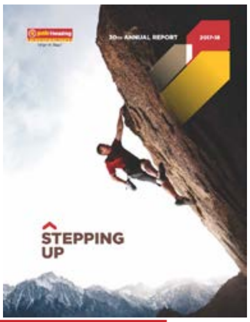
5 September 2018

Annual Report Update | Sector: Financials - NBFC

PNB Housing Finance

BSE SENSEX	S&P CNX
38,018	11,477

CMP: INR1,287 **TP: INR1,520 (+18%)** **Buy**



pnb Housing Finance Limited — Ghar Ki Baat

Stock Info

Bloomberg	PNBHOUSI IN
Equity Shares (m)	167
M.Cap.(INRb)/(USDb)	217.3 / 3.0
52-Week Range (INR)	1669 / 1051
1, 6, 12 Rel. Per (%)	1/-1/-39
12M Avg Val (INR M)	361
Free float (%)	67.2

Financials Snapshot (INR b)

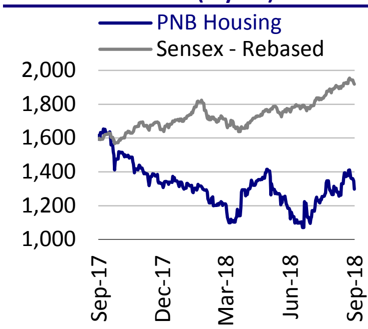
Y/E March	2018	2019E	2020E
NII	15.5	18.8	24.2
PPP	14.8	19.5	24.1
PAT	8.3	11.2	13.6
EPS (INR)	49.9	67.1	81.4
BV/Sh. (INR)	389.4	442.0	505.8
RoAA (%)	1.6	1.4	1.3
RoE (%)	13.9	16.1	17.2
Payout (%)	21.7	21.6	21.6
P/E (x)	25.9	19.2	15.8
P/BV (x)	3.3	2.9	2.6
Div. Yield (%)	0.7	0.9	1.1

Shareholding pattern (%)

As On	Jun-18	Mar-18	Jun-17
Promoter	32.8	33.0	38.9
DII	10.4	7.6	4.5
FII	18.2	16.3	14.5
Others	38.7	43.1	42.1

FII Includes depository receipts

Stock Performance (1-year)



Strong growth, improving profitability

Spreads improved in FY18, but outlook challenging

- **PNB Housing Finance (PNBHOUSI IN) reported a strong 59% PAT growth in FY18 with 50% growth in AUM YoY, ~40bp spread expansion and stable asset quality.**
- **Growth has been led by expanding branch count (up from 63 to 84 branches YoY) and higher share of in-house sourcing (up from 59% to 65% YoY). Also, the company continues to reduce geography-specific risks – the share of AUM coming from North India has reduced meaningfully from 52% to 32% over FY14-18.**
- **With smart treasury management, the company managed to expand spreads despite a tough interest rate environment. Almost all NCDs issued in FY18 were at a cost below 8%. Additionally, only 3% of secured NCDs will mature in FY19, thus minimizing refinancing risk in FY19. In addition, PNBHOUSI issued ~INR9b worth of ZCBs during the year.**
- **Asset quality remains robust with GNPL ratio of 33bp. While slippages jumped 3x YoY in FY18 (on a low base), upgrades and recoveries led to a steady GNPL ratio by year-end. Write-offs during the year were just INR183m (4bp of loans). However, increasing loan concentration to the Top 20 borrowers is a key concern for us.**
- **PNB and Quality Investment Holdings (Carlyle) have invited bids for a joint stake sale of at least 51% of the outstanding shares of the company. Non-binding bids are expected to be submitted early in September and the transaction is likely to culminate in three months. While the change in ownership could change company strategy and/or financials, we have not considered the impact on our estimates.**
- **PNBHF continues to deliver strong loan growth. With improving branch productivity and increasing share of in-house sourcing, the expense ratio should continue to moderate. The transition to Ind-AS has been smooth. We expect RoA to decline to 1.3% by FY20; however, RoE should increase to 17% due to higher leverage. Rising GSec yield is the biggest risk to our estimates given the thin spreads in this business. We introduce consolidated estimates for FY19-21E. PNBHOUSI incorporated a wholly-owned subsidiary in end-FY18 for sales and distribution. Consolidated numbers from FY19 onwards should be comparable with standalone numbers of FY18. Maintain a Buy rating with a TP of INR1,520 (3x FY20E BV).**

