Pick of the Week

PNB Housing Finance Ltd.

September 2, 2024

PNB Housing Finance Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
BFSI - NBFC	Rs 977	Buy in Rs 970-990 band & add on dips in Rs 880-900 band	Rs 1094	Rs 1164	2-3 quarters

HDFC Scrip Code	PNBHOUEQNR
BSE Code	540173
NSE Code	PNBHOUSING
Bloomberg	PNBHOUSI IN
CMP Aug 30, 2024	977.5
Equity Capital (Rs Cr)	259.8
Face Value (Rs)	10.0
Equity Share O/S (Cr)	26.0
Market Cap (Rs Cr)	25390
Adj. Book Value (Rs)	552.9
Avg. 52 Wk Volumes	16,70,000
52 Week High	995.0
52 Week Low	604.0

Share holding Pattern % (Jun 2024)	
Promoters	28.1
Institutions	28.8
Non Institutions	43.1
Total	100.0

* Refer at the end for explanation on Risk Ratings

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Our Take:

PNB Housing Finance Ltd. (PNBHF) was established in 1988 as a deposit taking HFC registered with the National Housing Board (NHB). It has a long and profitable track record of operations. It is the fourth largest housing finance company in India in terms of AUM. After de-growing during FY21 and FY22, the company is back on the growth trajectory with AUM growth of 7% in FY24 to Rs 71,243cr. The de-growth was strategic, aimed at reducing high ticket bulky exposures in its wholesale book and thereby improving its asset quality. The share of the corporate book in its AUM mix has reduced from 21% in March 2019, to 3% in March 2024. Going forward, the company is expected to focus on growing its retail book primarily and any new loans in the corporate book would be to indirectly aid its retail book. It has taken active steps and focused on collection efficiencies, write-offs, resolutions and change in mix in favour of less risky loans.

PNBHF has restructured its business model and prioritized the retail segment by reducing corporate loans in the overall loan mix to ~3% in Mar'24 from ~21% in Mar'20, through down-selling, recoveries, and ARC sales. It has enhanced its collections and introduced digital channels to streamline the collection process. PNBHF has expanded its branch network by nearly 3x in the last three years to build a granular loan book and increase the share of high-yielding retail loans to offset the run-down of corporate loans and loans to the self-employed segment.

However, branch throughput remains a key monitorable, given higher competitive intensity and elevated opex intensity in the affordable housing segment.

On Jul 17, 2023, we had released a Stock Note report (Link) with a recommendation to 'Buy in Rs 614-627 band & add more on dips in Rs 552-564 band' for base case fair value of Rs 681 and bull case fair value of Rs 729 in 2-3 quarters. Both the targets were achieved within the time frame.

Valuation & Recommendation:

Going forward, we have envisaged a 18% CAGR in its loan book over FY24-26E, while the NII is expected to grow at 16% and PAT at 15% over the same period. The RoA of the company is expected to improve to 2.2% by the end of FY26. We feel that investors can buy the shares of PNB Housing Finance in Rs 970-990 add on dips in Rs 880-900 band (1.3x FY26E ABV) for base case fair value of Rs 1094 (1.6x FY26E ABV) and bull case fair value of Rs 1164 (1.7x FY26E ABV) over the next 2-3 quarters.

Financial Summary:

Particulars (Rs cr)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	FY23	FY24	FY25E	FY26E
Operating Income	642	619	*3.7*	623	*3.0*	2301	2481	2862	3364
EBITDA	542	507	*6.9*	566	*-4.3*	2100	2125	2402	2821
APAT	433	347	*24.6*	439	*-1.5*	1046	1508	1715	2011
Diluted EPS (Rs)	16.6	13.6	*21.9*	16.9	*-1.5*	61.9	58.1	66.0	77.4
P/E (x)						15.8	16.8	14.8	12.6
P/ABV (x)						1.8	1.8	1.6	1.4
RoAA (%)						1.6	2.2	2.2	2.2

Q1FY25 Result Update

PNB housing finance reported strong results due to higher other income and lower provisioning. PAT increased by 25% YoY to Rs 433cr. Net interest income grew 3.7% YoY to Rs 642cr. PNBHF's spread/NIM remained steady sequentially at 2.11%/3.65% (Q4FY24: 2.10%/3.65% adjusted for one-offs) due to steady cost of funds and run down of excess liquidity, offset by increasing pressure on yields, driven by shifting loan mix and elevated competitive intensity.

