

PNB Housing Finance | BUY

Strong operating performance

PNB Housing Finance (PNBHF)'s operating performance remained strong in 2QFY18, with net profit up 51% YoY, driven by robust AUM growth of 47%. Disbursement growth came in at 45% YoY while the loan book increased 51%, driven by growth in the developer book (59% YoY/18% QoQ) and individual home loans (47% YoY/11% QoQ), while LAP book growth stood at 38% YoY/12% QoQ. Margins expanded 39bps YoY to 3.15% in 2QFY18, driven by a 94bps YoY decline in funding costs and a change in the loan mix towards developer book, LRD and Corporate Term Loan. PNBHF's asset quality remained stable with gross NPLs of 0.34%, while its coverage ratio stood at 24% (vs. 32% in 2QFY17). With aggressive lending rates cuts across the industry, we expect some pressure on yields and margins going forward. With deeper penetration in existing markets and rapid geographic expansion into newer markets, we expect strong growth to continue. We forecast net profit CAGR of 39% over FY17-FY20E, led by strong loan growth and steady asset quality. We value the company at 3.4x Dec'19 BV, implying a Dec'18 TP of INR 1680. We have a BUY call on the stock.

- **Retail disbursements continue to remain healthy:** PNBHF's disbursements grew 45% YoY in 2QFY18, while the loan book increased 51%, driven by growth in individual home loans (47% YoY/11% QoQ) developer book (59% YoY, 18% QoQ) and LAP book (38% YoY, 12% QoQ). The repayment rate in housing loans remained stable at 8.5%. We forecast a loan book CAGR of 40% over FY17-FY20E.
- **Margins expanded 39bps to 3.15%, driven by a change in the loan mix and a 94bps decline in funding costs; margin compression ahead:** PNBHF's margins expanded 39bps YoY to 3.15%, driven by i) a change in the loan mix towards developer book, LRD and corporate term loans and ii) 94bps YoY decline in funding costs to 7.8%. Driven by a significant increase in competitive intensity, we forecast a margin decline of 40 bps over the next 2 years.
- **Cost-asset ratio improved 31bps YoY to 0.86% despite the addition of 24 branches:** Despite the addition of 24 branches in the past year, its cost-asset ratio improved to 0.86% (1.2% in 2QFY17) on improvements in operating efficiencies. We expect it to reduce to 0.7% by FY20.
- **Stable asset quality trends:** Asset quality trends remained stable YoY with GNPL at 0.34% (vs. 0.26% in 2QFY17) while the coverage ratio stood at 24% (vs. 32% in 2QFY17). Credit cost stood at 41bps (vs. 44bps during 1QFY18) as the company recovered 4 large retail accounts. We factor credit costs of 30bps over FY17-FY20E.
- **Expect earnings CAGR of 39% over FY17-FY20E; maintain BUY with a TP of INR 1,680:** We forecast net profit CAGR of 39% over FY17-FY20E, led by strong loan growth, improvement in cost ratios and stable asset quality. We expect PNBHF to report RoA/RoE of 1.5%/18%, respectively, by FY20E and value it at 3.4x Dec'19 BV, implying a Dec'18 TP of INR 1,680.
- **Key risks:** a) Pressure on PNBHF's average yields and spreads due to increased competition and b) dilution in PNB's stake to below 30% could prevent it from using the 'PNB' brand, which could increase borrowing costs.



Karan Singh CFA FRM

karan.uberai@jmfl.com | Tel: (91 22) 66303082

Nikhil Walecha

nikhil.walecha@jmfl.com | Tel: (91 22) 66303027

Bunny Babjee

bunny.babjee@jmfl.com | (+91 22) 6630 3263

Sameer Bhise

sameer.bhise@jmfl.com | Tel: (91 22) 66303489

Jayant Kharote

jayant.kharote@jmfl.com | Tel: (91 22) 66303099

S Parameswaran

S.Parameswaran@jmfl.com | +91 22 66303075

Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,680
Upside/(Downside)	20.4%
Previous Price Target	1,550
Change	7.1%

