

PNB Housing Finance Ltd.

Industry	Financial
Bloomberg	PNBHOUSI IN
BSE CODE	540173

Steady Loan Growth With Pangs of Asset Quality Concerns

RATING **NEUTRAL**

CMP	447
Price Target	465
Potential Upside	4%

Rating Change 

Estimate Change 

Target Change 

Stock Info

52wk Range H/L	1040/372
Mkt Capital (Rs Cr)	7510
Free float (%)	25%
Avg. Vol 1M (,000)	601
No. of Shares (Crore)	17
Promoters Pledged %	

KEY	FY19	FY20E	FY21E
NII	1930	2368	2633
PPP	1767	2099	2345
PAT	1081	1106	1335
NIM %	2.6	2.7	2.7
EPS (Rs)	7	7	8
EPS	28	2	21
ROE (%)	15.4	14.0	14.8
ROA (%)	1.5	1.3	1.4
BV	449	508	582
P/B (X)	1.0	0.9	0.8
P/E (x)	6.8	6.7	5.5

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2QFY20 Result Update

- NII has grown at 36% YoY on the back of healthy AUM growth of 22%. Other income has remained steady YoY even with the slowdown in the disbursement numbers. PAT has grown at the rate of 64% YoY on the back of tax benefits availed during the quarter.
- NIM has slightly improved QoQ to 3.19% from 3.14%. The yield has increased sequentially to 10.95% from 10.84%, the cost of the fund remained in similar range of 8.34% while the spreads stands improved to 2.61% as at 2QFY20. The rise in the share of PSL in the assignment has led to decrease in the spreads.
- AUM has grown at the rate of 22% YoY with majorly driven by the LAP segment by 32% while growth in the individual housing and construction finance stood at 24% each. The disbursement has declined by 31% majorly on the back of slowdown in the corporate segment. Management has guided the rate of disbursement to remain Rs 5000 per quarter level in the 2HFY20.
- GNPA has remained steady at 84 bps while NNPA stood at 65 bps as at 2QFY20. The PCR has declined to 22%. The ECL provision has increased sequentially to Rs 725 Cr with increase in steady provision by Rs 12 Cr to Rs 169 Cr.
- Board has capital raising plans for Rs 2000 Cr which management expects to come through by Feb 2020. The timeline has changed from Dec to Feb on the back of external volatility
- The channels partners have increased sequentially to 22000 but developer relationship has decreased sequentially to 156 from 163.

Steady AUM Growth

Disbursement has decreased by 31% in 2QFY20 due to slowdown in the corporate segment while the decrease in retail is 11% only. Management has guided to maintain this level of disbursement for 2HFY20 with an increased share of retail loans. Retail segment contribute 93% of the H1FY20 disbursement. PNBHF has 74% of the loan to less than Rs 1 Cr ticket size. Upto 78% of the corporate segment is to below Rs 1 Cr ticket size. The share of under construction has declined sequentially to 59% while share of completed & near completion stands at 26% & 17% respectively.

Asset Quality Concerns

GNPA in the retail segment stood at 0.84% while GNPA in the corporate loans 0.83%. Management has guided credit costs to remain around 60 bps for FY20. 5 stressed accounts were identified with an exposure amounting to Rs 833 Cr with 33% provision but management is optimistic of resolving few of these by FY20.

Other Details

The share of North, South & West stood at 30%, 30% & 40%.

The share of In-House & DSA stood at 57% & 43%.

The share of salaried, self employed & Corporate stood 45%, 36% & 19%.

View and Valuation

Loan growth has remained steady sequentially on the back sluggish disbursement, which management has guided to continue in the 2HFY20. The asset quality concerns persist in the corporate book as 5 accounts amounting to Rs 833 Cr are under various levels of stress with few of them in the moratorium period. We remain cautious on PNBHF as 41% of the portfolio is in the corporate segment. We are cautious on the growth front on the back of liquidity management and asset quality concern thus we decrease our estimate by -6% for FY20. We value the stock at 465 at 0.8x for FY21e. We maintain Neutral.

