

PNB Housing Finance

Estimate change



TP change



Rating change



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Bloomberg	PNBHOU5I IN
Equity Shares (m)	260
M.Cap.(INRb)/(USD\$)	178.9 / 2.2
52-Week Range (INR)	696 / 283
1, 6, 12 Rel. Per (%)	12/41/114
12M Avg Val (INR M)	514
Free float (%)	71.9

Financials & Valuations (INR b)

Y/E March	FY23	FY24E	FY25E
NII	23.0	25.3	27.4
PPP	21.0	22.4	24.5
PAT	10.5	14.4	16.5
EPS (INR)	61.9	55.3	63.4
EPS Gr. (%)	25	-11	15
BV/Sh. (INR)	652	576	630
Ratios			
NIM (%)	4.1	4.1	4.0
C/I ratio (%)	20.2	21.9	21.7
RoAA (%)	1.6	2.0	2.1
RoE (%)	10.0	11.1	10.5
Valuations			
P/E (x)	11.1	12.5	10.9
P/BV (x)	1.1	1.2	1.1
Div. Yield (%)	0.0	1.3	1.4

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	28.2	32.5	32.6
DII	7.6	3.7	2.4
FII	24.8	24.3	24.0
Others	39.5	39.5	41.1

FII Includes depository receipts

CMP: INR690

TP: INR755 (+9%)

Neutral

Gradual turnaround on the horizon

Miss on PPOP but earnings beat aided by lower credit costs

- PNB Housing Finance (PNBHF) reported 48% YoY growth in 1QFY24 PAT to ~INR3.5b (7% beat). This was aided by ~55bp QoQ decline in credit costs to ~0.4%. NII surged 68% YoY to INR6.2b while PPOP rose 41% YoY to INR5.1b.
- Total GNPA/NNPA stood at ~3.8%/2.6% (as a % of Loan Assets) and improved ~10bp/15bp QoQ. Retail GNPA improved ~10bp sequentially to 2.5% while Corporate GNPA deteriorated to 25% (PQ: 22%). Sequential increase in corporate GNPA was on account of a decline in the wholesale book.
- Affordable housing segment exhibited healthy traction with disbursements surging to ~INR2.3b in 1QFY24 (PQ: ~INR1.4b).
- PNBHF has levers for NIM improvement through product diversification and potential decline in borrowing costs. Improvement in asset quality has made it eligible for NHB borrowings and a potential credit rating upgrade will provide renewed access to the primary debt markets. Better outlook on loan growth, expansion of core margins and lower credit costs have led to ~5%/ 7% increase in our FY24/FY25 EPS estimates.
- We expect PNBHF to deliver a loan book and PAT CAGR of 11% and 26% over FY23-FY25 and ~2.1%/11% RoA/RoE in FY25, respectively. We would closely monitor the execution on loan growth, sustenance of NIM and asset quality before turning constructive on the stock. **Reiterate Neutral with a TP of INR755 (premised on 1.2x FY25E BVPS).**

Disbursements hit by seasonality; NIMs expand sequentially

- PNBHF's 1QFY24 disbursements rose 7% YoY to ~INR37b. Retail disbursement grew 8% YoY to INR36.7b. AUM growth was muted at 4% YoY to INR673.4b.
- Reported NIM expanded ~10bp QoQ to ~3.9%. Management guided for long-term steady-state spreads and margin of 2.5% and 3.5%, respectively.

Credit costs moderate driven by asset quality improvement

- PNBHF's total GS3 improved ~10bp QoQ driven by a decline in retail GS3. In 1QFY24, PNBHF delivered 10% QoQ reduction in the Corporate loan book through a combination of sell-downs, ARC sales, write-offs and resolutions. The company is actively engaged on wholesale book resolutions and guided for write-backs within the next few quarters.
- Corporate GNPA increased to 25% (PQ: 22%). One exposure accounted for ~93% of the Corporate GNPA and was backed by a large real estate developer. The company expects the same to be resolved within the next two quarters. PNBHF also guided for select recoveries even from the written-off pool of Corporate NPAs.

Highlights from the management commentary

- Management guided for 17-18% YoY Retail loan book growth and ~22% YoY retail disbursement growth.
- There was a notable improvement in customer retention with the book run-off declining to ~16.6% (PY: 23.0%).
- PNBHF has 88 branches dedicated to affordable housing finance in Tier 2 and Tier 3 cities. It plans to add more such branches to reach 100 within the next two quarters.