Key Data – PNBHOUSI IN

Current Market Price	INR1,395
Market cap (bn)	INR232.4/US\$3.6
Free Float	12%
Shares in issue (mn)	165.6
Diluted share (mn)	
3-mon avg daily val (mn)	INR313.9/US\$4.8
52-week range	1,718/789
Sensex/Nifty	33,043/10,295
INR/US\$	64.9

Price Performance

%	1M	6M	12M
Absolute	-7.8	0.6	0.0
Relative*	-11.8	-8.8	0.0

* To the BSE Sensex

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters
S&P Capital IQ and FactSet

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Financial Summary					(INR mn)
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Profit	3,265	5,237	8,236	10,837	14,083
Net Profit (YoY) (%)	68.2%	60.4%	57.3%	31.6%	30.0%
Assets (YoY) (%)	55.9%	44.8%	40.7%	37.5%	33.7%
ROA (%)	1.3%	1.4%	1.6%	1.5%	1.5%
ROE (%)	17.5%	13.6%	13.9%	16.1%	18.1%
EPS	25.7	31.6	49.7	65.4	85.0
EPS (YoY) (%)	68.2%	22.9%	57.3%	31.6%	30.0%
P/E (x)	54.2	44.1	28.1	21.3	16.4
BV	169	337	379	435	507
BV (YoY) (%)	35.8%	99.3%	12.6%	14.7%	16.6%
P/BV (x)	8.26	4.14	3.68	3.21	2.75

Source: Company data, JM Financial. Note: Valuations as of 25/Oct/2017

PNBHF – 2QFY18 trends

Exhibit 1. PNBHF: Actual vs. estimates

P/L INR mn	2Q18E	2Q18A	A/E (%)
Net Interest Income	3,770	3,864	2.5%
Total Non-interest Income	801	934	16.6%
Total Income	4,571	5,516	20.7%
Total Operating Expenses	1,235	1,101	-10.8%
Operating Profit (PPP)	3,336	4,415	32.3%
Total Provisions	552	503	-9.0%
Reported Profit	1,818	2,080	14.4%

