Stock Note

PNB Housing Finance Ltd.

July 17, 2023

PNB Housing Finance Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
NBFC	Rs. 620	Buy between Rs. 614-627 band & add more on dips to Rs.552-564 band	Rs.681	Rs.729	2-3 quarters

HDFC Scrip Code	PNBHOU
BSE Code	540173
NSE Code	PNBHOUSING
Bloomberg	PNBHOUSI IN
CMP July 14, 2023	620
Equity Capital (Rs Cr)	260
Face Value (Rs)	10
Equity Share O/S (Cr)	26
Market Cap (Rs Cr)	16,120
Adjusted Book Value (Rs)	559.8
Avg. 52 Wk Volumes	10,22,263
52 Week High	631
52 Week Low	274.6

Share holding Pattern % (May, 2023)	
Promoters	28.15
Institutions	32.10
Non Institutions	39.75
Total	100.00

* Refer at the end for explanation on Risk Ratings

Fundamental Research Analyst
Varun Manek
varun.manek@hdfcsec.com

Our Take:

PNB Housing Finance Ltd. was established in 1988 as a deposit taking HFC registered with the National Housing Board (NHB). It has a long and profitable track record of operations. It is the fourth largest housing finance company in India in terms of AUM. After de-growing during FY21 and FY22, the AUM stood at Rs. 66,617 crores as of FY23, up 2.4% YoY. The de-growth was strategic, aimed at reducing high ticket bulky exposures in its wholesale book and thereby improving its asset quality. The share of the corporate book in its AUM mix has reduced from 21% in March 2019, to 6% in March 2023. Its retail book was also impacted in FY21 and FY22, however, in FY23, it grew by 10% YoY. Going forward, the company is expected to focus on growing its retail book primarily and any new loans in the corporate book would be to indirectly aid its retail book. During the last couple of years, the company had faced major issues in its asset quality, primarily driven by bulky wholesale book. It has taken active steps and focused on collection efficiencies, write-offs, resolutions and change in mix in favour of less risky loans.

On the liability side, it has a well-diversified source of funding and derives consistent support from its promoter- Punjab National Bank. This association with PNB has helped the company in terms of financial flexibility for fund raising and deposit mobilization. In May 2023, it concluded a right issue of Rs. 2,494 crores (ratio 29:54 @ Rs.275) which was subscribed to the extent of 1.21x.

Key risks for the company include impact of RBI's interest rate decision on its business, stiff competition in the housing finance business, maintaining asset quality while growing the loan book etc.

Valuation & Recommendation:

After its AUM de-growing in FY21 and FY22, the company displayed a stable AUM at Rs. 66,617 crores, which was flat on a yearly basis. It's on balance sheet loan book stood at Rs. 59,273 crores, up 2.4/2.1% YoY/QoQ. The retail book, which is the focus area of the company going forward, grew by 10/4% YoY/QoQ and stood at Rs. 55,741 crores. The RoA reported by the company for FY23 stood at 1.61% as against 1.24% in FY22.

Going forward, we have envisaged a 12% CAGR in its loan book over FY23-25E, while the NII is expected to grow at 14% and PAT at 16% over the same period. The RoA of the company is expected to improve to 1.7% by the end of FY25.

We feel that investors can buy the shares of PNB Housing Finance between Rs. 614 & 627 (1.07x FY25E ABV) add more on dips to Rs. 552-564 band (0.97x FY25E ABV). We expect the Base case fair value of Rs. 681 (1.18xFY25E ABV) and the Bull case fair value of Rs. 729 (1.26xFY25E ABV) over the next 2-3 quarters.

Financial Summary

Particulars (Rs. Cr)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY21	FY22	FY23	FY24E	FY25E
NII	592	365	62	735	-19	2089	1758	2300	2633	2975
PPOP	487	369	32	623	-22	2070	1668	2100	2421	2732
PAT	279	170	64	270	3	931	837	1046	1206	1405
EPS (Rs)						55.3	49.8	62.2	46.6	54.2
ABV (Rs)						440.6	420.5	559.8	515.0	577.9
P/E (x)						11.2	12.5	10.0	13.3	11.4
P/ABV (x)						1.4	1.5	1.1	1.2	1.1
RoAA (%)						1.2	1.2	1.6	1.7	1.7

(Source: Company, HDFC sec)

Recent Developments

Q4FY23 result update

PNB housing finance displayed healthy performance in entire FY23 and in Q4FY23 as well. It disbursed Rs. 4,495 crores of loans, up 22/31% YoY/QoQ, which took the loan book to Rs. 59,273 crores, up 2/2% YoY/QoQ. Within the loan book, retail segment displayed healthy traction in Q4FY23, growing by 10/4% YoY/QoQ and standing at Rs. 55,471 crores which is almost 94% of the total book.