Maintain Neutral with a TP of INR755

- Over the past year, PNBHF has transformed its business model towards Retail and reduced its corporate loan book (through down-selling and ARC sale) to ~6% of the AUM mix. It targets to scale up affordable housing disbursements to ~20% of the total retail disbursements over the medium term.
- Guidance given by the management on loan growth, spreads/margins, asset quality and credit costs was positive. Completion of the equity capital raise through the Rights issue has brought in the much needed confidence capital and this could result in an upgrade from the credit rating agencies. We expect positivity in delivery on the guided metrics under the leadership of the MD/CEO, Mr. Girish Kousgi. However, we will monitor the execution under the new leadership closely before turning constructive on the stock. **Maintain Neutral with a TP of INR755 (premised on 1.2x Mar'25E BVPS).**

Quarterly performance

(INR m)

	FY23				FY24E				FY23	FY24E	1QFY24E	v/s Est.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Interest Income	12,987	15,975	17,136	15,892	16,669	17,103	17,616	18,089	61,991	69,477	16,449	1
Interest Expenses	9,303	9,639	9,963	10,081	10,475	10,842	11,221	11,652	38,985	44,190	10,585	-1
Net Interest Income	3,684	6,337	7,173	5,812	6,194	6,261	6,395	6,437	23,006	25,287	5,864	6
YoY Growth (%)	-27.6	36.2	72.8	57.6	68.1	-1.2	-10.8	10.8	30.9	9.9	59.2	
Other income	1,124	868	829	485	408	530	742	1,702	3,306	3,382	921	-56
Total Income	4,808	7,205	8,002	6,297	6,602	6,791	7,137	8,139	26,311	28,670	6,785	-3
YoY Growth (%)	-18.5	30.6	60.2	27.2	37.3	-5.7	-10.8	29.3	23.2	9.0	41.1	
Operating Expenses	1,214	1,368	1,262	1,468	1,530	1,591	1,543	1,623	5,313	6,287	1,395	10
YoY Growth (%)	5.4	15.4	8.5	16.7	26.0	16.3	22.3	10.6	11.6	18.3	14.9	
Operating Profits	3,594	5,837	6,740	4,828	5,072	5,200	5,594	6,516	20,998	22,382	5,390	-6
YoY Growth (%)	-24.3	34.8	75.9	30.7	41.1	-10.9	-17.0	34.9	26.5	6.6	50.0	
Provisions	483	2,432	3,071	1,403	606	900	1,000	1,478	7,389	3,983	1,300	-53
Profit before Tax	3,111	3,404	3,669	3,425	4,467	4,300	4,594	5,038	13,609	18,399	4,090	9
Tax Provisions	761	778	978	632	994	968	1,034	1,053	3,149	4,048	859	16
Profit after tax	2,350	2,626	2,691	2,793	3,473	3,333	3,560	3,985	10,460	14,351	3,231	7
YoY Growth (%)	-3.4	11.7	42.8	64.7	47.8	26.9	32.3	42.7	25.0	37.2	37.5	
Key Operating Parameters (%)												
Rep. Yield on loans	8.46	9.57	10.65	10.43	10.59							
Rep. Cost of funds	7.21	7.32	7.55	7.76	7.97							
Spreads	1.25	2.25	3.10	2.67	2.62							
Net Interest Margins	2.36	4.14	4.68	3.74	3.86							
Cost to Income Ratio	25.3	19.0	15.8	23.3	23.2							
Credit Cost	0.34	1.69	2.12	0.96	0.40							
Tax Rate	24.5	22.9	26.6	18.5	22.2							
Balance Sheet Parameters												
Loans (INR B)	573	578	580	593	604							
Change YoY (%)	-5.1	-2.4	0.3	2.3	5.3							
AUM (INR B)	649	657	658	666	673							
Change YoY (%)	-9.7	-5.8	-2.7	1.0	3.8							
Borrowings (Ex Assgn.) (INR B)	518	523	525	537	527							
Change YoY (%)	-11.1	-5.9	-2.5	0.8	1.6							
Loans /Borrowings (%)	110.6	110.5	110.5	110.5	114.6							
Off BS loans/AUM (%)	11.6	12.0	11.7	11.0	10.3							
Debt/Equity (x)	5.1	5.0	4.9	4.9	3.8							
Asset Quality Parameters (%)												
GS 3 (INR m)	36,390	35,020	28,240	22,700	22,700							
Gross Stage 3 (% on loans)	6.35	6.06	4.87	3.83	3.76							
NS 3 (INR m)	24,400	20,770	18,350	16,170	15,430							
Net Stage 3 (% on loans)	4.35	3.68	3.22	2.76	2.59							
PCR (%)	32.9	40.7	35.0	28.8	32.0							