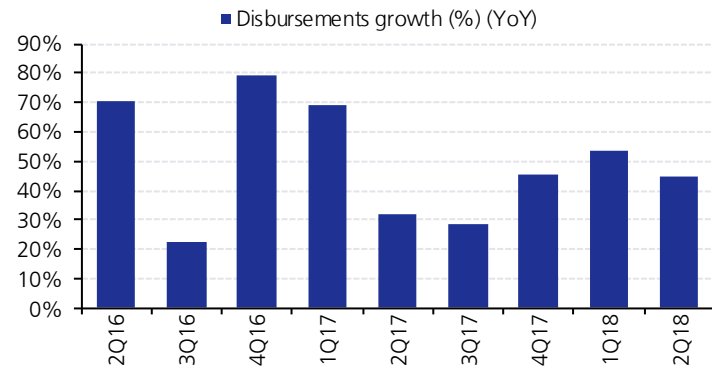
Source: Company, JM Financial

Exhibit 2. PNBHF: 2Q18 - Results summary

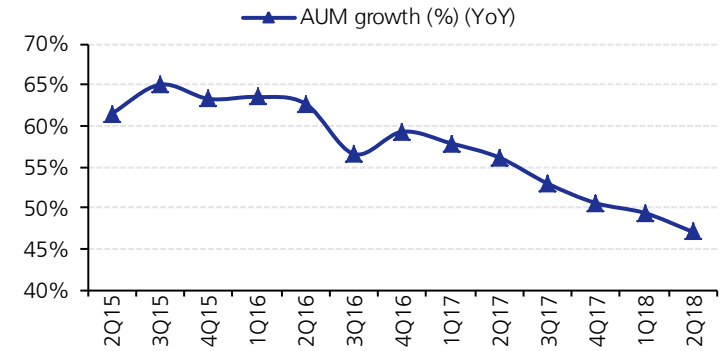
Earnings Table (INR mn)	Q2FY17	Q1FY18	Q2FY18	YoY (%)	QoQ (%)
Net Interest Income	2,284	3,436	3,864	69.2%	12.5%
Total Non-Interest income	572	957	934	63.2%	-2.5%
Total Income	2,856	4,394	4,798	68.0%	9.2%
Employee Cost	266	289	331	24.5%	14.4%
Depreciation and Amortisation	46	51	53	15.1%	3.3%
Other expenses	697	742	718	3.0%	-3.2%
Total Operating Expenses	1,008	1,082	1,101	9.2%	1.8%
Operating Profit (PPP)	1,848	3,312	3,697	100.1%	11.6%
Total Provisions	-225	481	503	-323.4%	4.6%
PBT	2,073	2,831	3,194	54.1%	12.8%
Tax	696	984	1,114	60.0%	13.2%
Reported Profit	1,377	1,848	2,080	51.1%	12.6%
Loan Book (INR bn)					
Disbursements	51.1	77.9	73.9	44.6%	-5.2%
Loans	322.4	440.0	487.5	51.2%	10.8%
Ratios Analysis (%)					
Cost to Income (%)	-0.3%	0.4%	0.4%	0.65%	-0.03%
Effective Tax Rate (%)	33.6%	34.7%	34.9%	1.29%	0.13%
Credit Quality					
Gross NPAs (INR mn)	840	1,900	1,650	96.4%	-13.2%
Net NPAs (INR mn)	575	1,450	1,250	117.5%	-13.8%
Gross NPA (%)	0.26%	0.43%	0.34%	0.08%	-0.09%
Net NPA (%)	0.18%	0.33%	0.26%	0.08%	-0.07%
Coverage Ratio (%)	31.6%	23.7%	24.2%	-7.3%	0.6%

Source: Company, JM Financial

- Disbursements growth stood at 45% YoY, while loan book grew 47% YoY.

Exhibit 3. PNBHF: Trend in disbursement growth

Source: Company, JM Financial

Exhibit 4. PNBHF: Trend in loan growth

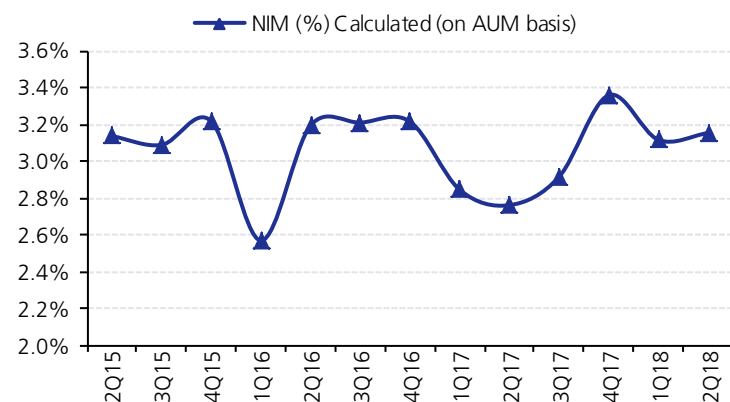
Source: Company, JM Financial

Exhibit 5. PNBHF: Trend in loan book composition

Loan Book Composition (%)	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Housing loans					
Retail Housing Loans	60.6%	61.0%	61.0%	58.8%	58.8%
Construction Finance	11.2%	11.4%	11.4%	11.1%	11.8%
Non Housing loans					
LAP	18.0%	16.8%	16.8%	16.3%	16.5%
Non-residential premises	3.9%	3.9%	3.9%	3.6%	3.5%
LRD	3.4%	3.6%	3.6%	6.0%	5.0%
Corporate term loan	2.8%	3.3%	3.3%	4.5%	4.4%
Total	100%	100%	100%	100%	100.0%

Source: Company, JM Financial

- In 2QFY18, reported margins improved 44bps YoY to 3.16%, driven by a 94bps YoY decline in funding costs to 7.8%.

