

PNB Housing Finance

16 June 2020

Reuters: PNBH.NS; Bloomberg: PNBHOUSI IN

Challenging times ahead; Downgrade to Accumulate

PNB Housing Finance (PNBHF) reported NII/PPOP 11%/6% below our estimate, respectively. NIM, at 2.61%, contracted by 57bps YoY and 37bps QoQ. Given the company's performance over the last few quarters amid rapidly deteriorating asset quality, we were already anticipating a weak quarter. However, the reported numbers have been weaker than our expectations. AUM declined by 3.4% QoQ to Rs833.5bn while on-book loan assets were down 10% YoY and 4% QoQ. In light of capital constraints and building up of asset quality pressures, PNBHF has been resorting to sell-downs. During FY20, the company sold down Rs23.1bn worth of corporate loan assets, which has helped shore up capital ratios without a meaningful profit accretion to the shareholders' funds. The company is expected to sell-down another Rs20bn worth of corporate loans in the near term. Business generation in the retail segment has been weak too due to the lockdown and is expected to remain so for most of 1HFY21. The company is looking to raise equity capital (Rs15bn) to keep gearing in check. Considering the corporate asset sell-down and muted business volume, capital consumption intensity is unlikely to be high. Therefore, the excess capital (if raised) may prove to be a drag on return ratios. So far, we are building in Rs10bn worth of capital raise in our numbers. Opex was down 7.6% YoY and up 8.3% QoQ. Cost rationalization is expected to be one of the key enablers to unlock profitability in the near term as volume and income generation take a hit. We anticipate credit costs to remain high given the large corporate exposure, where gross stage 3 (GS3) ratio is 8.18% compared to 0.17% in 4QFY19. In absolute terms, corporate GS3 is up 39x YoY. At the current juncture, we build in further deterioration in asset quality, given the external environment. In the retail segment, GS3 stood at 1.25% compared to 0.58% in 4QFY19. Mr. Neeraj Vyas (independent director earlier) has taken over as the new MD/CEO. One of the focus areas in the near term is to reduce the corporate exposure and pivot the loan book on a retail trajectory. We do not see a favorable business case for the company in the foreseeable future given the external environment. The stock is unlikely to attract any meaningful investor interest despite trading at 0.3x FY22E ABV. We downgrade the stock to ACCUMULATE with a target price (TP) of Rs204, based on 0.3x FY22E ABV.

Expect further deterioration in asset quality: GNPA's stood at 2.75% (on loan assets, up 100bps QoQ) with retail GNPA's at 1.25%, of which LAP NPAs (part of retail portfolio) stood at 1.6% and corporate NPAs at 8.18%. NNPA's stood at 1.75% (up 31bps QoQ). Asset quality has deteriorated over the last one year with GNPA's/NNPA's increasing by 227bps/137bps, respectively. Under the opt-in approach followed by the company, 56% of AUM was under moratorium in phase-1, while 31% AUM is under moratorium in Phase-2. Retail loans under moratorium were 49% of retail AUM in phase 1 and 20% in phase 2. Moratorium figures are not expected to increase further. Provisions, at Rs7,548mn, were up 73.7x YoY/3.2x QoQ. Covid provisions of Rs4.71bn have been made in accordance with the company's internal model. We expect asset quality to deteriorate further.

Valuation and outlook: We have revised our NII estimates by -27.3%/-19.3%, PPOP estimates by -8.4%/2.8% and PAT estimates by -71.1%/-32.6% for FY21/FY22, respectively. We downgrade the stock to ACCUMULATE with a TP of Rs204, based on 0.3x FY22E ABV.

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ACCUMULATE

Sector: NBFC

CMP: Rs213

Target Price: Rs204

Downside: 4%

Raghav Garg, CFA

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

Arjun Bagga

 Research Associate
 arjun.bagga@nirmalbang.com
 +91-22-6273 8111

Key Data

Current Shares O/S (mn)	168.2
Mkt Cap (Rsbn/US\$mn)	35.7/470
52 Wk H / L (Rs)	811/146
Daily Vol. (3M NSE Avg.)	675,675

Price Performance (%)

