House Building Finance Company Limited

CEO: Mr. Azhar A. Jaffri

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Analysts: Hina Saleem Mesiya
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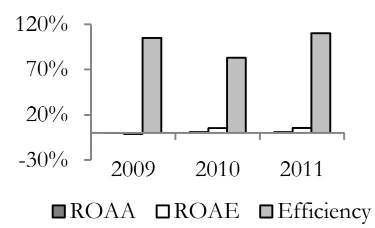
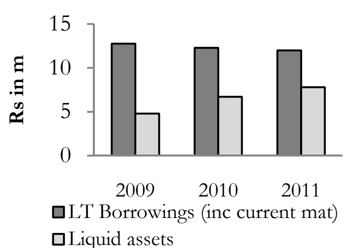
Category	Latest	Previous
Entity	A/A-2	A/A-2
	July 6,'12	*June 14, '11*
*Outlook**	*N/A*	*N/A*

**On Rating Watch- Developing since assigning of initial rating in July 2010.*

Key Financial Trends





	2009	2010	2011
Net Advances (Rs. in b)	12.0	10.7	10.4
Borrowings (Rs.in b)	12.7	12.3	12.0
Borrowing Cost (%)	7.4%	7.4%	9.1%
Profit / (Loss) (Rs.in m)	(108.7)	112.5	120.5
Equity (Rs. in b)	1.9	2.0	2.2
CAR (%)	24.6%	24.1%	25.9%
Liquid Assets % Deposits & Borrowings	38.0%	52%	60%
Net Infection (%)	20.8%	32%	45.0%

Rating Rationale

The ratings assigned to House Building Finance Company Limited (HBFCL) incorporate the shareholding structure of the institution, with Government of Pakistan having a direct holding of 62.5% and indirect stake of 37.5% through the State Bank of Pakistan (SBP). SBP is both shareholder and major lender of the company; funding support is available from SBP through credit lines of Rs. 11.2b that are guaranteed by GoP and form the pre-dominant source of the company's funding. Repayment terms on these credit lines have not been finalized and markup thereon has been accrued on the books of HBFCL. Restructuring of credit lines is under consideration by SBP, Ministry of Finance and HBFCL; however, modalities have not been finalized. The assigned rating incorporates the strategic importance of HBFCL as a housing finance arm of the GoP and its support to restructure the institution in a manner that it becomes financially viable.

Liquidity cushion available against borrowings & mark-up due to SBP has increased over time, representing more than 60% of the same at end-2011. Investment portfolio of the company primarily comprises highly marketable t-bills. A portion of proceeds from current and past dues has been deployed in bank deposits or t-bills over the past few years; strengthening the liquidity profile of the institution on a timeline basis.

The company's paid up capital (net of losses) of Rs. 2.2b is below minimum capital requirement of Rs. 6b. However, the institution has an extension from SBP to meet the regulatory requirement on completion of financial restructuring process. As per information made available by management, budgetary allocation for equity injection of Rs. 3b in HBFCL by GoP had been made in FY12 and now in FY13 also; however, timing of its disbursement is uncertain. Given that net NPLs are twice that of existing equity at end-Dec'11, equity injection is critical to reinstate the risk profile of the company on a stand-alone basis.

Gross advances portfolio decreased to Rs. 13.7b (FY10: Rs. 14.6b) by end-2011 as fresh disbursements were lower relative to the quantum of recoveries against past and current dues. Various housing loan products have been launched by the company over time; however, the only active loan product is Ghar Aasan Flexi Scheme (GASF). Sizeable recovery against past dues is considered positively; however, there has been an increase in total non-performing loans. With gross and net infection of 58% and 45%, respectively in the loan portfolio, quality of outstanding loan portfolio is considerably weak; of concern is the increasing delinquency rate in GASF, the active loan product, to 33% (FY10: 18%) in 2011. Repayment capacity of borrowers has experienced stress in the backdrop of inflationary pressure and high interest rates. Credit policy has been recently updated and approved. There is greater focus on income assessment of borrowers and debt servicing capacity is more effectively linked to income level of borrowers. However, impact of revised underwriting guidelines is still not reflective in portfolio quality indicators; management believes that it takes 2-3 years for portfolio to season.

Even with rise in NPLs, bottom line results have witnessed a positive trend in relation to prior years, attributable to greater contribution of income from investments. Specific provisioning coverage to the extent of only 40% has been created by the company. Through introduction of VSS scheme, efforts have been undertaken to contain administrative expenses. Nevertheless, efficiency of the company weakened to 83% (FY10: 79%) in 2011 on account of decline in net markup income. Three year term of Mr. Jafri as Managing Director (MD) expired in January 2012. Till such time a fresh notification is issued by the Ministry of Finance in this regard, Mr. Jafri will continue to discharge his responsibilities as MD. At present, reconstitution of Board of Directors is underway.

Overview of the Institution

Incorporated in 2007, HBFCL is recognized as a Development Financial Institution (DFI), with an objective to provide financial assistance in the construction and purchase of houses to the people living in rural and urban areas of Pakistan. Financial statements for 2011 were audited by M/s Yousuf Adil & Co. Financial statements have so far not been approved by the Board as Board reconstitution is underway JCR-VIS