

Industry
Bloomberg
BSE CODE

Financial
PNBHOUSI IN
540173

Asset Quality is a Concern Amid Real Estate Stress

RATING	NEUTRAL
CMP	715
Price Target	782
Potential Upside	9%
Rating Change	↓
Estimate Change	↓
Target Change	↓

STOCK INFO	
52wk Range H/L	1428/679
Mkt Capital (Rs Cr)	12033
Free float (%)	25%
Avg. Vol 1M (,000)	280
No. of Shares (Crs)	17
Promoters Pledged %	

FINANCIAL	FY19	FY20E	FY21E
NII	7808	8274	9609
PPP	6158	6524	7584
PAT	2562	2758	3292
NIM %	7.8	7.5	7.9
EPS (Rs)	113	122	145
EPS growth (%)	63	8	19
ROE (%)	19.6	16.2	16.7
ROA (%)	2.5	2.5	2.7
BV	698	805	937
P/B (X)	1.8	1.2	1.1
P/E (X)	11.3	8.1	6.8

1QFY20 Result Update

- NII grew at the rate of 38% YoY on the back of strong AUM growth of 29% YoY. Other income has grown at a strong rate of 82% YoY majorly led by dividend income of Rs 110 Cr from its whole owned subsidiary 'PHFL Home Loans & Services Ltd'. C/I ratio has improved from 25% to 18% YoY. PAT has grown at the rate of 57% YoY.
- AUM has grown at the strong rate of 29% amid liquidity crisis. The growth in the individual segment stood at 31% YoY, construction finance stood is at 40%YoY, Loan against property is at 46% YoY while other non housing segments has decreased by 9% YoY.
- GNPA has increased from 48 bps to 85 bps QoQ while NNPA has increased from 38 bps to 67 bps QoQ. The PCR has improved from 21% to 23% YoY. The rise in slippages was on account of Rs 150 Cr corporate term loan NPA in the construction finance segment.

AUM growth Has Remained Strong

AUM has grown at the strong rate of 29% amid liquidity crisis. The share in individual segment has increased to 59%, corporate segment stood at 13% and non housing stood at 28%. The disbursement has decreased by 22% YoY to Rs 7634 Cr. The incremental disbursement was mainly led by the retail segment upto 98% while construction finance disbursement stood at Rs 600 Cr. The share of disbursement to below Rs 25 lakh affordable segment has increased to 26%.

NII Remain Strong But NIM Is Under Pressure

NII has grown at 38% driven by growth in the AUM by 29% YoY. Management has successfully passed on the rise in cost to the customers, all the rates that management has taken last year has resetted into the portfolio. The blended interest rate in home loan is at 9.38%, CF is at 11.73% and Non Housing loan is at 10.55%. While the cost of borrowing stood at 8.31% which has increased from 8.1% QoQ which resulted in margin pressure. The cost of borrowing will be an important trackable for margin movement. Management has raised 100\$ Mn i.e. Rs 690 Cr in 29 July 2019 which is expected to provide some relief going ahead.

Asset Quality has deteriorated

GNPA has increased from 48 bps to 85 bps QoQ while NNPA has increased from 38 bps to 67 bps QoQ. The PCR has improved from 21% to 23% YoY. The hike in the NPA by Rs 300 Cr was partially on account of Rs 150 Cr slippages in the corporate account and the rest was on the retail account front which slipped into NPA due to annual policy of letting the difficult account slip into NPA and getting them standard by the year end. The NPA is corporate account is a corporate term loan of 27 acres land in NCR region of Gurugram the exposure is backed by 2.5x of collateral.

View and Valuation

AUM growth continues its downward trajectory and has grown at a rate of 28% YoY. NIM has remained slightly pressurized on the back of higher cost of fund due to credit rating downgrades. The down grade was basically steered by higher leverage and real estate slowdown. Nonetheless to soothe the pain in margin pressure management has taken rate hikes upto 100 bps, this quarter all the rates hikes has resetted itself into the portfolio. Management has stated 5 corporate accounts which have remained under stress since last quarter and out of which 1 has slipped into NPA this quarter and 4 are being addressed by partnering with developers. Management remains confident of asset quality and has given a credit cost guidance of 25-27 bps. However we turned to be cautious stance due to rising stress & liquidity challenges in real estate, we decrease the estimates by 8% for FY20. We value the stock at 1.3x FY21 at Rs 782. We downgrade the stock to NEUTRAL.