	1 M	6 M	1 Yr
PNB Housing Finance	18.4	(50.8)	(73.2)
Nifty Index	7.4	(18.8)	(17.0)

Source: Bloomberg

Y/E Mar (Rsmn)	Q4FY20	Q4FY19	Q3FY20	YoY (%)	QoQ (%)
Interest Income	18,658	20,340	20,332	(8.3)	(8.2)
Interest Expenses	13,800	14,275	14,611	(3.3)	(5.6)
Net Interest Income	4,857	6,064	5,721	(19.9)	(15.1)
NIM (%)	2.61	3.18	2.98	-57 bps	-37 bps
Fee & Other income	595	1,040	364	(42.7)	63.6
Total Income	5,453	7,104	6,085	(23.2)	(10.4)
Staff Cost	287	640	509	(55.2)	(43.6)
Other Op Exp	1,129	892	799	26.5	41.4
Total Operating Expenses	1,416	1,532	1,308	(7.6)	8.3
Cost to Income (%)	26.0	21.6	21.5	440 bps	448 bps
Pre-Provisioning Operating Profit	4,037	5,572	4,777	(27.6)	(15.5)
Provisions	7,548	101	1,799	7,366.2	319.5
PBT	(3,512)	5,471	2,978	(164.2)	(217.9)
Tax	(881)	1,759	627	(150.1)	(240.5)
-effective tax rate	25.1	32.2	21.1	-708 bps	402 bps
PAT	(2,631)	3,711	2,351	(170.9)	(211.9)
Other Comprehensive Income	(820)	(314)	431	161.6	(290.5)
Total Comprehensive Income	(3,452)	3,398	2,782	(201.6)	(224.1)
EPS (Rs)	(15.6)	22.2	14.0	(170.6)	(211.9)
BV (Rs)	475.5	450.5	495.0	5.5	-3.9
AUM	833,460	847,720	862,970	-1.7	-3.4

Source: Company, Nirmal Bang Institutional Equities Research

Growth suffered due to lack of capital: AUM declined 2% YoY/3% QoQ at Rs 833.5bn and on-book loans declined 10% YoY/ 4% QoQ. While tier 1 capital stood at 15.2% and overall CRAR was 18.0%, these comfortable levels have been achieved at the expense of asset formation. There have been efforts to raise capital over the last 12 months with no visible results. While current capital levels of the company seem comfortable given the slowing system credit growth and focus on retail loans, we fear that expected asset quality pain would eat into profit accretion. Management intends to raise Rs15bn, preferably through rights issue. RWAs declined 15% YoY at Rs491bn. Risk weights on retail loans stand at 35-50% while those on corporate loans are ~100%.

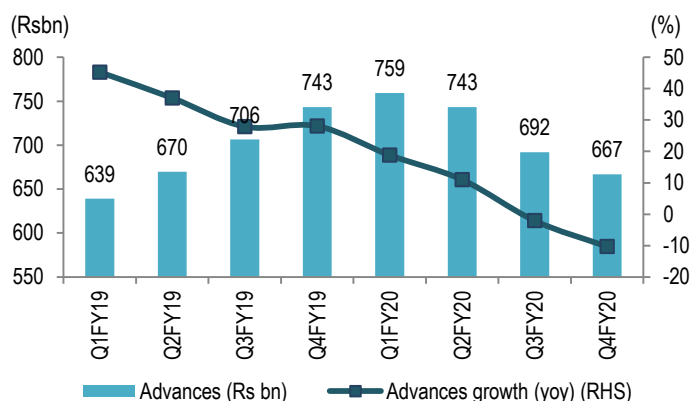
Staff costs decrease significantly: There was a sharp decline of 55% YoY/44% QoQ in staff costs at Rs287mn. Total opex was down 8% YoY/up 8% QoQ. To control costs, hiring has been stopped, branch count is being rationalized and rentals are being renegotiated, wherever possible.

Liquidity position comfortable: Despite being offered moratorium by few of its banks, the company has not availed it and expects liquidity to be comfortable. Cash and equivalents formed 11% of total assets (compared to average ~5% over FY18 and FY19). Further, the company has applied to various banks for Partial Credit Guarantee and is also in discussions regarding TLTRO. In April, Rs7.5bn was borrowed from NHB. As on 5th June 2020, cash and equivalents stood at Rs58.5bn, in addition to sanctioned undrawn lines worth >Rs45bn. Board approval is in place to raise Rs450bn through NCDs and USD750mn through ECB.

