

PNB Housing Finance

6 May 2019

Reuters: PNBH.NS; Bloomberg: PNBHOUSI IN

Underperformance Is Overdone

We recently met with Deepika Gupta Padhi, Head of Investor Relations and Shweta Bansal, Assistant Manager, Investor Relations of PNB Housing Finance (PNBHF) and gleaned incremental insight into the strategy of the company. We share our detailed takeaways below. We revise our estimates for FY20/FY21 and retain Buy rating, revising our target price to Rs931 (from Rs1,140 earlier), valuing the stock at 1.5x FY21E (or 1.7x FY20E) P/BV. We think that the underperformance of PNBHF stock is overdone.

On the issue of stake sale by PNB parent

- As part of the deal struck with General Atlantic and Varde, PNB parent has agreed not to sell more stake till at least March 2020.
- Usage of PNB umbrella brand
 - Till now, PNBHF was allowed to use the PNB umbrella brand without paying royalty till PNB parent maintained a minimum stake of 30%.
 - This minimum stake threshold has been brought down to 10% i.e. as long as PNB holds at least 10% stake, PNBHF can use the brand without paying royalty.
- Even if PNB stake falls below that of a PE player, it would remain the promoter.
- Management feels that PNBHF is a strategic investment for PNB parent and with improving capital ratio for PNB, there is no compulsion for the latter to completely exit PNBHF.

On liquidity position

- PNBHF has a diversified funding profile and aims to raise substantial funds from all its sources such as banks, NHB, ECB, deposits, NCD, CP and assignment.
- On NHB funding
 - PNBHF has recently raised Rs 35bn from NHB.
 - The average cost of NHB funding is about 8.7%.
- On ECB funding
 - The RBI allows the raising of USD 750mn from the automatic route.
 - PNBHF has not availed anything in 4QFY19 but has an intention of raising capital through this route.
 - The share of ECB can move up to 8-9% from the current ~7%.
- Deposits
 - Retail deposits traction is sound and about 10,000 new files are being registered every month in this regard.
 - Total depositor count is about 0.1mn.
 - Deposits are being raised at 8.4% for maturities ranging between 2-3 years.
 - A majority (about 90%) of retail deposits are sourced by brokers whereas inter-corporate deposits (ICD) are sourced directly.
 - ICD are about 25% of total deposits.
 - Deposits raised from trusts and universities are also classified as retail and attract 12.5% SLR requirement.

(The takeaways are continued from page 2 onwards).

BUY

Sector: NBFC

CMP: Rs695

Target Price: Rs931

Upside: 34%

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Key Data

Current Shares O/S (mn)	167.5
Mkt Cap (Rsbn/US\$bn)	116.4/1.7
52 Wk H / L (Rs)	1,249/675
Daily Vol. (3M NSE Avg.)	432,247

Price Performance (%)

	1 M	6 M	1 Yr
PNB Housing Finance	(25.6)	(23.2)	(50.2)
Nifty Index	(0.5)	10.2	9.3

Source: Bloomberg

On liquidity position (continued from page 1)

- PNBHF is being able to raise short-term (2-month, 3-month) CP at 7.4%. The company intends to keep the share of CP between 10-13% of total funding.
- Securitisation
 - PNBHF plans to keep the share of assignment at 10-11% of total funding.
 - The company has done about Rs 15-20bn securitization transactions in 4QFY19.
- Cash position was about Rs 60bn. It is along similar lines at the end of March.

Business and loan growth

- Retail disbursements will show growth in 4QFY19 on a sequential basis.
- Wholesale lending
 - The company is currently cautious on wholesale lending.
 - The contribution of wholesale lending to overall book may decline by ~100 bps.
- Guidance for FY20
 - Expect growth loan book at 1.5-1.7x HFC industry in FY20.
 - As per ICRA, the industry is expected to grow 15-16% in FY20.
- About 20% of retail disbursements over the past 12 months have been in the less than Rs 2.5mn ticket size range.
- There is no dramatic shift in average ticket size, with the metric declining from Rs 3.2mn to Rs 3.1mn over the past 12 months.
- New branches opened over the past 2 years are incrementally contributing 30% of retail disbursements.
- 54 branches are in Category A cities like Mumbai and Pune whereas 56 branches in Category B cities like Surat, Chandigarh, Dehradun, Bhubhaneshwar, Kochi and Vizag.