Key Risks to our rating and target

- Delinquencies in construction finance segment.
- Incremental cost of borrowings.

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Healthy Growth

1QFY20 Results

Above Expectations

Fig in Rs Cr

FINANCIALS	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	1,524	1,673	1,914	1,985	2,097	37.6%	5.6%	5,122	7,096	38.6%
Interest Exp.	1,100	1,229	1,410	1,428	1,513	37.5%	6.0%	3,537	5,166	46.1%
NII	424	444	504	558	584	37.8%	4.8%	1,585	1,930	21.7%
Other Income	92	57	36	104	58	-37.1%	-44%	333	262	-21.3%
Total Income	516	502	590	710	790	53.2%	11.3%	1,952	2,318	18.8%
Ope Exp.	127	132	139	153	141	11.0%	-8.2%	441	551	25.0%
PPP	389	370	451	557	650	66.9%	16.6%	1,511	1,767	16.9%
Provisions	44	65	70	10	164	273.0%	15.2%	277	189	-31.7%
PBT	345	305	380	547	486	40.6%	-11.2%	1,235	1,578	27.8%
Tax	111	97	113	176	117	6%	-33.3%	392	497	26.6%
Extra Items	-	-	-	-	-			-	-	
Net Profit	235	208	267	371	368	56.8%	-0.8%	842	1,081	28%

Concall Highlights

- Blended interest rate in home loan is at 9.38%, CF is at 11.73% and Non Housing loan is at 10.55%. Blended cost of Borrowing is at 8.31%. The hike in the yield rate is due to 5 reference rate hike taken in the last year. As the interest rate hike takes 105 days to fully reflect in the portfolio the entire 5 reference rate has taken into effect this quarter. Liquid investment stood at Rs 5000 Cr of cash.
- The cost of borrowing is basically on the back of rating downgrade done by ICRA it has changes the rating from stable to negative while CARE revised the rating to AA+ STABLE outlook from AAA with credit watch with CRISIL changed its outlook from stable to negative. The rate cut was basically for higher leverage and elongated liquidity tightening cycle in real estate.
- OPEX to ATA (Average total asset) improvement is expected as management is focusing on operating efficiency. No branch expansion plans this year.
- Management has guided credit cost to remain in the range of 25-27 bps for FY20.
- Share of retail segment stood is at 92% of disbursement while only Rs 605 Cr disbursement in Construction Finance which is a 81% YoY degrowth. Disbursement up to 26% is in Rs 25 Lakh category. Management expects disbursement of Rs 1800-2000 Cr in Construction finance segment.
- 50-60% of direct assignment is retail home loan & retail LAP. PNBHOUSING has sold down Rs 842 Cr of LRD. nother sell down of similar amount LRD book(0 dpd & marquee names) is expected. Securitization & DA will be around Rs 2600-2700 Cr in H2FY20 which will help in lower leverage. Committed line from bank is at Rs 7000 Cr.
- CP is at 8% management is planning to maintain it at this level.
- Out 5 stress accounts of CF which were in remedial action, 1 account with gearing of 2.5x has moved into NPA. Management has let the account slip into NPA even after receiving a payment of Rs 150 Cr so that it can take legal action. The other 4 accounts are being addressed by partnering with developer and the probability of classifying as GNPA is low. ECL provision in this 5 account was at 21%. No further addition in the stress list.
- The NPACF account is a corporate term loan account 27 Acres land NCR region of Gurugram with 2.5x leverage.
- Out the Rs 300 Cr rise in NPA, Rs 150 is CF loan while the rest is retail GNPA, The hike is based on annual policy as the SARFAESI action takes 6-8 months for resolution so management let the recalcitrant accounts to slip into NPA so that they get resolved by Q4.
- Board has approved to raise capital up to Rs 2000 Cr. Management expect this equity raising will lower the leverage thus improve credit rating. Comfortable leverage level will be 7.6-7.75%.
- Construction financial team of 45 people is continuously working to monitor utilization of fund, construction stage, escrow discipline, stage velocity, sales velocity and litigation.
- For Construction Finance book management do RAG analysis RED AMBER GREEN analysis, there is presently 5 accounts in the red analysis. Few accounts in amber but they are not very alarming and would be resolved by working with developers in a continuous cooperation.
- DSA has increased to 8% due to slower growth in CF which is a complete direct sourcing book.