Key Risks to our rating and target

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

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2QFY20 Results Above Expectations

Steady Growth

									Data in Cr	
Financials	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	1,673	1,914	1,985	2,097	2,124	27.0%	1.3%	5,122	7,096	38.6%
Interest Exp.	1,229	1,410	1,428	1,513	1,521	23.8%	0.6%	3,537	5,166	46.1%
NII	444	504	558	584	603	35.7%	3.2%	1,585	1,930	21.7%
Other Income	57	36	104	58	40	-30.7%	-31%	333	262	-21.3%
Total Income	502	590	710	790	666	32.9%	-15.7%	1,952	2,318	18.8%
Ope Exp.	132	139	153	141	122	-7.4%	-13.2%	441	551	25.0%
PPP	370	451	557	650	544	47.2%	-16.2%	1,511	1,767	16.9%
Provisions	65	70	10	164	152	134.3%	-0.0766	277	189	-31.7%
PBT	305	380	547	486	393	28.8%	-19.1%	1,235	1,578	27.8%
Tax	97	113	176	117	51	-48%	-56.8%	392	497	26.6%
Extra Items	-	-	-	-	-			-	-	
Net Profit	208	267	371	368	342	64.3%	-7.1%	842	1,081	28%

Concall Highlights

- Yield in the home loan segment is at 9.74%, LAP stands at 10.88%, Construction finance is at 12.77% and LRD is at 10.36%. Incremental yield for the Home loan is at 9.83%, LAP is at 10.39%, construction finance is at 12.36% and LRD is at 10.20. Spreads have moved up from 119 bps to 206 bps. Management has guided spreads to increase 13-14 bps in the next quarter with NIM more than 3.50%. Assignment spreads have fallen QoQ with the rise in the share of PSL home loans.
- Operating efficiencies have improved on the back of digitalization & higher capacity utilization.
- During 1HFY20, the corporate book has rundown naturally by 6.33% excluding a sell down amounting to Rs 842 Cr in the Lease rental discounting segment.
- 5 stressed accounts were identified with an exposure amounting to Rs 833 Cr with 33% provision.
- 1st IPF Pvt Ltd. With a security cover of 2.5x move into 1QFY20, where the developer has started repayment via a structured refinance plan and has paid Rs 39 Cr, now net amounts stood at Rs 111 Cr. Provision stands at 37%
- 2nd is Supertech Gurgaon which is in Stage 2 with exposure of Rs 244 Cr and provision of 37%, the primary objective is to reduce remoteness to bankruptcy. Out of the total 16 towers, 8 are in advance stage of construction where 85% of civil work is completed 80% completely sold.
- 3rd Onnet Mumbai which is in stage 1 with O/S loan of Rs 181 Cr and ECL provision of 32%. A joint venture with Sappoorji Palloonji is being considered. The project is in the moratorium.
- 4th Radius Group Mumbai with exposure of Rs 254 Cr ECL of 35%.The retail part is majorly sold. The project is in the moratorium.
- 5th IDO water front Ludhiana project stage 3 with exposure Rs 38 Cr & security cover of 6-7x. Management expects it to get resolved by FY20.
- The largest corporate exposure is to Lodha developers with the amount outstanding of Rs 1250 Cr for 2 projects i.e Lodha World One and trump tower. It has a security cover of 1.5 x with a promoter guarantee.
- Board has capital raising plans for Rs 2000 Cr which management expects to come through by Feb 2020. The timeline has changed from Dec to Feb on the back of external volatility
- 28% of the incremental disbursement is to less than Rs 25 lakh value. Up to 40% of retail disbursement is to self-employed.
- Deposit up to 86% by value is to retail segment with a ticket size of Rs 6-7 Lakhs.
- In the Construction Finance book, the share of under-construction has come down to 57%.
- Almost 50% of the book is in the principal moratorium. During 1HFY20, principal repayment started in 38 accounts having total O/S of Rs 1492 Cr. The amount collected is Rs 230 Cr.
- The Incentive of sales employees is amortized for the life cycle of the project.