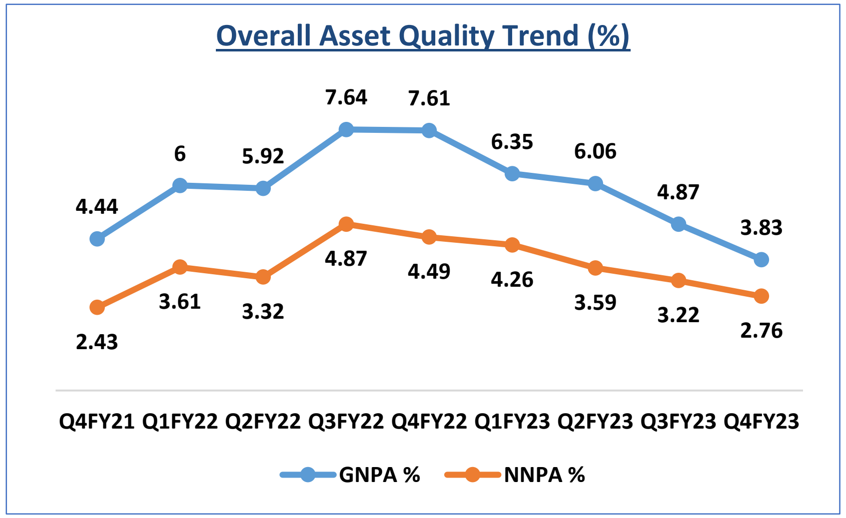
In terms of financial performance, the company reported a slight sequential dip of 8% in its interest income in Q4FY23, but was up 23% YoY, at Rs. 1,600 crores. Its average yield stood at 10.4% for Q4FY23, up 188 bps YoY but down 97 bps QoQ. On the other hand, the cost of borrowings for Q4FY23 stood at 7.76%, up 66/21 bps YoY/QoQ. This led to a spread of 2.65% for Q4FY23, as against 3.83% in Q3FY23 and 1.43% in Q4FY22. Its Net Interest Income stood at Rs. 592 crores, +62/-19% YoY/QoQ. Its NIM stood at 3.74% for Q4FY23, down 94bps QoQ. Operating expenses also showed a declining sequential trend, at Rs. 138 crores, +20/-22% YoY/QoQ. Provisions debited to the income statement were down 43% on a sequential basis, at Rs. 145 crores and the profit after tax stood at Rs. 279 crores, up 64/3% YoY/QoQ.

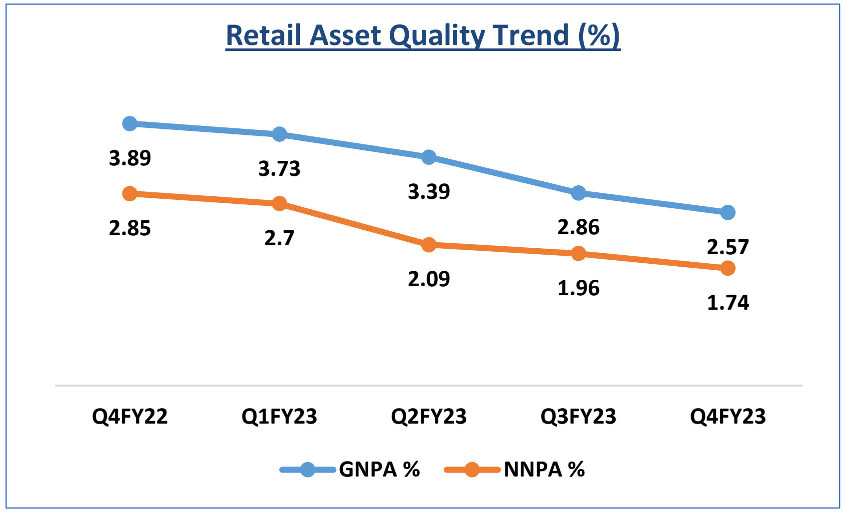
Further, the company reported RoA of 1.61% for FY23 as against 1.24% in FY22, while the RoE stood for entire FY23 stood at 10% as against 8.9% in FY22. The capital adequacy ratio is at a healthy level of 24.4%, which includes Tier I capital to the extent of 22.4%.

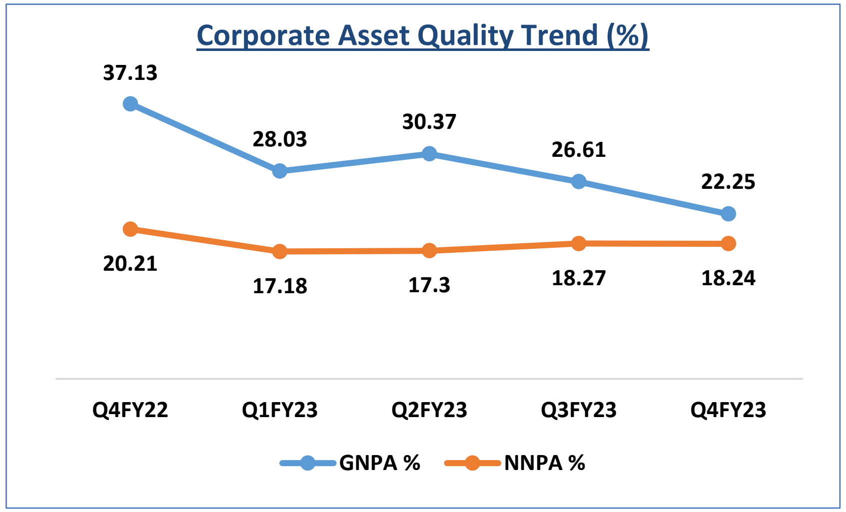
The company expanded its presence by incorporating 82 new branches which were mostly located in Tier 2 and 3 cities in order to focus on retail and affordable housing segment, taking the total to 189 branches. It has a strong geographical presence throughout the country and Maharashtra and Delhi contribute the maximum to its retail assets, being 28.4% and 12.2% respectively.