Exhibit 6. PNBHF: Trend in reported margins (%)

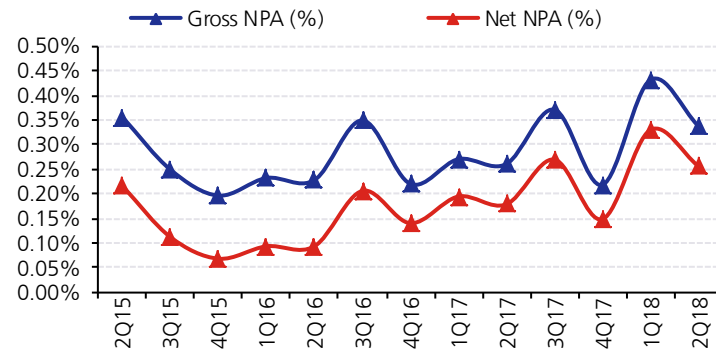
Source: Company, JM Financial

Exhibit 7. PNBHF: Trend in calculated spread (%)

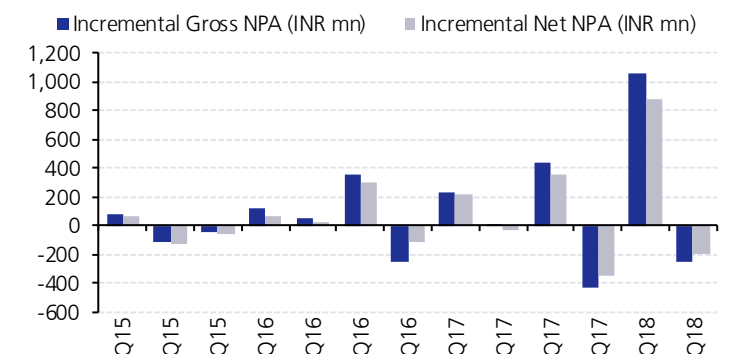
Spread Comparison (%)	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Spread Calculated (%)					
Yield on AUM (%)	11.03%	10.33%	10.20%	9.94%	9.97%
Cost of borrowings (%)	8.90%	8.63%	8.15%	8.01%	7.90%
Spread (%)	2.13%	1.70%	2.05%	1.93%	2.07%

Source: Company, JM Financial

- Asset quality trends remained stable with GNPLs at 0.34% (vs. 0.26% in 2QFY17). Coverage ratio stood at 24.2% (vs. 31.6% in 2QFY17).