Profitability Matrix

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	24.5	26.3	23.6	21.6	17.8	18.3	-7.97	0.52
Empl. Cost/ Tot. Exp. %	8.7	10.3	8.6	9.0	7.6	8.4	-1.90	0.82
Other Exp/Tot. Exp.%	10.2	9.3	10.4	9.1	7.7	7.1	-2.26	-0.66
Provision/PPP %	11.3	17.5	15.6	1.8	25.3	27.8	10.35	2.58
Tax Rate %	32.0	31.7	29.8	32.2	24.2	12.9	-18.81	-11.25
Int Exp./Int Inc. (%)	72.2	73.4	73.7	71.9	72.1	71.6	-1.83	-0.53
Other Inc./NII %	0.1	0.1	0.0	0.1	0.1	0.0	-0.01	-0.02
PPP/ Net Income %	75.5	73.7	76.4	78.4	82.2	81.7	7.97	-0.52
PAT/ Net Income %	45.5	41.5	45.3	52.2	46.6	51.3	9.80	4.74
NII Growth % (YoY)	25.4	22.6	23.0	17.7	37.8	35.7	13.12	-2.05
PPP Growth YoY %	24.2	5.2	17.4	20.6	66.9	47.2	42.05	-19.63
PAT Growth %	38.1	9.6	16.4	46.9	56.8	64.3	54.63	7.42

Margin Performance

Margin %	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances	9.8	10.0	10.8	10.7	10.8	10.9	0.90	0.09
Cost Of Funds	7.7	7.8	8.2	8.1	8.3	8.5	0.72	0.22
Spreads	1.8	1.6	1.7	1.8	1.6	1.4	-0.24	-0.16

Exhibit: Yield and Cost

Rise in Both Yield & Cost

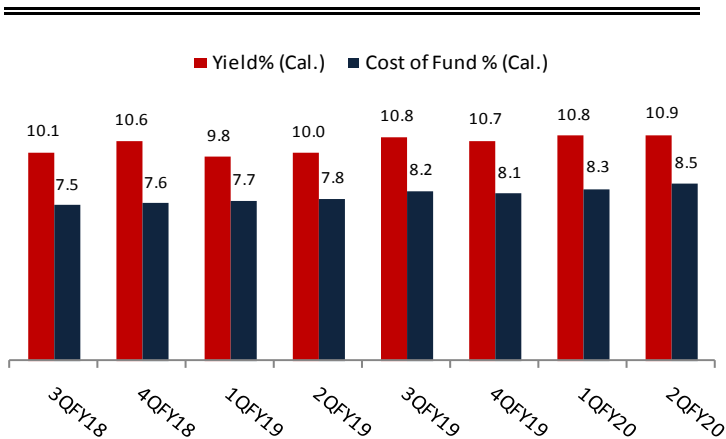
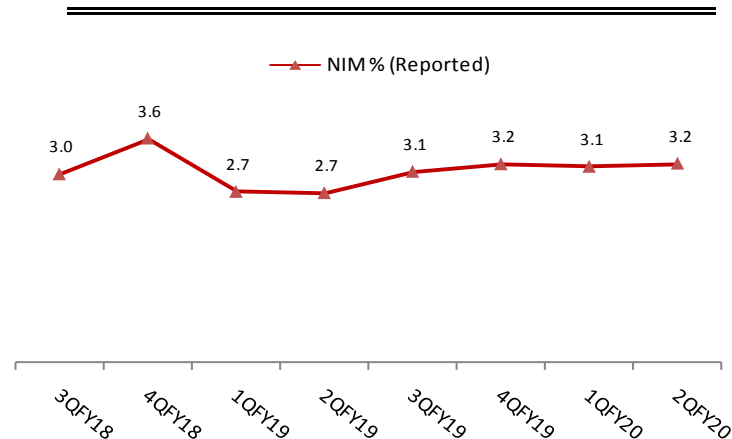


Exhibit: Spreads

NIM has remain stable



Asset & Borrowings Growth Trend

Data in Cr

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Disbursement	7385	9276	8739	9767	8405	9345	8562	7634	4970
Growth YoY %	14	16	14	14	11	12	10	9	6
AUM	51320	57668	62252	68578	73482	79737	84722	88333	89471
Growth YoY %	47	53	50	47	43	38	36	29	22
Borrowings	45072	50751	54268	60440	63627	69166	72362	72261	71457
Growth YoY %	43	64	52	53	41	36	33	20	12

