

# PNB Housing Finance

10 August 2018

Reuters: PNBH.NS; Bloomberg: PNBHOUSI IN

## Growth Diverges Even More From The Peer Set

PNB Housing Finance (PNBHF) reported 1QFY19 results with the key strategic pointers being: (1) Loan assets continued to grow at an industry-leading rate of 45% YoY implying PNBHF in minimally impacted by generic challenges, including RERA, to the physical real estate sector and to the HFC segment (2) PNBHF plans to have ~7-8% of AUM in assignment pool as means of liquidity management (3) Asset quality remains best-in-class (See [comprehensive conference call takeaways below](#); [see initiating coverage report here](#)). Per se, on the results front, PNBHF posted 28.1% YoY NII growth at Rs4,329mn, PPOP growth of 33.7% YoY at Rs4,193mn and PAT growth of 50.4% YoY at Rs2,558mn. We have revised our estimates for FY19/FY20 and retained Buy rating on PNBHF, revising our target price to Rs1,673 (from Rs1,634 earlier) and valuing the stock at 3.1x FY20E P/BV.

**Loan assets continue to grow at an industry-leading rate of 45% YoY:** While the wider physical real estate sector has been beset with supply side issues, particularly in the affordable housing space owing to onerous compliance requirements of RERA, PNBHF seems largely unaffected by second order impact felt by other HFCs. High growth is driven, among other reasons, by capacity addition which PNBHF will continue to focus on with 24 branch openings planned in FY19, with 1 completed in 1QFY19

**PNBHF plans to have ~7-8% of AUM in assignment pool as means of liquidity management:** In times of volatile interest rate scenario, management sees direct assignment as a means of incrementally better liquidity management. Proportion of CP in funding at 15.7% is also something management is comfortable with, especially in comparison with getting locked into long-term funding at higher interest rates.

**Asset quality remains best-in-class:** PNBHF continues to maintain pristine asset quality with its overall GNPA ratio at 43 bps of loan book. Gross NPAs for corporate terms loans is negligible. Provision coverage ratio remains very comforting at 172% even after transition to ECL provisioning under the IndAS regime. The negative impact of Rs213.7mn to 1QFY18 bottomline due to ECL provisioning was on account of allowing recalcitrant accounts to fall to NPA bucket in that quarter. IndAS only serves to smooth provisioning over the lifetime of loan asset.

**Valuation and outlook:** We have revised our NII estimates by 1.4%/1.8%, PPOP estimates by 2.7%/2.7% and PAT estimates by 1.1%/0.6% for FY19/FY20, respectively. We have retained Buy rating on PNBHF, revising our target price to Rs1,673 (from Rs1,634 earlier) and valuing the stock at 3.1x FY20E P/BV.

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## BUY

Sector: NBFC

CMP: Rs1,305

Target Price: Rs1,673

Upside: 28%

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### Key Data

Current Shares O/S (mn)	167.5
Mkt Cap (Rsbn/US\$bn)	217.6/3.2
52 Wk H / L (Rs)	1,718/1,051
Daily Vol. (3M NSE Avg.)	548,996

### Price Performance (%)

	1 M	6 M	1 Yr
PNB Housing Finance	11.2	6.8	(14.6)
Nifty Index	5.7	9.7	15.8

Source: Bloomberg

Y/E March (Rsmn)	1QFY19	1QFY18	4QFY18	YoY (%)	QoQ (%)
Interest income	15,326	10,885	14,686	40.8	4.4
Interest expenses	10,998	7,505	10,168	46.5	8.2
<b>Net interest income</b>	<b>4,329</b>	<b>3,380</b>	<b>4,518</b>	28.1	(4.2)
<b>NIM (%)</b>	<b>2.7</b>	<b>3.1</b>	<b>3.1</b>	(36bps)	(33bps)
Fee & other income	1,157	717	1,014	61.4	14.1
<b>Operating income</b>	<b>5,486</b>	<b>4,097</b>	<b>5,532</b>	33.9	(0.8)
Staff costs	506	321	402	57.7	25.8
Other operating expenses	787	641	1,265	22.8	(37.8)
Total operating expenses	1,293	962	1,667	34.4	(22.5)
Cost- to- income (%)	23.6	23.5	30.1	9bps	(657bps)
<b>Operating profit</b>	<b>4,193</b>	<b>3,136</b>	<b>3,865</b>	33.7	8.5
Provisions	440	681	444	(35.4)	(0.9)
<b>PBT</b>	<b>3,753</b>	<b>2,455</b>	<b>3,421</b>	52.9	9.7
Tax	1,195	754	1,231	58.4	(3.0)
-effective tax rate	31.8	30.7	36.0	111bps	(415bps)
<b>PAT</b>	<b>2,558</b>	<b>1,701</b>	<b>2,190</b>	50.4	16.8
Other Comprehensive Income	2	-2	-	NA	NA
<b>Total Comprehensive Income</b>	<b>2,560</b>	<b>1,699</b>	<b>2,190</b>	50.7	16.9
EPS (Rs)	15.3	10.2	13.1	50.0	16.2
<b>AUM</b>	<b>97,673</b>	<b>77,940</b>	<b>87,390</b>	<b>25.3</b>	<b>11.8</b>

