RATING REPORT

House Building Finance Company Limited (HBFC)

REPORT DATE:
June 30, 2022

RATING ANALYSTS:
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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	A	A-1	A	A-1
Rating Outlook	Positive		Stable	
Rating Action	*Maintained*		*Reaffirmed*	
Rating Date	*June30, 2022*		*June 28, '21*	

COMPANY INFORMATION

Incorporated in 2006	**External auditors:** Grant Thornton Anjum Rahman
Unlisted Public Limited Company	**Chairman of the Board**: Mr. Shehzad Naqvi
Key Shareholders (with stake 5% or more):	**Managing Director/CEO**: Mr. Imran Ahad
State Bank of Pakistan – 90.31%	
Government of Pakistan – 9.69%	

APPLICABLE METHODOLOGY(IES)

Rating Criteria: Government Supported Entities (July 2020)
https://docs.vis.com.pk/docs/Meth-GSEs202007.pdf

OVERVIEW OF THE INSTITUTION

HBFC was incorporated in 2006 as an unlisted public limited company with a mandate to provide financing for housing purposes.

Profile of Chairman

Mr. Shehzad Naqvi has more than 30 years of experience in financial services. He has spent 18 years in a CEO and Regional Head role primarily with ABN AMRO Bank and CITIBANK. He has worked in Pakistan, Singapore, UAE and UK and has been responsible for business in North Asia, South Asia and the Middle East. He is a graduate of the London School of Economics.

Profile of Managing Director & CEO

Mr. Imran Ahad is a seasoned banker with vast experience of working in senior leadership roles in many countries across the Middle East as well as in Pakistan. He has been associated with some of the leading international banks throughout the span of his career, including BCCI, Standard Chartered Bank and NIB Bank where he held various senior level positions. He has recently moved back to Pakistan from the UAE to take up this assignment.

RATING RATIONALE

House Building Finance Company Limited ('HBFC' or 'the DFI') provides financing for construction and purchase of residential properties especially to the lower income strata. The DFI operates through a network of 51 branches, 7 area offices and 3 regional offices across the country.

<u>Key Rating Drivers:</u>

Ratings draw comfort from the sponsor profile of HBFC

HBFC is owned by the Government of Pakistan (GoP) directly and through State Bank of Pakistan (SBP). The sovereign ownership of HBFC, along with historically demonstrated track record of financial support to the entity, translates in strong sponsor profile, which has been incorporated in to the assigned rating. Legacy issues of HBFC, wherein senior leadership posts were routinely vacant, have now been addressed with the appointment of the new CEO in the preceding year, while there is also a new Board in place. Subsequently, there is now a strategy plan in place, which is viewed positively from a ratings purview.

Even though asset quality indicators depict room for improvement, mainly on account of sizable legacy non-performing book, the same has been adequately provided for and net infection is considered to be low

Asset quality indicators improved as the non-performing loans (NPL) decreased by 14.2% in 2021. Nevertheless, the DFI's gross infection continues to trend on the higher side vis-à-vis the peer median. It is, however, pertinent to mention that other DFIs in the country undertake lending to other commercial segments, while HBFC has a dedicated housing finance segment. As of Mar'22, HBFC's provisioning coverage is considered adequate, which translates in low net infection ratio for HBFC, in comparison to peers.

Ratings take into account HBFC's comfortable liquidity positioning

HBFC's liquidity profile derives strength from its largely equity-funded asset base, wherein borrowings comprise merely a tenth of the asset base. HBFC's liquidity profile is considered sound, in view of considerable liquid assets in relation to borrowings and total liabilities. Furthermore, given largely equity funded operations, asset maturities adequately cover maturing liabilities.

Ratings incorporate profitability indicators of HBFC, which compare favorably to industry

HBFC's spread depicted contraction in 2021. The DFI's RoAA, has exceeded the industry RoAA over the past 2-year period (2020-21). In case of HBFC, the lag impact of asset & liability repricing is expected to be more pronounced, given that part of the portfolio features repricing over 2-year tenures. Nevertheless, with funding line at much lower than benchmark rates, HBFC's spread is expected to remain comfortable over the rating horizon. HBFC was also well positioned in terms of their investment holdings as of Mar'22, as a result of which MTM loss caused by the significant movement in benchmark rate is expected to be minimal in case of HBFC. Given the significant uptick in benchmark rates and rising inflation level, the debt repayment capacity of HBFC's clientele has been affected. Accordingly, the same translates in credit risk headwinds, which may translate in fresh NPL accretion in the ongoing year. As per management, as of Jun'22, the credit quality indicators remain intact.