Profitability Matrix

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	24.1	30.0	24.5	26.3	23.6	21.6	17.8	-6.75	-3.78
Empl. Cost/ Tot. Exp. %	6.8	7.2	8.7	10.3	8.6	9.0	7.6	-1.13	-1.44
Other Exp/Tot. Exp.%	16.0	21.6	10.2	9.3	10.4	9.1	7.7	-2.52	-1.37
Provision/PPP %	14.4	11.5	11.3	17.5	15.6	1.8	25.3	13.96	23.45
Tax Rate %	34.9	35.7	32.0	31.7	29.8	32.2	24.2	-7.85	-7.99
Int Exp./Int Inc. (%)	69.3	69.2	72.2	73.4	73.7	71.9	72.1	-0.03	0.23
Other Inc./NII %	0.2	0.2	0.1	0.1	0.0	0.1	0.1	-0.06	-0.06
PPP/ Net Income %	75.9	70.0	75.5	73.7	76.4	78.4	82.2	6.75	3.78
PAT/ Net Income %	42.3	39.8	45.5	41.5	45.3	52.2	46.6	1.09	-5.65
NII Growth % (YoY)	54.9	35.7	25.4	22.6	23.0	17.7	37.8	12.34	20.07
PPP Growth YoY %	63.2	25.6	24.2	5.2	17.4	20.6	66.9	42.66	46.29
PAT Growth %	57.5	44.7	38.1	9.6	16.4	46.9	56.8	18.72	9.89

Margin Performance

MARGIN %	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances	10.1	10.6	9.8	10.0	10.8	10.7	10.8	1.00	0.19
Cost Of Funds	7.5	7.6	7.7	7.8	8.2	8.1	8.3	0.58	0.25
Spreads	2.6	3.0	2.1	2.2	2.6	2.6	2.5	0.42	-0.06

Exhibit: Yield and Cost

Rise in Yield & Cost

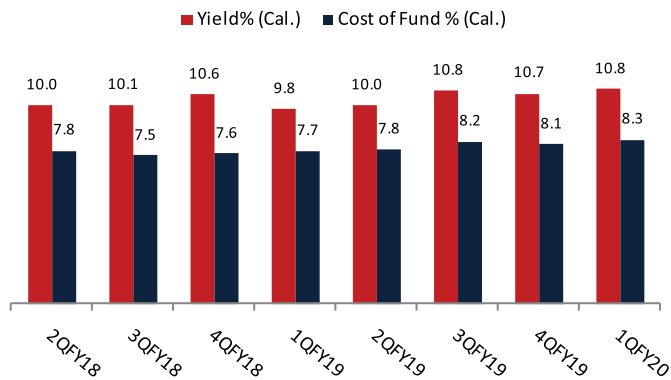
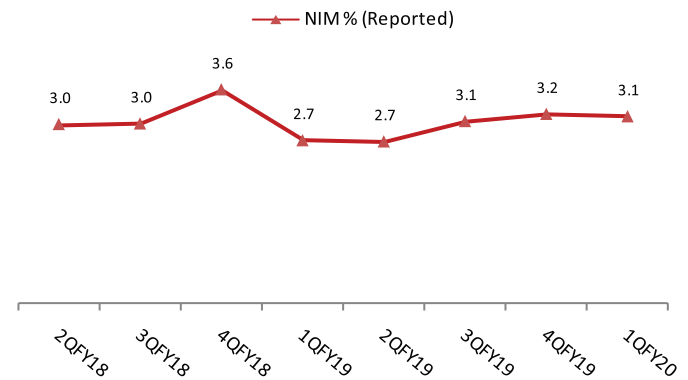