Loan growth witnessed an uptick (+15.5% YoY), driven by retail loans (+14% YoY). Management has guided retail loan / disbursement growth of 17%/25% for FY25, on the back of significant investments in distribution (189 branches added during FY22-FY24), along with a revival in the corporate loan book during H2FY25.

Disbursements stood at Rs 4,398cr registering an increase of 19% YoY resulting in 11% YoY and 2.5% QoQ growth in loan book to Rs 66,986cr. Within the loan book, retail segment displayed healthy traction, growing by 14%/3% YoY/QoQ and standing at Rs 65,157cr which is almost 97% of the total book.

Asset quality continues to remain on an improving trajectory, with GNPA/NNPA at 1.35%/0.92%. With a negligible corporate portfolio (~3%), a large written-off pool (Rs ~2000cr) expected recoveries going ahead, we expect cr. costs to moderate to ~25bps for FY25-FY26E.

The company expanded its pan India presence to 303 branches & outreaches with 160 dedicated branches for Affordable segment and 50 branches for Emerging Segment, mostly located in Tier 2 and 3 cities to focus on retail and affordable housing segment. It has a strong geographical presence throughout the country and Maharashtra and Delhi contribute the maximum to its retail assets, being 26% and 12% respectively.

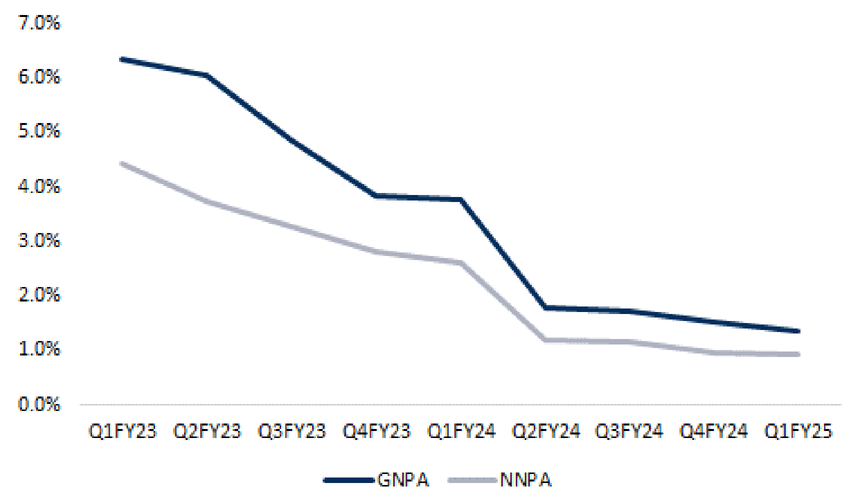
CRISIL upgraded the rating of PNBHF to AA+ from AA with a stable outlook. The company is now rated AA+ by all four rating agencies.

The recent Union Budget's expansion of the PMAY scheme to 30mn houses in urban and rural areas is a significant positive. The company has sanctioned loans to over 65,000 customers under PMAY, totalling Rs 130bn. With 303 branches, including 160 for Affordable and 50 for Emerging segment, the company is well-positioned to capitalise on the PMAY scheme.