AUM Composition %

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Housing	70	70	71	69	70	70	71	72	81
Non-Housing	30	30	29	31	30	30	29	28	19
>>LAP	56	53	56	53	55	53	59	62	62
>>LRD	17	21	16	20	17	17	14	14	10
>>Non Residential Property	12	11	12	11	10	13	14	10	14
>>Corporate Term Loans	15	15	16	16	17	17	14	14	14

Exhibit: AUM Growth %

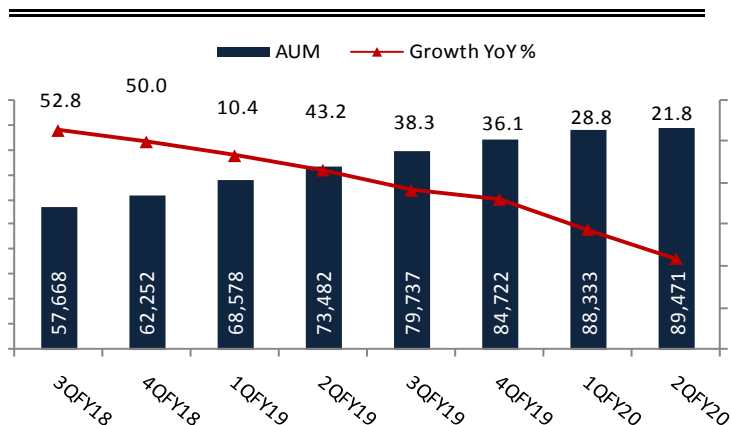
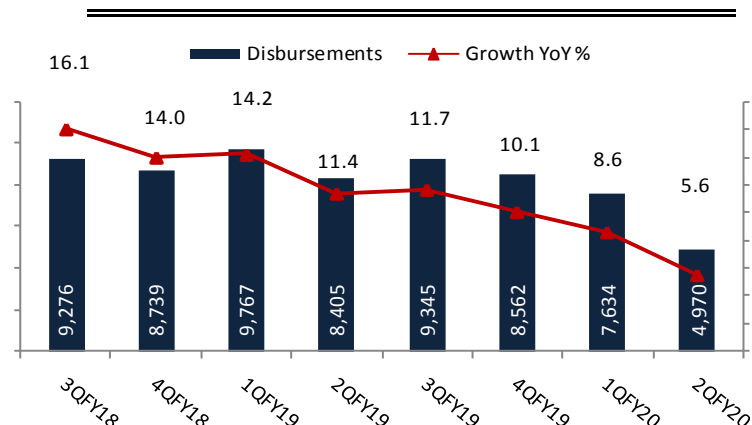


Exhibit: Provision % to AUM



Individual Mix

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

Data in Cr

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
GNPA	188	277	299	335	355	645	624	325	(21)
GNPA %	0.33	0.43	0.45	0.47	0.48	0.85	0.84	0.4	(0.0)
NNPA	141	209	233	259	281	495	485	252	(10)
NNPA %	0.25	0.33	0.35	0.37	0.38	0.67	0.65	0.3	(0.0)
Total Specific PCR %	25	25	22	23	21	23	22	0	(1)

Data in Cr

Asset Quality	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Gross Stage 1&2	48582.6	55065.3	56828.3	63629.3	66493.1	70381.9	73668.1	75287.9	73728.8
% Portfolio in Stage 1&2	99.7	99.6	99.7	99.6	99.6	99.5	99.5	99.2	99.2
ECL Provision Stage 1&2	169.0	178.9	233.9	261.6	319.3	359	363	448	586
Net Stage 1 & 2	48413.7	54886.4	56594.4	63367.7	66173.8	70022.5	73304.9	74839.7	73142.6
ECL Prov.% Stage 1 & 2	0.35%	0.32%	0.41%	0.41%	0.48%	0.51%	0.49%	0.60%	0.80%