Ratings incorporate strong capital adequacy of the DFI

The Capital Adequacy Ratio (CAR) remained above the minimum requirement set by the financial regulatory authorities and VIS benchmarks. In terms of capital adequacy, HBFC compares favorably to peers; this is mainly attributable to the low leveraging of the DFI, with assets to equity ratio of 1.16x as of Mar'22. Given moderate growth projections, largely equity funded operations and stable outlook on profitability, HBFC's CAR is expected to remain strong through the rating horizon.

House Building Finance Company Limited (HBFC) Appendix I

FINANCIAL SUMMARY					*(amounts in PKR millions)*
BALANCE SHEET		**Dec'19**	**Dec'20**	**Dec'21**	**Mar'22**
Total Investments		10,283.8	10,414.2	8,820.2	8,146.4
Net Advances		11,707.2	11,177.5	13,448.9	14,089.7
Total Assets		25,201.8	26,802.3	26,285.3	26,457.0
Borrowings		2,000.0	2,960.0	2,676.2	2,541.2
Total Liabilities		5,093.8	5,904.4	3,835.8	3,697.7
Net Worth		20,108.0	20,898.0	22,449.5	22,759.2
Paid up Capital		19,365.0	19,365.0	19,365.0	19,365.0
Tier 1 Equity		18,284.3	20,856.4	22,389.1	22,700.2
INCOME STATEMENT	**CY19**	**CY20**	**CY21**	**Q'1CY21**	**Q'1CY22**
Net Mark-up Income	2,850.3	3,249.5	2,348.0	620.0	673.7
Net (Provisioning) / Reversal	(368.6)	304.0	426.4	144.3	54.1
Non-Markup Income	130.8	135.9	76.3	16.3	19.9
Administrative Expenses	1,618.4	1,657.5	1,491.8	394.8	343.0
Profit (Loss) Before Tax	953.7	1,389.6	1,328.1	377.5	395.5
Profit (Loss) After Tax	2,762.0	1,028.6	986.2	266.4	328.2
RATIO ANALYSIS		**Dec'19**	**Dec'20**	**Dec'21**	**Mar'22**
Gross Infection (%)		27.8%	27.0%	20.6%	20.5%
Provisioning Coverage (%)		78.4%	88.2%	92.1%	87.5%
Net Infection (%)		7.4%	4.2%	2.0%	3.1%
Cost of borrowings (%)		8.5%	7.7%	6.8%	-
Net NPLs to Tier-1 Capital (%)		4.3%	2.3%	1.2%	2.0%
Capital Adequacy Ratio (C.A.R (%))		133.4%	153.6%	153.1%	151.8%
Efficiency (%)		54.2%	49.0%	61.5%	49.5%
ROAA (%)		12.0%	4.0%	3.7%	5.0%*
ROAE (%)		14.9%	5.0%	4.5%	5.8%*
Liquid Assets to Liabilities (%)		208.7%	202.7%	250.2%	248.8%

**Annualized*

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.vis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details.www.vis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES Appendix III

Name of Rated Entity	House Building Finance Company Limited (HBFCL)
Sector	Development Finance Institution (DFI)
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see below

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATING TYPE: ENTITY		
30-June-22	A	A-1	Positive	Maintained
28-Jun-21	A	A-1	Stable	Reaffirmed
12-Jun-20	A	A-1	Stable	Maintained
13-May-19	A	A-1	Positive	Maintained
14-May-18	A	A-1	Stable	Reaffirmed
23-Jun-17	A	A-1	Stable	Upgraded
28-Jun-16	A-	A-2	Negative	Downgraded
30-Jun-15	A	A-2	Positive	Maintained

Instrument Structure	N/A
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
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Due Diligence Meetings Conducted

	Name	Designation	Meeting Date
1	Mr. Kazim Raza Bhayani	Chief Financial Officer	**21-June-2022**
2	Mr. Faisal Murad	Group Head Business & Operations	
3	Mr. Khawaja Ehrar-ul-Hassan	Head of Risk & Compliance	