E: MOFSL Estimates



Highlights from the management commentary

Business update

- Sequential drop in disbursements driven by seasonality
- PNBHF continues to see a lot of traction in the affordable space. It increased the affordable Housing disbursements to INR2.28b (PQ: INR1.37b).
- Recorded the highest loan book growth in the last 15 quarters; retail loan book grew 3% QoQ to INR570b while the overall loan book grew 2% QoQ to INR604b.
- There was significant improvement in customer retention on a YoY basis; Book run-off declined to ~16.6% (PY: 23%)
- Retail ticket size less than INR10m increased to 85.3% (PY: 81%)
- It is trying to increase its proportion of the loan mix from the Southern region to further diversify the geographical mix
- Affordable housing branches stood at 88 (across Tier 2 and 3 cities). In affordable housing finance, it plans to reach 100 branches in a quarter or two.

Guidance

- Guided for Retail loan book growth of 17-18% YoY and retail disbursement growth of ~22% YoY.
- Long-term steady state guidance: Spreads of 2.5%; NIM of 3.5%; Credit costs of 0.6% in FY24 and 0.4% from FY25 onwards. Corporate write-backs are not factored in this credit cost guidance.
- NIM should sustain at the current levels of 3.7-3.8% over the next few quarters; RoA should steadily improve from current levels of ~2.1%
- GNPA should become comparable to the peers in the mortgage industry within the next 4-5 quarters;
- Management is comfortable with leverage up to 6.0-6.5x; it will take 3-4 years to reach the leverage of 5x (from current levels of 3.8x)
- Guided for INR1t loan book within the next 3.5 years;
- Prime and Affordable disbursement mix to be at 90:10
- Salaried: Self-employed mix to be at 65:35 over a course of time

Asset quality

- Good pool of retail loans is ready for auction; It has guided for a healthy reduction in the NPA pool in subsequent quarters and retail GNPA will continue to decline
- No new slippages/additions to Corporate GNPA. Corporate GS3 increased to ~25% (PQ: 22.2%) because of decline in the Corporate book.
- Credit costs of 0.36% in 1QFY24 were primarily towards increasing the PCR on both Retail and Corporate loan books.

Wholesale

- Corporate GS3: INR8.54b (one account constitutes 93% of the Wholesale GNPA and the company is confident of resolution within the next two quarters).
- Corporate book declined 10% QoQ. It is constantly working on resolutions and the wholesale book should run down within the next 3-4 quarters.

- Guided for write-backs from the Corporate book over the next few quarters but it is difficult to guide the quantum of write-backs

Margins and the liability mix

- Yields: 10.59% (PQ: 10.41%), and CoB: 7.97 (PQ: 7.76%). Incremental CoB stood at ~8.0%.
- RoA was 2.07% (PQ: 1.71%); CRAR was ~30% and gearing was 3.82x
- The company will have access to the NHB funds, which will come at a lower cost; a few banks have reduced the spreads over MCLR given the improvement in its performance. It is working with different credit rating agencies for a credit rating upgrade.

Focus areas

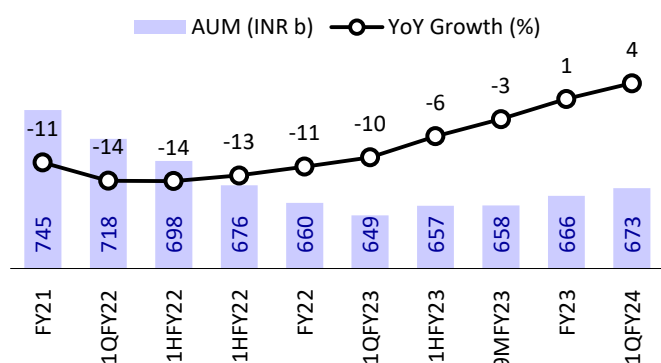
- Focus was more on salaried customers and home Loans; remains resolute on improving the asset quality and bringing it at par with the peers within the next 4-5 quarters;
- Focus of PNBHF will remain on Prime and Affordable-Income base.
- It is focused on ticket sizes below INR10m and it has stopped doing higher-ticket size LAP.

