

PNB Housing Finance

6 November 2018

Reuters: PNBH.NS; Bloomberg: PNBHOUSI IN

Relatively Soft Quarter Not Structural In Nature

PNB Housing Finance (PNBHF) reported 2QFY19 results with the key pointers being: (1) Disbursements growth slowed to 14% YoY compared with 25% in 1QFY19 (2) NIM contracted 2 bps QoQ to 2.72% due to number of non-structural reasons (3) Asset quality remains best-in-class with a GNPA ratio of 0.45% (4) Opex to ATA metric looked optically poor, rising 15 bps YoY to 0.68% due to non-structural HR costs (See *comprehensive* conference call takeaways below; see [initiating coverage report here](#)). Per se, on the results front, PNBHF posted 6% YoY NII growth at Rs3,832mn, PPOP growth of 24% YoY at Rs4,372mn and PAT growth of 33% YoY at Rs2,530mn. We have revised our estimates for FY19/FY20/FY21 and retained Buy rating on PNBHF, revising our target price to Rs1,272 (from Rs1,312 earlier) and valuing the stock at 2.0x 1HFY21E P/BV.

Disbursements growth slowed to 14% YoY compared with 25% in 1QFY19: Disbursements growth slowed due to a variety of reasons but mainly due to the primary market slowing down. This market slowdown little to do with PNBHF's own liquidity and everything to do with issues pertaining to the underlying physical real estate market including. At the same time, it has been a conscious decision of PNBHF to maintain excess liquidity, something they had articulated during the 4QFY18 conference call. As a result, PNBHF has maintained an excess of liquidity of ~Rs 42bn of 2QFY19-end, which has resulted in concomitantly lower disbursements. This excess was ~Rs 30bn as of 1QFY19-end.

NIM contracted 2 bps QoQ to 2.72% due to number of non-structural reasons: One of the reasons for NIM contraction (which is 29 bps YoY) is the policy of PNBHF to maintain excess liquidity as articulated above. Another aspect impact NIM negatively is rising leverage. Management indicated they would raise capital when leverage rises to 12-12.5x, which is slated to happen sometime in 4QFY20. Lastly, re-pricing of loan book yield upward on revision of interest rates plays out with a lag. About 70% of PNBHF is floating rate in nature.

Asset quality remains best-in-class with a GNPA ratio of 0.45%: Importantly, gross NPAs for wholesale book, which is a systemic concern is nil for PNBHF. Provision coverage ratio including non-mandatory floating provisions remains very comforting at 177%. Management disclosed an exposure of Rs 2.8bn to stressed developer Supertech and said they were carrying adequate provisions on this exposure. There is no direct or indirect exposure to IL&FS Group.

Valuation and outlook: We have revised our NII estimates by -3.5%/-6.2%/-5.6%, PPOP estimates by -4%/-6.7%/-6% and PAT estimates by -4.2%/-10.7%/-6.4% for FY19/FY20/FY21, respectively. We have retained Buy rating on PNBHF, revising our target price to Rs1,272 (from Rs1,312 earlier) and valuing the stock at 2.0x 1HFY21E P/BV.

BUY

Sector: NBFC

CMP: Rs880

Target Price: Rs1,272

Upside: 45%

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Key Data

Current Shares O/S (mn)	167.5
Mkt Cap (Rsbn/US\$bn)	149.9/2.1
52 Wk H / L (Rs)	1,444/694
Daily Vol. (3M NSE Avg.)	392,746

Price Performance (%)

	1 M	6 M	1 Yr
PNB Housing Finance	5.0	(35.9)	(37.1)
Nifty Index	2.1	(0.8)	0.7

Source: Bloomberg

Y/E March (Rsmn)	2QFY19	2QFY18	1QFY19	YoY (%)	QoQ (%)
Interest income	16,121	11,972	15,238	34.7	5.8
Interest expenses	12,289	8,348	10,998	47.2	11.7
Net interest income	3,832	3,624	4,241	5.8	(9.6)
NIM (%)	2.7	3.0	2.7	(29bps)	(2bps)
Fee & other income	1,962	773	1,245	153.9	57.6
Operating income	5,794	4,396	5,486	31.8	5.6
Staff costs	809	297	506	172.6	59.9
Other operating expenses	613	584	787	5.0	(22.1)
Total operating expenses	1,422	881	1,293	61.5	10.0
Cost-to-income (%)	24.5	20.0	23.6	451bps	98bps
Operating profit	4,372	3,516	4,193	24.4	4.3
Provisions	647	756	440	(14.4)	47.0
PBT	3,725	2,760	3,753	35.0	(0.7)
Tax	1,195	859	1,195	39.1	-
-effective tax rate	32.1	31.1	31.8	95bps	24bps
PAT	2,530	1,901	2,558	33.1	(1.1)
Other comprehensive income	14	-219	2	(106.2)	513.6
Total comprehensive income	2,543	1,681	2,560	51.3	(0.7)
EPS (Rs)	15.1	11.4	15.3	32.8	(1.1)
AUM	7,34,820	5,13,200	6,85,775	43.2	7.2