Asset Profile & Quality

The company had witnessed steep deterioration in its asset quality when its GNPA ratio increased from 0.5% in FY19 to 8.1% in FY22. As a response, the company took active steps to ramp up collection, do write offs and speed up resolutions, specifically in its corporate book. As of Jun’24, the GNPA ratio of the company stood at 1.35% as against 1.78% in Sep’23, while the NNPA ratio stood at 0.93% as against 1.19%. Within the retail book, the GNPA stood at 1.39%, while the NNPA stood at 0.94%, whereas within the corporate book, everything has been provided for and GNPA/NNPA were NIL. Management anticipates recoveries from the written-off pool of loans in both Wholesale as well as Retail segments. It expects write-backs to continue for the next three-four quarters starting from Q4FY24.

Asset Quality trend



(Source: Company, HDFCsec Research)

Management Guidance & Comments:

- Management has maintained FY25 growth at 17%.
- Affordable segment contributed ~33% to the retail disbursements in Q1FY25 and 10% for FY24.

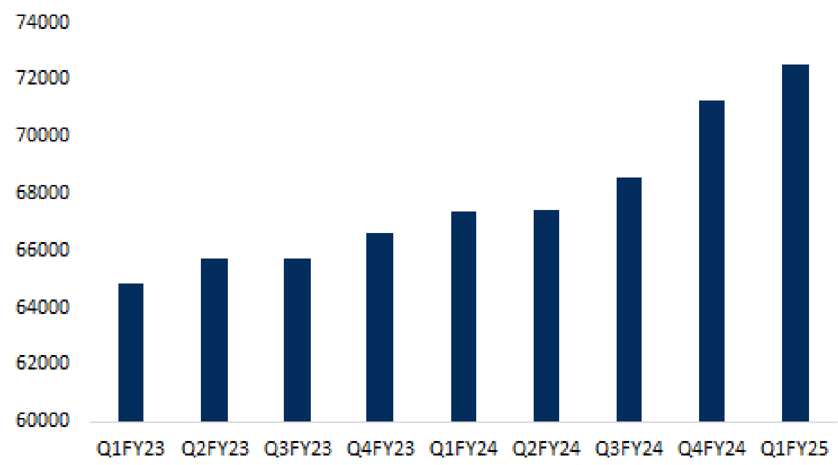
- Retail portfolio accounts for 97% of total portfolio. Corporate advances have run down to ~Rs 2000cr and the management is not in a hurry to start lending.
- Total branch network increased to 303 by the end of Q1FY25. The management intends to open ~40 more branches in FY25 and ~50 in FY26.
- Reported NIM was steady QoQ at ~3.65%. CoB stood at ~7.75%, Spreads were at 2.11%.
- Retail recoveries amounted to Rs 28cr and Corporate recoveries of ~Rs 53cr from written off pool. Written-off pool stood at ~Rs 1250cr in Corporate and ~Rs 500cr in Retail. Management expects retail recoveries of Rs 170-180cr in FY25.
- The company is looking to restart corporate business in 3-4 months.
- It is negotiating with banks for a lower rate on new lines, which should benefit the borrowing costs.

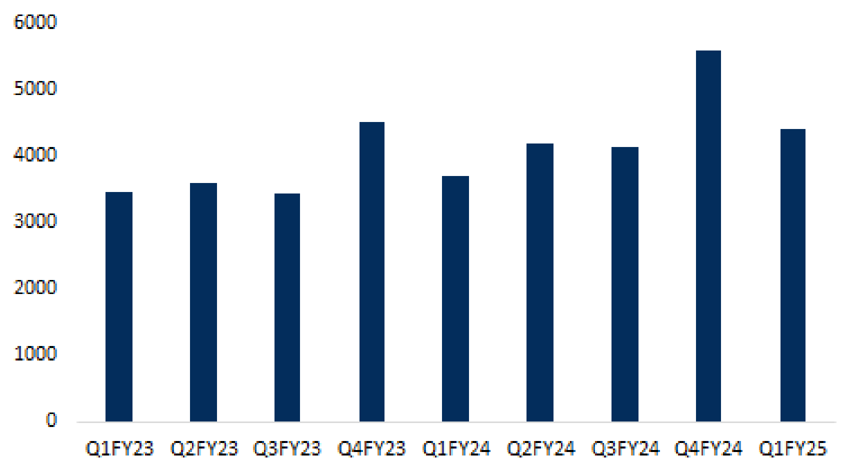
Key Triggers

A well-diversified loan book

Over the past few years, the company has been working to focus and grow its retail book while strategically reducing the mix of corporate loans in its portfolio. As of Jun'24, the retail book contributed 97% to the overall loan book as against 90% in Dec'22.