Asset Profile & Quality

The company had witnessed steep deterioration in its asset quality when its GNPA ratio increased from 0.5% in FY19 to 8.1% in FY22. As a response, the company took active steps to ramp up collection, do write offs and speed up resolutions, specifically in its corporate book. As of March 2023, the GNPA ratio of the company stood at 3.83% as against 4.87% on December 2022 and 8.13% in March 2022, while the NNPA ratio stood at 2.76% as against 3.22% on December 2022 and 5.06% on March 2022. Within the retail book, the GNPA stood at 2.57%, while the NNPA stood at 1.74%, whereas within the corporate book, the GNPA stood at 22.25% and NNPA stood at 18.24%. The improvement in the asset quality of corporate book was driven by write-offs and resolutions, whereas one of the reasons for the improvement of asset quality in the retail book was due to the shift from self-employed borrowers to salaried borrowers. In absolute terms, loans categorized as GNPA stood at Rs. 4,705 crores as of March 2022, which reduced by 52% and stood at Rs. 2,270 crores as of March 2023. A major contribution to this reduction came from the company's corporate book where the reduction in GNPA (in Rs.) stood at 69%. Credit costs for FY23 stood at 1.07% as against 0.86% for FY22. The overall provision coverage ratio for FY23 stood at 29.6%, while it stood at 28.77% on Gross Stage 3 assets. The retail collection efficiency was at 98.6% for FY23.







(Source: Company, HDFC Sec)

Particulars	Gross Stage 1	Gross Stage 2	Gross Stage 3	Total
Assets	54,999	2,003	2,270	59,272
ECL Provisions (Rs.)	525	255	653	1,433
ECL Provisions (%)	**0.95%**	**12.73%**	**28.77%**	**2.42%**

(Source: Company, HDFC Sec)

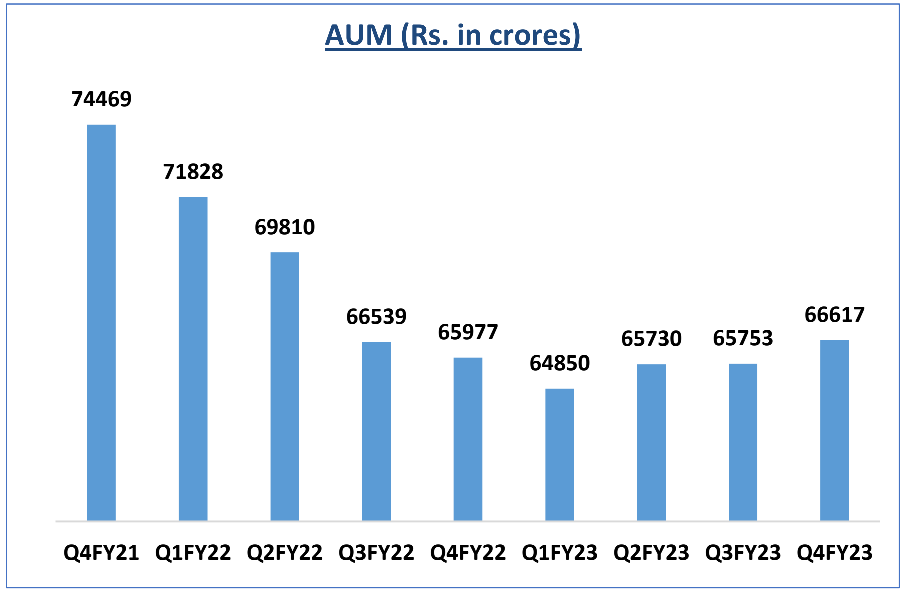
Management Guidance & Comments:

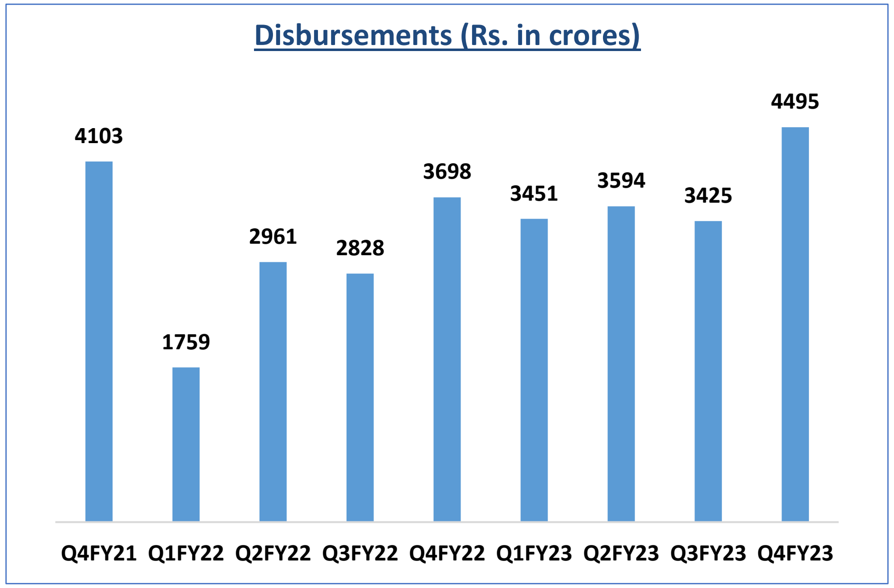
- Management believes that it can continue to earn a healthy spread of 2.5% and NIM of 3.5% consistently. This will be backed by a mix between prime and affordable segment which is expected to fetch a yield of 10% and 12% respectively.
- The management expects to bring down retail GNPAs to 1.25-1.35% over the medium term largely driven by corporate resolutions and retail recoveries.
- The management expects disbursement growth to be around 22% and AUM growth around 18% for FY24. It feels that the interest rates and construction costs challenges are behind them and expect the momentum to continue.
- It targets to have an AUM where 75% is housing loans and rest contributed by other products.
- The company is expected to sustain its credit costs at ~0.6% in FY24 and ~0.4% in FY25.
- The opex of the company are expected to stay stable even though the company has ventured into affordable housing segment. The company wishes to add 20 more branches in FY-24 to take the total number of branches for affordable housing and prime segment to 100 each. Post that, it intends to add 15-20 prime branches in FY25.
- The company has exited totally from the super prime segment owing to pricing and profitability issues and is now focusing on prime segment where yields are comparatively higher. On the flip side, it entered into affordable housing segment during the year. It has setup a separate department, teams, processes and channel partners. In short to medium term it wishes to have a mix of 90:10 for its prime and affordable segment which should stabilize to 60:40 over the long run.
- Currently, the company has no plans to enter into partnerships with Fintechs to extend its financial products.
- It expects negative credit costs in coming quarters and focus will be on recoveries with the help of SARFAESI, property auctions, one-time settlements, etc.
- It has guided for RoA of 2% for FY24 and RoE of 12-13% in FY25. In the short term, it expects some pressure on RoE on account of the recent capital raise via rights issue in May 2023.
- Post the rights issue of May 2023, it specified that the CRAR stood at ~30% with a leverage of 4x. It has a target leverage of 6.5x.