Exhibit: Asset Quality

Assets Quality has Remained Stable

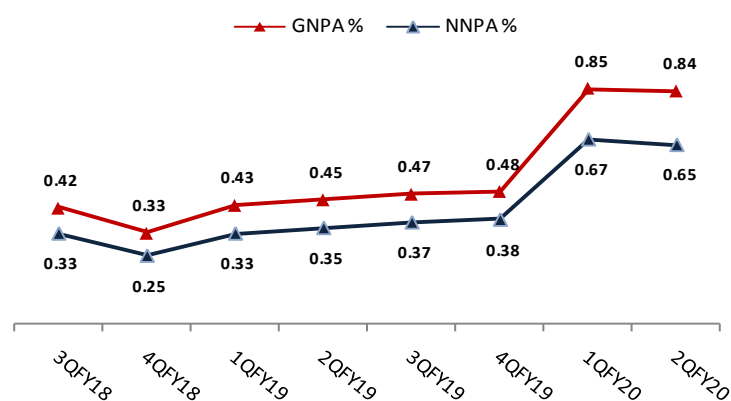


Exhibit: Provisions

PCR has marginally declined

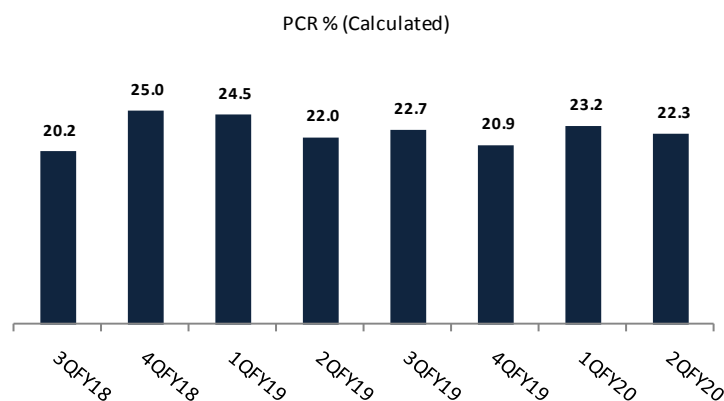


Exhibit: Construction Finance

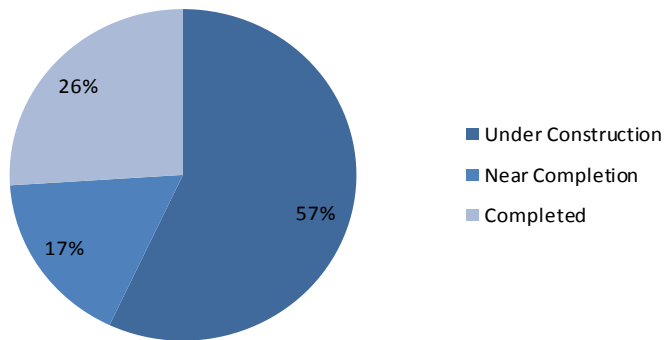
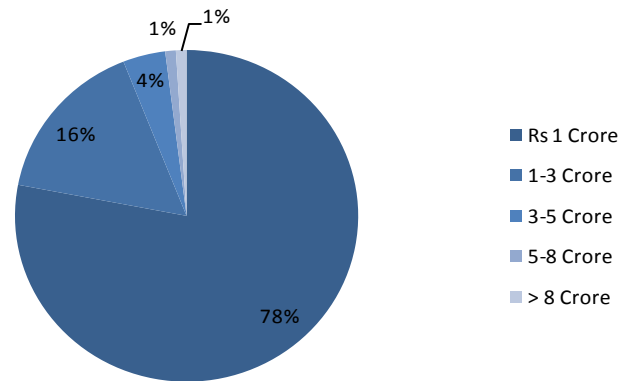


Exhibit: Ticket Size of Corporate Book



Construction Finance Mix

	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Completed (%)	72	72	70	62	57
Near Completion (%)	12	12	11	19	17
Under Construction (%)	15	15	19	19	26
North (%)	29	27	27	29	28
West (%)	28	31	33	30	30
South (%)	43	42	40	41	42

Average Ticket Size

Data in Cr

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

Sourcing Mix

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
In-House (%)	68	66	67	66	56	57
DSA (%)	32	34	33	34	44	43

