was established in 1952 as a Statutory Federal Body with the object of providing financial assistance for construction and purchase of houses to the people of Pakistan in urban and rural areas. In July 2007, the body was incorporated under Companies' Ordinance 1984. Latest accounts have been audited by M/s M. Yousuf Adil Saleem & Co. JCR-VIS

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