Others

- Demand is robust and traction is there across all the markets.
- PNB is the promoter and it plans to continue as the promoter (Promoter shareholding: 28.2%).
- Ticket size in the affordable segment will be INR1.6-1.7m and in the Prime segment it will be INR2.6-2.8m.
- The company will have dedicated branches and separate channel partners as well as sourcing/underwriting/collections teams in the affordable housing segment.

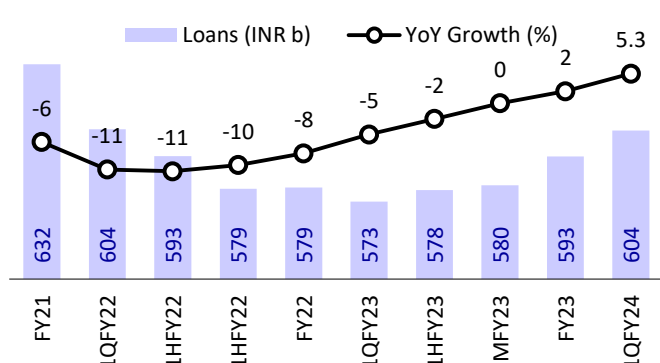
Key exhibits

Exhibit 1: AUM grew 4% YoY...



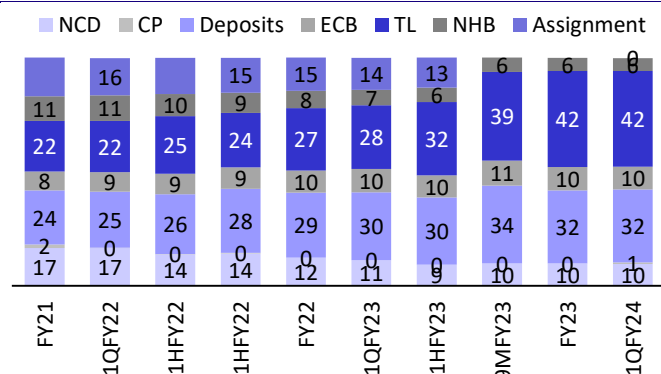
Source: MOFSL, Company

Exhibit 2: ...while on-book loans grew 5% YoY



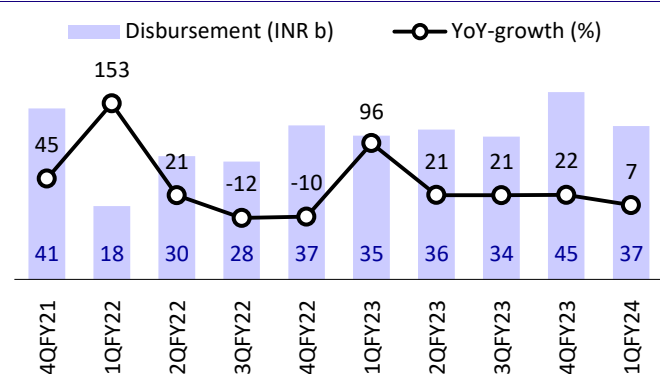
Source: MOFSL, Company

Exhibit 3: Borrowing mix (%)