Focus more on West India; growth driven by volumes rather than values

Over the past few years, there has been a clear shift in the business mix towards newer geographies. PNBHOUSI was more focused on the West and South zones of India, as compared to the North. **The share of AUM coming from the West has increased from 25% to 39% over FY14-18, making it the largest geographical segment for PNBHOUSI, while that of North India has decreased from 52% to 32% over the same period. Also, of the 21 new branches opened in FY18, only three were in the north, while seven were opened in the west and 11 in South India.** In FY18, number of loans sanctioned increased 72% to 102k, while sanctioned amount increased 60% to INR556b (hence, **incremental ticket size decreased from INR5.4m to INR5.0m**). In the home loan portfolio, the salaried class accounted for 67% of loans in FY18 vs 63% in FY17.

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Smart liability strategy helps expand spreads

PNBHOUSI managed an average cost of funds below 8% in FY18. This was achieved by a smart liability strategy. **Almost all incremental secured NCDs were raised at a rate sub-8%. As a result, 49% of secured NCDs outstanding are in the 7-8% cost range as of FY18, compared to 16% in FY17. Additionally, the NCDs raised were more long-term in nature—only 3% of secured NCDs would mature over the next 12 months (compared to 9% in FY17), while ~70% will mature over FY19-21.** The company was also opportunistic in raising CPs – the share of CPs in the total borrowing mix increased from 11% to 18% YoY. However, with tightening liquidity, we believe this share should come down in the near-term. **PNBHOUSI, for the first time, raised funds through the ZCB route amounting to Rs8.9b. However, the interest cost (INR130m post-tax) of these ZCBs was deducted directly from reserves. Had they been routed through P&L, spreads would have been 15bp lower on an annualized basis.** Under Ind-AS, the company will have to account for the implied interest cost in the P&L. Also, during the year, the company assigned loans amounting to INR31b to different institutions. Management has stated that this would be an active strategy, going forward.

Incorporated a wholly-owned subsidiary for sales; external loan acquisition cost stable

PNBHOUSI incorporated a wholly-owned subsidiary—PHFL Home Loans and Services to focus on its sales and distribution functions. While the parent company has strength of 1,290 employees, the subsidiary has ~2,000 employees on its rolls. **Also, note that the cost of loan acquisition increased from INR0.9b in FY17 to INR1.43b in FY18, implying a largely stable blended acquisition cost of 1.2%.**

Increasing share of commercial real estate exposure as well as loan concentration to Top-20 borrowers a slight concern

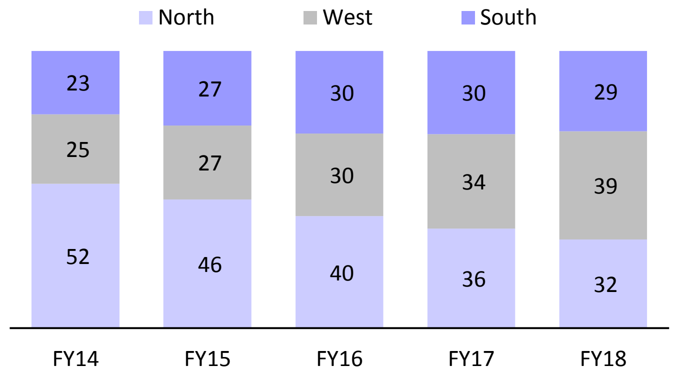
Increasing share of loan exposure against commercial real estate exposure as well as loan concentration to the top-20 borrowers is a slight concern for the company. **The share of lending against commercial real estate increased from 17% to 29% over FY16-17 and further to 33% in FY18.** Also, while loan concentration (% of loan book) to the top-20 borrowers increased from 10% to 13% in FY18, **a larger cause for concern is the high amount outstanding per loan—this increased from INR2.0b to INR3.9b YoY in FY18.** The share of deposits coming from the Top-20 depositors has remained largely stable YoY at ~35%.