Customer Profile

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Salaried (%)	41	43	43	44	44	45
Self Employed (%)	37	36	35	35	36	36
Loan to Corporates (%)	23	21	22	21	20	19

Branch Mix

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
North (%)	31	32	31	31	31	30
West (%)	39	38	38	39	39	40
South(%)	30	30	31	30	30	30
Channel Partners	14,000	15,900	17,500	19,000	20,000	22,000
Number of Unique Developers	106	173	177	169	163	156

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	8,255	9,471
Networth	935	1,581	2,146	5,578	6,568	7,433	8,420	9,636
Change (%)			36	160	18	13	13	14
Total Borrowing	10,241	16,751	26,159	35,657	54,268	72,362	76,388.7	86,875.9
Change (%)			56	36	52	33	6	13.7288
Provisions	85	135	232	270	19	24	26.103	28.7133
Other Liability	270	567	1,133	1,455	2,163	3,929	3,690	4,121
Total Liabilities	11,531	19,034	29,670	42,960	63,017.9	83,750.4	88,524.9	100,662
Investments	646	1,586	1,622	3,280	2,413	4,458	4,194	4,613
Loans	8,650	14,402	25,641	36,484	57,167.3	74,327.5	81,079	90,212
Change (%)	28	66	78	42	57	30	9	11
Fixed Assets	26	57	62	61	86	107	117	128
Other Assets	2,071	2,694	2,096	2,984	535	832	952	1,142
Cash Balance	138	295	249	151	2,817	4,026	2,183	4,567
Total Assets	11,531	19,034	29,670	42,960	63,017.9	83,750.4	88,524.9	100,662

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	8,619	9,553
Interest expended	801	1,265	1,860	2,644	3,537	5,166	6,251	6,920
Net Interest Income	200	333	600	846	1,585	1,930	2,368	2,633
Change (%)	39	66	80	41	87	22	23	11
Other Income	115	179	238	418	333	262	254	259
Change (%)	109	56	33	76	(20)	(21)	(3)	2
Total Net Income	315	512	838	1,264	1,952	2,318	2,622	2,892
Change (%)	58	63	64	51	54	19	13	10
Operating Expenses	109	178	252	357	441	551	523	547
Change (%)	79	64	42	42	23	25	(5)	4
>> Employee Expenses	40	67	75	101	143	211	221	220
Change (%)	56	66	12	35	41	48	5	(1)
>> Other Expenses	68	111	177	256	298	340	302	327
Pre-provisioning Profit	206	334	586	907	1,511	1,767	2,099	2,345
Change (%)	49	62	75	55	67	17	19	12
Provisions	30	38	83	103	277	189	635	541
Change (%)	144	25	118	24	169	(32)	236	(15)
PBT	176	296	502	804	1,235	1,578	1,464	1,804
Tax	48	100	177	280	392	497	357	469
Profit After Tax	127	196	326	524	842	1,081	1,106	1,335
Change (%)	39	54	66	61	61	28	2	21
Adjusted PAT	127	196	326	524	842	1,081	1,106	1,335
Change (%)	39	54	66	61	61	28	2	21

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	62,252	84,722	93,194.2	102,514
>> Off-Book AUM	(2)	478	378	-	5,238	10,699	12,115	12,302
AUM Growth (%)	60	63	59	51	50	36	10	10
Borrowing Growth (%)	-	-	56	36	52	33	6	14
Loan/Borrowing Ratio	1	1	1	1	1	1	1	1
CRAR (%)	12.95	13.76	12.7	21.62	16.69	13.98	15.126	14.7031
>> Tier 1 (%)	9.9	10.4	9.0	16.5	12.8	11.0	12.0	11.9
>> Tier 2 (%)	3.0	3.4	3.7	5.1	3.9	3.0	3.1	2.8
Debt/Equity (x)	11.0	10.6	12.2	6.4	8.3	9.7	9.1	9.0

Assets Quality Metrics

Gross NPA (Rs)	34	34	60	86	188	355	932	615
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	727	480
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	0.7	0.6