AUM and disbursement trend (Rs cr)



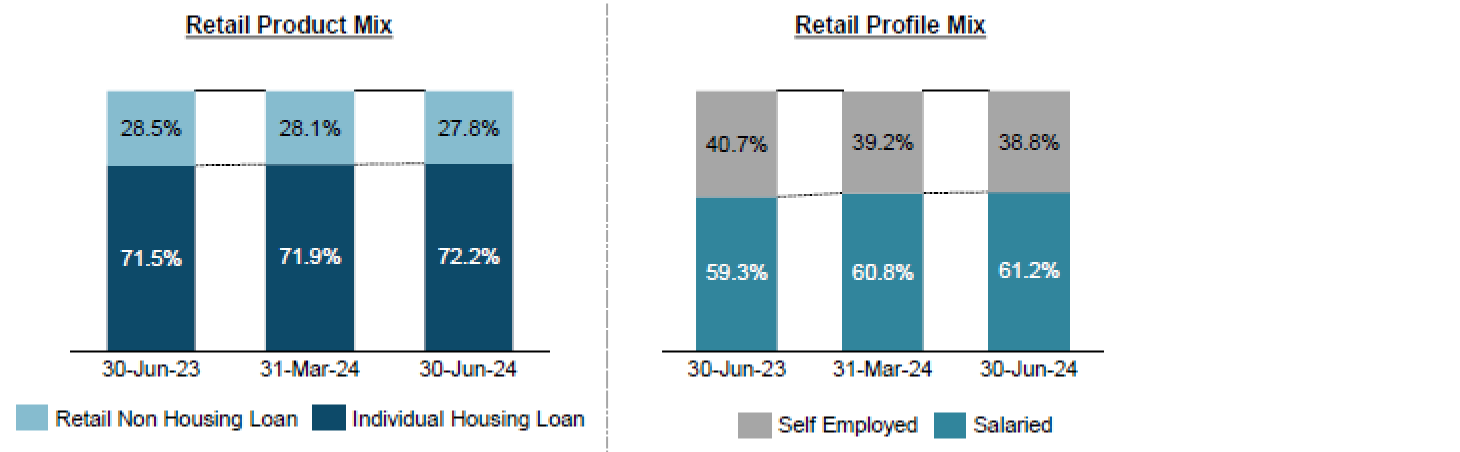


(Source: Company, HDFCsec)

The company's retail book consists of individual housing loans, Loans Against Properties (LAP) and Non-Residential Premises Loan (NRPL). Almost 72% of the retail book of the company comprises of individual housing loan. In Q1FY25, the total disbursements in the retail book stood at Rs 4,363cr, up 19% YoY, while the total retail book stood at Rs 65,157cr, up 14/3% YoY/QoQ. In terms of nature of borrowers, the company is focusing on salaried borrowers, and these constitute 61% of the total retail book as of Jun'24. The management wishes to scale up salaried borrower's contribution to 70% over the medium to long term. The average ticket size for Individual housing loan and retail non-housing loans stood at Rs 29 lakhs and Rs 28.3 lakhs respectively (as on Jun'24). The company has capped the ticket size in the housing book at Rs 3cr from previous high of Rs 15cr, which will reduce the concentration risk in the portfolio.

In Q4FY23, the company ventured into affordable housing finance business, and in Q1FY25, it disbursed Rs 586cr. Currently, the company has 160 branches for disbursing affordable housing loans which it intends to expand further. The average ticket size of affordable housing loans is ~Rs 15 lakhs. The company is planning to achieve 75%-25% disbursement mix between prime and affordable housing segments going forward.