Introducing consolidated estimates; valuation and view

PNBHF continues to deliver strong growth in its loan book. Increasing geographical spread and new branch openings (110 branches in FY20E vs. 84 in FY18) are expected to result in the loan book growing to INR1t+ by FY20. With improving branch productivity and increasing share of in-house sourcing, expense ratio should continue to decline. The transition to Ind-AS has been smooth. We expect RoA to decline to 1.2% by FY20; however, RoE would increase to ~17% due to higher leverage. **Rising GSec yield is the biggest risk to our estimates. We introduce consolidated estimates for FY19-21E. Our new EPS estimates are ~5% higher to factor in the higher non-interest income.** Maintain a Buy rating with a TP of INR1,520 (3x FY20E BV).

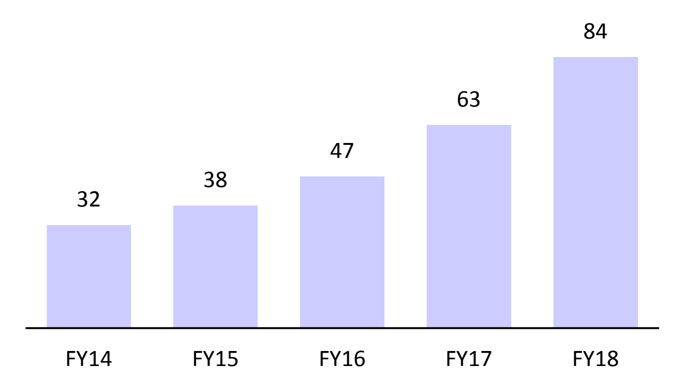
Story in charts

Exhibit 1: Geographical mix – Growing more in the West



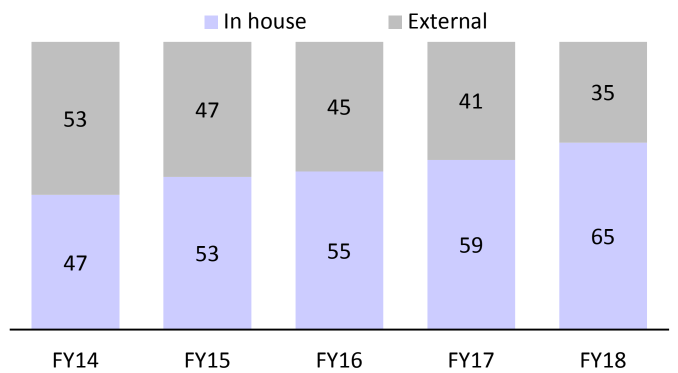
Source: MOSL, Company

Exhibit 2: Branch count trend – Investing in branch network



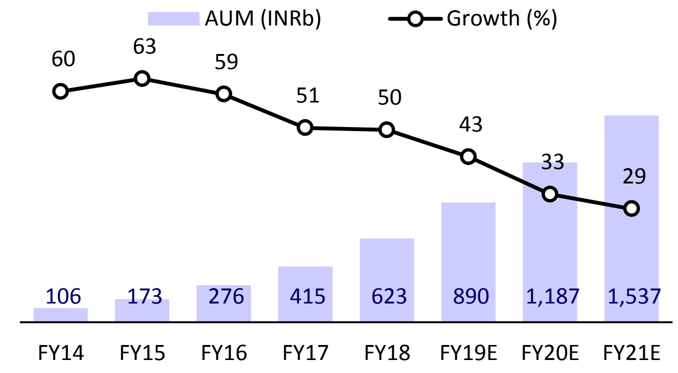
Source: MOSL, Company

Exhibit 3: Loan sourcing mix moving towards in-house (%)