Key Triggers:

A well-diversified loan book

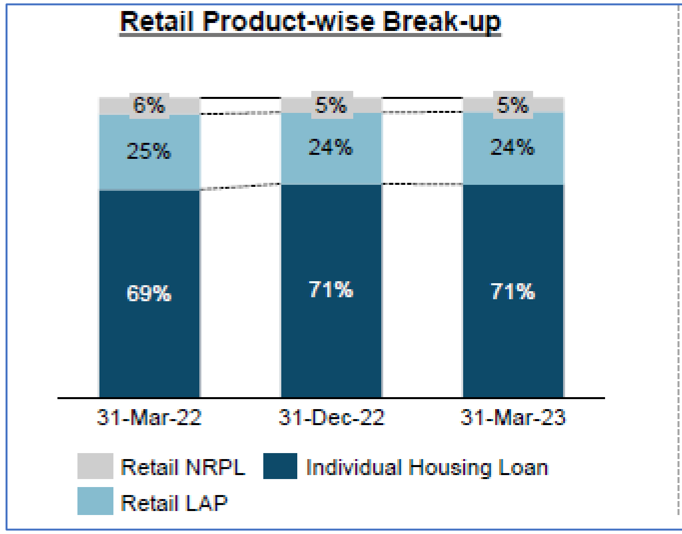
Over the past few years, the company has been working to focus and grow its retail book while strategically reducing the mix of corporate loans in its portfolio. As of March 2023, the retail book contributed 94% to the overall loan book as against 87% in March 2022.

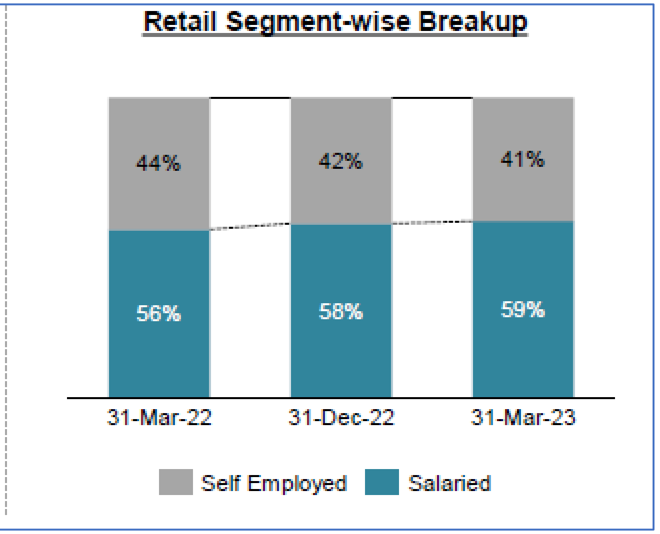




(Source: Company, HDFC Sec)