Improved Retail contribution in Loan Asset



(Source: Company, HDFCsec)

As was witnessed in FY24, the company has continued its steps to de-risk the corporate portfolio in Q1FY25. This book now stands at Rs 1,829cr, down by 46% YoY. It only constitutes 3% of the loan book now as against 6% in Mar'23. During Q1FY25, the company merely disbursed Rs 34cr of loans in this book. The management has affirmed that going forward, the corporate book shall not exceed 10% of the mix and the average ticket size shall not exceed Rs 150cr. As of Jun'24, all the NPAs have been provided for and any recoveries would add to the profitability of the company.

Healthy Capital Structure and Promoter Assistance:

The company has a capital adequacy ratio of 29.5% as of Jun'24, which includes Tier 1 capital to the extent of 28.4%. The company raised Rs 2,494cr via rights issue in May 2023, in which both the major shareholders had participated. PNB invested Rs 500cr whereas Carlyle Group invested Rs 844cr via this rights issue. Post the issue, the shareholding of PNB in the company has reduced to 28.1%, whereas the shareholding of Carlyle Group stood at 32.7%.

Risks & Concerns

Rules and regulatory policies

Any unfavorable change in rules and regulatory policies by the RBI/NHB/Govt ministries can have a negative impact on the earnings outlook of the company.

Competition

The housing finance industry is highly competitive. It has always faced competition from small finance banks, banks and other HFCs. Banks with wider branch and distribution network and cheaper cost of funds have greater competitive advantage. The stiff competition from banks may pose increasing challenges by way of lower-than-expected loan growth and lower NIM.

Higher than expected deterioration in asset quality

In the past, the company has faced issues with its asset quality and the GNPA ratios had in the past touched the highs of 8.1%. This was primarily driven by the corporate book. As of Jun'24, the GNPA ratio of the company stood at 1.35%. Though all the NPAs in the corporate book have been provided for, the management is looking to restart lending which could result in higher NPAs in the future.

Pressure on NIMs

In case the competition intensifies, and the cost of borrowings does not come down, the company can face a squeeze in its spreads/NIMs affecting its profitability and the return ratios.

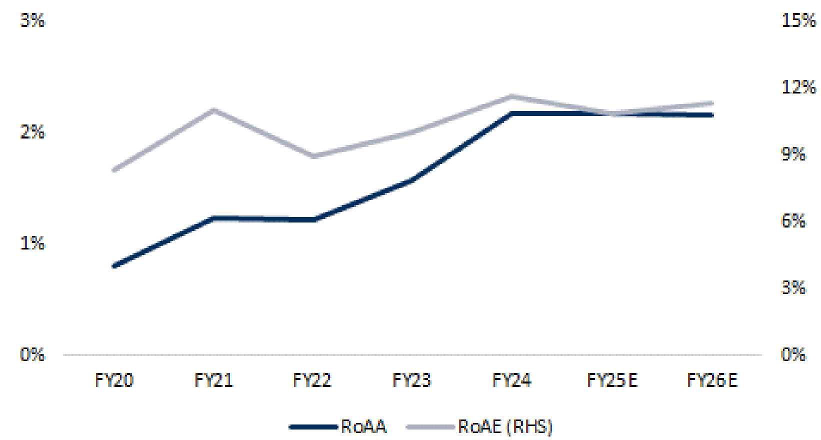
Return ratios remain on the lower side at ~10% due to muted NIMs, high provisions and high capital adequacy, while PCR is also low at ~30% due to high GNPAs.

PNB Housing Finance Ltd.

