

PNB Housing Finance

Estimate change	↑
TP change	↑
Rating change	↑

CMP: INR715 TP: INR950 (+33%) Upgrade to Buy

Getting its mojo back as stress cleaned up; Upgrade to BUY

Bloomberg	PNBHOUSI IN
Equity Shares (m)	260
M.Cap.(INRb)/(USD\$)	185.6 / 2.2
52-Week Range (INR)	785 / 341
1, 6, 12 Rel. Per (%)	6/58/92
12M Avg Val (INR M)	569
Free float (%)	71.9

Financials & Valuations (INR b)

Y/E March	FY24E	FY25E	FY26E
NII	26.1	29.3	34.0
PPP	22.4	26.0	31.1
PAT	15.1	18.0	21.7
EPS (INR)	58.2	69.3	83.8
EPS Gr. (%)	-6	19	21
BV/Sh. (INR)	579	638	710

Ratios

NIM (%)	4.3	4.2	4.3
C/I ratio (%)	22.8	21.6	20.0
RoAA (%)	2.1	2.3	2.4
RoE (%)	11.6	11.4	12.4

Valuations

P/E (x)	12.3	10.4	8.6
P/BV (x)	1.2	1.1	1.0
Div. Yield (%)	1.4	1.7	2.0

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	28.1	28.2	32.6
DII	7.7	7.6	3.3
FII	24.8	24.8	23.2
Others	39.3	39.5	40.9

FII Includes depository receipts

Utilized write-backs from resolution of Corporate NPA for write-offs in Retail

- PNB Housing Finance (PNBHF) reported 46% YoY growth in 2QFY24 PAT to ~INR3.8b (In line). This was aided by ~90% QoQ increase in other income and ~10bp QoQ decline in credit costs to ~0.3%.
- NII grew 2% YoY to INR6.5b (in line). Adjusting for a one-off gain of INR1.6b on assigned loans in 2QFY23, NII grew 35% YoY. PPOP declined 5% YoY to INR5.5b.
- In 2QFY24, the company resolved a large corporate NPA through a sale to an ARC. The resultant provision write-backs of ~INR2b were largely utilized for effecting write-offs on the stressed portion of the retail book. PNBHF could take additional write-offs in Retail in 2HFY24 to further improve retail asset quality and start FY25 on a clean slate.
- We expect PNBHF to deliver a CAGR of 13%/28% in AUM/PAT over FY23-FY26 and ~2.4%/12.4% RoA/RoE in FY26. **Upgrade to BUY with a revised TP of INR950 (premised on 1.5x FY25E BVPS).**
- **Our recommendation upgrade is predicated on** a) visibility of >15% AUM CAGR from FY25 onward, b) potential NIM expansion on the back of a decline in borrowing costs and a marginal rise in yields as affordable housing mix improves to form a respectable proportion of retail book, and c) expansion in RoA aided by moderation in credit costs (as both retail and corporate segment stress now largely provided for) and gradual improvement in RoE as the leverage builds up on the balance sheet.

Highlights from the management commentary

- The management has retained its guidance for 17-18% YoY retail loan growth and ~22% YoY growth in retail disbursements.
- The cost of borrowings was flat QoQ; the management has guided that CoB has peaked out and should decline from hereon.
- Disbursements in the corporate business will restart within the next few quarters and will be focused on select locations and select projects. The contribution of Corporate in the AUM mix will be <10%.

Embarking back on its loan growth trajectory; Upgrade to BUY

- Over the past year, PNBHF has transformed its business model toward Retail and reduced its corporate loan book (through down-selling and ARC sale) to ~4% of the AUM mix. It targets to scale up affordable housing quarterly disbursements to ~INR10b in the short term.
- PNBHF has levers for NIM improvement through product diversification and potential decline in borrowing costs. Asset quality improvement has made it eligible for NHB borrowings, and a potential credit rating upgrade will provide even better access to primary debt markets. A better outlook on loan growth and lower credit costs have led to ~4%/9% increase in our FY24/FY25 EPS estimates.

- The equity capital raise through a rights issue has brought in the much-needed confidence capital, which could result in a rating upgrade from credit rating agencies. **Upgrade to BUY with a revised TP of INR950 (based on 1.5x Mar'25E BVPS)**. Key risk is high competitive intensity leading to a compression in NIM.