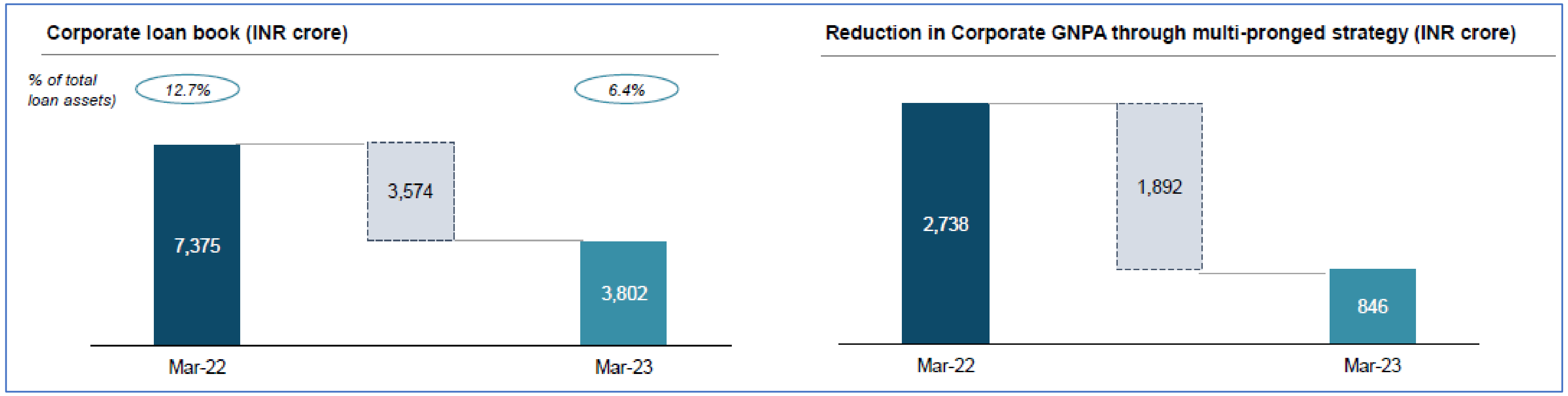
The company's retail book consists of individual housing loans, Loans Against Properties (LAP) and Non-Residential Premises Loan (NRPL). Almost 71% of the retail book of the company comprises of individual housing loan, followed by 24% of LAP and the rest 5% contribution from NRPL. In Q4FY23, the total disbursements in the retail book stood at Rs. 4,465 crores, up 22/33% YoY/QoQ, while the total retail book stood at Rs. 55,471 crores up 10/4% YoY/QoQ. Further, in FY23, the contribution of individual housing loans/LAP/NRPL to the total disbursements stood at 75/21/4%, which is similar to that of FY22, indicating that the company is continuing with the same strategy. In terms of nature of borrowers, the company is focusing on salaried borrowers, and these constitute 59% of the total retail book as of March 2023. The management wishes to scale up salaried borrower's contribution to 70% over the medium to long term. The average ticket size for Individual housing loan and loan against property stood at Rs. 29 lakhs and Rs. 33 lakhs respectively (as on Mar-23). The company has capped the ticket size in the housing book at Rs. 3 crores from previous high of Rs. 15 crores, which will reduce the concentration risk in the portfolio. During Q4FY23, the company ventured into affordable housing finance business and disbursed Rs. 137 crores and 65% of these loans are towards self-construction. Currently, the company has 82 branches for disbursing affordable housing loans which is expected to reach 100 branches. The average ticket size of affordable housing loans is Rs. 17-18 lakhs. The company is planning to achieve 75%-25% disbursement mix between prime and affordable housing segments going forward.





(Source: Company, HDFC Sec)

In FY23, the company has continued its steps to de-risk the corporate portfolio. This book now stands at Rs. 3,802 crores as against Rs. 7,375 crores as on March 2022. It only constitutes 6% of the loan book now as against 12% in March, 2022. During Q4FY23, the company merely disbursed Rs. 30 crores of loans in this book, down 12/52% YoY/QoQ. The management has affirmed that going forward, the corporate book shall not exceed 10% of the mix and the average ticket size shall not exceed Rs. 150 crores. As of March 2022, the book constituted Rs. 2,738 crores of GNPA, equivalent to 37.13%, which is down to Rs. 846 crores, equivalent to 22.25% as of March 2023. The management has specified that 92% of the corporate GNPA represents loan advanced to a large real estate developer in Mumbai for an SRA project with estimated revenue of Rs. 6,000 crores. The management is working on the resolution of this account and is expected to be resolved in FY24 without any impact on its income statement.