Margin Metrics

Yield On AUM (%)	11.5	11.3	10.7	9.9	9.4	9.2	9.3	9.4
Cost Of Funds (%)	9.4	9.4	8.7	8.6	7.9	8.2	8.4	8.5
Spread (%)	2.1	2.0	2.0	1.4	1.5	1.1	0.8	0.9
NIM (%)	2.3	2.4	2.7	2.5	3.1	2.6	2.7	2.7

Profitability & Efficiency Metrics

Int. Expended/Int.Earned (%)	80.0	79.2	75.6	75.8	69.0	72.8	72.5	72.4
Other Income/NII (%)	57.5	53.8	39.7	49.4	21.0	13.6	10.7	9.8
Operating Profit/ Net Income (%)	65.5	65.2	69.9	71.7	77.4	76.2	80.0	81.1
Net Profit/Net Income (%)	40.5	38.3	38.9	41.4	43.1	46.7	42.2	46.2
Cost to Income (%)	34.5	34.8	30.1	28.3	22.6	23.8	20.0	18.9
Employee Exp/ Net Income (%)	12.8	13.1	9.0	8.0	7.3	9.1	8.4	7.6
Cost on Average Assets (%)	1.1	1.2	1.0	1.0	0.8	0.8	0.6	0.6
Provisions/PPP (%)	14.8	11.4	14.2	11.3	18.3	10.7	30.2	23.1
Tax Rate (%)	27.5	33.7	35.2	34.9	31.8	31.5	24.4	26.0

Valuation Ratio Metrics

EPS (Rs)	1	2	3	3	5	7	7	8
Change (%)	(22.1)	8.2	66.1	23.2	60.8	28	2.3	20.7
ROAE (%)	16.4	15.6	17.5	13.6	13.9	15.4	14.0	14.8
ROAA (%)	1.3	1.3	1.3	1.4	1.6	1.5	1.3	1.4
Dividend Payout (%)	-	-	-	-	14.2	14.2	14.2	14.2
Dividend yield (%)	-	-	-	-	0.4	1.3	1.3	1.3
DPS	-	-	-	-	6	6	6	6
Book Value (Rs)	105	125	169	337	397	449	508	582
Change (%)	(15.6)	18.9	35.7	99.2	17.8	13	13.3	14.4
P/B (X)	-	-	-	3.5	3.5	1.0	0.9	0.8
P/E (X)	-	-	-	37.5	27.5	6.8	6.7	5.5

Financial Details

Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<i>Interest Income</i>	10.3	10.5	10.1	9.6	9.7	9.7	10.0	10.1
<i>Interest expended</i>	8.3	8.3	7.6	7.3	6.7	7.0	7.3	7.3
<i>Net Interest Income</i>	2.1	2.2	2.5	2.3	3.0	2.6	2.7	2.8
<i>Non-Fund Based Income</i>	1.2	1.2	1.0	1.2	0.7	0.5	0.3	0.3
<i>Total Income</i>	3.2	3.3	3.4	3.5	3.7	3.2	3.0	3.1
<i>Total Operating Expenses</i>	1.1	1.2	1.0	1.0	0.8	0.8	0.6	0.6
>> <i>Employee Expenses</i>	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.2
>> <i>Other Expenses</i>	0.7	0.7	0.7	0.7	0.6	0.5	0.4	0.3
<i>Operating Profit</i>	2.1	2.2	2.4	2.5	2.9	2.4	2.4	2.5
<i>Provisions</i>	0.3	0.2	0.3	0.3	0.5	0.3	0.7	0.6
<i>Others</i>	-	-	-	-	-	-	-	-
<i>PBT</i>	1.8	1.9	2.1	2.2	2.3	2.2	1.7	1.9
<i>Tax</i>	0.5	0.7	0.7	0.8	0.7	0.7	0.4	0.5
<i>PAT/RoAA</i>	1.3	1.3	1.3	1.4	1.6	1.5	1.3	1.4
<i>Equity Multiplier (x)</i>	12.5	12.1	13.1	9.4	8.7	10.5	10.9	10.5
<i>ROAE</i>	16.4	15.6	17.5	13.6	13.9	15.4	14.0	14.8

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Disclosure of Interest Statement-

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