NB: 1QFY19 and 1QFY18 figures are as per Ind AS Source: Company, Nirmal Bang Institutional Equities Research

## Comprehensive Conference Call Takeaways

- As per Ind AS, acquisition cost and processing fees are to be amortized over a period. PNBHF used to follow this practice even when it reported as per IGAAP. Thus, impact of Ind AS on these parameters has been miniscule.
- The management stated that the impact of EIR due to Ind AS was not substantial and it resulted in a positive impact of Rs.35.8mn in FY18.
- As per Ind AS, there is an upfront recognition of income earned from assigned portfolio and over its tenure, amortization of assignment income takes place. This negatively impacted 1QFY18's income by Rs.105mn.
- The management stated that for ECL computation they draw upon the 3 stage impairment model. The 3 key parameters are Probability of Default (PD), Exposure at Default and Loss Given Default. This new method of provisioning led to a negative impact of Rs.213.7mn in 1QFY18.
- As per Ind AS, ESOP valuation impact is to be recorded in the income statement. Share based payments are to be valued at fair value. This led to a negative impact of Rs.35mn in 1QFY18.
- As per Ind AS, deferred tax liabilities on reserves are not required to be maintained any longer. This led to its reversal resulting in a positive impact of Rs.111.8mn.
- As per Ind AS, reversal of gains on investment sales led to a negative impact of Rs.63mn in 1QFY18. Investments are to be recorded at fair value.
- Transitioning to Ind AS resulted in networth of FY18 to be Rs.66006mn. As per IGAAP networth of FY18 stood at Rs.63055mn.
- Total loans worth ~Rs.46720mn were assigned through direct assignment route. Thus, net loans after securitization stood at Rs.639bn having a healthy YoY growth rate of 45%.
- Around 22% of the individual housing loan category is of ticket size less than Rs.2.5mn. Part of it is PSL and can be sold as PSLC at attractive prices to banks. It helps in mitigating rising interest rate scenario.
- The management stated that the lending rate had been revised upwards by 25 bps in April 2018 across all floating portfolio. On 1<sup>st</sup> July, rates were further revised upwards by 15 bps, but this rise is only applicable for businesses acquired post 1<sup>st</sup> July 2018. This measure insulates loyal customers of the bank.
- The management has developed a specialised and dedicated team overseeing collateral underwriting and monitoring mechanism. Due to these stringent internal norms, PNBHF has managed to maintain negligible NPA on their corporate term loan book.
- The management stated that their high growth is driven by capacity creation, technology and skill of their workforce. Branches opened after FY17 have contributed to about 30% of their incremental business.
- The management believes their TAT and their products are superior. They have developed an enterprise system solution named Castle which basically takes care of complete end to end management such as ALM, digitization, property management etc.
- The management stated that there was a release of Rs.450mn due to ECL. They have taken this amount under their contingency reserve which rose from Rs.1015mn to ~Rs.1450mn.
- In 1QFY18 the management had allowed accounts to fall into NPL to take them to court. This rise in NPA has led to a negative impact under ECL for 1QFY18.
- The management stated that the impact of EIR has not been much on their NIM level. As per IGAAP, NIM stood at 2.14% in 1QFY18 and 2.12% in 1QFY19. As per Ind AS, NIM stood at 2.15%, 2.29% and 2.11% for 1QFY18, 4QFY18 and 1QFY19 respectively.
- Top 20 borrowers amounting to Rs.77bn forming 13% of the total advances are real estate developed rated AAA by Crisil with a good credit history. LRD is a self-liquidating book and hence brings down the risk.
- Floating rate book is 70%-73% of the total loan book. Rest is short term loans, not more than 5 years, usually shorter, based on fixed rate.