Source: Company, Nirmal Bang Institutional Equities Research

Comprehensive Conference Call Takeaways

Asset Quality

- On their construction finance book, the management stated that they look at many parameters such as sales and collection velocity, developer rating, stage of construction, collateral underwriting etc to efficiently grant credit on this front. In more than 85 projects, developer own contribution is ~20%.
- The management stated that they have formed relationships with 173 real estate developers with 83% of real estate exposure in Tier 1 cities. They carry out continuous monitoring, including during post-disbursement stage, for early warning signals. Geographically, largest share comes from West at 43%, North is 29% and South is 28%.
- The management categorically stated that they do not have any corporate exposure to real estate groups such as Jaypee, Amrapali, Unitech, Parsvnath, SRH, Era.
- The management stated that they do not have any direct or indirect exposure to the IL&FS group.
- On the Supertech account, the management stated that they have issued 2 loans amounting to ~Rs2,800mn, of which, one is a completed project, while the other one is under construction in Gurgaon. Both the accounts are not an NPA and are adequately provided for and backed by an escrow mechanism.
- On the one completed project, current outstanding amount is Rs250mn. Earlier, it was Rs500mn.
- Outstanding amount on the under construction exposure stands at Rs2,300mn. In this exposure, there are two projects in which simultaneously construction is taking place. Sales velocity is 36%, which is as per their proposed covenant.
- Assigned loans outstanding stood at ~Rs66,900mn as of this quarter end.
- The management stated that there was no reported loss or damage to the collateral of the loan borrowers in Kerala.
- The management stated that due to their stringent norms for customer selection and credit monitoring, they registered a nil NPA on their wholesale book.
- The management stated that they are the sole lenders in most accounts. In only 3 accounts, they are participating in consortium.
- The management stated that the credit enhancement step from RBI is not of significant incremental value for them since they are already AAA- rated.
- The management stated that they had 2 NPAs in their wholesale book, which they managed to cure. Those 2 construction projects were sold.
- Including floating provisions, overall PCR stands at 177%.
- 5-6 accounts of the wholesale book are in Stage 1 and Stage 2.
- The management stated that the prepayments have come down since they have insulated their past portfolio. Including normal amortization and prepayment, the management expects an 18-19% run-off rate on their retail portfolio.
- The management stated that the largest exposure to an account in Delhi, NCR region is Rs3000-3500mn.
- The management stated that about 10% of the AUM will be securitized on a steady state basis.

Loan and Business Growth

- The management stated that the growth rate has come down since the primary market has slowed down.
- Going forward, they believe they will be able to deliver a growth rate of 1.5-1.75x of the industry growth rate.

Margin, Liabilities and Liquidity

- The management stated that they had stressed the importance of excess liquidity from 4QFY18 conference call itself and now effectively stand at an excess liquidity of ~Rs42bn as of this quarter end. As of 1QFY19, the figure was around Rs30bn.
- Post September, PNBHF raised Rs60bn through CPs and USD200mn through ECBs.
- The management stated that the deposits applications have risen from ~3,500 in May to more than 7000 in September of this year.
- The management stated that the NII is lower than the average asset growth, as they were holding liquidity and not issuing credit. The second reason was higher leverage.
- The management stated that 70% of the total portfolio is linked to floating rate and there is a lag in reference rate change impact.
- Legacy high cost borrowings repricing lower have still provided a cushion from interest cost perspective.
- Income on assigned loans contributes 9bps to the 222bps spread.
- The management stated that the marginal cost of funds stood at 8.2-8.3% during the quarter.

Capital

- The management still maintains their timeline to raise capital between October 2019 and March 2020. Currently, their leverage ratio is 9-9.5x, which when goes up to 12-12.5x, they will raise capital.

Operating Expenses

- ESOP as per Ind AS resulted in a net impact of 5bps on the costs. Excluding the impact of non-structural HR costs, Opex to Average Total Assets will actually decline 2bps to 66bps.
- The management stated that their HR costs rose significantly this quarter due to salaries provided to DST employees brought under their fold via a subsidiary. Since, the subsidiary is owned 100%, fixed cost of DSTs cannot be amortized. This quarter witnessed promotions and bonuses as well. Overall, incremental HR cost were Rs180-190mn due to fixed salary costs of DSTs, Rs90mn due to ESOPs and Rs80mn due to increments and bonuses.