Exhibit 8. PNBHF: Trend in asset quality

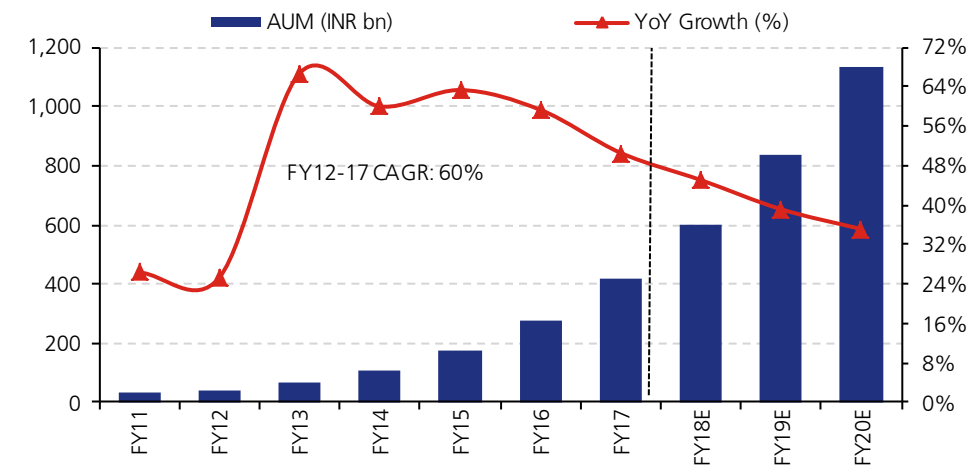
Source: Company, JM Financial

Exhibit 9. PNBHF: Trend in asset quality

Source: Company, JM Financial

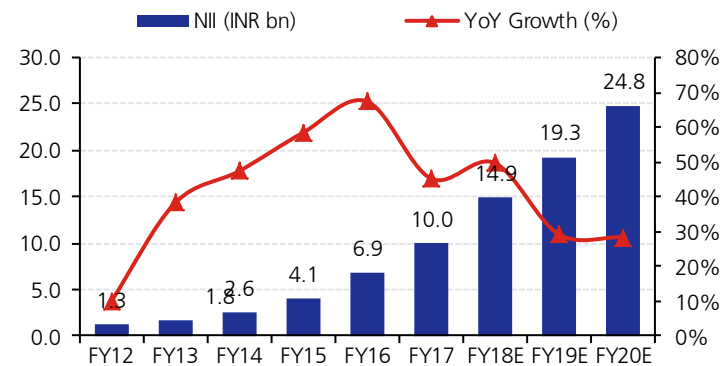
PNBHF – Annual Trends

Exhibit 10. PNBHF: Trend in loan growth



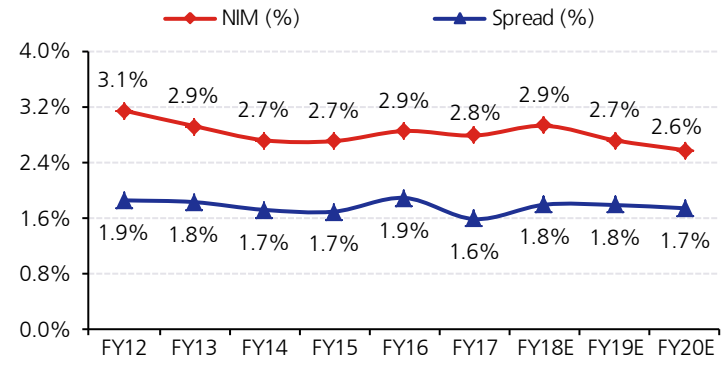
Source: Company, JM Financial

Exhibit 11. PNBHF: Trend in NII



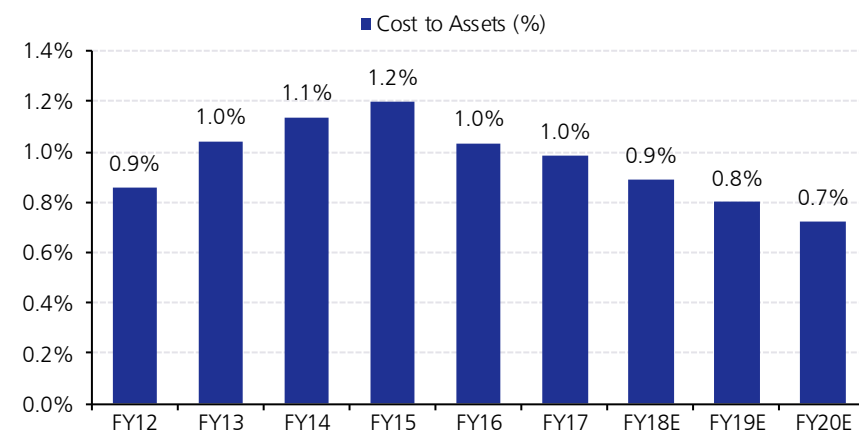
Source: Company, JM Financial

Exhibit 12. PNBHF: Trend in Margins



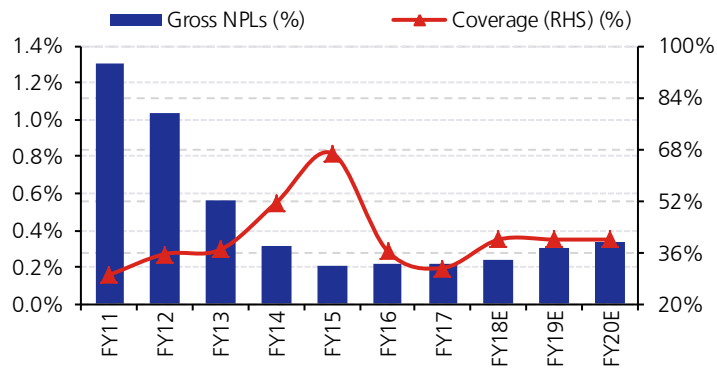
Source: Company, JM Financial

Exhibit 13. PNBHF: Trend in cost-to-assets



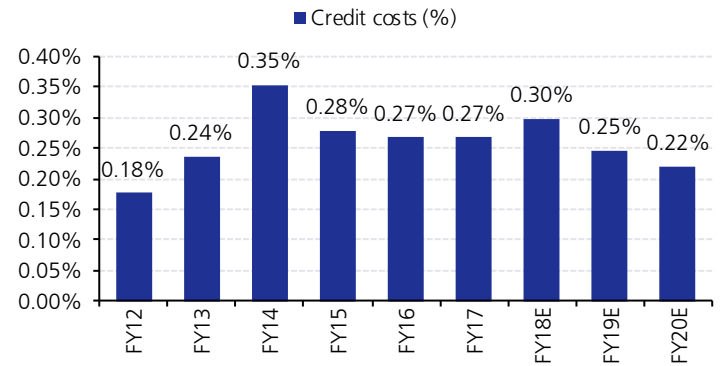
Source: Company, JM Financial

Exhibit 14. PNBHF: Trend in asset quality



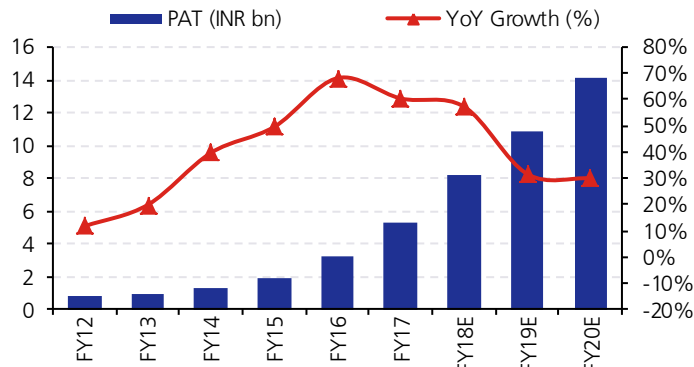
Source: Company, JM Financial

Exhibit 15. PNBHF: Trend in credit costs



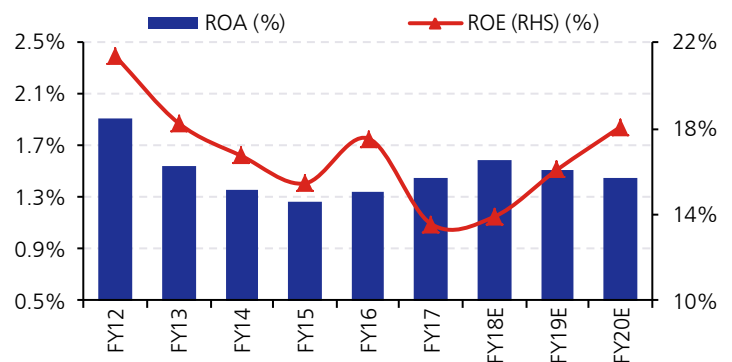
Source: Company, JM Financial

Exhibit 16. PNBHF: Trend in earnings growth



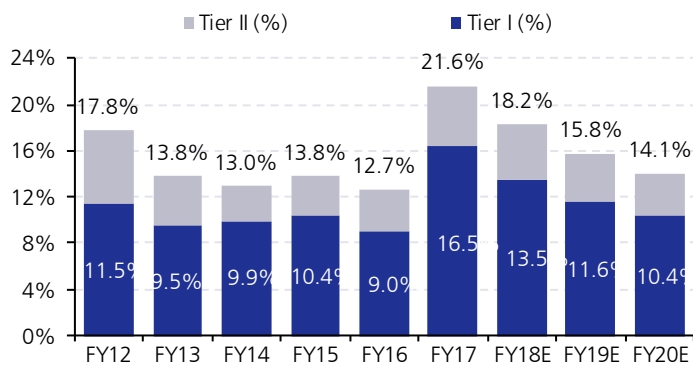
Source: Company, JM Financial

Exhibit 17. Trend in return ratios



Source: Company, JM Financial

Exhibit 18. PNBHF: Trend in tier-I capital and CAR



Source: Company, JM Financial

Financial Tables (Standalone)

Income Statement						(INR mn)
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E	