Quarterly performance

(INR M)

	FY23				FY24E				FY23	FY24E	2QFY24E	v/s Est.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Interest Income	12,987	15,975	17,136	15,892	16,669	17,029	17,454	18,153	61,991	69,305	17,003	0
Interest Expenses	9,303	9,639	9,963	10,081	10,475	10,573	10,784	11,327	38,985	43,160	10,632	-1
Net Interest Income	3,684	6,337	7,173	5,812	6,194	6,456	6,670	6,826	23,006	26,146	6,371	1
YoY Growth (%)	-27.6	36.2	72.8	57.6	68.1	1.9	-7.0	17.5	30.9	13.7	0.5	
Other income	1,124	868	829	485	408	765	805	917	3,306	2,895	693	10
Total Income	4,808	7,205	8,002	6,297	6,602	7,221	7,475	7,743	26,311	29,041	7,064	2
YoY Growth (%)	-18.5	30.6	60.2	27.2	37.3	0.2	-6.6	23.0	23.2	10.4	-2.0	
Operating Expenses	1,214	1,368	1,262	1,468	1,530	1,702	1,651	1,725	5,313	6,607	1,591	7
YoY Growth (%)	5.4	15.4	8.5	16.7	26.0	24.4	30.8	17.5	11.6	24.4	16.3	
Operating Profits	3,594	5,837	6,740	4,828	5,072	5,519	5,824	6,018	20,998	22,434	5,473	1
YoY Growth (%)	-24.3	34.8	75.9	30.7	41.1	-5.4	-13.6	24.6	26.5	6.8	-6.2	
Provisions	483	2,432	3,071	1,403	606	448	800	1,217	7,389	3,070	650	-31
Profit before Tax	3,111	3,404	3,669	3,425	4,467	5,071	5,024	4,801	13,609	19,364	4,823	5
Tax Provisions	761	778	978	632	994	1,241	1,130	895	3,149	4,260	1,085	14
Profit after tax	2,350	2,626	2,691	2,793	3,473	3,830	3,894	3,907	10,460	15,104	3,738	2
YoY Growth (%)	-3.4	11.7	42.8	64.7	47.8	45.8	44.7	39.9	25.0	44.4	42.3	
Key Operating Parameters (%)												
Rep. Yield on loans	8.46	9.57	10.65	10.43	10.59	10.58						
Rep. Cost of funds	7.21	7.32	7.55	7.76	7.97	7.99						
Spreads	1.25	2.25	3.10	2.67	2.62	2.59						
Net Interest Margins	2.36	4.14	4.68	3.74	3.86	3.95						
Cost to Income Ratio	25.3	19.0	15.8	23.3	23.2	23.6						
Credit Cost	0.34	1.69	2.12	0.96	0.40	0.30						
Tax Rate	24.5	22.9	26.6	18.5	22.2	24.5						
Balance Sheet Parameters												
Loans (INR B)	573	578	580	593	604	609						
Change YoY (%)	-5.1	-2.4	0.3	2.3	6.1	5.2						
AUM (INR B)	649	657	658	666	673	674						
Change YoY (%)	-9.7	-5.8	-2.7	1.0	4.0	2.6						
Borrowings (Ex Assgn.) (INR B)	518	523	525	537	527	536						
Change YoY (%)	-11.1	-5.9	-2.5	0.8	3.3	2.3						
Loans/Borrowings (%)	110.6	110.5	110.5	110.5	114.6	113.6						
Off BS loans/AUM (%)	11.6	12.0	11.7	11.0	10.4	9.7						
Debt/Equity (x)	5.1	5.0	4.9	4.9	3.8	3.8						
Asset Quality Parameters (%)												
GS 3 (INR Mn)	36,390	35,020	28,240	22,700	22,700	10,860						
Gross Stage 3 (% on loans)	6.35	6.06	4.87	3.83	3.76	1.78						
NS 3 (INR Mn)	24,400	20,770	18,350	16,170	15,430	7,170						
Net Stage 3 (% on loans)	4.35	3.68	3.22	2.76	2.59	1.19						
PCR (%)	32.9	40.7	35.0	28.8	32.0	34.0						

E: MOFSL Estimates



Retail disbursements gaining momentum; NIMs expand sequentially

- 2QYF24 disbursements rose 16% YoY to ~INR41.8b. Retail disbursement grew 18% YoY to INR41.7b. Total loan book growth was muted at ~5% YoY/flat QoQ at ~INR609. However, Retail loans grew 12% YoY.
- Affordable housing segment exhibited healthy traction, with disbursements surging to ~INR3.7b in 2QFY24 (vs. ~INR2.3b in 1QFY24).
- Reported NIM expanded ~10bp QoQ to ~3.95%. The management continued to guide for long-term steady-state spreads of 2.5% and margin of 3.5%.