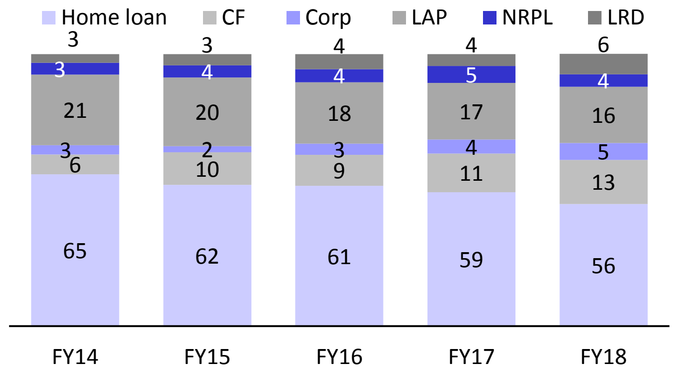
Source: MOSL, Company

Exhibit 4: AUM growth to remain robust



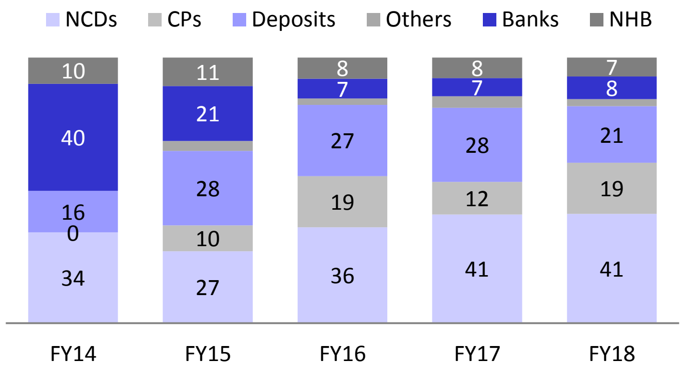
Source: MOSL, Company

Exhibit 5: Loan mix trend (%)



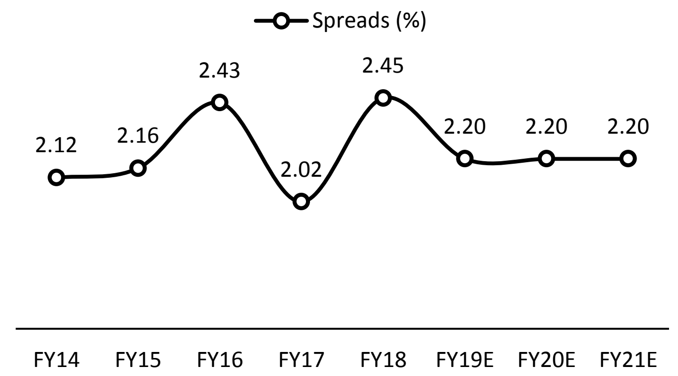
Source: MOSL, Company

Exhibit 6: Borrowing mix trend (%)



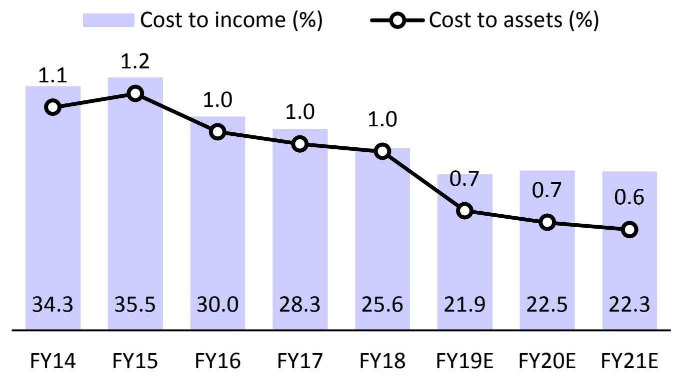
Source: MOSL, Company

Exhibit 7: Spreads to be under pressure going forward



Source: MOSL, Company

Exhibit 8: Expense ratio to decline gradually



Source: MOSL, Company

Exhibit 9: Increasing commercial RE exposure

Real estate exposure %	FY16	FY17	FY18
Residential	83	71	67
Commercial	17	29	33
Total	**100**	**100**	**100**

Source: MOSL, Company

Exhibit 10: Loan concentration to Top 20 borrowers increasing

Exposure to Top 20 borrowers	FY16	FY17	FY18
Loans (INR m)	28,562	39,755	77,039
% of loan book	10.5	10.3	13.4
Avg size of loan (INR m)	1,428	1,988	3,852

Source: MOSL, Company

Exhibit 11: Concentration of public deposits

Public deposits concentration	FY16	FY17	FY18
Top 20 deposits (INR m)	14,874	30,744	32,392
% of total deposits	27.4	35.3	34.6
Average size of deposit (INR m)	**744**	**1,537**	**1,620**