Net Interest Income (NII)	6,858	9,964	14,918	19,285	24,756	
Non Interest Income	1,525	2,678	3,868	4,914	6,023	
Total Income	8,384	12,642	18,787	24,199	30,779	
Operating Expenses	2,521	3,573	4,601	5,737	7,028	
Pre-provisioning Profits	5,863	9,069	14,185	18,462	23,751	
Loan-Loss Provisions	514	686	1,380	1,601	1,941	
Others Provisions	73	193	26	41	72	
Total Provisions	832	1,029	1,706	2,042	2,413	
PBT	5,031	8,040	12,479	16,420	21,338	
Tax	1,766	2,803	4,243	5,583	7,255	
PAT (Pre-Extra ordinaries)	3,265	5,237	8,236	10,837	14,083	
Extra ordinaries (Net of Tax)	0	0	0	0	0	
Reported Profits	3,265	5,237	8,236	10,837	14,083	
Dividend	432	1,196	1,235	1,626	2,113	
Retained Profits	2,833	4,041	7,001	9,211	11,971	

Source: Company, JM Financial

Balance Sheet						(INR mn)
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E	
Equity Capital	1,269	1,656	1,656	1,656	1,656	
Reserves & Surplus	20,175	54,117	61,118	70,329	82,300	
Stock option outstanding	0	0	0	0	0	
Borrowed Funds	260,137	354,971	521,808	731,575	990,552	
Deferred tax liabilities	0	0	0	0	0	
Preference Shares	0	0	0	0	0	
Current Liabilities & Provisions	15,144	18,851	19,950	27,422	36,669	
Total Liabilities	296,725	429,596	604,532	830,983	1,111,177	
Net Advances	271,773	385,310	558,950	777,761	1,050,882	
Investments	16,223	32,796	32,978	38,110	42,035	