Exhibit: Spreads

NIM has remain stable



Asset & Borrowings Growth Trend

Fig in Rs Cr

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Disbursement	7794	7385	9276	8739	9767	8405	9345	8562	7634
Growth YoY %	17	14	16	14	14	11	12	10	9
AUM	46755	51320	57668	62252	68578	73482	79737	84722	88333
Growth YoY %	50	47	53	50	47	43	38	36	29
Borrowings	39564	45072	50751	54268	60440	63627	69166	72362	72261
Growth YoY %	-	43	64	52	53	41	36	33	20

AUM Composition %

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Housing	70	70	70	71	69	70	70	71	72
Non-Housing	30	30	30	29	31	30	30	29	28
LAP	54	56	53	56	53	55	53	59	64
LRD	20	17	21	16	20	17	17	14	14
Non Residential Property Loan	12	12	11	12	11	10	13	14	11
Corporate Term Loans	15	15	15	16	16	17	17	14	14

Exhibit: AUM Growth %

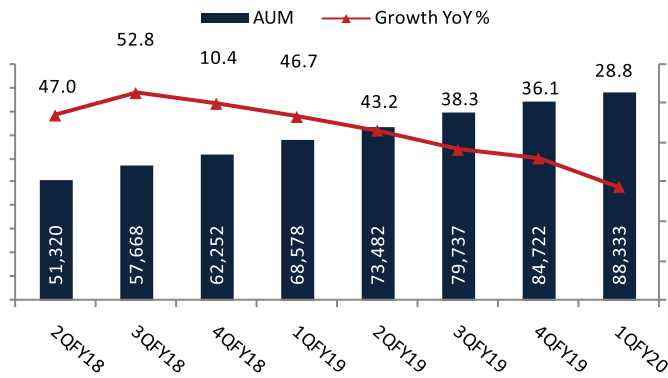
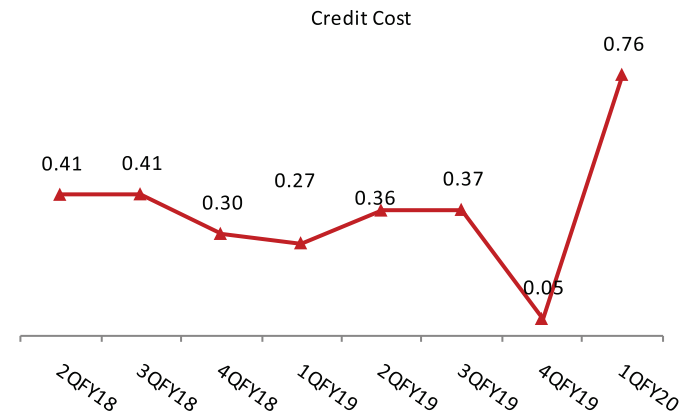


Exhibit: Provision % to AUM



Individual Mix

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Home Purchase	85	85	84	83	83	83	83	82	81
Residential Plot	5	5	5	6	6	6	6	6	6
Residential Plot cum Constn	5	5	5	6	6	6	7	7	8
Self Construction	4	4	4	4	4	4	4	4	4
Home Improvement/Extn	1	1	1	1	1	1	1	1	1

Asset Quality

Fig in Rs Cr

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
GNPA	242	188	277	299	335	355	645	368	290
GNPA %	0.42	0.33	0.43	0.45	0.47	0.48	0.85	0.4	0.4
NNPA	193	141	209	233	259	281	495	287	215
NNPA %	0.33	0.25	0.33	0.35	0.37	0.38	0.67	0.3	0.3
Total Specific PCR %	20	25	25	22	23	21	23	(1)	2

Fig in Rs Cr

ASSET QUALITY	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Gross Stage 1&2	43816	48583	55065	56828	63629	66493	70382	73668	75288
% Portfolio in Stage 1&2	99.6	99.7	99.6	99.7	99.6	99.6	99.5	99.5	99.2
ECL Provision Stage 1&2	112.9	169.0	178.9	233.9	261.6	319	359	363	448
Net Stage 1 & 2	43703	48414	54886	56594	63368	66174	70022	73305	74840
ECL Prov.% Stage 1 & 2	26	35	32	41	41	48	51	49	60