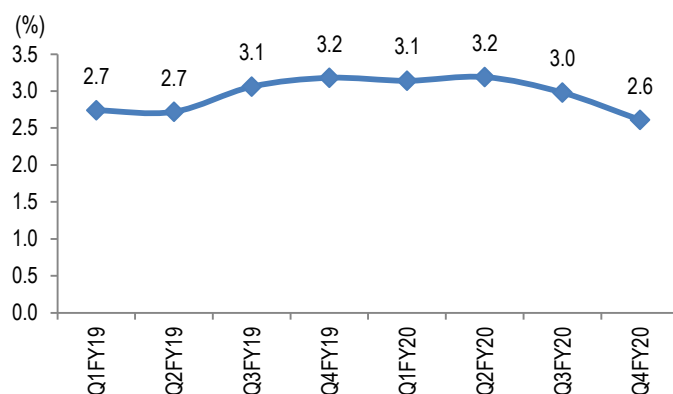
Comprehensive Conference Call Takeaways

- Mr. Neeraj Vyas has been appointed as the MD. He was on the board of PNB HF for last 1 year and has earlier worked as COO at SBI. There is no expectation of management attrition going forward.
- Due to the lockdown, collections, reposessions and auctions were impacted. Deposit mobilization was also affected in March, April and May.
 - To control costs, hiring has been stopped, branch count is being rationalized, rents are being renegotiated and work from home implemented wherever possible. Branches are currently being operated with ~1/3rd strength. Credit standards have also been tightened.
- During the quarter, 92% disbursements were in retail loan segment. Corporate disbursements are only to already sanctioned accounts and there were no new corporate sanctions over the last 12 months. Top 20 developers with 63 accounts form 64% of the corporate book.
- In FY20, principal repayment started for 69 corporate finance accounts. As of 4QFY20, 61% of this book is under moratorium and amount collected up to FY20 and during moratorium is Rs5.93bn. The projects under moratorium are ~59% complete (on weighted average basis) and have a security of 2x (on weighted average basis). 11% of this book is in stage 2 & 3.
- Details of the 5 corporate NPAs are as follows:
 - Supertech: o/s is Rs2.44bn; >50% PCR; SARFAESI initiated.
 - ITL: disbursed: Rs1.5bn; o/s: Rs1.01bn; 40% PCR; SARFAESI initiated.
 - One part of the mortgaged land has been sold and process for auction of the other part is on. The company expects outcome in next 2 months.
 - Radius: o/s: Rs2.59bn; 50% provisions; SARFAESI initiated; The company is in close consultation with other lenders.
 - Ornate: o/s: Rs1.81bn; SARFAESI initiated
 - Vipul – slipped during the quarter. Disbursement Rs4.07bn; o/s Rs3.56bn; SARFAESI initiated, expect conclusion in 6-8 weeks.

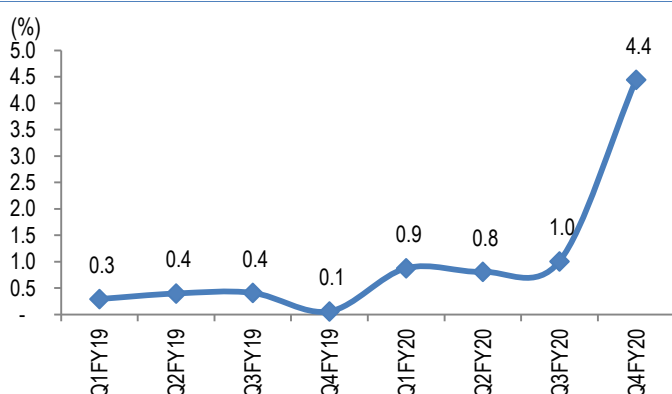
- Final decision regarding capital raise of ~Rs15-20bn would be taken in 6-8 weeks. While capital position is comfortable now, primary reason for capital raise is to bring down gearing to 5-6x and to support future growth. Currently, there is inclination towards raising capital through rights issue.
 - Risk weights on retail loans stand at 35-50% while those on corporate loans are ~100%. RWAs witnessed ~Rs20bn decline QoQ.
- Moratorium was accessed on ~85-90% of corporate loan book. Retail moratorium at 49% (in phase 1) and 20% (in phase 2) includes LAP. Moratorium figures are similar in terms of number of borrowers. The company doesn't expect moratorium figures to rise. Covid provisions of Rs4.71bn have been made in accordance with the internal model.
- Rs2.12bn worth of fresh loans were disbursed during the lockdown. Normalization of business is expected from September onwards and there are plans for Rs20bn worth of business in September.
 - Number of applications stood at ~1,300 in April, ~2,000 in May and is expected to increase further in June. MIG houses are in demand and work from home is expected to increase demand.
- Incremental cost of funds stood at 8.15-8.20%. Management expects double-digit RoE in FY21, including the capital raise.
- LAP book NPAs (part of retail book) stood at 1.6%.
- FY21 business plans are still being finalized.