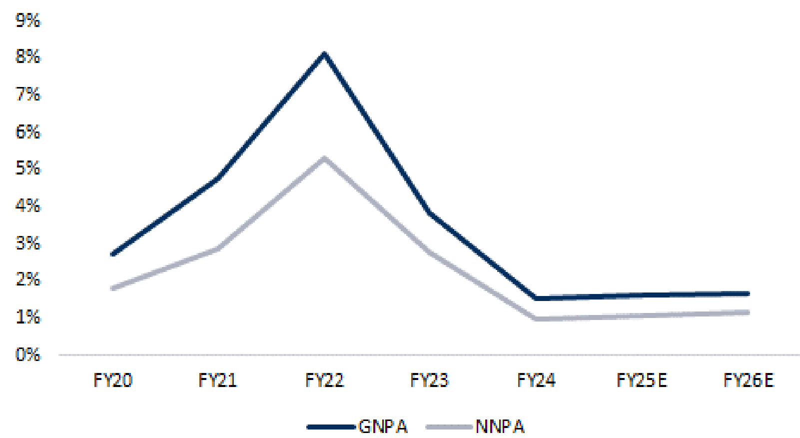
Company Background

PNB Housing Finance Limited (PNB Housing) is a registered housing finance company with National Housing Bank (NHB) and commenced its operations on November 11, 1988. It is promoted by Punjab National Bank (PNB), which holds 28.1% of share capital in the Company. The Company offers retail and corporate loans, including individual home loans, retail loan against property, retail non-resident property loan, construction finance and lease rental discounting among others. It operates the sales and distribution function through the wholly-owned subsidiary, PHFL Home Loans and Services Limited. The company has a robust network of branches spread across the country which help its customers avail financial services (loans and deposits) seamlessly. As on Jun'24, the company has presence through 303 branches, which are mostly located in Tier 2 and 3 cities in order to focus on retail and affordable housing segment.

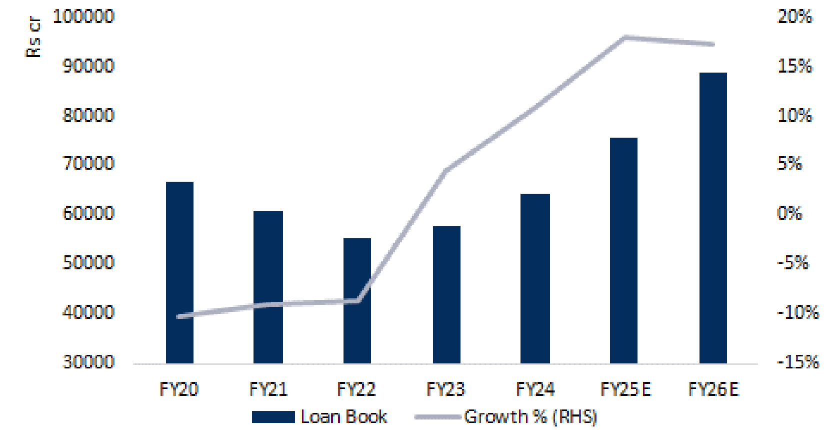
Return Ratios



Asset Quality



Loan Book



(Source: Company, HDFCsec)

Peer Comparison

	CMP	Mcap	EPS (Rs)			BVPS (Rs)			RoA (%)			P/B		
	(Rs)	(Rs cr)	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Can Fin Homes	864	11499	56.4	64.0	73.5	326.2	382.6	450.0	2.2	2.1	2.1	2.6	2.3	1.9
LIC Housing Fin.	674	37096	86.6	89.7	96.1	570.8	644.3	725.5	1.7	1.6	1.6	1.2	1.0	0.9
PNB Housing	977	25390	58.1	66.0	77.4	576.6	642.6	723.9	2.2	2.2	2.2	1.7	1.5	1.4