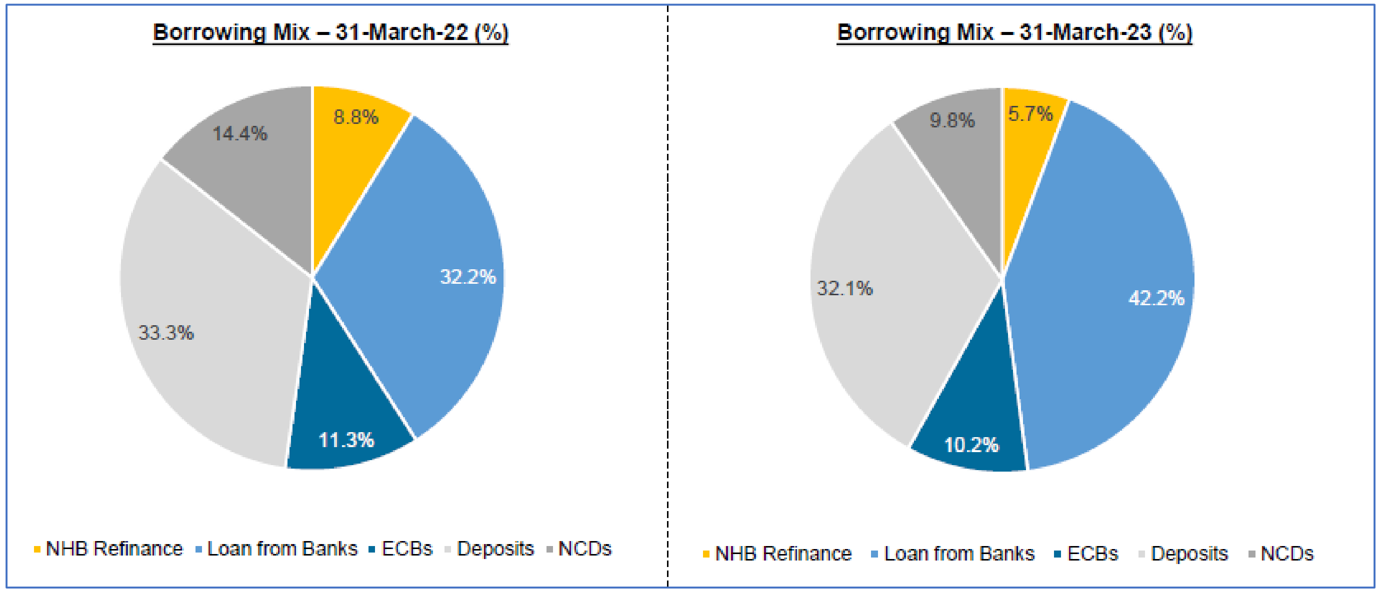


(Source: Company, HDFC Sec)

Healthy Liability Profile

The company has a well-diversified liability profile and has a strong resource raising capacity. As of March 2023, the total borrowings stood at Rs. 53,655 crores as against Rs. 53,040 crores in FY22. The borrowings book consists of NHB Refinance (5.7%), Loans from banks (42.2%), ECBs (10.2%), Deposits (32.1%), NCDs (9.8%). Over the year, the company has altered its mix to include more bank loans than other sources of finance. However, going forward, in order to reduce its incremental cost of borrowing, the company wants to reduce the share of bank borrowings in favour of NCDs, and NHB facilities. Also, the share of short term commercial paper in the funding mix has declined to nil as of March 2023, from 2% in March 2022. The company is eligible for NHB financing as it has NNPAs below the threshold set by the NHB to avail funds from them. It intends to raise Rs. 2,500 crores in FY24 via NHB financing. Further, it expects the NHB share in the borrowings book to stabilize between 10-15% over medium term. Normally, NHB financing is cheaper than bank loans. The company expects cost of funds to improve by 30-35bps in FY24 backed by access to NHB funds, expected lower interest rate loans from banks and potential ratings upgrade from AA to AA+. Out of the total borrowings, 67% carry floating interest rates. During the year, ICRA, CRISIL and India Ratings has upgraded the rating outlook of the company from negative to stable. The cost of borrowings for Q4FY23 stood at 7.76%, up 66/21 bps YoY/QoQ, whereas it stood at 7.5% for the entire FY23 as against 7.3% in FY22. As of March 2023, the company had no asset-liability mismatch in its short term buckets up to six months. In H1FY24, the company has scheduled debt repayments of Rs. 10,950 crores, and it has cash and cash equivalents to the tune of Rs. 4,693 crores and unutilised bank credit lines of Rs. 4,815 crores. Hence, the company has a comfortable liquidity position going into FY24.

In May 2023, the company successfully completed its rights issue and raised Rs. 2,494 crores which received an overwhelming response of 1.21x.



(Source: Company, HDFC Sec)

Healthy Capital Structure and Promoter Assistance:

The company has a capital adequacy ratio of 24.4% as of March 2023, which includes Tier 1 capital to the extent of 22.4%. As of March 2023, Punjab National who is the promoter, held 32.5% in the company and Carlyle group held 32.1% holding in the company.

As mentioned above, the company raised Rs. 2,494 crores via rights issue in May 2023, in which both the above major shareholders had participated. PNB invested Rs. 500 crores whereas Carlyle Group invested Rs. 844 crores via this rights issue. Post the issue, the shareholding of PNB in the company has reduced to 28.2%, whereas the shareholding of Carlyle Group stood at 32.7%.

Risks & Concerns

Rules and regulatory policies

Any unfavorable change in rules and regulatory policies by the RBI/NHB/Govt ministries can have a negative impact on earnings outlook of the company.

Competition
The housing finance industry is highly competitive. It has always faced competition from small finance banks, banks and other HFCs. Banks with wider branch and distribution network and cheaper cost of funds have greater competitive advantage. The stiff competition from banks may pose increasing challenges by way of lower-than-expected loan growth and lower NIM.

Higher than expected deterioration in asset quality
In the past, the company has faced issues with its asset quality and the GNPA ratios had in the past touched the highs of 8.1%. This was primarily driven by the corporate book. As of March 2023, the GNPA ratio of the company stood at 3.83%. Though the corporate book is now just 6% of the AUM, we shall remain watchful of the asset quality ratios of the company going forward.

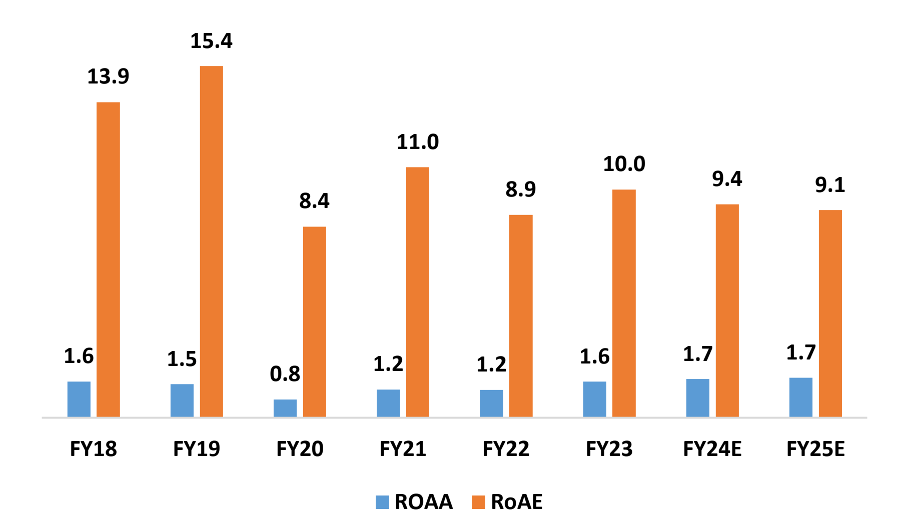
Pressure on NIMs
In case the competition intensifies and the cost of borrowings does not come down, the company can face a squeeze in its spreads/NIMs affecting its profitability and the return ratios.