Write-offs in retail led to improvement in retail asset quality

- Total GNPA/NNPA stood at ~1.8%/1.2% (as a % of Loan Assets) and improved ~200bp/140bp QoQ.
- As on Jun'23, one exposure accounted for ~93% of corporate GNPA and was backed by a large real estate developer. During 2QFY24, it resolved this large Corporate NPA with total outstanding of ~INR7.8b through a sale to an ARC and recovered the entire outstanding in cash. The resultant provision write-backs of ~INR2b were largely utilized for effecting write-offs on the stressed portion of the retail book. Retail GNPA improved ~75bp QoQ to 1.7%, while Corporate GNPA declined to 2.9% (PQ: 25%).

Highlights from the management commentary

Business update

- Disbursements stood at INR41.7b, up 18% YoY and 14% QoQ.
- In affordable housing, PNBHF disbursed ~INR3.7b in 2QFY24 and is confident of scaling up to ~INR10b quarterly disbursements in the short term.

Guidance

- Expects to 17-18% growth in Retail Book with ~22% growth in disbursements in FY24.
- The cost of borrowings was flat QoQ; the management has guided that CoB has peaked out and should decline from hereon.
- Guided for opex between 80-90bp
- Maintained its guidance for credit costs at 0.6% for FY24 and at ~0.4% for FY25 (given blend of prime and affordable)
- Gearing ratio will improve from 3.8x to 6.0-6.5x over the next 2-3 years.

Asset quality

- GS3 declined to 1.79% (PQ: 3.76%). Retail GS3 declined to 1.74% (PQ: 2.49%) and Corporate GS3 declined to 2.86% (PQ: ~25%)
- Provision write-backs were utilized for increasing the PCR on loan assets and write-offs in Retail

Corporate Book

- Corporate book stood at INR23.8b. Disbursements in the corporate business will restart within the next few quarters and will be focused on select locations and select projects.
- Focus will be on Construction Finance with ticket sizes of ~INR1.5b-2.0b
- Contribution of Corporate in the AUM mix will be <10%

Retail

- Increasing its share in South markets. Significant increase in disbursement contribution from South and decline in West.
- Focused more on Home Loans and Salaried customers
- ~88% of the incremental retail loans in ticket sizes <INR10m
- No plans of any future write-offs; aims to improve Retail NPA further through organic collections rather than write-offs
- BT-OUT stood at 6-7% and has been in the same range for the last few quarters (earlier used to be in the range of 9-10%)

Borrowing Mix

- Bank borrowings declined to 44% and will come down by another 1-2%.
- Increasing debt market borrowings by increasing proportion of NCDs and CPs
- NHB Refinance stood ~5% but will increase since it will be availing finance from NHB in the near future.

Financial Performance

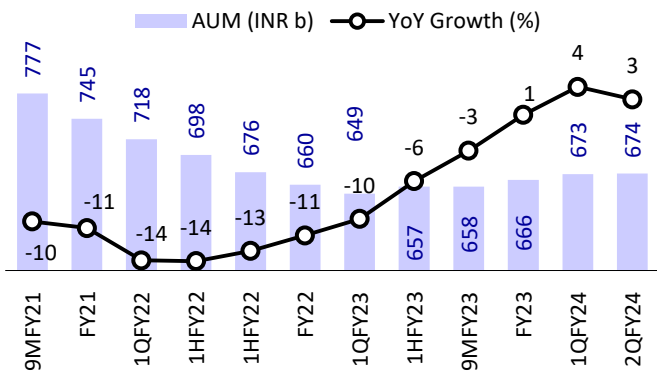
- Yields stood at ~10.6% and CoB stood at ~8% | NIM improved to 3.95% (up ~10bp QoQ)
- Credit costs stood at ~26bp | RoA: 2.24% and RoE: 11.1%
- CRAR at 30.4% (Tier 1: 28.5%)
- Opex was higher because of royalty payments to the promoter PNB.