Cash & Bank Balances	2,485	1,515	2,236	3,111	4,204	
Loans and Advances	2,076	3,187	2,515	3,111	3,678	
Other Current Assets	3,547	6,184	7,003	7,721	8,816	
Fixed Assets	622	604	850	1,169	1,563	
Miscellaneous Expenditure	0	0	0	0	0	
Deferred Tax Assets	0	0	0	0	0	
Total Assets	296,725	429,596	604,532	830,983	1,111,177	

Source: Company, JM Financial

Key Ratios					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Growth (YoY) (%)					
Borrowed funds	55.3%	36.5%	47.0%	40.2%	35.4%
Advances	61.6%	41.8%	45.1%	39.1%	35.1%
Total Assets	55.9%	44.8%	40.7%	37.5%	33.7%
NII	67.4%	45.3%	49.7%	29.3%	28.4%
Non-interest Income	44.0%	75.6%	44.4%	27.0%	22.6%
Operating Expenses	37.8%	41.7%	28.8%	24.7%	22.5%
Operating Profits	76.3%	54.7%	56.4%	30.1%	28.7%
Core Operating profit	89.3%	54.5%	52.4%	30.6%	29.7%
Provisions	118.4%	23.7%	65.7%	19.7%	18.2%
Reported PAT	68.2%	60.4%	57.3%	31.6%	30.0%
Yields / Margins (%)					
Interest Spread	1.89%	1.58%	1.79%	1.78%	1.74%
NIM	2.85%	2.79%	2.93%	2.72%	2.57%
Profitability (%)					
ROA	1.34%	1.44%	1.59%	1.51%	1.45%
ROE	17.5%	13.6%	13.9%	16.1%	18.1%
Cost to Income	30.1%	28.3%	24.5%	23.7%	22.8%
Asset quality (%)					
Gross NPA	0.22%	0.22%	0.24%	0.31%	0.34%
LLP	0.23%	0.21%	0.29%	0.24%	0.21%
Capital Adequacy (%)					
Tier I	9.02%	16.48%	13.54%	11.60%	10.37%
CAR	12.68%	21.62%	18.24%	15.78%	14.07%

