

RATING REPORT

House Building Finance Company Limited (HBFC)

REPORT DATE:

June 04, 2024

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	AAA	A-1+	AA-	A-1+
Outlook/Rating Watch	Stable		Stable	
Rating Action	Upgrade		Upgrade	
Rating Date	June 04, 2024		June 07, 2023	

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

<https://docs.vis.com.pk/docs/Meth-GSEs202007.pdf>

VIS Rating Scale

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

House Building Finance Company Limited (HBFC)

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.

House Building Finance Company Limited ('HBFC' or 'the DFI') is a Development Finance Institution (DFI) engaged in financing for construction and purchase of houses. The DFI was established in 1952 by the Government of Pakistan (GoP). It was corporatized in 2006 and is now an unlisted public limited company. The DFI is operating with a network of 51 branches, 3 Regional offices and a Head-office based in Karachi.

At present, the DFI is listed for active privatization under the current program of the Government of Pakistan (GoP). Invitation for expression of interest was published by the Privatization Commission, Ministry of Privatization on Dec 26, 2021. Following this, a Triple-A rated institution expressed interest in acquiring the DFI, due diligence has been completed and share purchase agreement is on its finalization stage. The transaction is anticipated to be concluded by June 2024.

Key Rating Drivers:

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 rating takes into account improvement in asset quality indicators

HBFC's asset quality indicators have continued to post improving trend, given that Non-Performing Loans (NPL) decreased further by 10.8% in CY23 (CY22: -11.2%). Accordingly, the DFI's gross infections remained stable. It is, however, pertinent to mention that much of the infection pertains to a legacy portfolio and no incremental infection observed over the recent 3-year period (2021-23). HBFC made provisioning reversals to the tune of Rs. 327m in CY23 vis-à-vis Rs. 277m in the preceding year, depicting strong progress in making recoveries. Moreover, IFRS 9 has been implemented which gives confidence that the portfolio is adequately provided for now. In an increasing interest scenario, we were anticipating a potential increase in credit risk which did not materialize in any significant manner. Additional provision against Expected Credit Losses (ECL), kept net infection at 1.3%, as of Mar'23, slightly over prior period and significantly improved from its level compared to CY22 and prior.

Ratings take into account HBFC's comfortable liquidity positioning

HBFC's liquidity profile derives strength from its large investment portfolio. During the period under review, the liquid assets of HBFC witnessed a significant increase, mainly due to an increase in the holdings of Pakistan Investment Bonds (PIBs). Given a large quantum increase in PIBs combined with reduced total net cash outflows, Liquidity Coverage Ratio (LCR) increased significantly. The 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 sound profitability indicators of HBFC

The State Bank of Pakistan (SBP) increased the benchmark rates on multiple instances during 2023, in line with its monetary tightening stance. Average prevailing (MoM) benchmark rate for 2023 was ~800 bps higher than 2022. Accordingly, HBFC's Return on Average Markup Bearing assets increased to 23.5% (CY22: 13.6%). However, the Cost of Average Funds increased with market condition to 19.9% (CY22: 8.6%). Net markup income increased by 49.5% due to higher quantum of markup earning asset. Additionally, higher treasury earnings and a controlled rise in overhead costs,

despite the highest inflation in four decades, have significantly boosted profitability compared to the previous year. As of Mar'24, HBFC's ROAE improved to 9.4% (CY23: 9.0%, CY22: 6.5%), while ROAA improved marginally.

Ratings incorporate strong capital adequacy of the DFI

HBFC's Capital Adequacy Ratio (CAR) remains significantly above the minimum requirement set by the financial regulatory authorities and VIS benchmarks. In terms of capital adequacy, HBFC compares favorably to peers.

House Building Finance Company Limited (HBFC)

FINANCIAL SUMMARY				
<i>(amounts in PKR millions)</i>				
BALANCE SHEET	Dec'21	Dec'22	Dec'23	Mar'24
Total Investments	8,820.2	18,008.7	34,176.9	30,162.6
Net Advances	13,448.9	16,106.4	14,277.1	13,656.6
Total Assets	25,622.4	37,306.1	55,234.0	50,190.8
Borrowings	2,676.2	12,833.9	26,278.2	20,841.5
Total Liabilities	3,835.8	14,201.2	28,594.1	23,098.4
Paid Up Capital	19,365.0	19,365.0	19,365.0	19,365.0
Net Worth	21,786.6	23,104.9	26,639.9	27,092.3
Tier 1 Equity	21,726.2	22,192.0	25,971.8	26,416.9
INCOME STATEMENT	CY21	CY22	CY23	Q1'24
Net Mark-up Income	2,301.6	3,193.3	4,775.5	1,307.3
Net (Provisioning) / Reversal	426.4	276.7	326.8	152.5
Non-Markup Income	76.3	88.6	116.0	27.1
Operating Expenses	1,491.8	1,593.9	1,815.3	348.6
Profit (Loss) Before Tax	1,281.7	1,908.4	3,331.2	1,122.4
Profit (Loss) After Tax	939.7	1,478.3	2,261.8	634.0
RATIO ANALYSIS	CY21	CY22	CY23	Q1'24
Gross Infection (%)	20.6%	16.0%	16.1%	17.2%
Provisioning Coverage (%) - total	98.5%	102.0%	102.4%	102.8%
Provisioning Coverage (%) - specific	92.1%	92.9%	93.9%	102.8%
Net Infection (%)	2.0%	1.3%	1.2%	-0.6%
Net NPLs to Tier-1 Capital (%)	1.3%	0.9%	0.6%	-0.3%
Capital Adequacy Ratio (%)	155.9%	137.0%	120.6%	126%
Return on Markup Bearing Assets	10.8%	13.6%	23.5%	21.2%*
Cost of Funds (%)	6.8%	8.6%	19.9%	19.1%*
Markup Spread	4.0%	5.0%	3.6%	2.1%*
Efficiency (%)	64.8%	49.9%	38.0%	14.2%
ROAA (%)	3.6%	4.7%	4.9%	4.8%*
ROAE (%)	4.5%	6.5%	9.0%	9.4%*
Liquid Assets to Liabilities (%)	250.2%	126.5%	119.6%	131.1%
Liquid Asset to Borrowing (%)	358.6%	140.0%	130.1%	145.3%
*Annualized				

REGULATORY DISCLOSURES					Appendix II
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	Outlook/ Rating Watch	Rating Action
	<u>RATING TYPE: ENTITY</u>				
	04-June-24	AAA	A-1+	Stable	Upgrade
	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. Imran Ahad	Chief Executive Officer	02-April-2024	
2	Mr. Kazim Raza Bhayani	Chief Financial Officer			