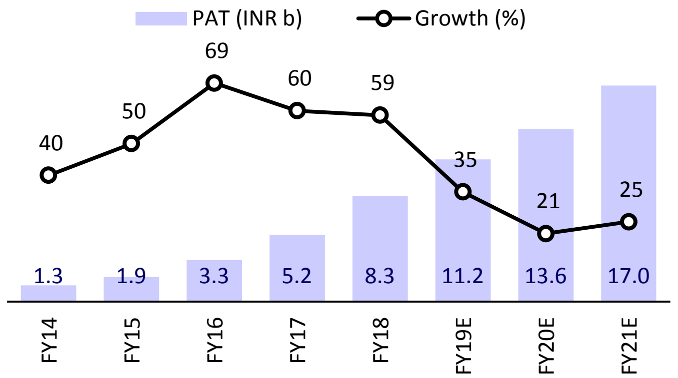
Source: MOSL, Company

Exhibit 12: Movement on Gross NPA

INR m	FY16	FY17	FY18
Opening Gross NPA	341	598	858
Gross Additions	1,523	2,612	6,255
% of opening loans	0.9%	1.0%	1.6%
Reductions	1,266	2,353	5,252
Closing Gross NPA	598	858	1,861

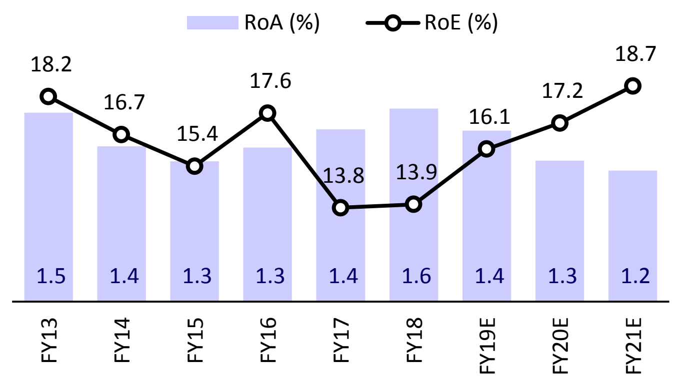
Source: MOSL, Company

Exhibit 13: PAT growth to remain robust



Source: MOSL, Company

Exhibit 14: RoE to approach 19%



Source: MOSL, Company

Financials: Valuation matrix

	Rating	CMP	Mcap	P/E (x)		P/BV (x)		RoA (%)		RoE (%)	
		(INR)	(USDb)	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
ICICIBC*	Buy	328	29.5	22.8	10.8	1.4	1.3	0.7	1.2	6.2	12.4
AXSB	Buy	641	23.0	31.9	17.8	2.4	2.1	0.7	1.0	7.8	12.7
KMB*	Neutral	1,260	33.6	33.9	27.6	4.2	3.6	1.6	1.7	11.8	13.2
YES	Buy	334	10.8	14.1	10.9	2.5	2.1	1.5	1.5	19.5	21.2
IIB	Buy	1,852	15.5	22.6	17.1	4.1	3.2	2.1	2.4	19.4	21.0
FB	Buy	77	2.1	13.2	9.8	1.2	1.0	0.8	0.9	9.1	11.2
DCBB	Neutral	171	0.7	18.0	15.3	1.8	1.6	0.9	0.9	10.8	11.5
SIB	Buy	17	0.4	10.0	4.3	0.6	0.5	0.3	0.7	5.7	12.5
Equitas	Buy	153	0.7	31.4	15.8	2.2	1.9	1.1	1.6	7.1	13.0
RBL	Buy	608	3.6	29.5	21.7	3.4	2.6	1.2	1.4	12.3	14.1
Private Aggregate											
SBIN (cons)*	Buy	297	37.0	33.1	9.0	1.1	1.0	0.1	0.6	2.4	11.6
PNB	Neutral	83	3.2	-9.4	10.4	0.7	0.6	-0.3	0.3	-6.4	6.0
BOI	Neutral	95	2.3	18.7	11.5	0.5	0.5	0.1	0.2	2.5	4.0
BOB	Buy	145	5.4	12.5	7.4	0.9	0.8	0.4	0.6	6.9	10.7
CBK	Neutral	271	2.8	14.1	6.1	0.6	0.5	0.2	0.5	3.9	8.5
UNBK	Neutral	85	1.4	-19.6	23.9	0.4	0.4	-0.1	0.1	-2.1	1.6
INBK	Buy	314	2.1	9.8	5.9	0.8	0.7	0.6	0.8	9.4	14.2
Public Aggregate											
Banks Aggregate											
HDFC*	Buy	1,955	45.8	17.4	15.6	2.7	2.4	2.0	1.8	17.5	16.5
LICHF	Neutral	503	3.6	11.2	9.4	1.8	1.6	1.3	1.4	17.2	17.8
IHFL	Buy	1,213	7.2	11.4	9.6	3.0	2.6	3.2	3.0	28.3	29.5
PNBHF	Buy	1,297	3.0	20.6	16.5	3.0	2.6	1.4	1.2	15.2	16.7
GRHF	Neutral	337	3.4	54.2	47.9	15.7	13.1	2.7	2.6	31.8	29.7
REPCO	Buy	531	0.5	13.0	11.6	2.2	1.8	2.4	2.4	18.0	17.2
Housing Finance											
