

PNB Housing Finance

24 July 2020

Reuters: PNBH.NS; Bloomberg: PNBHOUSI IN

Remain wary of NPA risks amid challenging macros

PNB Housing Finance (PNBHF) reported NII/PPOP at Rs 4,362mn/Rs4,094mn, 12%/7% better than our estimates. PAT at Rs 2,596mn was better than estimate primarily on account of lower provisioning. AUM declined by 5% YoY and was flat QoQ at Rs835bn. Disbursements were nil in April but picked up in May and further improved in June. Total disbursements for the quarter were Rs6.9bn. Collection efficiency (ex-morat loans) also witnessed improvement and stood at 98.2% (2 days ago) compared to ~96% in April. Sell down process was delayed due to covid led disruptions. The management has guided towards bringing down absolute opex by 5-10% in FY21. Incremental disbursements would be to retail while corporate loans would be brought down to <15% of the AUM by end FY21. There is still lack of clarity regarding the mode of the impending capital raise and participation by promoter PNB. NRC is interacting with prospective candidates for the CEO position and a final call would be taken shortly. We maintain ACCUMULATE rating with a target price (TP) of Rs212, based on 0.3x FY22E ABV.

AUM, at Rs835bn, down 5% YoY/flat QoQ: Disbursements were down 91%YoY/75% QoQ at Rs6.94bn. While April was a washout with zero disbursements, business picked up in May and June with disbursements at Rs1.86bn and Rs5.07bn, respectively. 97% of disbursements were to the retail segment. Share of corporate AUM, currently at 18%, is expected to be <15% of AUM by end FY21. Retail disbursements guidance for FY21 stands at Rs130bn. 75% of incremental retail disbursements would be for housing loans and 25% for non-housing loans. Corporate disbursements would be limited to earlier sanctioned lines to developers with good track record. Pilot for digital sourcing of loans is underway and the product would be launched soon.

Asset quality flat due to moratorium: GNPA was up 1bps QoQ at 2.75%. Retail/Corporate GNPA's at 1.29% and 8.05% are still quite high compared to industry levels. Moratorium in phase 2 has come down to 39% from 56% in phase 1. While retail AUM under moratorium has declined to 29% from 49% in phase 1, overall corporate book under morat stands at 85% under round 2, similar to morat 1.0. Collection efficiency for loans (ex-morat) stood at 97% for Jun '20, up from ~96% in April '20. Two days back, collection efficiency stood at 98.15%. Average monthly retail collections stood at Rs4-5bn during the quarter. During April, corporate collections stood at Rs1.25bn and increased in May and June. Rs6bn worth of corporate collections during the quarter were received in escrow accounts and were released to developers for construction. During normal times, monthly collections stand at Rs16bn from retail and Rs4bn from corporate.

NIM was down 48bps YoY/up 5 bps QoQ at 3.4%: Gains from drop in CoB due to bank rate reset in H2FY21 would be majorly passed on to customers. Further, better capital and leverage ratios post capital raise would help improve credit rating and lead to lower cost of funds. Cost to income ratio stands at 18.9% and FY21 opex is expected 5-10% lower than FY20 levels. To reduce opex, branch mergers, rental renegotiations and resource rationalization would continue in the coming quarters.

Valuation and outlook: We have revised our NII estimates by 4.2%/2.1%, PPOP estimates by 1.5%/3.2% and PAT estimates by 6.8%/6.6% for FY21/FY22, respectively. We maintain ACCUMULATE rating with a target price (TP) of Rs212, based on 0.3x FY22E ABV.

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ACCUMULATE

Sector: NBFC

CMP: Rs210

Target Price: Rs212

Upside: 1%

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Key Data

Current Shares O/S (mn)	168.2
Mkt Cap (Rsbn/US\$m)	35.3/472.7
52 Wk H / L (Rs)	748/146
Daily Vol. (3M NSE Avg.)	664,514

Price Performance (%)