Others

- Core book run-off stood at 17.1% (PY: ~20%)
- CRISIL and ICRA have upgraded their outlook to Positive (from Stable earlier)
- Incremental yields in prime segment stood at 9.6-9.7% and in affordable, the overall yields stood at 11.5%
- Run-off has been stable in the range of 16-17% and expects it to be stable in this range.
- No loans are in moratorium and they are classified under respective Stages based on their DPD.

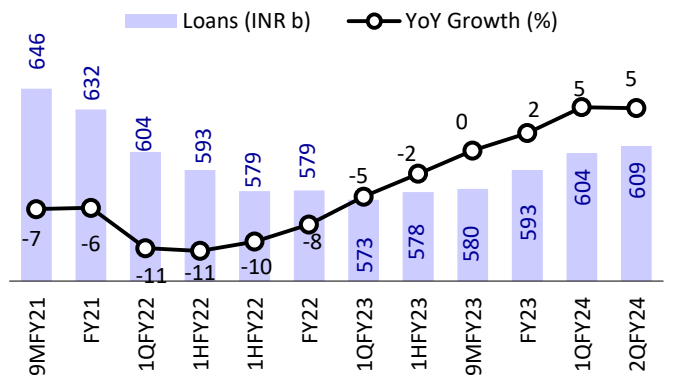
Key exhibits

Exhibit 1: AUM grew 3% YoY...



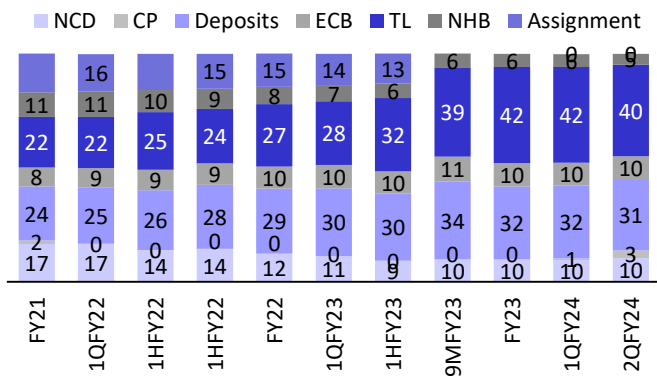
Source: MOFSL, Company

Exhibit 2: ...while on-book loans grew 5% YoY



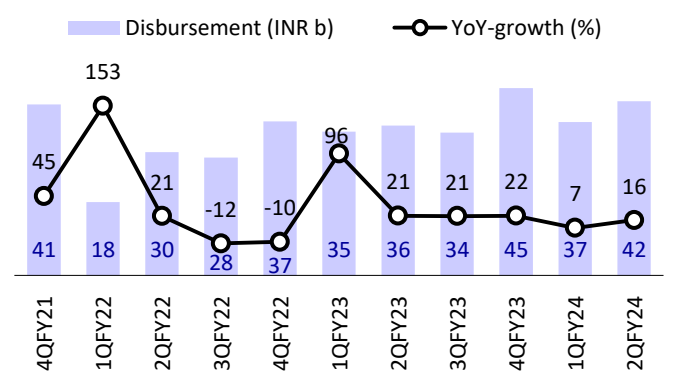
Source: MOFSL, Company

Exhibit 3: Borrowing mix (%)