- The management stated that the increase in interest rates generally takes about 105 days to completely pass on to the floating rate loans.
- Incremental yield on PNBHF's construction finance book stood at 11.94% and LRD book at 8.93% for 1QFY19.
- The management stated that they are comfortable with their current share of CP borrowings at 16% of total borrowings as of this quarter end. The CPs are backed by approved sanctioned OD lines of banks.
- The management is expecting to open 24 branches for the full year of FY19.
- As per Ind AS, cost of borrowing of 7.7% this quarter is inclusive of zero coupon bond.
- Reference rate for new series stood at 8.85% while for old series it stood at 8.75%.
- Category wise on-book yield: Housing loan - 9.30%, Construction finance - 12.82%, Non-housing - 10.51%, LAP - 10.43% and LRD - 9.49%.
- ESOP expenses stood at Rs.45mn for the quarter. Annual projections will depend on the stock price movement.
- In a rising or a volatile interest rate scenario, it is better not to lock into long-term funding at high interest rates.
- The management stated that the cost of borrowings from banks ranged 8.3%-8.6% in this quarter.
- The management stated that since they aren't passing on the recent interest rate hike on their old customers, balance transfer this year will be low.

## Exhibit 1: Financial summary

Y/E March (Rsmn)	FY16	FY17	FY18	FY19E	FY20E
Net interest income	7,585	11,297	17,194	24,004	32,528
Pre-provision profit	5,838	9,015	14,596	21,660	29,190
PAT	3,265	5,237	8,307	12,231	17,034
EPS (Rs)	25.7	31.6	49.9	73.4	102.3
BV (Rs)	169.1	336.7	378.6	444.8	539.8
P/E (x)	50.7	41.3	26.2	17.8	12.8
P/BV (x)	7.7	3.9	3.4	2.9	2.4
Gross NPAs (%)	0.2	0.2	0.3	0.7	0.7
Net NPAs (%)	0.1	0.2	0.3	0.3	0.2
RoA (%)	1.3	1.4	1.6	1.7	1.8
RoE (%)	17.5	13.6	14.0	17.8	20.8

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 2: Actual performance versus our estimates

(Rsmn)	1QFY19	1QFY18	4QFY18	YoY (%)	QoQ (%)	1QFY19E	Devi. (%)
Net interest income	4,329	3,380	4,518	28.05	(4.20)	5,029	(13.93)
Pre-provision profit	4,193	3,136	3,865	33.72	8.48	4,483	(6.48)
PAT	2,558	1,701	2,190	50.43	16.81	2,570	(0.47)

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 3: Change in our estimates

	Revised estimate		Earlier estimate		% Revision	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Net interest income (Rsmn)	24,004	32,528	23,665	31,959	1.4	1.8
NIM (%)	3.5	3.5	3.7	3.7	(18bps)	(21bps)
Operating profit (Rsmn)	21,660	29,190	21,098	28,422	2.7	2.7
Profit after tax (Rsmn)	12,231	17,034	12,095	16,933	1.1	0.6

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 4: One-year forward P/ABV



Source: Company, Nirmal Bang Institutional Equities Research

## Financials

### Exhibit 5: Income statement

Y/E March (Rsmn)	FY16	FY17	FY18	FY19E	FY20E
Interest income	25,461	36,401	50,824	72,528	97,733
Interest expenses	17,876	25,104	33,630	48,524	65,205
<b>Net interest income</b>	<b>7,585</b>	<b>11,297</b>	<b>17,194</b>	<b>24,004</b>	<b>32,528</b>
Non-interest income	1,525	2,678	4,346	6,386	8,301
<b>Net revenues</b>	<b>9,111</b>	<b>13,975</b>	<b>21,540</b>	<b>30,389</b>	<b>40,829</b>
Operating expenses	3,273	4,959	6,944	8,729	11,639
-Employee expenses	753	1,013	1,365	1,883	2,460
-Other expenses	2,520	3,947	5,579	6,846	9,179
<b>Operating profit</b>	<b>5,838</b>	<b>9,015</b>	<b>14,596</b>	<b>21,660</b>	<b>29,190</b>
Provisions	807	975	1,805	2,550	2,574
PBT	5,031	8,040	12,791	19,110	26,616
Tax	1,766	2,803	4,484	6,880	9,582
<b>PAT</b>	<b>3,265</b>	<b>5,237</b>	<b>8,307</b>	<b>12,231</b>	<b>17,034</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 7: Balance sheet