SHTF	Buy	1,297	4.1	11.9	9.6	1.9	1.6	2.5	2.6	16.9	18.0
MMFS	Buy	466	4.0	23.0	19.3	2.7	2.5	2.3	2.2	12.4	13.5
BAF	Neutral	2,751	22.1	43.9	33.2	8.5	6.9	3.5	3.6	21.1	23.0
CIFC	Buy	1,474	3.2	19.6	16.5	3.8	3.1	2.5	2.4	21.0	20.7
SCUF	Buy	2,024	1.9	14.8	12.8	2.1	1.9	3.2	3.1	15.4	15.6
LTFH	Buy	169	4.7	14.3	12.2	2.5	2.1	2.4	2.3	19.3	19.2
MUTH	Neutral	400	2.2	8.9	8.2	1.8	1.5	5.4	5.4	21.4	20.2
MAS	Buy	602	0.5	24.6	19.6	4.0	3.5	4.1	4.1	17.2	18.9
CAFL	Buy	612	0.8	13.9	11.0	2.0	1.7	1.6	1.6	15.7	17.1
Asset Finance											

UR=Under Review*Multiples adj. for value of key ventures/Investments; For ICICI Bank and HDFC Ltd BV is adjusted for investments in subsidiaries

Financials and valuations

Income statement

(INR Million)

Y/E March	2014	2015	2016	2017	2018	2019E	2020E	2021E
Interest Income	10,559	16,708	25,461	36,401	50,824	72,559	101,901	133,391
Interest Expended	8,016	12,648	18,603	26,437	35,308	53,737	77,703	102,915
Net Interest Income	**2,543**	**4,060**	**6,858**	**9,964**	**15,516**	**18,822**	**24,198**	**30,475**
Change (%)	47.3	59.6	68.9	45.3	55.7	21.3	28.6	25.9
Other Operating Income	644	1,095	1,534	2,678	4,346	6,131	6,824	8,506
Net Income	**3,187**	**5,155**	**8,393**	**12,642**	**19,862**	**24,953**	**31,022**	**38,981**
Change (%)	56.0	61.8	62.8	50.6	57.1	25.6	24.3	25.7
Operating Expenses	1,093	1,830	2,521	3,573	5,082	5,464	6,969	8,693
Operating Income	**2,094**	**3,326**	**5,872**	**9,069**	**14,779**	**19,489**	**24,054**	**30,288**
Change (%)	48.3	58.8	76.6	54.5	63.0	31.9	23.4	25.9
Provisions/write offs	304	381	832	1,029	1,988	2,431	3,344	4,385
Reported PBT	**1,790**	**2,945**	**5,040**	**8,040**	**12,791**	**17,058**	**20,709**	**25,902**
Tax	493	1,004	1,766	2,803	4,484	5,885	7,145	8,936
Tax Rate (%)	28	34	35	35	35	35	35	35
Reported PAT	**1,297**	**1,941**	**3,273**	**5,237**	**8,307**	**11,173**	**13,565**	**16,966**
Change (%)	39.7	49.6	68.7	60.0	58.6	34.5	21.4	25.1
Proposed Dividend	176	290	486	1,196	1,799	2,413	2,930	3,665

Balance sheet

(INR Million)