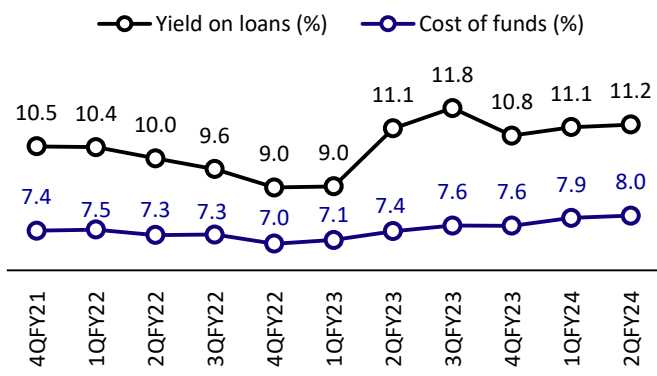
Source: MOFSL, Company

Exhibit 4: Disbursements grew ~16% YoY



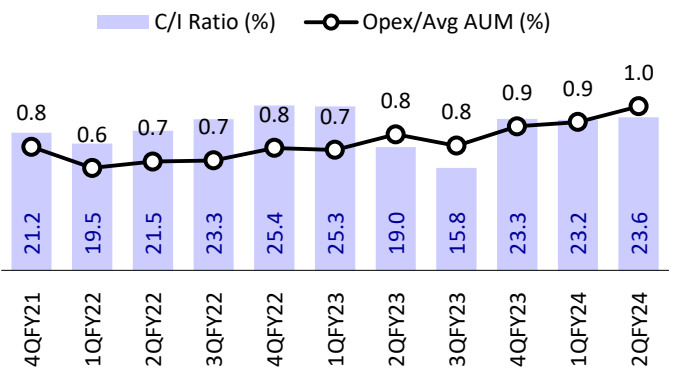
Source: MOFSL, Company

Exhibit 5: Reported spreads contracted ~3bp sequentially



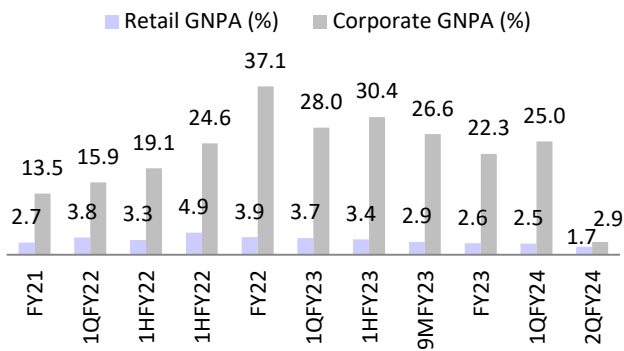
Source: MOFSL, Company, Calculated

Exhibit 6: C/I ratio increased by 40bp QoQ (%)



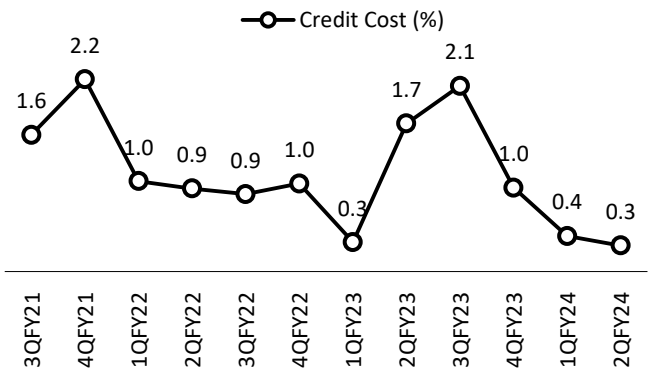
Source: MOFSL, Company, Calculated

Exhibit 7: Retail GNPA improved significantly QoQ



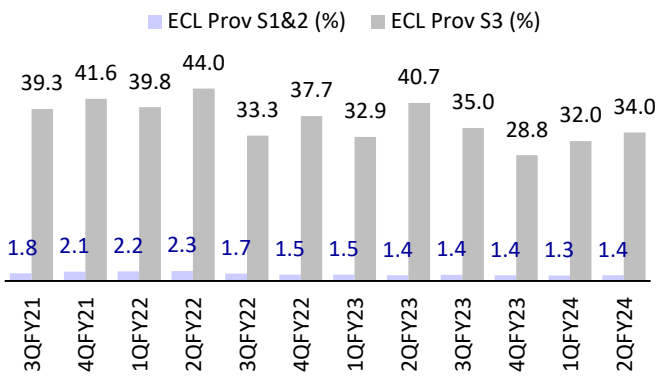
Source: MOFSL, Company

Exhibit 8: Credit costs moderated ~10bp QoQ (%)



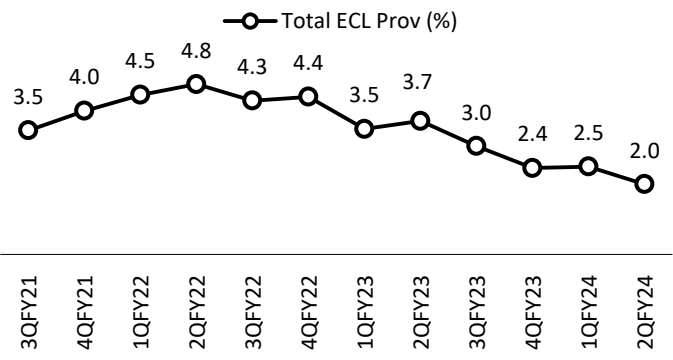
Source: MOFSL, Company

Exhibit 9: Stage 3 PCR increased ~200bp QoQ...