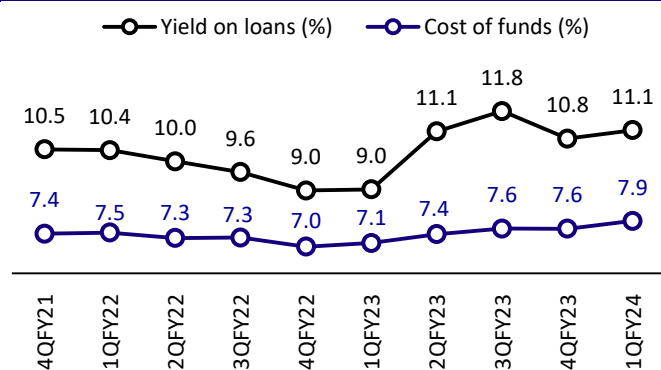
Source: MOFSL, Company

Exhibit 4: Disbursements grew ~7% YoY



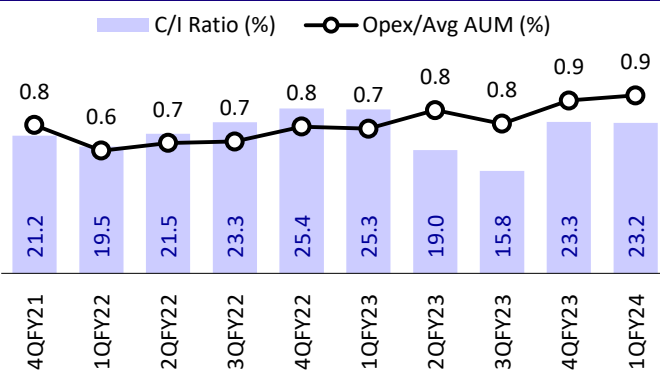
Source: MOFSL, Company

Exhibit 5: Reported spreads contracted ~5bp sequentially

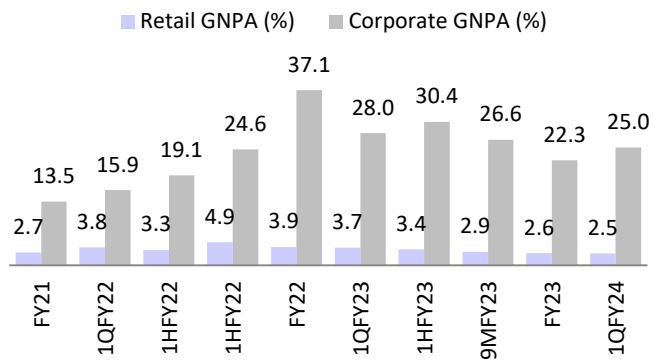


Source: MOFSL, Company, Calculated

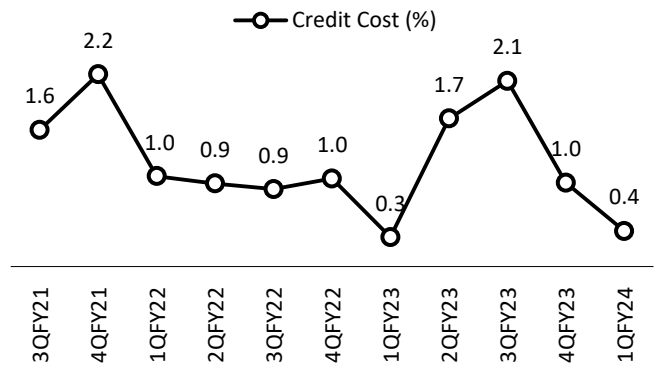
Exhibit 6: C/I ratio was stable QoQ (%)



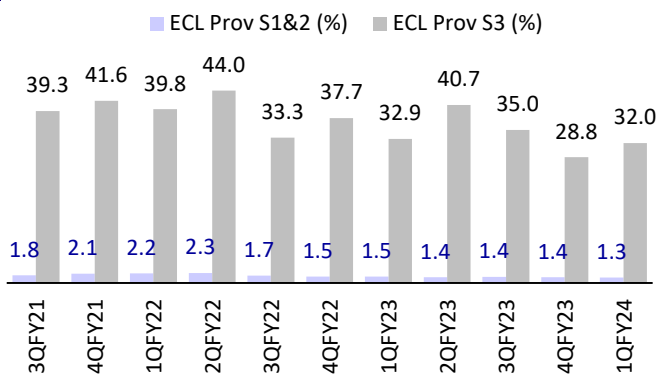
Source: MOFSL, Company, Calculated

Exhibit 7: Retail GNPA improved QoQ

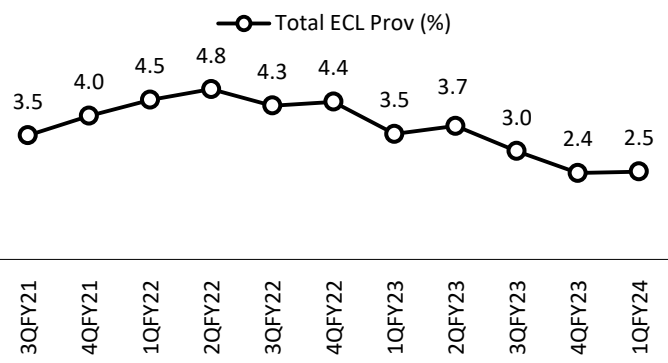
Source: MOFSL, Company

Exhibit 8: Credit costs moderated ~60bp QoQ (%)