Y/E March	2014	2015	2016	2017	2018	2019E	2020E	2021E
Capital	657	1,038	1,269	1,656	1,666	1,666	1,666	1,666
Reserves & Surplus	8,684	14,749	20,190	52,921	63,202	71,961	82,596	95,897
Net Worth	**9,341**	**15,787**	**21,459**	**54,577**	**64,868**	**73,627**	**84,262**	**97,563**
Borrowings	**101,077**	**164,808**	**260,137**	**354,971**	**540,722**	**802,704**	**1,081,005**	**1,413,913**
Change (%)	51.0	63.1	57.8	36.5	52.3	48.5	34.7	30.8
Other liabilities	4,978	9,695	14,809	19,579	31,850	39,812	49,765	59,718
Total Liabilities	**115,396**	**190,290**	**296,405**	**429,127**	**637,439**	**916,143**	**1,215,032**	**1,571,195**
Loans	**105,660**	**168,006**	**271,813**	**385,452**	**570,300**	**819,086**	**1,091,924**	**1,413,913**
Change (%)	60.1	59.0	61.8	41.8	48.0	43.6	33.3	29.5
Investments	**6,455**	**15,860**	**16,223**	**32,796**	**23,801**	**33,322**	**43,318**	**56,313**
Change (%)	-16.9	145.7	2.3	102.2	-27.4	40.0	30.0	30.0
Net Fixed Assets	288	577	622	604	857	1,071	1,338	1,673
Other assets	2,993	5,847	7,747	10,275	42,482	62,666	78,452	99,295
Total Assets	**115,396**	**190,290**	**296,405**	**429,127**	**637,439**	**916,143**	**1,215,032**	**1,571,195**

E: MOSL Estimates

Financials and valuations

Ratios

Y/E March	2014	2015	2016	2017	2018	2019E	2020E	2021E
Spreads Analysis (%)								
Avg yield on loans	11.7	11.7	11.2	10.6	10.3	10.2	10.5	10.5
Avg. cost of funds	9.5	9.5	8.8	8.6	7.9	8.0	8.3	8.3
Interest Spread	1.8	1.8	2.0	1.7	2.2	2.0	2.0	2.0
Net Interest Margin	2.7	2.7	2.9	2.8	3.1	2.6	2.4	2.3
Profitability Ratios (%)								
RoE	16.7	15.4	17.6	13.8	13.9	16.1	17.2	18.7
RoA	1.35	1.27	1.35	1.44	1.56	1.44	1.27	1.22
Int. Expended/Int.Earned	75.9	75.7	73.1	72.6	69.5	74.1	76.3	77.2
Other Inc./Net Income	20.2	21.2	18.3	21.2	21.9	24.6	22.0	21.8
Efficiency Ratios (%)								
Op. Exps./Net Income	34.3	35.5	30.0	28.3	25.6	21.9	22.5	22.3
Empl. Cost/Op. Exps.	37.0	36.6	29.9	28.3	26.9	38.7	37.9	38.0
Asset Quality (%)								
Gross NPAs	337	341	598	858	1,881	3,346	5,478	8,320
Gross NPAs to Adv.	0.3	0.2	0.2	0.2	0.3	0.4	0.5	0.6
Net NPAs	164	114	381	590	1,425	2,342	3,834	5,824
Net NPAs to Adv.	0.2	0.1	0.1	0.2	0.2	0.3	0.4	0.4

VALUATION	2014	2015	2016	2017	2018	2019E	2020E	2021E
Book Value (INR)	142.2	152.0	169.1	329.5	389.4	442.0	505.8	585.6
BVPS Growth YoY	15.0	6.9	11.2	94.9	18.2	13.5	14.4	15.8
Price-BV (x)					**3.3**	**2.9**	**2.6**	**2.2**
EPS (INR)	19.7	18.7	25.8	31.6	49.9	67.1	81.4	101.8
EPS Growth YoY	6.4	-5.3	38.0	22.6	57.7	34.5	21.4	25.1
Price-Earnings (x)					**25.9**	**19.2**	**15.8**	**12.7**
Dividend per share (INR)	3.0	3.0	3.4	6.0	9.0	12.1	14.7	18.3
Dividend yield (%)					**0.7**	**0.9**	**1.1**	**1.4**

E: MOSL Estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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