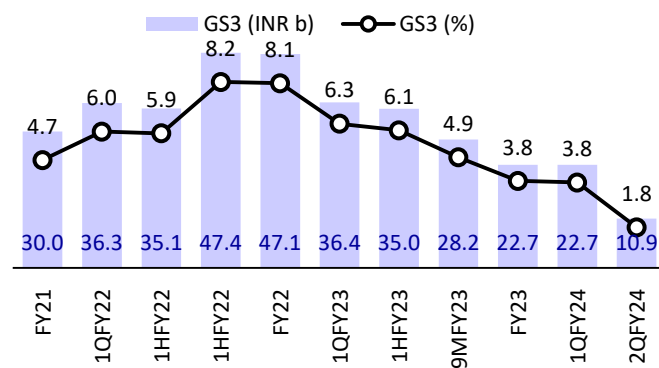
Source: MOFSL, Company

Exhibit 10: ...and ECL/EAD stood at 2.0% of loans



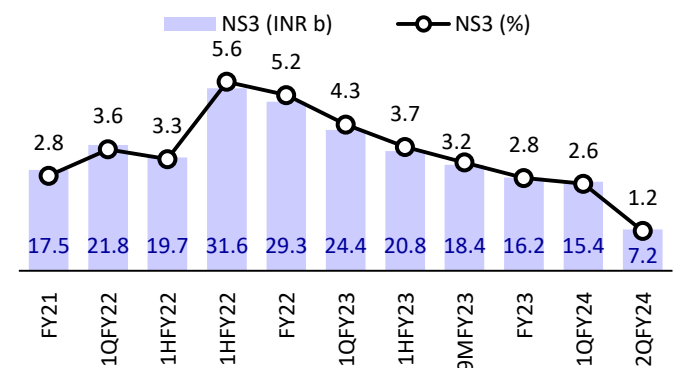
Source: MOFSL, Company

Exhibit 11: GS3 improved sequentially by 200bp...



Source: MOFSL, Company

Exhibit 12: ...while NS3 improved ~140bp QoQ



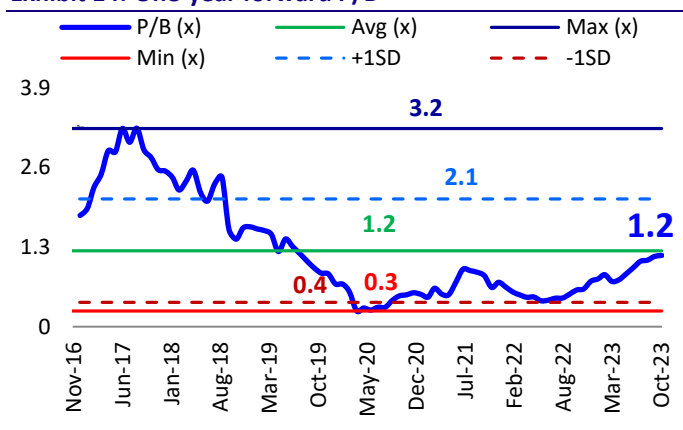
Source: MOFSL, Company

Exhibit 13: Raise our FY24E/25E EPS by 4%/6% to factor in higher loan growth and lower credit costs

INR b	Old Est.		New Est.		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
NII	25.2	28.0	26.1	29.3	3.9	4.7
Other Income	3.4	4.0	2.9	3.9	-13.8	-2.0
Total Income	28.5	32.0	29.0	33.2	1.9	3.9
Operating Expenses	6.3	6.8	6.6	7.2	5.1	5.1
Operating Profits	22.2	25.2	22.4	26.0	0.9	3.5
Provisions	3.7	3.4	3.1	3.0	-16.0	-12.6
PBT	18.6	21.8	19.4	23.1	4.3	6.1
Tax	4.1	4.8	4.3	5.1	4.3	6.1
PAT	14.5	17.0	15.1	18.0	4.3	6.1
Loan book	640	717	650	737	1.5	2.7
NIM (%)	4.1	4.1	4.3	4.2		
Spreads (%)	3.0	3.0	3.1	3.1		
ROAA (%)	2.1	2.2	2.1	2.3		
RoAE (%)	11.2	10.8	11.6	11.4		