	1 M	6 M	1 Yr
PNB Housing Finance	(7.9)	(61.1)	(70.3)
Nifty Index	7.1	(7.9)	(1.0)

Source: Bloomberg

Y/E Mar (Rsmn)	Q1FY21	Q1FY20	Q4FY20	YoY (%)	QoQ (%)
Interest Income	17,998	19,776	18,006	(9.0)	(0.0)
Interest Expenses	13,637	15,128	13,800	(9.9)	(1.2)
Net Interest Income	4,362	4,649	4,206	(6.2)	3.7
NIM (%)	2.66	3.14	2.61	-48 bps	5 bps
Fee & Other income	687	3,255	1,247	(78.9)	(44.9)
Total Income	5,049	7,904	5,453	(36.1)	(7.4)
Staff Cost	491	598	287	(17.9)	71.1
Other Op Exp	464	809	1,129	(42.6)	(58.9)
Total Operating Expenses	955	1,406	1,416	(32.1)	(32.6)
Cost to Income (%)	18.9	17.8	26.0	112 bps	-706 bps
Pre-Provisioning Operating Profit	4,094	6,498	4,037	(37.0)	1.4
Provisions	751	1,642	7,548	(54.3)	(90.1)
PBT	3,343	4,856	(3,512)	(31.1)	(195.2)
Tax	747	1,173	(881)	(36.3)	(184.9)
-effective tax rate	22.3	24.2	25.1	-182 bps	-273 bps
PAT	2,596	3,683	(2,631)	(29.5)	(198.7)
Other Comprehensive Income	(861)	268	(820)	(421.5)	5.0
Total Comprehensive Income	1,735	3,950	(3,452)	(56.1)	(150.3)
EPS (Rs)	15.4	21.9	(15.6)	(29.6)	(198.7)
BV (Rs)	485.7	468.0	475.5	3.8	2.2
AUM	834,950	883,330	833,460	-5.5	0.2

Source: Company, Nirmal Bang Institutional Equities Research

Liquidity level remains comfortable: During the quarter, additional funds worth Rs54.8bn were mobilized through multiple sources. Liquidity level remained high at Rs70.7bn, in addition to sanctioned undrawn lines worth Rs54.8bn. Rs9.9bn worth deposits were mobilized during the quarter and now constitute 20% of the total borrowings. Average tenor of outstanding deposits is 42 months. CRAR stands at 18.05%.

Comprehensive Conference Call Takeaways

Asset Quality

- Remedy management group has been created under direct supervision of the MD for corporate loan resolution and monitoring.
- 58% of under construction finance book worth Rs103bn is under morat.
- Adequate provisions have been made as per the current situation. Corporate book PCR stands at 103%.
- There has been improvement in collection efficiency. Two days back, collection efficiency stood at 98.15%.
 - Average monthly retail collections stood at Rs4-5bn. During April, corporate collections stood at Rs1.25bn and increased in May and June. Rs6bn worth of corporate collections during the quarter were received in escrow accounts and were released to developers for construction.
 - During normal times, monthly collections stand at Rs16bn from retail and Rs4bn from corporate.
- 3 accounts (excluding Ireo) under SICR continue to remain stage 2 and are under moratorium.

Business and Loan Growth

- Sanctions worth Rs3.4bn were received from 2 banks for sale of corporate loans, which has been delayed due to covid related disruptions. Another Rs3.5bn is in advanced stage of discussion.
- PNBHF is well positioned in cities which are witnessing demand in the mass housing segment. An app has been launched on a pilot basis to sanction loans digitally. Banks are aggressively looking at taking over 2-3 year vintage accounts.
- Retail collections worth Rs5bn in June don't include prepayments and balance transfers. In June, the retail portfolio received prepayments worth ~Rs7bn. Disbursements in June were majorly to loans sanctioned in April.
- Retail disbursements guidance for FY21 stands at Rs130bn. 75% of incremental retail disbursements would be for housing loans and 25% for non-housing loans. Corporate disbursements would be limited to earlier sanctioned lines to developers with good track record. Decision regarding corporate lending would be taken after FY21.

