PNB Housing Finance

10 May 2019

Reuters: PNBH.NS; Bloomberg: PNBHOUSI IN

4QFY19 Result Update

Asset Quality Will Not Fall Off A Cliff

PNB Housing Finance (PNBHF) reported 4QFY19 results with the key pointers being: (1) Spread expanded 3 bps QoQ to 2.59% with cost of borrowings easing more than yield (2) Disbursements declined 8% QoQ to Rs 85.62bn with a view to maintaining liquidity (3) Management flagged a stressed pool of Rs 9.08bn but also cited low LGD experience. Asset quality outcomes remain best-in-class with a Stage 3 (GNPA) ratio of 0.48% (4) Opex to ATA declined 3 bps QoQ to 70 bps despite adverse optical impact of IndAS (See *comprehensive* conference call takeaways on page 2 for *significant incremental colour*). Per se, on the key P&L items, PNBHF posted 13% YoY NII growth at Rs6,097mn, PPOP growth of 20% YoY at Rs5,552mn and PAT growth of 51% YoY at Rs3,798mn. We have revised our estimates for FY20/FY21 and retained Buy rating on PNBHF, revising our target price to Rs934 (from Rs931 earlier) and valuing the stock at 1.5x FY21E P/BV.

Spread expanded 3 bps QoQ to 2.59% with cost of borrowings easing more than yield: Cost of borrowings eased 15 bps QoQ to 8.06% whereas yield declined lesser at 12 bps QoQ to 10.65%. NIM expanded 12 bps QoQ to 3.18%. Yield decline was arrested due to residual impact of reference rate changes effected earlier. ~80% of loan book is floating rate in nature and it takes 105 days for reference rate change to flow through to the entire portfolio. There is a marginal reference rate change taken during March as well which will take till June to flow through. Management was conservative with spread guidance and said the company would be able to manage a spread of 210 bps on full year basis.

Disbursements declined 8% QoQ to Rs 85.62bn with a view to maintaining liquidity: PNBHF is currently maintaining over Rs 70bn as cash and liquid investments. At the same time, there have been no issues in raising funding from a variety of sources. Of the incremental borrowing of Rs 308.58bn during FY19, over 55% was executed in H2FY19. The company has recently guided that, in FY20, they would grow at 1.5-1.7x the HFC industry with the latter expected to grow at 15-16%. See our recent management meet update: Underperformance is Overdone.

Management flagged a stressed pool of Rs 9.08bn but also cited low LGD experience. Asset quality outcomes remain best-in-class with a Stage 3 (GNPA) ratio of 0.48%: Management earmarked a stressed pool of 5 developer finance accounts (5 projects) with no specific geographic concentration that are standard and are under resolution. Within this pool, accounts worth ~Rs 6bn were cited to be at greater risk. Importantly, management emphasized that, of the Rs 1.15bn worth accounts resolved in FY19, the write-off quantum was a mere Rs 21.4mn, implying a de facto LGD experience of <2%.

Opex to ATA declined 3 bps QoQ to 70 bps despite adverse optical impact of IndAS: Under IGAAP, cost of acquisition used to be amortised but under IndAS, fixed incentives cannot be amortised. Adjusted for this impact and that of ESOP expenses, Opex to ATA would have been much lower at ~63 bps.

Valuation and outlook: We have revised our NII estimates by -0.4%/-0.7%, PPOP estimates by -0.6%/-0.7% and PAT estimates by 0.3%/0.1% for FY20/FY21, respectively. We have retained Buy rating on PNBHF, revising our target price to Rs934 (from Rs931earlier) and valuing the stock at 1.5x FY21E P/BV.

BUY

Sector: NBFC

CMP: Rs698

Target Price: Rs934

Upside: 34%

Shivaji Thapliyal
Research Analyst
shivaji.thapliyal@nirmalbang.com
+91-22-6273 8068

Raghav Garg
Research Analyst
raghav.garg@nirmalbang.com
+91-22-6273 8192

Key Data

Current Shares O/S (mn)	167.5
Mkt Cap (Rsbn/US$bn)	116.9/1.7
52 Wk H / L (Rs)	1,429/675
Daily Vol. (3M NSE Avg.)	446,926

Price Performance (%)