Exhibit 1: Advances, advances growth


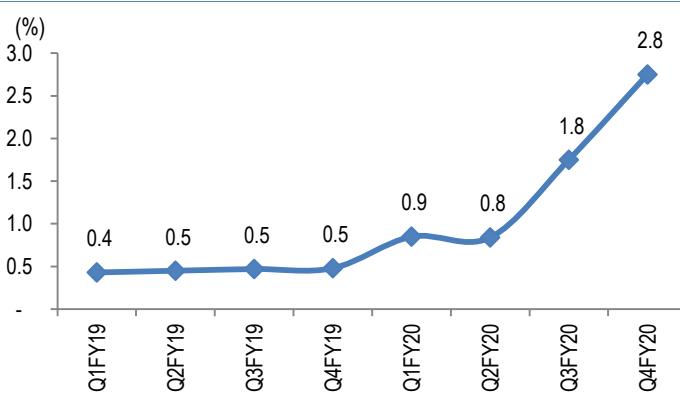
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: NIM (Reported, %)


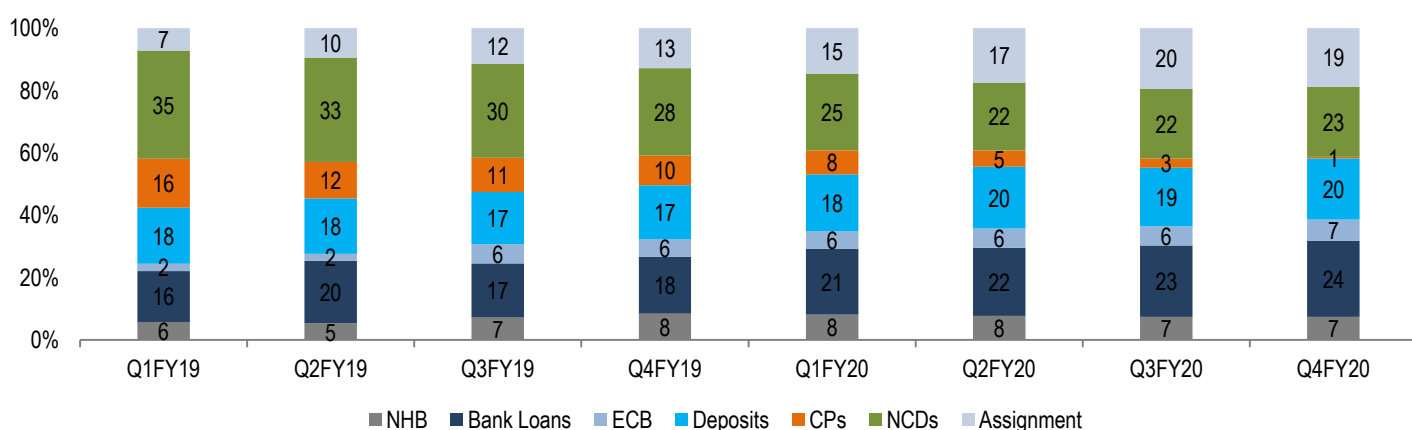
Source: Company, Nirmal Bang Institutional Equities Research

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	15,345	17,317
Pre-provisioning operating profit	15,112	17,670	20,755	16,634	18,870
PAT	8,421	10,814	6,823	2,719	6,833
EPS (Rs)	50.6	64.6	40.6	15.3	38.5
BV (Rs)	394.3	444.0	472.5	524.4	555.7
P/E (x)	4.2	3.3	5.3	13.9	5.5
P/BV (x)	0.5	0.5	0.5	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	0.9
RoE (%)	13.6	15.4	8.9	3.2	7.1

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Actual performance versus our estimates

(Rsmn)	Q4FY20	Q4FY19	Q3FY20	YoY (%)	QoQ (%)	Q4FY20E	Devi. (%)
Net interest income	4,857	6,064	5,721	(19.9)	(15.1)	5,443	(10.8)
Pre-provisioning operating profit	4,037	5,572	4,777	(27.6)	(15.5)	4,315	(6.5)
PAT	-2,631	3,711	2,351	(170.9)	(211.9)	1,349	(295.0)