Fee Income

- The management stated that the cross sell income was about one-third of the total fee income of Rs2,310mn. Cross-sell fees are upfronted while processing fees are amortized.

Exhibit 1: Financial summary

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Net interest income	11,297	17,194	21,187	29,403	40,686
Pre-provision profit	9,015	14,596	18,829	26,163	37,262
PAT	5,237	8,307	10,508	14,574	21,770
EPS (Rs)	31.6	49.9	63.1	87.5	118.8
BV (Rs)	336.7	378.6	434.4	514.7	757.2
P/E (x)	27.8	17.6	13.9	10.1	7.4
P/BV (x)	2.6	2.3	2.0	1.7	1.2
Gross NPAs (%)	0.2	0.3	0.7	0.7	0.7
Net NPAs (%)	0.2	0.3	0.3	0.1	0.0
RoA (%)	1.4	1.6	1.4	1.6	1.8
RoE (%)	13.6	14.0	15.5	18.4	19.4

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Actual performance versus our estimates

(Rsmn)	2QFY19	2QFY18	1QFY19	YoY (%)	QoQ (%)	2QFY19E	Devi. (%)
Net interest income	3,832	3,624	4,241	5.8	(9.6)	5,034	(23.9)
Pre-provision profit	4,372	3,516	4,193	24.4	4.3	4,662	(6.2)
PAT	2,530	1,901	2,558	33.1	(1.1)	2,501	1.1

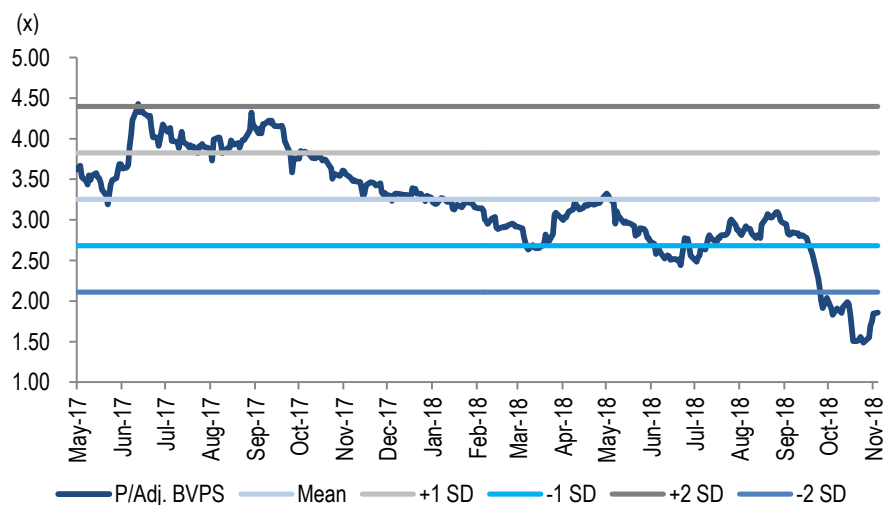
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Change in our estimates

	Revised estimate			Earlier estimate			% Revision		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Net interest income (Rsmn)	21,187	29,403	40,686	21,963	31,334	43,120	(3.5)	(6.2)	(5.6)
NIM (%)	3.1	3.3	3.5	3.2	3.5	3.6	(9bps)	(16 bps)	(15 bps)
Operating profit (Rsmn)	18,829	26,163	37,262	19,612	28,044	39,644	(4.0)	(6.7)	(6.0)
Profit after tax (Rsmn)	10,508	14,574	21,770	10,963	16,324	23,262	(4.2)	(10.7)	(6.4)

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)	FY17	FY18	FY19E	FY20E	FY21E
Interest income	36,401	50,824	71,318	94,985	1,25,487
Interest expenses	25,104	33,630	50,131	65,582	84,801
Net interest income	11,297	17,194	21,187	29,403	40,686
Non-interest income	2,678	4,346	6,199	8,059	11,388
Net revenues	13,975	21,540	27,386	37,462	52,074
Operating expenses	4,959	6,944	8,557	11,299	14,812
-Employee expenses	1,013	1,365	1,828	2,388	3,076
-Other expenses	3,947	5,579	6,729	8,911	11,736
Operating profit	9,015	14,596	18,829	26,163	37,262
Provisions	975	1,805	2,410	3,390	3,246
PBT	8,040	12,791	16,418	22,772	34,016
Tax	2,803	4,484	5,911	8,198	12,246
PAT	5,237	8,307	10,508	14,574	21,770