Margin, Liabilities and Liquidity

- Rs9.9bn worth of deposits were mobilized during the quarter. Average tenor of outstanding deposits stands at 42 months. Current liquidity pipeline is better than March.
- Interest rates have been increased by 100bps on CRE (residential) and 125bps on CTL (non-residential).
- Interest rates for majority of bank loans would be reset during H2FY21. Gains from drop in CoB would be majorly passed on to customers.
- Better capital and leverage ratios post capital raise would help improve credit rating and lead to lower cost of funds. The management intends to have leverage ratio at 5-6x.
- Segment-wise yields are as follows:
 - Retail:
 - Home Loan: 9.52%
 - LAP: 9.6%
 - Corporate: 12.5-13.0%
- ALM profile doesn't include Rs23bn worth of interest income generated annually.

Operating Expenses

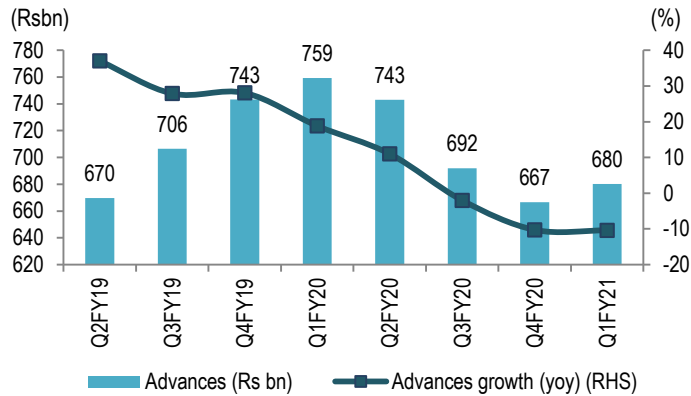
- Employee count stands at 1,494.

Capital Adequacy

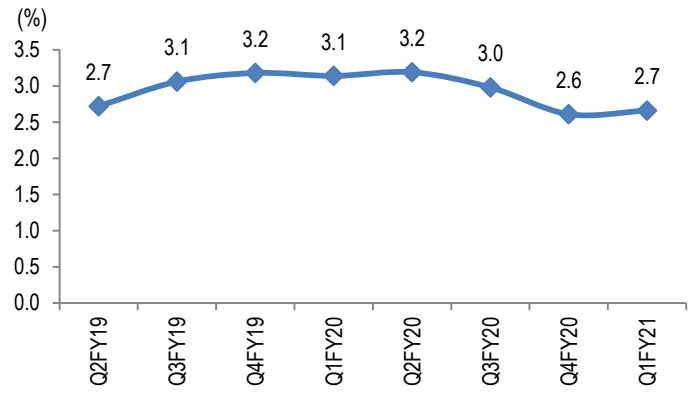
- Capital raise would be worth ~Rs15-18bn. While other major stakeholders are willing to participate in the capital raise, a final decision regarding the capital raise would be taken after PNB's decision.
- Networth as on 30th June stands at Rs81.7bn.

Other

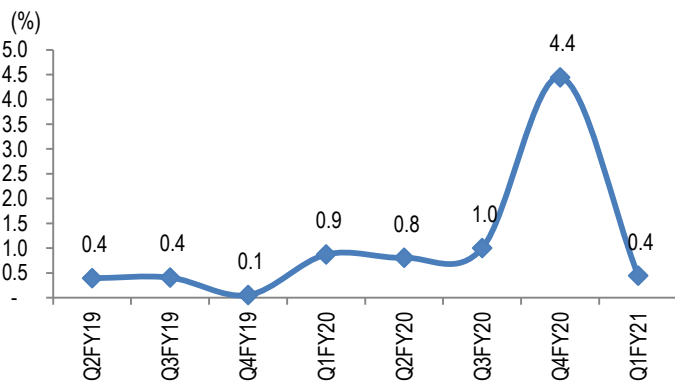
- NRC is interacting with prospective candidates for the CEO's position and a final call regarding the matter would be taken shortly.
- RoA guidance of 140-160bps includes expected recoveries.