Exhibit: Asset Quality

Assets Quality has Deteriorated

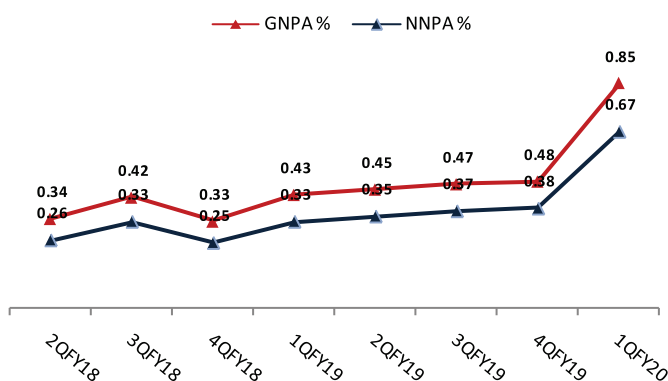


Exhibit: Provisions

PCR Improved

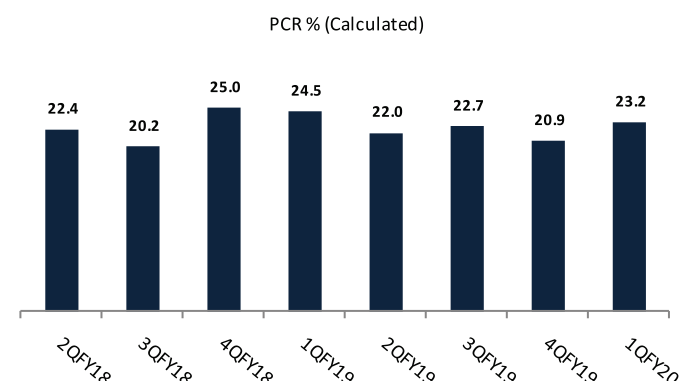


Exhibit: AUM Mix

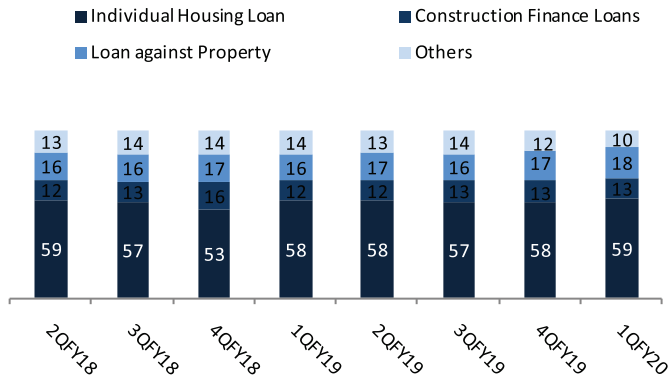
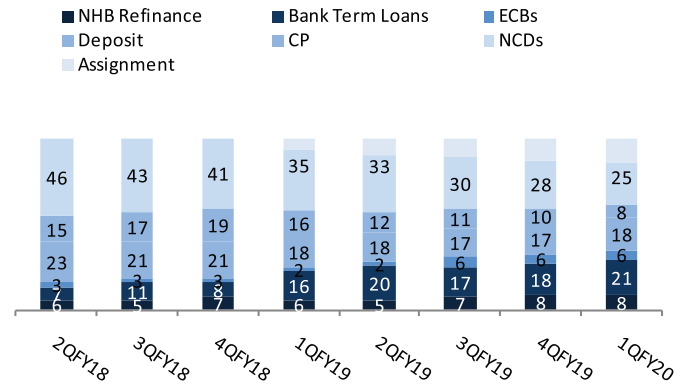


Exhibit: Borrowing Mix



Construction Finance Mix

	2QFY19	3QFY19	4QFY19	1QFY20
Completed (%)	72	72	70	62
Near Completion (%)	12	12	11	19
Under Construction (%)	15	15	19	19
North (%)	29	27	27	29
West (%)	28	31	33	30
South (%)	43	42	40	41

Average Ticket Size

Fig in Rs Cr

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
IndHL & CF	31	31	31	31	31
LAP	48	48	47	48	47
Corporate Term Loan	-	81	80	104	105
LRD	-	165	160	160	155

Sourcing Mix

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
In-House (%)	68	66	67	66	56
DSA (%)	32	34	33	34	44

Customer Profile

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Salaried (%)	41	43	43	44	44
Self Employed (%)	37	36	35	35	36
Loan to Corporates (%)	23	21	22	21	20