Return ratios remain on the lower side at ~10% due to muted NIMs, high provisions and high capital adequacy, while PCR is also low at ~30% due to high GNPAs.

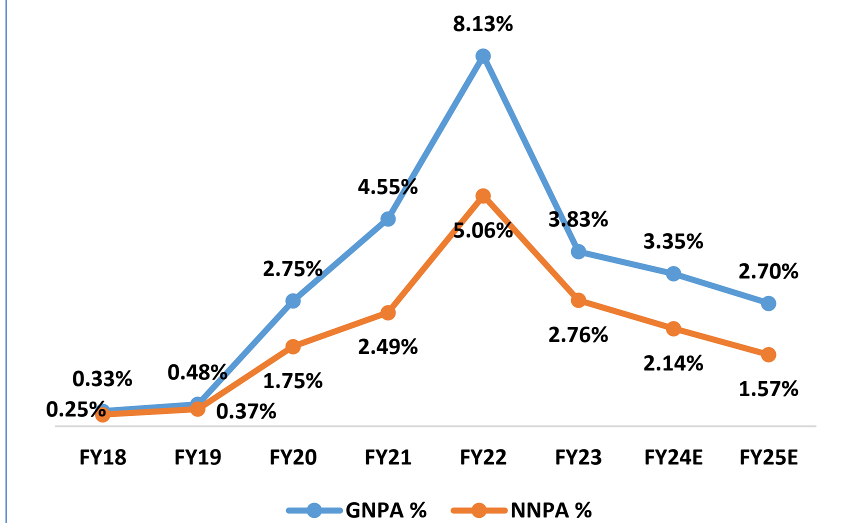
Company Background:
PNB Housing Finance Limited (PNB Housing) is a registered housing finance company with National Housing Bank (NHB) and commenced its operations on November 11, 1988. It is promoted by Punjab National Bank (PNB), which holds 32.57% of share capital in the Company. The Company offer retail and corporate loans, including individual home loans, retail loan against property, retail non-resident property loan, construction finance and lease rental discounting among others. It operates the sales and distribution function through the wholly-owned subsidiary, PHFL Home Loans and Services Limited. The company has a robust network of branches spread across the country which help its customers avail financial services (loans and deposits) seamlessly. As on March 31 2023, the Company has presence through 189 branches are mostly located in Tier 2 and 3 cities in order to focus on retail and affordable housing segment.

			Core strengths	Strategic objectives
1	Asset mix		Diversified product portfolio with significant retail mix and deleveraging corporate loan book	Accelerate growth by focusing on retail lending
2	Distribution		Pan-India distribution network	Expand affordable segment, especially in tier-2 and tier-3 cities
3	Underwriting and Collections		Robust underwriting, monitoring, collection processes and risk management architecture	Enhance underwriting and collection framework to strengthen credit quality
4	Borrowing profile		Access to diversified funding sources	Maintain adequate capitalization levels to borrow at competitive rates
5	Digital push		Omni-channel touchpoints spanning across the customer journey with digital footprints	Increase efficiency in customer acquisition process and enhance customer experience through digitization
6	Corporate governance		Strong brand name and experienced, professional management team	Continue to build a high quality, scalable and institutionalized housing finance company

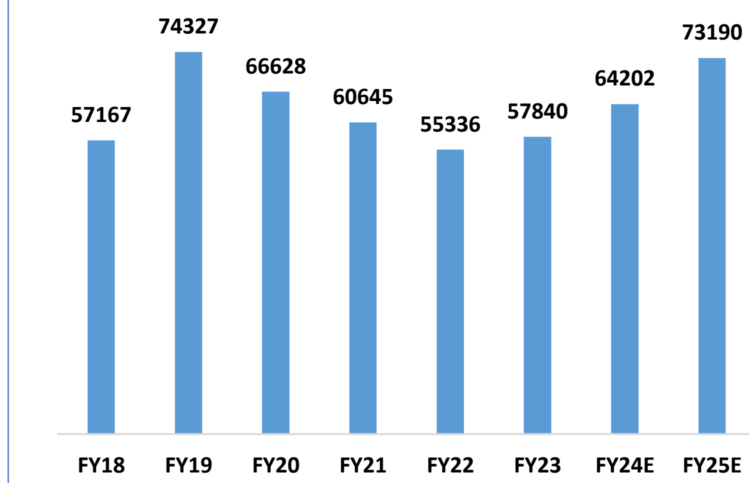
Return Ratio (%)



Asset Quality (%)



Loan book (Rs. in crores) expected to grow at 12% CAGR between FY23-25E



(Source: Company, HDFC Sec)

PNB Housing Finance Ltd.