	1 M	6 M	1 Yr
PNB Housing Finance	(21.9)	(25.0)	(46.7)
Nifty Index	(3.2)	6.8	5.2

Source: Bloomberg

Y/E March (Rsmn)	4QFY19	4QFY18	3QFY19	YoY (%)	QoQ (%)
Interest income	20,372	15,665	19,683	*30.1*	*3.5*
Interest expenses	14,275	10,256	14,103	*39.2*	*1.2*
Net interest income	**6,097**	**5,409**	**5,580**	*12.7*	*9.3*
NIM (%)	***3.18***	***3.59***	***3.06***	*-41 bps*	*12 bps*
Fee & other income	1,110	720	1,102	*54.1*	*0.7*
Total income	**7,207**	**6,129**	**6,682**	*17.6*	*7.9*
Staff costs	913	456	811	*100.4*	*12.6*
Other operating expenses	742	1,052	754	*(29.5)*	*(1.6)*
Total operating expenses	1,655	1,508	1,565	*9.8*	*5.8*
Cost- to- income (%)	*23.0*	*24.6*	*23.4*	*-164 bps*	*-45 bps*
Pre-provisioning operating profit	**5,552**	**4,621**	**5,117**	*20.1*	*8.5*
Provisions	101	847	701	*(88.1)*	*(85.6)*
PBT	**5,451**	**3,774**	**4,416**	*44.4*	*23.4*
Tax	1,653	1,258	1,386	*31.4*	*19.2*
-effective tax rate	30.3	33.3	31.4	*-301 bps*	*-106 bps*
PAT	**3,798**	**2,516**	**3,030**	*51.0*	*25.3*
Other comprehensive income	**(313)**	**134**	**(726)**	*(333.3)*	*(56.8)*
Total comprehensive income	**3,484**	**2,650**	**2,304**	*31.5*	*51.2*
EPS (Rs)	22.7	15.1	18.1	*50.2*	*25.3*
AUM	847,219	622,520	797,370	*36.1*	*6.3*

Source: Company, Nirmal Bang Institutional Equities Research

Comprehensive Conference Call Takeaways

Asset Quality

- As of March 2019, the company's corporate book 30 dpd delinquency rate was 1.70% compared to 2.57% as of March 2018. Gross NPA of this book as of March 2019 was 0.17%.
- On the corporate lending front, 70% of the disbursements during FY19 were to repeat customers which are time-tested and proven ones. Top 10 developers constitute >60% of the book.
- Regarding the corporate portfolio, the company stated it has a weighted average security cover of 2.2x and cash recoverable of over 1.5x. Despite this, the company is continuously monitoring the portfolio to identify early warning signals.
- The company has identified 5 accounts in its corporate portfolio which are not performing upto the mark. All these accounts are currently standard and the company is in the process of resolving them. The company has formed a special task force to cure these accounts. As a prudent measure, the company has allocated provisions in excess of ECL requirements to these accounts.
- These 5 accounts (5 projects across 5 companies) represent an exposure of Rs. 9.08 bn. Of this, Rs. 6 bn accounts are of serious concern. The exposures are distributed over NCR, MMR, Hyderabad and Bangalore. Further, of this total exposure, Rs. 8.45 bn is stage 1, however, the company has assumed significant increase in credit risk and hence treated these exposure to stage 2 for provisioning purposes. These loans have a security cover of 2-2.5x.
- The company stated it would remain cautious in lending to the corporate segment over the next few months.
- Assets held for sale (repossessed assets) on the balance sheet as of March 2019 were Rs. 1.31 bn compared to Rs. 1.78 bn last year.
- During the year, the company recovered 3 accounts worth Rs. 1.13 bn. Write off on these accounts was Rs. 21.4 mn for the year.
- During Q4FY19, a lot of stage 2 assets were resolved which aided an overall lower provisioning.
- The provision cover on stage 3 assets has reduced as the security cover on stage 3 assets outstanding has improved.
- The company stated it does not see any more exposure getting into the stock of stressed accounts which is already stated. The company has tightened its risk limits and tolerance levels.
- The company's total exposure to Supertech is Rs. 2.72 bn across two product lines, namely, construction finance and corporate term loan.
- Exposure to Lodha is Rs. 12 bn which has never defaulted. The relationship is since 2011 and the company has financed Lodha about 6 times since then.
- Most of the loans are absolute mortgages. There are only 4-5 cases of pari passu which includes Supertech, Onyx and Radial.