Exhibit 1: Advances, advances growth


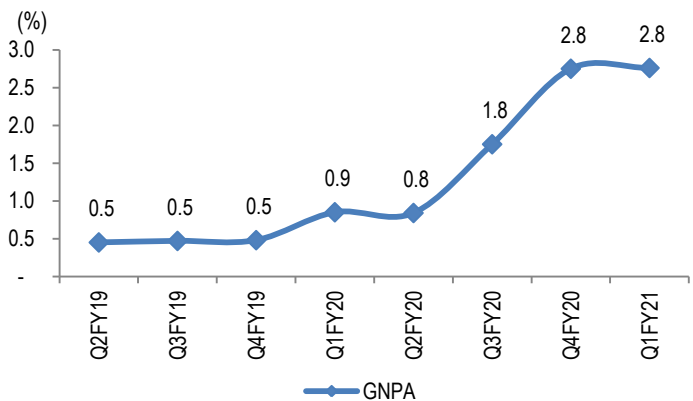
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: NIM (Reported, %)


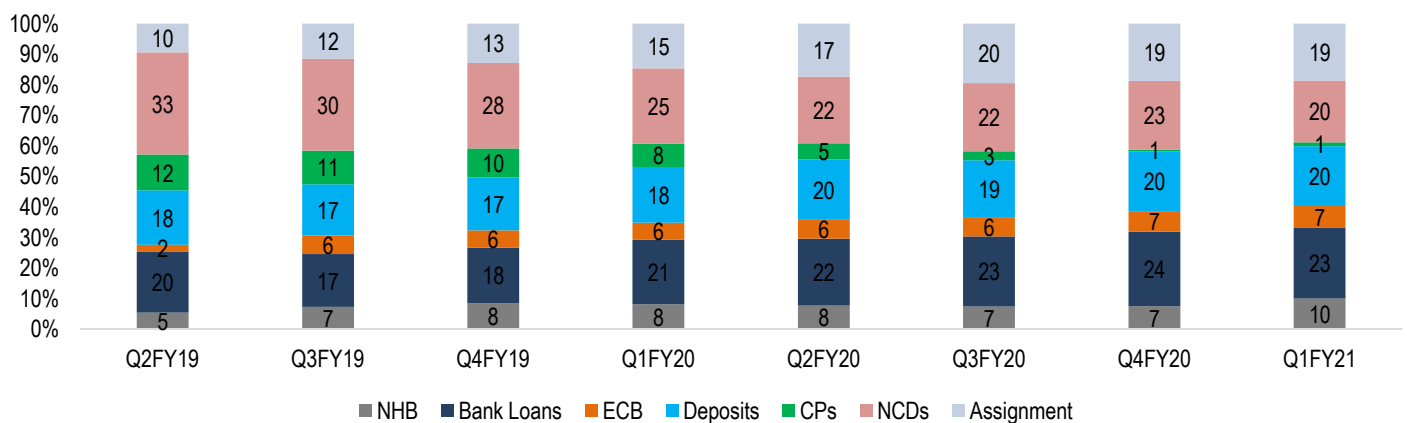
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Credit Cost (Calculated, Annualized, %)


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: GNPA (%)


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Borrowings Profile (%)


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Financial summary

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Net interest income	14,691	16,219	18,142	15,989	17,686
Pre-provisioning operating profit	15,112	17,670	20,755	16,882	19,476
PAT	8,421	10,814	6,823	2,905	7,287
EPS (Rs)	50.6	64.6	40.6	16.4	41.0
BV (Rs)	394.3	444.0	472.5	525.5	559.3
P/E (x)	4.2	3.3	5.2	12.8	5.1
P/BV (x)	0.5	0.5	0.4	0.4	0.4
Gross NPAs (%)	0.3	0.5	2.8	3.5	3.2
Net NPAs (%)	0.2	0.4	1.8	2.4	2.1
RoA (%)	1.6	1.5	0.8	0.4	1.0
RoE (%)	13.6	15.4	8.9	3.4	7.6

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Actual performance versus our estimates

(Rsmn)	Q1FY21	Q1FY20	Q4FY20	YoY (%)	QoQ (%)	Q1FY21E	Devi. (%)
Net interest income	4,362	4,649	4,206	(6.2)	3.7	3,906	11.7
Pre-provisioning operating profit	4,094	6,498	4,037	(37.0)	1.4	3,809	7.5
PAT	2,596	3,683	-2,631	(29.5)	NA	-829	NA