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Balance sheet

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Share capital	1,656	1,666	1,666	1,666	1,832
Reserves & surplus	54,117	61,402	70,706	84,077	1,36,924
Net worth	55,773	63,068	72,372	85,743	1,38,756
Borrowings	3,54,971	5,40,722	6,97,089	9,02,471	11,65,835
Other liability & provisions	18,851	34,226	50,876	70,338	93,388
Total liabilities	4,29,596	6,38,016	8,20,337	10,58,552	13,97,979
Fixed assets	604	857	865	874	882
Investments	9,614	11,617	14,521	18,151	22,688
Loans	3,85,713	5,70,957	7,74,889	10,07,356	13,39,783
Cash	1,515	28,169	2,325	3,022	4,019
Other assets	32,150	26,417	27,738	29,149	30,606
Total assets	4,29,596	6,38,016	8,20,337	10,58,552	13,97,979

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Key ratios

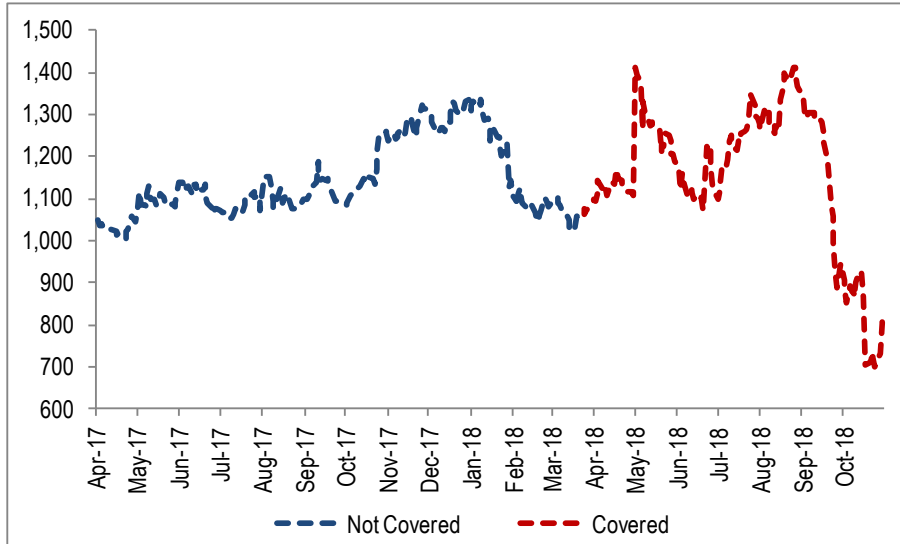
Y/E March	FY17	FY18	FY19E	FY20E	FY21E
Growth (%)					
Net interest income	48.9	52.2	23.2	38.8	38.4
Operating profit	54.4	61.9	29.0	39.0	42.4
Profit after tax	60.4	58.6	26.5	38.7	49.4
Business (%)					
Advances growth	36.8	48.0	35.7	30.0	33.0
Spread (%)					
Yield on loans	10.6	10.4	10.4	10.5	10.5
Cost of borrowings	8.2	7.5	8.1	8.2	8.2
Spread	2.5	2.9	2.3	2.3	2.3
NIM	3.3	3.5	3.1	3.3	3.5
Operational efficiency (%)					
Cost- to-income	35.5	32.2	31.2	30.2	28.4
Cost-to-AUM	1.5	1.5	1.3	1.3	1.3
Productivity (Rsmn)					
Loan per branch	6,122.4	6,797.1	7,400.0	8,100.0	9,200.0
Loan per employee	386.1	442.6	493.3	540.0	613.3
Employee per branch	15.9	15.4	15.0	15.0	15.0
CRAR (%)					
Tier I	16.5	12.8	11.1	9.8	11.9
Tier II	5.1	3.9	3.1	2.5	3.0
Total	21.6	16.7	14.3	12.3	14.9
Asset quality (%)					
Gross NPAs	0.2	0.3	0.7	0.7	0.7
Net NPAs	0.2	0.3	0.3	0.1	-
Specific provision coverage	31.2	22.7	52.2	88.3	101.0
Credit cost (excluding std. asset)	0.2	0.3	0.2	0.3	0.1
Credit cost (including std. asset)	0.3	0.4	0.4	0.4	0.3
Return ratios (%)					
RoE	13.6	14.0	15.5	18.4	19.4
RoA	1.4	1.6	1.4	1.6	1.8
Per share (%)					
EPS	31.6	49.9	63.1	87.5	118.8
BV	336.7	378.6	434.4	514.7	757.2
ABV	333.2	369.9	418.9	509.7	757.7
Valuation (x)					
P/E	27.8	17.6	13.9	10.1	7.4
P/BV	2.6	2.3	2.0	1.7	1.2
P/ABV	2.6	2.4	2.1	1.7	1.2

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

Rating track graph



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