PNB Housing Finance Financials (Rs. in Crores)

Income Statement

Particulars	FY21	FY22	FY23	FY24E	FY25E
Interest Income	7190	5822	6199	6807	7574
Interest Expenses	5101	4064	3899	4174	4599
Net Interest Income	**2089**	**1758**	**2300**	**2633**	**2975**
Non interest income	423	367	319	366	412
Operating Income	2512	2125	2619	3000	3387
Operating Expenses	443	457	519	579	655
PPP	**2070**	**1668**	**2100**	**2421**	**2732**
Prov & Cont	862	584	739	824	859
Profit Before Tax	**1208**	**1084**	**1361**	**1597**	**1873**
Tax	277	247	315	391	468
PAT	**931**	**837**	**1046**	**1206**	**1405**

Balance Sheet

Particulars	FY21	FY22	FY23	FY24E	FY25E
Share Capital	168	169	169	260	260
Reserves & Surplus	8755	9703	10845	14454	15859
Shareholder funds	**8923**	**9872**	**11014**	**14713**	**16118**
Borrowings	59444	52961	53622	58424	65871
Other Liab & Prov.	3025	2897	2238	2572	2955
SOURCES OF FUNDS	**71392**	**65730**	**66874**	**75709**	**84944**
Fixed Assets	181	149	149	157	165
Investment	2045	3483	3196	3210	3660
Cash & Bank Balance	6968	5067	3796	4930	4270
Advances	60645	55336	57840	64202	73190
Other Assets	1553	1695	1892	3210	3660
TOTAL ASSETS	**71392**	**65730**	**66874**	**75709**	**84944**

Key Ratio

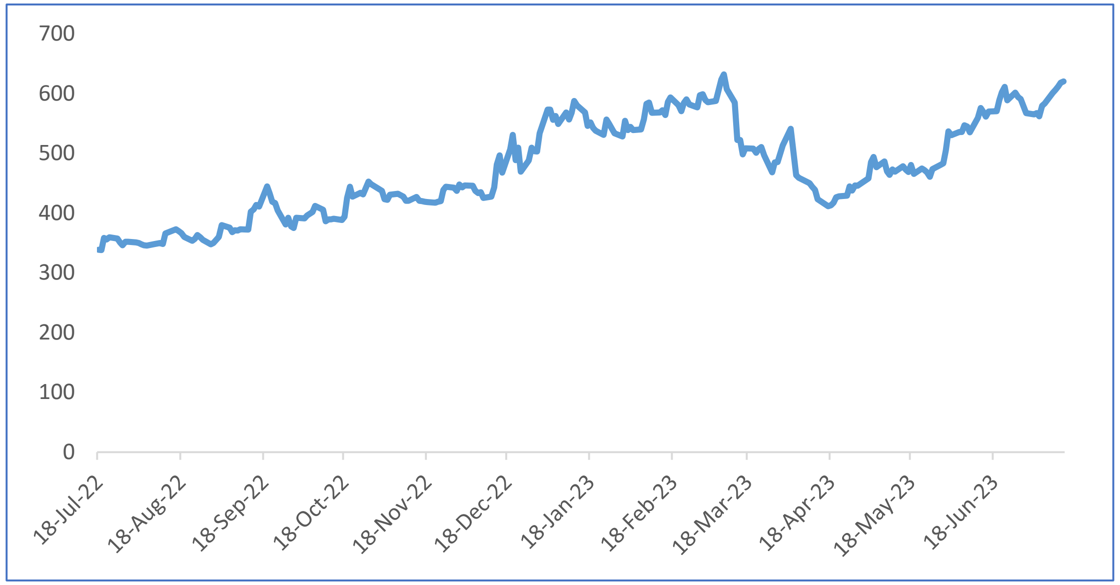
Particulars	FY21	FY22	FY23	FY24E	FY25E
Return Ratios					
Calc. Yield on adv	11.3	10.0	11.0	11.2	11.0
Calc. Cost of borr	8.0	7.2	7.3	7.5	7.4
NIM	3.3	3.0	4.1	4.3	4.3
RoAE	11.0	8.9	10.0	9.4	9.1
RoAA	1.2	1.2	1.6	1.7	1.7
Asset Quality Ratios					
GNPA	4.6	8.1	3.8	3.3	2.7
NNPA	2.5	5.1	2.8	2.1	1.6
Growth Ratios					
Advances	-9.0	-8.8	4.5	11.0	14.0
Borrowings	-12.2	-10.9	1.2	9.0	12.7
NII	15.3	-15.9	30.8	14.5	13.0
PPP	0.3	-19.4	25.9	15.3	12.9
PAT	43.7	-10.1	25.0	15.3	16.5

Key Ratio

	FY21	FY22	FY23	FY24E	FY25E
Per share data (Rs)					
EPS	55.3	49.8	62.2	46.6	54.2
Adj. BVPS	441	420	560	515	578
Dividend per share	0.0	0.0	0.0	0.0	0.0
Valuation Ratios					
P/E	11.2	12.5	10.0	13.3	11.4
P/ABV	1.4	1.5	1.1	1.2	1.1
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
Other Ratios					
Cost-Income	17.6	21.5	19.8	19.3	19.3
Advances/Equity	6.8	5.6	5.3	4.4	4.5

(Source: Company, HDFC Sec)

One Year Price Chart



Varun Nitin Manek

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HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

Disclosure:

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Murli V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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