Branch Mix

Fig in Rs Cr

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
North (%)	31	32	31	31	31
West (%)	39	38	38	39	39
South (%)	30	30	31	30	30
Channel Partners	14,000	15,900	17,500	19,000	20,000
Number of Unique Developers	106	173	177	169	163

Financial Details

Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	66	104	127	166	167	167	166	166
Equity Capital	66	104	127	166	167	167	166	166
Preference Capital								
Reserves & Surplus	869	1,477	2,019	5,412	6,402	7,268	8,389	9,798
Networth	935	1,581	2,146	5,578	6,568	7,433	8,555	9,964
Change (%)			36	160	18	13	15	16
Total Borrowing	10,241	16,751	26,159	35,657	54,268	72,362	84,722	104,319
Change (%)			56	36	52	33	17	23.13
Provisions	85	135	232	270	19	24	28,476	33,602
Other Liability	270	567	1,133	1,455	2,163	3,929	4,225	5,090
Total Liabilities	11,531	19,034	29,670	42,960	63,018	83,750	97,530	119,406
Investments	646	1,586	1,622	3,280	2,413	4,458	4,677	5,518
Loans	8,650	14,402	25,641	36,484	57,167	74,327	88,450	106,770
Change (%)								
Fixed Assets	26	57	62	61	86	107	128	152
Other Assets	2,071	2,694	2,096	2,984	535	832	970	1,158
Cash Balance	138	295	249	151	2,817	4,026	3,306	5,808
Total Assets	11,531	19,034	29,670	42,960	63,018	83,750	97,530	119,406

Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest income	1,001	1,598	2,460	3,490	5,122	7,096	9,034	11,007
Interest expended	801	1,265	1,860	2,644	3,537	5,166	6,288	7,758
Net Interest Income	200	333	600	846	1,585	1,930	2,746	3,248
Change (%)	39	66	80	41	87	22	42	18
Other Income	115	179	238	418	333	262	322	410
Change (%)	109	56	33	76	(20)	(21)	23	27
Total Net Income	315	512	838	1,264	1,952	2,318	3,068	3,658
Change (%)	58	63	64	51	54	19	32	19
Operating Expenses	109	178	252	357	441	551	662	785
Change (%)	79	64	42	42	23	25	20	19
Employee Expenses	40	67	75	101	143	211	268	315
Change (%)	56	66	12	35	41	48	27	17
Other Expenses	68	111	177	256	298	340	394	470
Pre-provisioning Profit	206	334	586	907	1,511	1,767	2,406	2,873
Change (%)	49	62	75	55	67	17	36	19
Provisions	30	38	83	103	277	189	522	558
Change (%)	144	25	118	24	169	(32)	176	7
PBT	176	296	502	804	1,235	1,578	1,884	2,315
Tax	48	100	177	280	392	497	643	787
Profit After Tax	127	196	326	524	842	1,081	1,241	1,528
Change (%)	39	54	66	61	61	28	15	23
Adjusted PAT	127	196	326	524	842	1,081	1,241	1,528
Change (%)	39	54	66	61	61	28	15	23

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Balance Sheet Metrics								
AUM	10,591	17,297	27,555	41,492	62252	84722	101666	119966
Off-Book AUM	(2)	478	378	-	5,238	10,699	13,217	13,196
AUM Growth (%)	60	63	59	51	50	36	20	18
Borrowing Growth (%)	-	-	56	36	52	33	17	23
Loan/Borrowing Ratio	1	1	1	1	1	1	1	1
CRAR (%)	12.95	13.76	12.7	21.62	16.69	13.98	13.729	12.556
Tier 1 (%)	9.9	10.4	9.0	16.5	12.8	11.0	10.9	10.2
Tier 2 (%)	3.0	3.4	3.7	5.1	3.9	3.0	2.8	2.3
Debt/Equity (x)	11.0	10.6	12.2	6.4	8.3	9.7	9.9	10.5