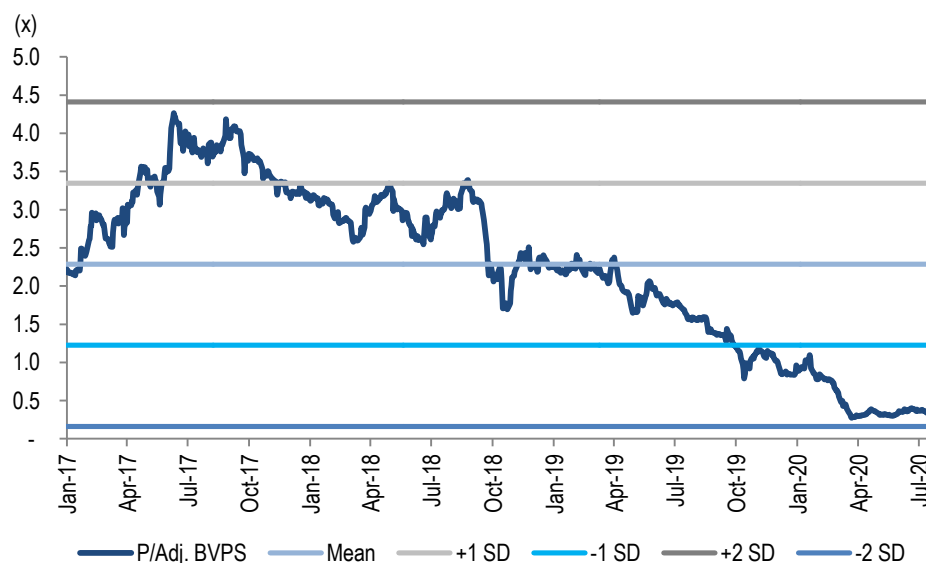
Source: Company, Nirmal Bang Institutional Equities Research N.B.

Exhibit 8: Change in our estimates

	Revised Estimate		Earlier Estimate		% Revision	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Net Interest Income (Rsmn)	15,989	17,686	15,345	17,317	4.2	2.1
Net Interest Margin (%)	2.5	2.7	2.4	2.7	10 bps	6 bps
Operating Profit (Rsmn)	16,882	19,476	16,634	18,870	1.5	3.2
Profit after tax (Rsmn)	2,905	7,287	2,719	6,833	6.8	6.6

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: One-year forward P/ABV



Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 10: Income statement

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Interest Income	50,057	67,883	76,895	70,042	69,524
Interest Expense	35,366	51,665	58,753	54,053	51,838
Net Interest Income	14,691	16,219	18,142	15,989	17,686
Non Interest Income	4,830	6,963	7,965	5,700	6,650
Net Revenue	19,521	23,181	26,106	21,689	24,336
Operating expenses	4,410	5,511	5,351	4,807	4,860
-Employee expenses	1,427	2,113	1,953	1,918	1,976
-Other expenses	2,983	3,398	3,398	2,889	2,885
Pre-Provisioning Operating Profit	15,112	17,670	20,755	16,882	19,476
Provisions	2,766	1,890	12,505	13,000	9,738
PBT	12,346	15,781	8,250	3,882	9,738
Tax	3,924	4,967	1,427	977	2,451
PAT	8,421	10,814	6,823	2,905	7,287

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Balance sheet

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Share capital	1,666	1,675	1,682	1,776	1,776
Reserves & surplus	64,018	72,675	77,790	91,541	97,545
Networth	65,684	74,350	79,472	93,317	99,321
Borrowings	537,767	718,589	677,358	609,623	618,767
Other liability & provisions	26,728	44,564	31,912	36,545	36,787
Total liabilities	630,179	837,502	788,742	739,484	754,874
Fixed Assets	851	1,069	2,538	2,563	2,589
Investments	24,132	44,574	20,483	25,604	32,005
Loans	571,673	743,275	666,687	633,352	665,020
Cash	28,169	40,261	85,125	63,335	39,901
Other assets	5,355	8,323	13,909	14,629	15,360
Total assets	630,179	837,502	788,742	739,484	754,874