Asset quality

- Chunky stressed wholesale accounts
 - Supertech
 - Exposure of Rs 2.78bn.
 - Mainly a Gurgaon-based mass housing project with a ticket size of Rs 8mn.
 - Supertech plans to sell off its commercial project in Noida.
 - Ireo
 - Exposure of Rs 3.9bn.
 - Ireo is in talks with a private equity investor.
 - Both the aforementioned accounts are currently standard.
 - Apart from these two, there is no other chunky stressed account.
- There are nil 0 dpd cases in the LRD and CTL.
- There are a few 0 dpd cases in the CF book but the NPA is nil.
- IndAS
 - The company plans to make excess provisions over and above ECL requirements.
 - Despite this, the company does not expect any rise in steady state provisioning compared with past run rate.
 - Credit costs would be in the 30 bps ballpark.

Margin picture

- The company expects to earn a spread of 205-215 bps in FY20.
- The company has increased interest rates a total of 4 times in FY20, the cumulative quantum of interest rate rise being 75 bps for retail loans and 100 bps for wholesale loans.
- PNBHF has a multiple reference rate system for various loan products across salaried and non-salaried clients which allows for high flexibility in interest rate setting.
- The loan book is also divided as per the date of sourcing. This also aids interest rate setting.
- There has been a further 20 bps rate hike in the individual segment on 1st April.

Operating Expenses

- Aim to decrease operating expenses to ATA by ~60 bps in FY20.
- It takes about 1 year for branches to break even and another 1-1.5 years to reach an optimal level of performance.
- There is no plan to open any new branch in FY20. 3-4 have been opened in 4QFY19.
- There is no expectation of net hiring in FY20.

Leadership

- Carlyle Group has representation on the board and makes suggestions from time to time.
- Mr. Sanjaya Gupta, PNBHF MD, who is 56 years of age, is in a 5-year tenure that started in 2015.

Capital raise

- PNBHF plans to raise capital in the second half of FY20.
- The general thumb rule for capital raise is when financial leverage reaches 11x with an RoA of ~1.65-1.7% and consequent RoE threshold of ~18%.

Recent key exchange filings

- PNBHF credit rating placed under watch by CARE Ratings: [Link to Exchange Filing](#)
- Capital raising plans to be considered during PNBHF board meeting on 9th May: [Link to Exchange Filing](#)

Exhibit 1: Financial summary

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Net interest income	9,964	15,516	19,886	24,988	32,873
Pre-provisioning operating profit	9,069	14,779	18,864	26,111	32,851
PAT	5,237	8,307	10,807	13,626	17,199
EPS (Rs)	31.6	49.9	64.9	75.7	95.6
BV (Rs)	336.7	378.6	436.2	532.3	620.7
P/E (x)	22.0	13.9	10.7	9.2	7.3
P/BV (x)	2.1	1.8	1.6	1.3	1.1
Gross NPAs (%)	0.2	0.3	0.7	1.5	1.5
Net NPAs (%)	0.2	0.3	0.3	0.6	0.0
RoA (%)	1.4	1.6	1.5	1.5	1.5
RoE (%)	13.6	14.0	15.9	16.2	16.6