Assets Quality Metrics

Gross NPA (Rs)	34	34	60	86	188	355	1,017	720
Gross NPA (%)	0.3	0.2	0.2	0.2	0.3	0.5	1.0	0.6
Net NPA (Rs)	16	11	38	59	141	281	793	561
Net NPA (%)	0.2	0.1	0.1	0.2	0.3	0.4	0.9	0.5
Provision Coverage (%)	51	67	36	31	25	21	22	22
Provision/Average Advances (%)	0.4	0.3	0.4	0.3	0.5	0.3	0.6	0.5

Margin Metrics

Yield On AUM (%)	11.5	11.3	10.7	9.9	9.4	9.2	9.3	9.6
Cost Of Funds (%)	9.4	9.4	8.7	8.6	7.9	8.2	8.0	8.2
Spread (%)	2.1	2.0	2.0	1.4	1.5	1.1	1.3	1.4
NIM (%)	2.3	2.4	2.7	2.5	3.1	2.6	2.9	2.9

Profitability & Efficiency Metrics

Int. Expended/Int.Earned (%)	80.0	79.2	75.6	75.8	69.0	72.8	69.6	70.5
Other Income/NII (%)	57.5	53.8	39.7	49.4	21.0	13.6	11.7	12.6
Operating Profit/ Net Income (%)	65.5	65.2	69.9	71.7	77.4	76.2	78.4	78.5
Net Profit/Net Income (%)	40.5	38.3	38.9	41.4	43.1	46.7	40.4	41.8
Cost to Income (%)	34.5	34.8	30.1	28.3	22.6	23.8	21.6	21.5
Employee Exp/ Net Income (%)	12.8	13.1	9.0	8.0	7.3	9.1	8.7	8.6
Cost on Average Assets (%)	1.1	1.2	1.0	1.0	0.8	0.8	0.7	0.7
Provisions/PPP (%)	14.8	11.4	14.2	11.3	18.3	10.7	21.7	19.4
Tax Rate (%)	27.5	33.7	35.2	34.9	31.8	31.5	34.1	34.0

Valuation Ratio Metrics

EPS (Rs)	1	2	3	3	5	7	7	9
Change (%)	(22.1)	8.2	66.1	23.2	60.8	28	14.7	23.2
ROAE (%)	16.4	15.6	17.5	13.6	13.9	15.4	15.5	16.5
ROAA (%)	1.3	1.3	1.3	1.4	1.6	1.5	1.4	1.4
Dividend Payout (%)	-	-	-	-	14.2	14.2	14.2	14.2
Dividend yield (%)	-	-	-	-	0.4	0.8	0.8	0.8
DPS	-	-	169	-	6	6	6	6
Book Value (Rs)	105	125	35.7	337	397	449	516	602
Change (%)	(15.6)	18.9	-	99.2	17.8	13	15.1	16.5
P/B (X)	-	-	-	3.5	3.5	1.6	1.4	1.2
P/E (X)	-	-	-	37.5	27.5	11.0	9.5	7.7

Financial Details

Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest Income	10.3	10.5	10.1	9.6	9.7	9.7	10.0	10.1
Interest expended	8.3	8.3	7.6	7.3	6.7	7.0	6.9	7.2
Net Interest Income	2.1	2.2	2.5	2.3	3.0	2.6	3.0	3.0
Non-Fund Based Income	1.2	1.2	1.0	1.2	0.7	0.5	0.4	0.4
Total Income	3.2	3.3	3.4	3.5	3.7	3.2	3.4	3.4
Total Operating Expenses	1.1	1.2	1.0	1.0	0.8	0.8	0.7	0.7
Employee Expenses	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Other Expenses	0.7	0.7	0.7	0.7	0.6	0.5	0.4	0.4
Operating Profit	2.1	2.2	2.4	2.5	2.9	2.4	2.7	2.6
Provisions	0.3	0.2	0.3	0.3	0.5	0.3	0.6	0.5
Others	-	-	-	-	-	-	-	-
PBT	1.8	1.9	2.1	2.2	2.3	2.2	2.1	2.1
Tax	0.5	0.7	0.7	0.8	0.7	0.7	0.7	0.7
PAT/RoAA	1.3	1.3	1.3	1.4	1.6	1.5	1.4	1.4
Equity Multiplier (x)	12.5	12.1	13.1	9.4	8.7	10.5	11.3	11.7
ROAE	16.4	15.6	17.5	13.6	13.9	15.4	15.5	16.5

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