Y/E March (Rsmn)	FY16	FY17	FY18	FY19E	FY20E
Share capital	1,269	1,656	1,666	1,666	1,666
Reserves & surplus	20,190	54,117	61,402	72,429	88,260
<b>Net worth</b>	<b>21,459</b>	<b>55,773</b>	<b>63,068</b>	<b>74,095</b>	<b>89,925</b>
Borrowings	2,60,137	3,54,971	5,40,722	7,19,655	9,31,105
Other liability & provisions	15,114	18,851	34,226	49,970	67,919
<b>Total liabilities</b>	<b>2,96,710</b>	<b>4,29,596</b>	<b>6,38,016</b>	<b>8,43,720</b>	<b>10,88,950</b>
Fixed assets	622	604	857	865	874
Investments	7,821	9,614	11,617	14,521	18,151
Loans	2,81,953	3,85,713	5,70,957	7,98,202	10,37,663
Cash	2,485	1,515	28,169	2,395	3,113
Other assets	3,829	32,150	26,417	27,738	29,149
<b>Total assets</b>	<b>2,96,710</b>	<b>4,29,596</b>	<b>6,38,016</b>	<b>8,43,720</b>	<b>10,88,950</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 6: Key ratios

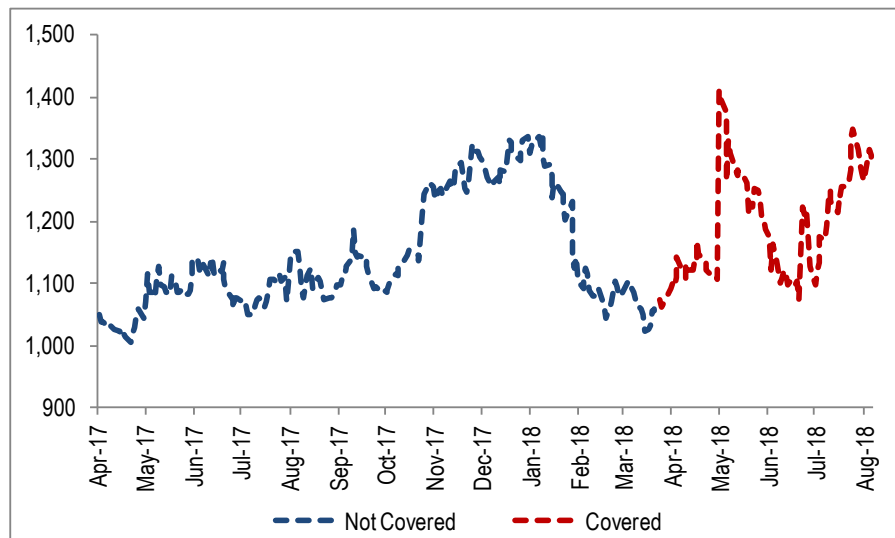
Y/E March	FY16	FY17	FY18	FY19E	FY20E
<b>Growth (%)</b>					
Net interest income	68.4	48.9	52.2	39.6	35.5
Operating profit	75.4	54.4	61.9	48.4	34.8
Profit after tax	66.5	60.4	58.6	47.2	39.3
<b>Business (%)</b>					
Advances growth	67.4	36.8	48.0	39.8	30.0
<b>Spread (%)</b>					
Yield on loans	11.1	10.6	10.4	10.4	10.5
Cost of borrowings	8.4	8.2	7.5	7.7	7.9
Spread	2.6	2.5	2.9	2.7	2.6
NIM	3.3	3.3	3.5	3.5	3.5
<b>Operational efficiency (%)</b>					
Cost- to-income	35.9	35.5	32.2	28.7	28.5
Cost-to-AUM	1.5	1.5	1.5	1.3	1.3
<b>Productivity (Rsmn)</b>					
Loan per branch	-	6,122.4	6,797.1	7,400.0	8,100.0
Loan per employee	-	386.1	442.6	493.3	540.0
Employee per branch	-	15.9	15.4	15.0	15.0
<b>CRAR (%)</b>					
Tier I	9.0	16.5	12.8	11.1	10.0
Tier II	3.7	5.1	3.9	3.1	2.5
Total	12.7	21.6	16.7	14.2	12.5
<b>Asset quality (%)</b>					
Gross NPAs	0.2	0.2	0.3	0.7	0.7
Net NPAs	0.1	0.2	0.3	0.3	0.2
Specific provision coverage	36.2	31.2	22.7	53.2	76.4
Credit cost (excluding std. asset)	0.1	0.2	0.3	0.2	0.2
Credit cost (including std. asset)	0.4	0.3	0.4	0.4	0.3
<b>Return ratios (%)</b>					
RoE	17.5	13.6	14.0	17.8	20.8
RoA	1.3	1.4	1.6	1.7	1.8
<b>Per share (%)</b>					
EPS	25.7	31.6	49.9	73.4	102.3
BV	169.1	336.7	378.6	444.8	539.8
ABV	166.1	333.2	369.9	429.1	529.5
<b>Valuation (x)</b>					
P/E	50.7	41.3	26.2	17.8	12.8
P/BV	7.7	3.9	3.4	2.9	2.4
P/ABV	7.9	3.9	3.5	3.0	2.5

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

**Rating track graph**



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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