Business and Loan Growth

- The company focus during the quarter was on the retail segment.
- In terms of geographical distribution of the corporate book, West is 40%, south is 33% and North is 27%.
- During FY19, the company securitised Rs. 73 bn worth of retail assets (including home loans and LAP) through the direct assignment route.
- 24% of the retail disbursements were under the Rs. 25 lac threshold which is the affordable segment.
- The company stated that since the marquee brands and developers haven't been doing any new launches, the credit opportunity for the sector has reduced. The company also stated the marquee brands and developers today are not aggressive with sales in the initial stages of the project life cycle.
- Corporate book growth during FY19 is on account of disbursing loans which were sanctioned even in FY17. Reduced loan sanctions in FY19, down 37% yoy, will lead to lower corporate book growth in FY20.

- The prepayment rate has come down to 18.6% on the overall portfolio as balance transfer activity has been muted on account of interest rate volatility. Retail attrition was 16% while corporate attrition was 23.5%.
- The company sold down certain assets in the corporate book worth Rs 16 bn which were low yielding in nature. The company stated that it tried to negotiate for higher rates in these cases but was unsuccessful. The company sold these assets in what was effectively a voluntary balance transfer basis.

Margin, Liabilities and Liquidity

- Amid scarcity of funds post debt market volatility witnessed in September 2018, the company has focused on raising only long term funds at competitive rates. With increase in share of long term funds, the year end gaps at various maturity buckets have improved.
- In addition to the balance sheet liquidity, the company has Rs 20 bn of sanctioned undrawn lines from banks. The company stated that excess liquidity has helped in running operations smoothly and has also comforted bankers.
- Incremental cost of borrowing during Q4FY19 was 8.28%.
- Cost of fully hedged ECB was 8.6% during Q4FY19.
- Spreads on the corporate and construction finance book are not significantly higher compared to the retail book. The company stated that, in the corporate segment, it usually finances the project at stage 4 when the project has been launched and some sales are visible. The company does not expect that slow down in corporate book growth will impact margins significantly.
- The company stated it will be able to manage a spread of 210 bps. The company stated that 80% of the book is on floating rate basis. They further stated that it usually takes about 105 days for the impact of rate increase to show up on the overall portfolio since the loans are booked on different days.
- The company stated it has taken a marginal increase in reference rate in March 2019, the impact of which will come through by end of June 2019.
- The company received NHB funding during the quarter which had a huge component of PSL refinance which comes at a considerably lower rate. Going forward, the CoF could increase as current levels are not sustainable.
- Assignment income was Rs. 3.1 bn. The PAT would have been impacted by Rs. 1.5-1.55 bn for FY19 had this assignment not been done.
- Retail deposits are coming at an average tenure of 4 years and 7 months.
- If assignment were not to be considered, spread would have been 214 bps.

Operating Expenses

- On-going branch network expansion has resulted in expenditure growth.
- Total number of employees as of March 2019 was 1,609.
- The company has been investing heavily in enhancing technology and interlinking of underwriting, legal and other related functions.
- Under IGAAP, the company was allowed to amortize fixed expenses which it is not under IND-AS. Due to this, opex has been optically on the higher side. Amortisable cost under IGAAP had increased after subsuming outsourcing employees into a subsidiary. Adjusting for this impact and ESOP expenses, opex to ATA would be 63 bps.
- ESOP expense during the quarter was Rs. 110 mn.

Capital Adequacy

- The company stated it will raise equity capital in FY20. Timelines with respect to this will be shared in the following weeks.

Exhibit 1: Financial summary

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Net interest income	9,964	16,188	20,557	24,882	32,648
Pre-provisioning operating profit	9,069	15,112	17,670	25,964	32,629
PAT	5,237	8,421	10,814	13,660	17,214
EPS (Rs)	31.6	50.6	64.6	75.5	95.2
BV (Rs)	336.7	394.3	444.0	545.0	633.0
P/E (x)	22.0	13.7	10.8	9.2	7.3
P/BV (x)	2.1	1.8	1.6	1.3	1.1
Gross NPAs (%)	*0.2*	*0.3*	*0.5*	*1.5*	*1.5*
Net NPAs (%)	*0.2*	*0.3*	*0.4*	*0.9*	*0.4*
RoA (%)	*1.4*	*1.6*	*1.5*	*1.5*	*1.6*
RoE (%)	*13.6*	*13.9*	*15.4*	*15.8*	*16.2*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Actual performance versus our estimates