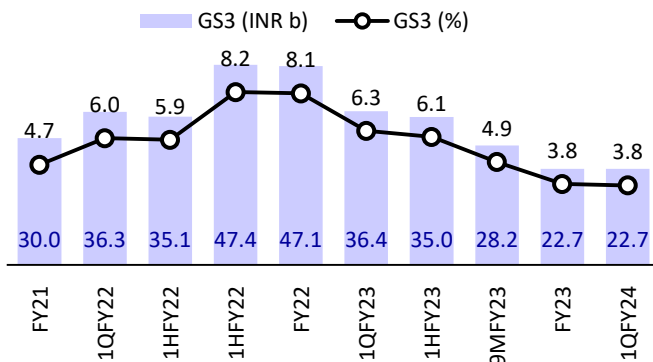
Source: MOFSL, Company

Exhibit 9: Stage 3 PCR increased ~330bp QoQ...

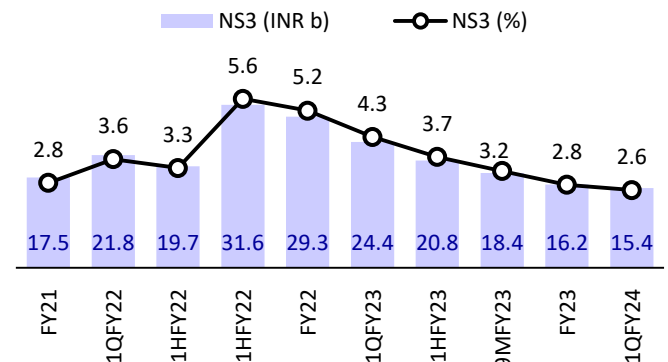
Source: MOFSL, Company

Exhibit 10: ...and ECL/EAD increased to 2.5% of loans

Source: MOFSL, Company

Exhibit 11: GS3 stable sequentially...

Source: MOFSL, Company

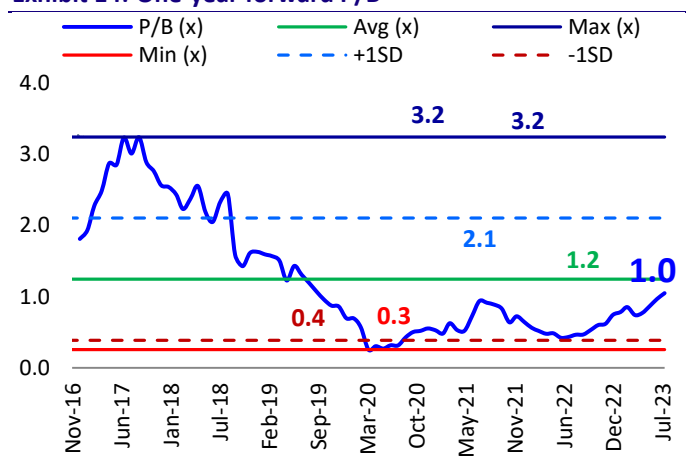
Exhibit 12: ...while NS3 improved ~20bp QoQ