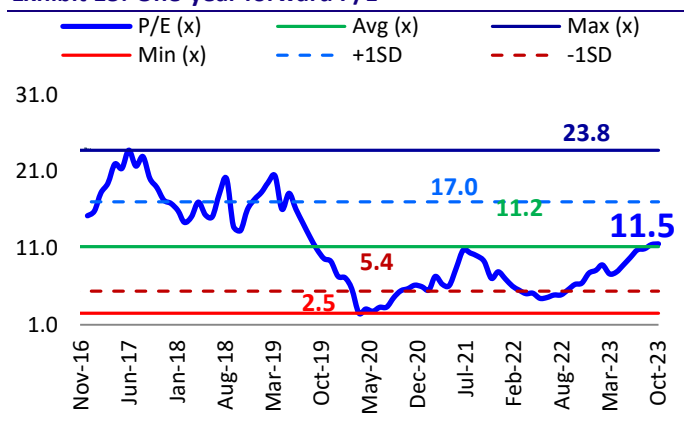
Source: MOFSL estimates

Exhibit 14: One-year forward P/B



Source: MOFSL, Company

Exhibit 15: One-year forward P/E



Source: MOFSL, Company

Financials and valuations

Income statement										(INR M)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	36,401	50,467	67,929	76,882	71,898	58,220	61,991	69,305	77,392	88,802
Interest Expended	26,437	35,366	51,664	58,750	50,998	40,645	38,985	43,160	48,067	54,815
Net Interest Income	9,964	15,101	16,265	18,133	20,901	17,575	23,006	26,146	29,326	33,987
Change (%)	45.3	51.6	7.7	11.5	15.3	-15.9	30.9	13.7	12.2	15.9
Other Operating Income	2,678	4,426	8,904	8,013	4,343	3,787	3,306	2,895	3,886	4,838
Net Income	12,642	19,528	25,169	26,146	25,243	21,363	26,311	29,041	33,211	38,826
Change (%)	50.6	54.5	28.9	3.9	-3.5	-15.4	23.2	10.4	14.4	16.9
Operating Expenses	3,573	4,416	5,935	5,522	4,554	4,760	5,313	6,607	7,163	7,767
Operating Income	9,069	15,112	19,234	20,624	20,689	16,603	20,998	22,434	26,049	31,059
Change (%)	54.5	66.6	27.3	7.2	0.3	-19.7	26.5	6.8	16.1	19.2
Provisions/write offs	1,029	2,766	1,890	12,514	8,619	5,764	7,389	3,070	2,967	3,179
PBT	8,040	12,346	17,344	8,110	12,070	10,840	13,609	19,364	23,082	27,880
Extraordinary Items	0	0	0	0	0	0	0	0	0	0
Reported PBT	8,040	12,346	17,344	8,110	12,070	10,840	13,609	19,364	23,082	27,880
Tax	2,803	3,934	5,429	2,201	2,978	2,475	3,149	4,260	5,078	6,134
Tax Rate (%)	34.9	31.9	31.3	27.1	24.7	22.8	23.1	22	22	22
DTL on Special Reserve										
Reported PAT	5,237	8,412	11,915	5,909	9,092	8,365	10,460	15,104	18,004	21,746
Change (%)	60.0	60.6	41.7	-50.4	53.9	-8.0	25.0	44.4	19.2	20.8
PAT adjusted for EO	5,237	8,412	11,915	5,909	9,092	8,365	10,460	15,104	18,004	21,746
Change (%)	60.0	60.6	41.7	-50.4	53.9	-8.0	25.0	44.4	19.2	20.8
Proposed Dividend	1,196	1,799	1,809	0	0	0	0	2,598	3,115	3,632