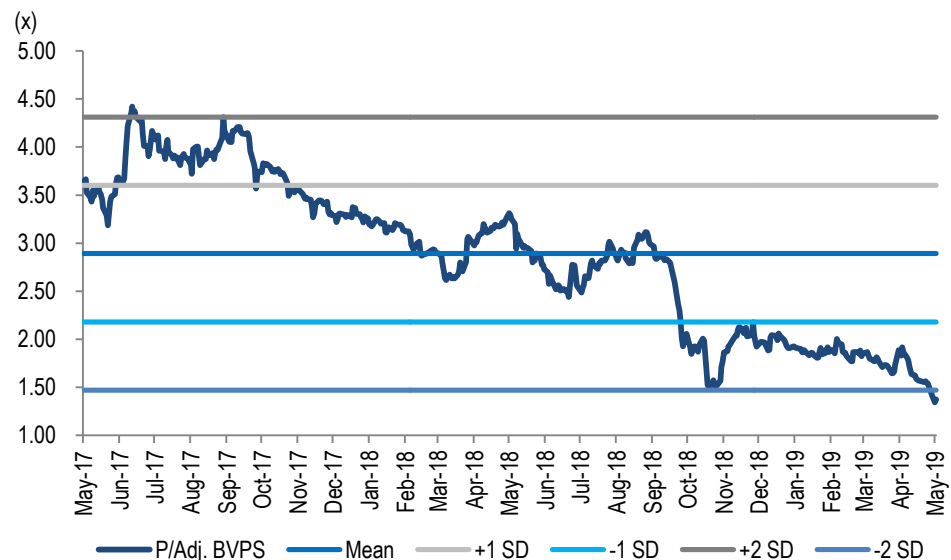
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Change in our estimates

	Revised estimate			Earlier estimate			% Revision		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Net interest income (Rsmn)	19,886	24,988	32,873	19,886	24,909	36,318	0.0	0.3	(9.5)
NIM (%)	3.0	2.9	3.1	3.0	2.8	3.1	0 bps	9 bps	-3 bps
Operating profit (Rsmn)	18,864	26,111	32,851	18,864	25,444	35,500	0.0	2.6	(7.5)
Profit after tax (Rsmn)	10,807	13,626	17,199	10,807	14,226	20,960	0.0	(4.2)	(17.9)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: One-year forward P/ABV



Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 4: Income statement

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Interest income	36,401	50,824	71,255	88,406	109,793
Interest expenses	26,437	35,308	51,369	63,419	76,920
Net interest income	9,964	15,516	19,886	24,988	32,873
Non-interest income	2,678	4,346	5,037	8,975	9,921
Net revenues	12,642	19,862	24,923	33,962	42,793
Operating expenses	3,573	5,082	6,059	7,852	9,942
-Employee expenses	1,013	1,365	3,031	3,552	5,190
-Other expenses	2,560	3,718	3,028	4,299	4,752
Pre-provisioning operating profit	9,069	14,779	18,864	26,111	32,851
Provisions	1,029	1,988	2,612	5,148	6,392
PBT	8,040	12,791	16,252	20,963	26,459
Tax	2,803	4,484	5,444	7,337	9,261
PAT	5,237	8,307	10,807	13,626	17,199

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Balance sheet

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Share capital	1,656	1,666	1,666	1,799	1,799
Reserves & surplus	54,117	61,402	71,006	93,968	109,867
Net worth	55,773	63,068	72,672	95,768	111,666
Borrowings	354,971	540,722	697,089	831,071	1,022,425
Other liability & provisions	18,851	34,226	50,576	68,888	90,746
Total liabilities	429,596	638,016	820,337	995,726	1,224,838
Fixed assets	604	857	865	874	882
Investments	9,614	11,617	14,521	18,151	22,688
Loans	385,713	570,957	774,889	944,718	1,167,160
Cash	1,515	28,169	2,325	2,834	3,501
Other assets	32,150	26,417	27,738	29,149	30,606
Total assets	429,596	638,016	820,337	995,726	1,224,838