Financials

Income Statement

(Rs cr)	FY22	FY23	FY24	FY25E	FY26E
Interest Income	5822	6199	6742	7686	9029
Interest Expenses	4064	3899	4261	4825	5666
Net Interest Income	**1758**	**2301**	**2481**	**2862**	**3364**
Non interest income	379	331	315	357	403
Operating Income	**2136**	**2631**	**2796**	**3219**	**3767**
Operating Expenses	476	531	671	817	946
PPoP	1660	2100	2125	2402	2821
Prov & Cont	576	739	171	146	175
Profit Before Tax	1084	1361	1954	2257	2646
Tax	247	315	446	542	635
PAT	**836**	**1046**	**1508**	**1715**	**2011**

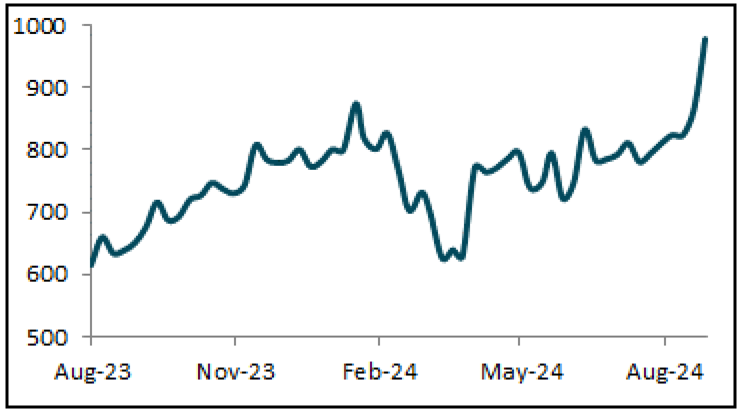
Balance Sheet

(Rs cr)	FY22	FY23	FY24	FY25E	FY26E
Share Capital	169	169	260	260	260
Reserves & Surplus	9647	10795	14715	16430	18541
Shareholder funds	**9872**	**11014**	**14974**	**16689**	**18801**
Borrowings	53005	53621	55017	66329	77719
Other Liab & Prov.	2853	2238	2414	3025	3549
SOURCES OF FUNDS	**65730**	**66874**	**72405**	**86043**	**100068**
Fixed Assets	154	149	222	255	281
Investment	3483	3196	4346	4667	5454
Cash & Bank Balance	5216	3796	2607	3777	3618
Advances	55336	57840	64108	75623	88714
Other Assets	1541	1892	1122	1721	2001
TOTAL ASSETS	**65730**	**66874**	**72405**	**86043**	**100068**

Ratio Analysis

Particulars	FY22	FY23	FY24	FY25E	FY26E
Return Ratios (%)					
Yield on adv	9.2	10.0	10.3	10.3	10.3
Cost of funds	7.2	7.3	7.8	8.0	7.9
NIM	2.5	3.5	3.6	3.6	3.6
RoAE	8.9	10.0	11.6	10.8	11.3
RoAA	1.2	1.6	2.2	2.2	2.2
Asset Quality Ratios (%)					
GNPA	8.1	3.8	1.5	1.6	1.7
NNPA	5.3	2.8	1.0	1.1	1.2
PCR	37.7	28.8	37.4	34.0	30.5
Growth Ratios (%)					
Advances	-8.8	4.5	10.8	18.0	17.3
Deposits	-10.8	1.2	2.6	20.6	17.2
NII	-15.9	30.9	7.8	15.3	17.5
PPoP	-19.8	26.5	1.2	13.0	17.4
PAT	-10.1	25.1	44.2	13.7	17.3
Per Share Data (Rs)					
EPS (Rs)	49.6	61.9	58.1	66.0	77.4
Adj. BVPS (Rs)	411.7	556.4	552.9	611.6	684.7
Dividend per share (Rs)	0.0	0.0	0.0	0.0	0.0
Valuation Ratios (x)					
P/E	19.7	15.8	16.8	14.8	12.6
P/ABV	2.4	1.8	1.8	1.6	1.4
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
Other Ratios (%)					
Cost-Avg AUM	0.7	0.8	1.0	1.1	1.1
Cost-Income	22.3	20.2	24.0	25.4	25.1

Price chart



HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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