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Key ratios

Y/E March	FY18	FY19	FY20	FY21E	FY22E
Growth (%)					
Net Interest Income	55.7	10.4	11.9	-11.9	10.6
Operating Profit	63.0	16.9	17.5	-18.7	15.4
Profit After Tax	58.6	28.4	-36.9	-57.4	150.9
Business (%)					
Advance Growth	47.6	30.0	-10.3	-5.0	5.0
Spreads (%)					
Yield on loans	9.8	9.8	10.4	10.4	10.3
Cost of Borrowings	7.9	8.2	8.4	8.4	8.4
Spread	1.9	1.6	2.0	2.0	1.8
NIMs	2.9	2.3	2.6	2.5	2.7
Operational Efficiency (%)					
Cost to Income	22.6	23.8	20.5	22.2	20.0
Cost to AUM	0.9	0.8	0.8	0.7	0.7
CRAR (%)					
Tier I	12.8	11.0	15.2	16.6	16.2
Tier II	3.9	3.0	2.8	2.8	2.8
Total	16.7	14.0	18.0	19.4	19.0
Asset Quality (%)					
Gross NPA	0.3	0.5	2.8	3.5	3.2
Net NPA	0.2	0.4	1.8	2.4	2.1
Specific Provision Coverage	28.4	20.9	30.0	32.0	35.0
Credit Cost	0.6	0.3	1.8	2.0	1.5
Return Ratio (%)					
ROE	13.6	15.4	8.9	3.4	7.6
ROA	1.6	1.5	0.8	0.4	1.0
Per Share (x)					
EPS	50.6	64.6	40.6	16.4	41.0
BV	394.3	444.0	472.5	525.5	559.3
ABV	386.3	427.2	402.1	548.5	642.1
Valuation (x)					
P/E	4.2	3.3	5.2	12.8	5.1
P/BV	0.5	0.5	0.4	0.4	0.4
P/ABV	0.5	0.5	0.5	0.4	0.3

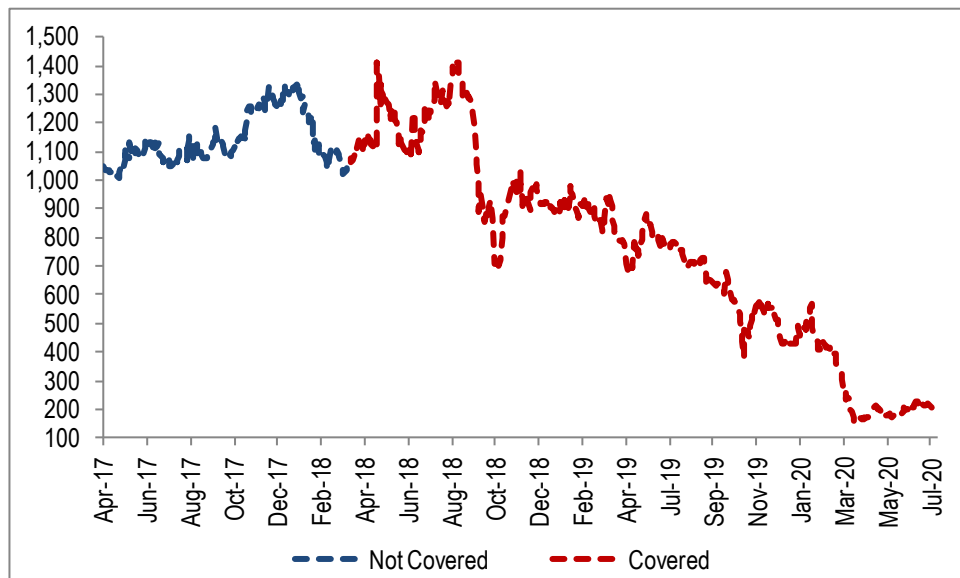
Source: Company, Nirmal Bang Institutional Equities Research

N.B. FY18 P&L growth figures are as per IGAAP. Other figures are as per IndAS.

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
8 July 2019	Buy	783	956
31 July 2019	Buy	716	960
7 October 2019	Buy	575	739
25 October 2019	Buy	447	576
8 January 2020	Buy	469	625
24 January 2020	Buy	542	624
27 March 2020	Buy	156	186
9 April 2020	Buy	165	186
16 June 2020	Accumulate	213	204
9 July 2020	Accumulate	217	211
24 July 2020	Accumulate	210	212

Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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