Balance sheet										(INR M)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Capital	1,656	1,666	1,675	1,682	1,683	1,686	1,689	2,595	2,595	2,595
Reserves & Surplus	56,340	64,008	73,764	78,296	87,548	97,030	108,448	147,582	162,988	181,620
Net Worth	57,996	65,673	75,439	79,978	89,230	98,716	110,137	150,178	165,584	184,215
Borrowings	353,207	537,767	718,589	677,351	593,925	530,050	536,211	584,819	655,617	758,961
Change (%)	35.8	52.3	33.6	-5.7	-12.3	-10.8	1.2	9.1	12.1	15.8
Other liabilities	14,974	26,704	44,662	31,969	30,767	28,530	15,795	17,375	19,112	21,024
Total Liabilities	426,177	630,145	838,690	789,297	713,922	657,296	662,143	752,371	840,313	964,200
Loans	387,347	571,648	742,879	666,280	606,447	553,359	578,398	649,799	736,648	852,765
Change (%)	42.5	47.6	30.0	-10.3	-9.0	-8.8	4.5	12.3	13.4	15.8
Investments	33,236	24,130	45,607	20,757	20,448	34,827	31,963	35,159	38,675	42,543
Change (%)	104.9	-27.4	89.0	-54.5	-1.5	70.3	-8.2	10.0	10.0	10.0
Net Fixed Assets	604	858	1,083	1,353	1,056	935	839	881	925	971
Other assets	4,990	33,509	49,122	100,906	85,971	68,175	50,943	66,533	64,065	67,921
Total Assets	426,177	630,145	838,690	789,297	713,922	657,296	662,143	752,371	840,313	964,200

E: MOFSL Estimates

Financials and valuations

Ratios	(%)									
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Spreads Analysis (%)										
Avg yield on loans	10.6	10.2	10.1	10.6	10.9	9.7	10.6	10.8	10.8	10.9
Avg. cost of funds	8.6	7.9	8.2	8.4	8.0	7.2	7.3	7.7	7.8	7.8
Interest Spread	2.0	2.3	1.9	2.1	2.9	2.4	3.0	3.0	2.8	2.9
NIM on loans	3.0	3.1	2.5	2.6	3.3	3.0	4.1	4.3	4.2	4.3
Profitability Ratios (%)										
RoE	13.2	13.6	16.9	7.6	10.7	8.9	10.0	11.6	11.4	12.4
RoA	1.4	1.6	1.6	0.7	1.2	1.2	1.6	2.1	2.3	2.4
Int. Expended/Int.Earned	72.6	70.1	76.1	76.4	70.9	69.8	62.9	62.3	62.1	61.7
Other Inc./Net Income	21.2	22.7	35.4	30.6	17.2	17.7	12.6	10.0	11.7	12.5
Efficiency Ratios (%)										
Op. Exps./Net Income	28.3	22.6	23.6	21.1	18.0	22.3	20.2	22.8	21.6	20.0
Empl. Cost/Op. Exps.	28.3	32.6	51.2	42.2	46.4	45.5	50.1	52.3	53.1	53.9
Asset Quality (INR m)										
Gross NPA	858	1,861	3,549	18,562	29,990	47,062	22,714	19,822	17,872	15,662
GNPA ratio	0.2	0.3	0.5	2.8	4.8	8.2	3.9	3.0	2.4	1.8
Net NPA	590	1,438	2,784	11,838	17,500	29,312	16,184	13,479	11,796	10,337
NNPA ratio	0.2	0.3	0.4	1.8	2.9	5.3	2.8	2.1	1.6	1.2
CAR	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
VALUATION										
Book Value (INR)	350	394	450	476	530	586	652	579	638	710
BVPS Growth YoY	107.1	12.6	14.3	5.6	11.5	10.4	11.4	-11.3	10.3	11.3
Price-BV (x)					1.4	1.2	1.1	1.2	1.1	1.0
EPS (INR)	31.6	50.5	71.1	35.1	54.0	49.6	61.9	58.2	69.4	83.8
EPS Growth YoY	22.6	59.7	40.9	-50.6	53.8	-8.2	24.9	-6.1	19.2	20.8
Price-Earnings (x)					13.3	14.5	11.6	12.3	10.4	8.6
Dividend per share (INR)	6.0	9.0	9.0	0.0	0.0	0.0	0.0	10.0	12.0	14.0
Dividend yield (%)					0.0	0.0	0.0	1.4	1.7	1.9

E: MOFSL Estimates

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NOTES

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UNDER REVIEW	Rating may undergo a change
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