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 (Rs mn)	15,345	17,317	21,113	21,468	(27.3)	(19.3)
Net Interest Margin (%)	2.4	2.7	2.9	2.8	-52 bps	-14 bps
Operating Profit (Rs mn)	16,634	18,870	18,165	18,350	(8.4)	2.8
Profit after tax (Rs mn)	2,719	6,833	9,421	10,135	(71.1)	(32.6)

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	54,697	52,207
Net Interest Income	14,691	16,219	18,142	15,345	17,317
Non Interest Income	4,830	6,963	7,965	6,334	6,650
Net Revenue	19,521	23,181	26,106	21,679	23,968
Operating expenses	4,410	5,511	5,351	5,045	5,098
-Employee expenses	1,427	2,113	1,953	1,918	1,976
-Other expenses	2,983	3,398	3,398	3,126	3,122
Pre-Provisioning Operating Profit	15,112	17,670	20,755	16,634	18,870
Provisions	2,766	1,890	12,505	13,000	9,738
PBT	12,346	15,781	8,250	3,634	9,132
Tax	3,924	4,967	1,427	915	2,298
PAT	8,421	10,814	6,823	2,719	6,833

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	91,355	96,906
Networth	65,684	74,350	79,472	93,131	98,682
Borrowings	537,767	718,589	677,358	609,623	618,767
Other liability & provisions	26,728	44,564	31,912	36,730	37,426
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	-15.4	12.9
Operating Profit	63.0	16.9	17.5	-19.9	13.4
Profit After Tax	58.6	28.4	-36.9	-60.1	151.3
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	8.5	8.5
Spread	1.9	1.6	2.0	1.9	1.8
NIMs	2.9	2.3	2.6	2.4	2.7
Operational Efficiency (%)					
Cost to Income	22.6	23.8	20.5	23.3	21.3
Cost to AUM	0.9	0.8	0.8	0.8	0.8
CRAR (%)					
Tier I	12.8	11.0	15.2	16.5	16.1
Tier II	3.9	3.0	2.8	2.8	2.8
Total	16.7	14.0	18.0	19.3	18.9
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	3.2	7.1
ROA	1.6	1.5	0.8	0.4	0.9
Per Share (x)					
EPS	50.6	64.6	40.6	15.3	38.5
BV	394.3	444.0	472.5	524.4	555.7
ABV	386.3	427.2	402.1	547.4	638.5
Valuation (x)					
P/E	4.2	3.3	5.3	13.9	5.5
P/BV	0.5	0.5	0.5	0.4	0.4
P/ABV	0.6	0.5	0.5	0.4	0.3

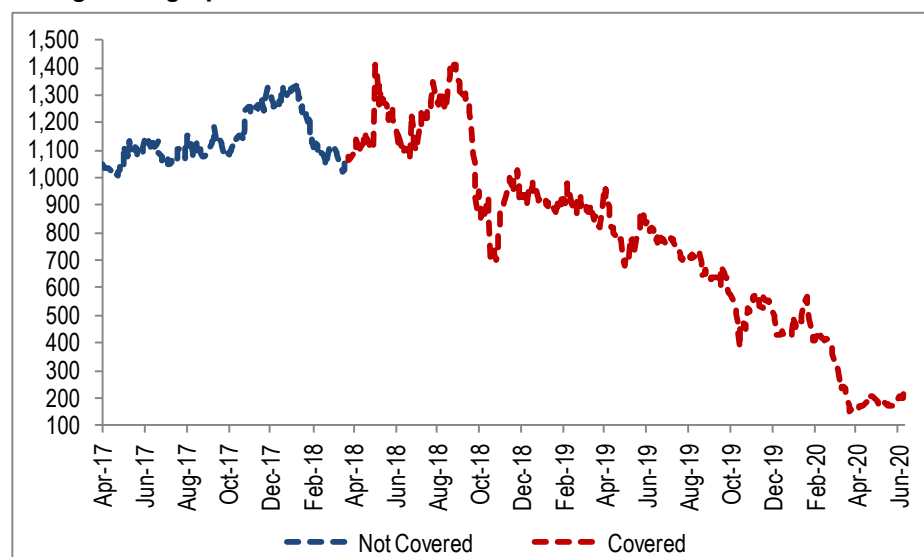
Source: Company, Nirmal Bang Institutional Equities Research

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

Rating track graph



DISCLOSURES

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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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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
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