(Rsmn)	4QFY19	4QFY18	3QFY19	*YoY (%)*	*QoQ (%)*	4QFY19E	*Devi. (%)*
Net interest income	6,097	5,409	5,580	*12.7*	*9.3*	5,436	*12.2*
Pre-provisioning operating profit	5,552	4,621	5,117	*20.1*	*8.5*	5,182	*7.1*
PAT	3,798	2,516	3,030	*51.0*	*25.3*	2,690	*41.2*

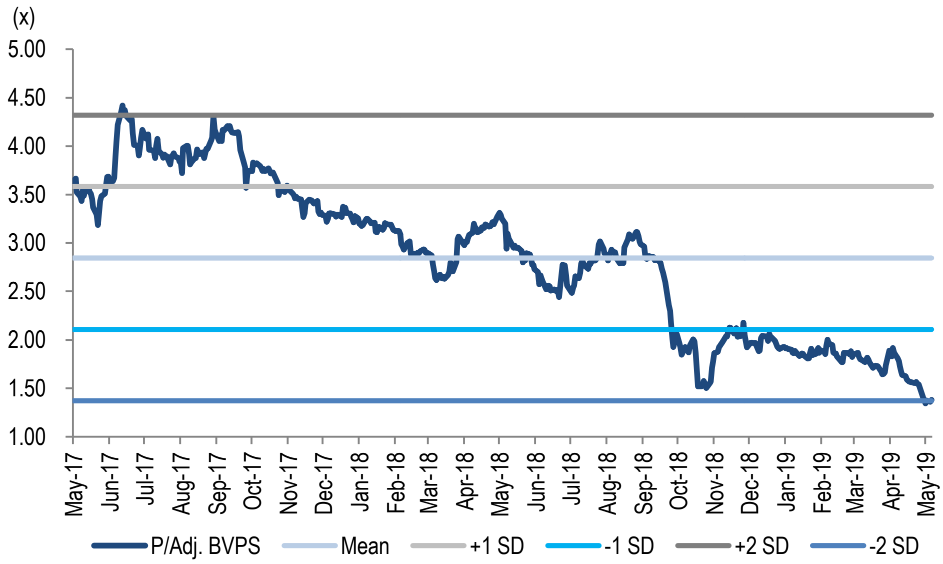
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Change in our estimates

	Revised estimate		Earlier estimate		*% Revision*	
	FY20E	FY21E	FY20E	FY21E	*FY20E*	*FY21E*
Net interest income (Rsmn)	24,882	32,648	24,988	*32,873*	*(0.4)*	*(0.7)*
NIM (%)	*3.0*	*3.2*	*2.9*	*3.1*	*11 bps*	*10 bps*
Operating profit (Rsmn)	25,964	32,629	26,111	*32,851*	*(0.6)*	*(0.7)*
Profit after tax (Rsmn)	13,660	17,214	13,626	*17,199*	*0.3*	*0.1*

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	FY19	FY20E	FY21E
Interest income	36,401	51,554	72,222	88,968	109,666
Interest expenses	26,437	35,366	51,665	64,086	77,018
Net interest income	**9,964**	**16,188**	**20,557**	**24,882**	**32,648**
Non-interest income	2,678	3,333	2,624	8,622	9,537
Net revenues	**12,642**	**19,521**	**23,181**	**33,504**	**42,185**
Operating expenses	3,573	4,410	5,511	7,540	9,556
-Employee expenses	1,013	1,427	2,113	3,413	4,990
-Other expenses	2,560	2,983	3,398	4,127	4,567
Pre-provisioning Operating profit	**9,069**	**15,112**	**17,670**	**25,964**	**32,629**
Provisions	1,029	2,766	1,890	4,948	6,146
PBT	8,040	12,346	15,781	21,016	26,483
Tax	2,803	3,924	4,967	7,355	9,269
PAT	**5,237**	**8,421**	**10,814**	**13,660**	**17,214**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Balance sheet

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Share capital	1,656	1,666	1,675	1,809	1,809
Reserves & surplus	54,117	64,018	72,675	96,765	112,672
Net worth	**55,773**	**65,684**	**74,350**	**98,574**	**114,481**
Borrowings	354,971	542,680	723,620	820,629	1,013,133
Other liability & provisions	18,851	21,815	39,532	56,620	77,720
Total liabilities	**429,596**	**630,179**	**837,502**	**975,823**	**1,205,335**
Fixed assets	604	851	1,069	1,080	1,091
Investments	9,614	24,132	44,574	55,718	69,647
Loans	385,713	570,140	743,275	907,538	1,122,029
Cash	1,515	28,169	40,261	2,723	3,366
Other assets	32,150	6,887	8,323	8,765	9,202
Total assets	**429,596**	**630,179**	**837,502**	**975,823**	**1,205,335**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Key ratios