Source: MOFSL, Company

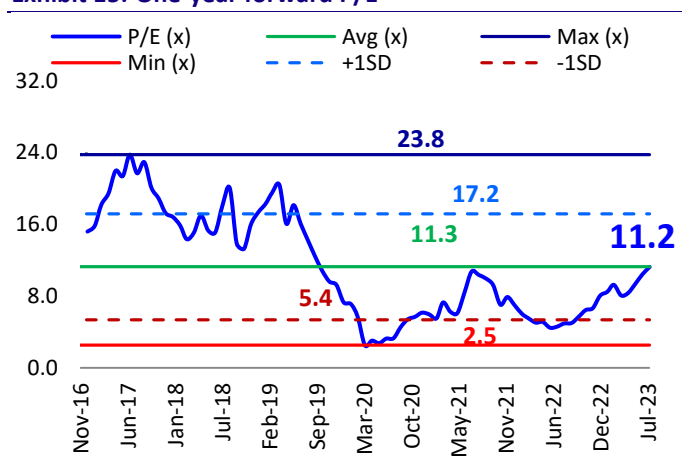
Exhibit 13: Raise our FY24E/25E EPS by 5%/7% to factor in higher loan growth, expansion in margins and lower credit costs

INR b	Old Est.		New Est.		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
NII	24.2	26.4	25.3	27.4	4.6	3.5
Other Income	3.6	4.1	3.4	4.0	-7.1	-2.1
Total Income	27.8	30.5	28.7	31.4	3.1	2.8
Operating Expenses	5.8	6.3	6.3	6.8	8.4	8.4
Operating Profits	22.0	24.2	22.4	24.5	1.7	1.3
Provisions	4.3	4.1	4.0	3.4	-7.4	-17.2
PBT	17.7	20.1	18.4	21.1	3.9	5.1
Tax	4.1	4.6	4.0	4.6	-0.6	0.6
PAT	13.6	15.5	14.4	16.5	5.3	6.5
Loan book	651	730	647	725	-0.6	-0.6
NIM (%)	3.9	3.8	4.1	4.0		
Spreads (%)	2.9	2.9	3.0	2.9		
ROAA (%)	1.9	1.9	2.0	2.1		
RoAE (%)	10.5	9.9	11.1	10.5		

Source: MOFSL estimates

Exhibit 14: One-year forward P/B

Source: MOFSL, Company

Exhibit 15: One-year forward P/E

Source: MOFSL, Company

Financials and valuations

Income statement									(INR m)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Interest Income	36,401	50,467	67,929	76,882	71,898	58,220	61,991	69,477	76,138
Interest Expended	26,437	35,366	51,664	58,750	50,998	40,645	38,985	44,190	48,780
Net Interest Income	9,964	15,101	16,265	18,133	20,901	17,575	23,006	25,287	27,359
Change (%)	45.3	51.6	7.7	11.5	15.3	-15.9	30.9	9.9	8.2
Other Operating Income	2,678	4,426	8,904	8,013	4,343	3,787	3,306	3,382	3,993
Net Income	12,642	19,528	25,169	26,146	25,243	21,363	26,311	28,670	31,351
Change (%)	50.6	54.5	28.9	3.9	-3.5	-15.4	23.2	9.0	9.4
Operating Expenses	3,573	4,416	5,935	5,522	4,554	4,760	5,313	6,287	6,814
Operating Income	9,069	15,112	19,234	20,624	20,689	16,603	20,998	22,382	24,537
Change (%)	54.5	66.6	27.3	7.2	0.3	-19.7	26.5	6.6	9.6
Provisions/write offs	1,029	2,766	1,890	12,514	8,619	5,764	7,389	3,983	3,430
PBT	8,040	12,346	17,344	8,110	12,070	10,840	13,609	18,399	21,107
Extraordinary Items	0	0	0	0	0	0	0	0	0
Reported PBT	8,040	12,346	17,344	8,110	12,070	10,840	13,609	18,399	21,107
Tax	2,803	3,934	5,429	2,201	2,978	2,475	3,149	4,048	4,643
Tax Rate (%)	34.9	31.9	31.3	27.1	24.7	22.8	23.1	22	22
DTL on Special Reserve									
Reported PAT	5,237	8,412	11,915	5,909	9,092	8,365	10,460	14,351	16,463
Change (%)	60.0	60.6	41.7	-50.4	53.9	-8.0	25.0	37.2	14.7
PAT adjusted for EO	5,237	8,412	11,915	5,909	9,092	8,365	10,460	14,351	16,463
Change (%)	60.0	60.6	41.7	-50.4	53.9	-8.0	25.0	37.2	14.7
Proposed Dividend	1,196	1,799	1,809	0	0	0	0	2,339	2,502