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Key ratios

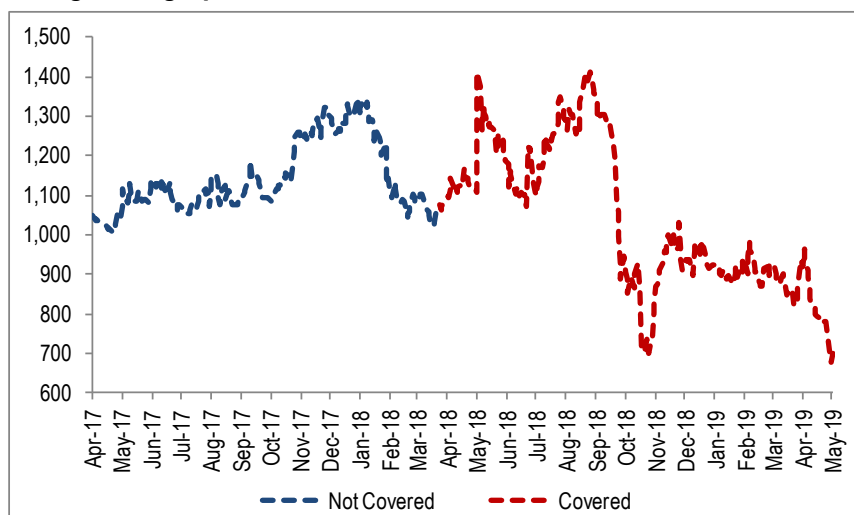
Y/E March	FY17	FY18	FY19E	FY20E	FY21E
Growth (%)					
Net interest income	45.3	55.7	28.2	25.7	31.6
Operating profit	54.7	63.0	27.6	38.4	25.8
Profit after tax	60.4	58.6	30.1	26.1	26.2
Business (%)					
Advances growth	36.8	48.0	35.7	21.9	23.5
Spread (%)					
Yield on loans	10.6	10.4	10.4	10.1	10.2
Cost of borrowings	8.6	7.9	8.3	8.3	8.3
Spread	2.0	2.5	2.1	1.8	1.9
NIM	2.9	3.2	3.0	2.9	3.1
Operational efficiency (%)					
Cost- to-income	28.3	25.6	24.3	23.1	23.2
Cost-to-AUM	1.1	1.1	0.9	0.9	0.9
Productivity (Rsmn)					
Loan per branch	6,122.4	6,797.1	6,980.0	8,509.8	8,500.0
Loan per employee	386.1	442.6	498.6	531.9	472.2
Employee per branch	15.9	15.4	14.0	16.0	18.0
CRAR (%)					
Tier I	16.5	12.8	11.2	11.7	11.0
Tier II	5.1	3.9	3.1	2.9	2.8
Total	21.6	16.7	14.3	14.6	13.8
Asset quality (%)					
Gross NPAs	0.2	0.3	0.7	1.5	1.5
Net NPAs	0.2	0.3	0.3	0.6	0.0
Specific provision coverage	31.2	22.7	56.0	57.7	83.3
Credit cost (excluding std. asset)	0.2	0.3	0.2	0.5	0.5
Credit cost (including std. asset)	0.3	0.4	0.4	0.6	0.6
Return ratios (%)					
RoE	13.6	14.0	15.9	16.2	16.6
RoA	1.4	1.6	1.5	1.5	1.5
Per share (%)					
EPS	31.6	49.9	64.9	75.7	95.6
BV	336.7	378.6	436.2	532.3	620.7
ABV	333.2	369.9	421.9	499.0	604.4
Valuation (x)					
P/E	22.0	13.9	10.7	9.2	7.3
P/BV	2.1	1.8	1.6	1.3	1.1
P/ABV	2.1	1.9	1.6	1.4	1.1

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
26 March 2018	Buy	1,139	1,410
4 May 2018	Buy	1,414	1,634
10 August 2018	Buy	1,305	1,673
9 October 2018	Buy	890	1,312
6 November 2018	Buy	880	1,272
25 January 2019	Buy	925	1,267
8 April 2019	Buy	934	1,140
6 May 2019	Buy	695	931

Rating track graph



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