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
NII / Assets	2.82%	2.74%	2.89%	2.69%	2.55%
Other Income / Assets	0.63%	0.74%	0.75%	0.68%	0.62%
Total Income / Assets	3.44%	3.48%	3.63%	3.37%	3.17%
Cost / Assets	1.04%	0.98%	0.89%	0.80%	0.72%
PPP / Assets	2.41%	2.50%	2.74%	2.57%	2.45%
Provisions / Assets	0.34%	0.28%	0.33%	0.28%	0.25%
PBT / Assets	2.07%	2.21%	2.41%	2.29%	2.20%
Tax rate	35.1%	34.9%	34.0%	34.0%	34.0%
ROA	1.34%	1.44%	1.59%	1.51%	1.45%
Leverage	13.8	7.7	9.6	11.5	13.2
ROE	17.5%	13.6%	13.9%	16.1%	18.1%

Source: Company, JM Financial

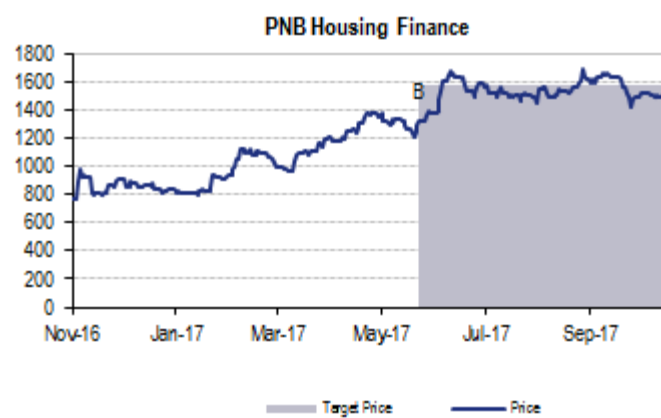
Valuations					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Shares in Issue	126.9	165.6	165.6	165.6	165.6
EPS (INR)	25.7	31.6	49.7	65.4	85.0
EPS (YoY) (%)	68.2%	22.9%	57.3%	31.6%	30.0%
P/E (x)	54.2	44.1	28.1	21.3	16.4
BV (INR)	169	337	379	435	507
BV (YoY) (%)	35.8%	99.3%	12.6%	14.7%	16.6%
P/BV (x)	8.26	4.14	3.68	3.21	2.75
DPS (INR)	3.4	7.2	7.5	9.8	12.8
Div. yield (%)	0.2%	0.5%	0.5%	0.7%	0.9%

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	FY18E EPS (INR)	% Chg.	FY19E EPS (INR)	% Chg.	Target Price	% Chg.
26-May-17	60.2		80.8		1,550	

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U65192MH1995PLC092522

Member of BSE Ltd. and National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

SEBI Registration Nos.: BSE - INZ010012532, NSE - INZ230012536 and MSEI - INZ260012539, Research Analyst – INH000000610

Registered Office: 7th Floor, Cnergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.

Board: +9122 6630 3030 | Fax: +91 22 6630 3488 | Email: jmfinancial.research@jmfl.com | www.jmfl.com

Compliance Officer: Mr. Sunny Shah | Tel: +91 22 6630 3383 | Email: sunny.shah@jmfl.com

Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 15%. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 15% upside from the current market price.
Sell	Price expected to move downwards by more than 10%

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