Balance sheet									(INR m)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Capital	1,656	1,666	1,675	1,682	1,683	1,686	1,689	2,595	2,595
Reserves & Surplus	56,340	64,008	73,764	78,296	87,548	97,030	1,08,450	1,46,832	1,60,956
Net Worth	57,996	65,673	75,439	79,978	89,230	98,716	1,10,139	1,49,427	1,63,551
Borrowings	3,53,207	5,37,767	7,18,589	6,77,351	5,93,925	5,30,050	5,36,214	5,82,511	6,52,415
Change (%)	35.8	52.3	33.6	-5.7	-12.3	-10.8	1.2	8.6	12.0
Other liabilities	14,974	26,704	44,662	31,969	30,767	28,530	15,784	17,363	19,099
Total Liabilities	4,26,177	6,30,145	8,38,690	7,89,297	7,13,922	6,57,296	6,62,137	7,49,301	8,35,065
Loans	3,87,347	5,71,648	7,42,879	6,66,280	6,06,447	5,53,359	5,78,398	6,47,235	7,24,906
Change (%)	42.5	47.6	30.0	-10.3	-9.0	-8.8	4.5	11.9	12.0
Investments	33,236	24,130	45,607	20,757	20,448	34,827	31,963	35,159	38,675
Change (%)	104.9	-27.4	89.0	-54.5	-1.5	70.3	-8.2	10.0	10.0
Net Fixed Assets	604	858	1,083	1,353	1,056	935	0	0	0
Other assets	4,990	33,509	49,122	1,00,906	85,971	68,175	51,776	66,907	71,484
Total Assets	4,26,177	6,30,145	8,38,690	7,89,297	7,13,922	6,57,296	6,62,137	7,49,301	8,35,065

E: MOFSL Estimates

Financials and valuations

Ratios	(%)								
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Spreads Analysis (%)									
Avg yield on loans	10.6	10.2	10.1	10.6	10.9	9.7	10.6	10.9	10.8
Avg. cost of funds	8.6	7.9	8.2	8.4	8.0	7.2	7.3	7.9	7.9
Interest Spread	2.0	2.3	1.9	2.1	2.9	2.4	3.0	2.8	2.6
NIM on loans	3.0	3.1	2.5	2.6	3.3	3.0	4.1	4.1	4.0
Profitability Ratios (%)									
RoE	13.2	13.6	16.9	7.6	10.7	8.9	10.0	11.1	10.5
RoA	1.4	1.6	1.6	0.7	1.2	1.2	1.6	2.0	2.1
Int. Expended/Int.Earned	72.6	70.1	76.1	76.4	70.9	69.8	62.9	63.6	64.1
Other Inc./Net Income	21.2	22.7	35.4	30.6	17.2	17.7	12.6	11.8	12.7
Efficiency Ratios (%)									
Op. Exps./Net Income	28.3	22.6	23.6	21.1	18.0	22.3	20.2	21.9	21.7
Empl. Cost/Op. Exps.	28.3	32.6	51.2	42.2	46.4	45.5	50.1	51.6	52.4
Asset Quality (INR m)									
Gross NPA	858	1,861	3,549	18,562	29,990	47,060	22,700	19,808	17,866
GNPA ratio	0.2	0.3	0.5	2.8	4.8	8.1	3.8	3.0	2.4
Net NPA	590	1,438	2,784	11,838	17,500	29,310	16,170	13,469	11,792
NNPA ratio	0.2	0.3	0.4	1.8	2.9	5.3	2.8	2.1	1.6
CAR	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
VALUATION									
Book Value (INR)	350	394	450	476	530	586	652	576	630
BVPS Growth YoY	107.1	12.6	14.3	5.6	11.5	10.4	11.4	-11.7	9.5
Price-BV (x)					1.3	1.2	1.1	1.2	1.1
EPS (INR)	31.6	50.5	71.1	35.1	54.0	49.6	61.9	55.3	63.4
EPS Growth YoY	22.6	59.7	40.9	-50.6	53.8	-8.2	24.9	-10.7	14.7
Price-Earnings (x)					12.8	13.9	11.1	12.5	10.9
Dividend per share (INR)	6.0	9.0	9.0	0.0	0.0	0.0	0.0	9.0	9.6
Dividend yield (%)					0.0	0.0	0.0	1.3	1.4
E: MOFSL Estimates									

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Explanation of Investment Rating	
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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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