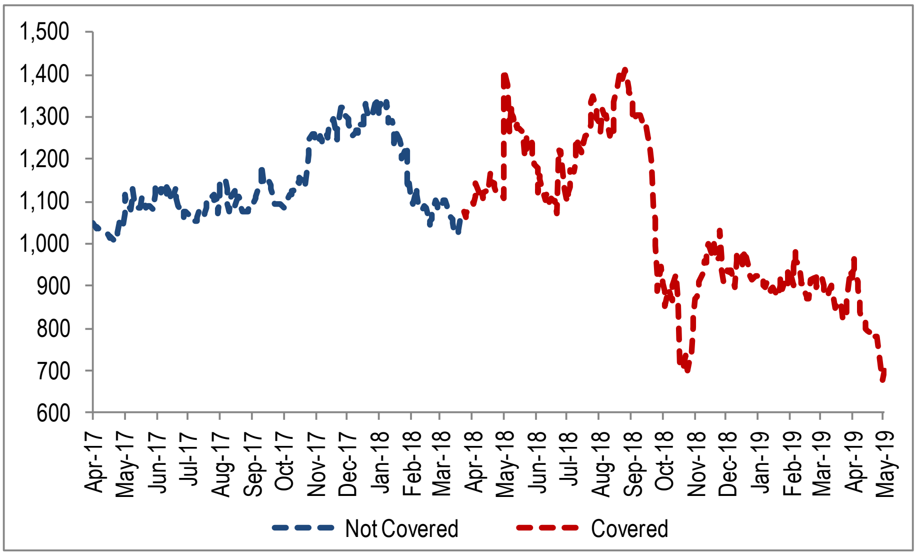
Y/E March	FY17	FY18	FY19	FY20E	FY21E
Growth (%)					
Net interest income	45.3	55.7	27.0	21.0	31.2
Operating profit	54.7	63.0	16.9	46.9	25.7
Profit after tax	60.4	58.6	28.4	26.3	26.0
Business (%)					
Advances growth	36.8	48.0	30.4	22.1	23.6
Spread (%)					
Yield on loans	10.6	10.4	10.5	10.2	10.2
Cost of borrowings	8.6	7.9	8.2	8.3	8.4
Spread	2.0	2.5	2.3	1.9	1.8
NIM	2.9	3.2	3.1	3.0	3.2
Operational efficiency (%)					
Cost- to-income	28.3	25.6	23.8	22.5	22.7
Cost-to-AUM	1.1	1.1	0.8	0.9	0.9
Productivity (Rsmn)					
Loan per branch	6,122.4	6,797.1	7,287.0	8,509.8	8,500.0
Loan per employee	386.1	442.6	461.9	531.9	472.2
Employee per branch	15.9	15.4	15.8	16.0	18.0
CRAR (%)					
Tier I	16.5	12.8	11.0	12.5	11.8
Tier II	5.1	3.9	3.0	3.1	2.9
Total	21.6	16.7	14.0	15.7	14.7
Asset quality (%)					
Gross NPAs	0.2	0.3	0.5	1.5	1.5
Net NPAs	0.2	0.3	0.4	0.9	0.4
Specific provision coverage	31.2	22.7	20.4	41.7	70.2
Credit cost	0.3	0.4	0.3	0.6	0.6
Return ratios (%)					
RoE	13.6	14.0	15.4	15.8	16.2
RoA	1.4	1.6	1.5	1.5	1.6
Per share (%)					
EPS	31.6	49.9	64.6	75.5	95.2
BV	336.7	378.6	444.0	545.0	633.0
ABV	333.2	369.9	427.1	501.1	605.2
Valuation (x)					
P/E	22.1	14.0	10.8	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	1.2

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
25 January 2019	Buy	925	1,267
8 April 2019	Buy	934	1,140
6 May 2019	Buy	695	931
10 May 2019	Buy	698	934

Rating track graph



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Team Details:			
Name		**Email Id**	**Direct Line**
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Girish Pai	Head of Research	girish.pai@nirmalbang.com	+91 22 6273 8017 / 18
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Pradeep Kasat	Dealing Desk	pradeep.kasat@nirmalbang.com	+91 22 6273 8100/8101, +91 22 6636 8831
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,

Nr. Peninsula Corporate Park,

Lower Parel (W), Mumbai-400013.

Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010