RATING REPORT

House Building Finance Company Limited (HBFC)

REPORT DATE:
June 07, 2023

RATING ANALYSTS:
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RATING DETAILS

Rating Category	Latest Rating Long-term	Latest Rating Short-term	Previous Rating Long-term	Previous Rating Short-term
Entity	AA-	A-1+	A	A-1
Rating Outlook	Stable		Positive	
Rating Action	*Upgrade*		*Maintained*	
Rating Date	*June 07, 2023*		*June30, 2022*	

COMPANY INFORMATION

Incorporated in 2006	**External auditors:** Grant Thornton Anjum Rahman
Unlisted Public Limited Company	**Managing Director/CEO**: Mr. Imran Ahad
Key Shareholders (with stake 5% or more):	
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	RATING RATIONALE

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

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 UAE to take up this assignment.

House Building Finance Company Limited ('HBFC' or 'the DFI') provides financing for construction and purchase of residential properties. The DFI operates through a network of 51 branches 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 indirectly 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.

The revision in rating takes into account good underwriting track record in the past 2-year period and very low net infection

HBFC's asset quality indicators have continued to post improving trend, given that Non-Performing Loans (NPL) decreased by 11.2% in 2022 (2021: down by 14.2%). Accordingly, the DFI's gross infection has been also dropped, albeit in comparison to peers it's still viewed to be on the higher side. It is, however, pertinent to mention that much of the infection pertains to a legacy portfolio and no incremental infection observed over the recent 2-year period (2021-22). HBFC made provisioning reversals to the tune of Rs. 420m in 2022 vis-à-vis Rs. 404m in the preceding year, depicting strong progress in making recoveries. As of Dec'22, HBFC's provisioning coverage is considered adequate, which translates in very low net infection ratio, 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 the DFI's leverage (assets/equity) stands at 1.6x as of Dec'22, rising from 1.2x, as of Dec'21. Borrowings now constitute 34% of the funding mix vis-à-vis 10% as of Dec'21. During the period under review, the liquid assets of HBFC witnessed a significant increase of 87.2%, mainly due to an increase in the holdings of Pakistan Investment Bonds (PIBs). As the same was entirely funded through increased borrowings, liquidity coverage of liabilities has trended down on a timeline. Nevertheless, quantum of liquid assets to liabilities remains adequately high and compares favorably to peers. Additionally, our view on HBFC's liquidity profile is supported by asset maturities that sufficiently cover the maturing liabilities.

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

The State Bank of Pakistan (SBP) increased the benchmark rates on multiple instances during 2022, in line with its monetary tightening stance. Average prevailing (MoM) benchmark rate for 2022 was ~550 bts higher than 2021. Accordingly, HBFC's spread depicted improvement. As the operations are largely equity-funded, HBFC has a strong spread, and ROAA compares favorably to industry and peers, albeit the ROAE is viewed to be on the lower side. 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 may translate in credit risk headwinds, which may create fresh NPL accretion in the ongoing year. VIS will continue to monitor the changes in asset quality trends on an ongoing basis. Furthermore, keeping asset quality trends stable, profitability is likely to improve on the back of higher expected spread amidst an elevated interest rate environment.

Ratings incorporate strong capital adequacy of the DFI

HBFC's Capital Adequacy Ratio (CAR) remains above the minimum requirement set by the financial regulatory authorities and VIS benchmarks. In terms of capital adequacy, HBFC compares favorably to peers. Furthermore, given a drop in NPLs along with increase in provisioning, the net-NPL to Tier has fallen below 1%, which is viewed positively from a ratings purview.

House Building Finance Company Limited (HBFC) — Appendix I

FINANCIAL SUMMARY				*(amounts in PKR millions)*
BALANCE SHEET	**Dec'19**	**Dec'20**	**Dec'21**	**Dec'22**
Total Investments	10,283.8	10,414.2	8,820.2	18,008.7
Net Advances	11,707.2	11,177.5	13,448.9	16,106.4
Total Assets	25,201.8	26,185.5	25,622.4	37,306.1
Borrowings	2,000.0	2,960.0	2,676.2	12,833.9
Total Liabilities	5,093.8	5,904.4	3,835.8	14,201.2
Net Worth	20,108.0	20,281.4	21,786.6	23,104.9
Tier 1 Equity	18,284.3	20,856.4	21,726.2	22,192.0
INCOME STATEMENT	**CY19**	**CY20**	**CY21**	**CY22**
Net Mark-up Income	2,850.3	3,249.5	2,301.6	3,193.3
Net (Provisioning) / Reversal	(368.6)	304.0	426.4	276.7
Non-Markup Income	130.8	135.9	76.3	88.6
Operating Expenses	1,618.4	1,657.5	1,491.8	1,593.9
Profit (Loss) Before Tax	953.7	1,389.6	1,281.7	1,908.4
Profit (Loss) After Tax	2,762.0	1,028.6	939.7	1,478.3
RATIO ANALYSIS	**Dec'19**	**Dec'20**	**Dec'21**	**Dec'22**
Gross Infection (%)	27.8%	27.0%	20.6%	16.0%
Provisioning Coverage (%) - specific	78.4%	88.2%	92.1%	92.9%
Net Infection (%)	5.4%	4.2%	2.0%	1.3%
Cost of borrowings (%)	8.5%	7.7%	6.8%	8.6%
Net NPLs to Tier-1 Capital (%)	4.3%	2.3%	1.3%	1.0%
Capital Adequacy Ratio (C.A.R (%))	149.1%	153.6%	155.9%	137.0%
Efficiency (%)	56.8%	51.0%	64.8%	49.9%
ROAA (%)	12.0%	4.0%	3.6%	4.7%
ROAE (%)	14.9%	5.1%	4.5%	6.5%
Liquid Assets to Liabilities (%)	207.9%	202.7%	250.2%	126.5%
Liquid Asset to Borrowing (%)	529.6%	404.3%	358.6%	140.0%

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.

D
Defaulted obligations

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

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
07-June-23	AA-	A-1+	Stable	Upgrade
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	**14-February-2023**
2	Mr. Faisal Murad	Group Head Business & Operations	
3	Mr. Faisal Khan	Group Head Risk Management	