

Future growth outlook positive !!!

PNB Housing posted good set of numbers – Consol PAT (pre OCI) came in at INR 383 cr, up by 45.8% yoy and 10.3% qoq. Consol PAT (post OCI) is up by 24.2% yoy and 17.2% qoq. Disbursements growth is picking up in retail segment which grew by 18% yoy vs. 8% yoy growth seen in Q1FY24. While on the corporate side, strategy is to have natural run-down of the book due to high NPLs faced in this segment earlier. Retail loan assets (96% share) showed growth of 12.3% yoy (2.6% qoq). Nil grew by 35% yoy in Q2FY24 after netting off one-off of INR 160 cr on assigned loans due to benchmark rate resets in Q2FY23. Opex growth was marginally high at 25% yoy due to branch expansion and royalty fee payment to PNB. There was recovery of INR 784 cr from one large residential developer which was NPL assets and there was provision release of INR 199 cr. Hence there was remarkable improvement in the GNPL ratios - corporate GNPL came down from 25% in Q1 to meagre 2.9% in Q2. Retail GNPL came down from 2.5% to 1.7% qoq.

Outlook

- Retail assets (96% share) are likely to grow by 17-18% in FY24
- Credit cost guidance of 60 bps in FY24 and 40 bps in FY25
- Planning to grow again construction finance book in next 2-3 quarters (with ATS INR 150 cr)
- Outlook on asset quality and margins is largely stable.

Valuations - Currently, valuations of PNB Housing at 1.2x FY25e ABV is cheap as compared to peers. ROA is likely to see nearly 40 bps improvement from 1.6% in FY23 to 2.0% in FY25e led by lower credit cost and better loan growth. **We assign a target price of INR 916, discounting its FY25e ABV multiple by 1.5x, giving upside of 28% from the current levels.**

Y/E Mar (Rs cr)	FY21	FY22	FY23	FY24E	FY25E
Consol PAT	909	934	1123	1477	1757
Growth (YoY %)	53.9	2.8	20.2	31.5	19.0
Adj BVPS	426	412	556	545	610
EPS (Rs)	54	55	67	57	68
P/ABV (x)	1.7	1.8	1.3	1.3	1.2
P/E (x)	14	13	11	13	11
RoA (%)	1.2	1.2	1.6	1.9	2.0
RoE (%)	11.0	8.9	10.0	10.8	10.6

Source: Dalal & Broacha Research, Company

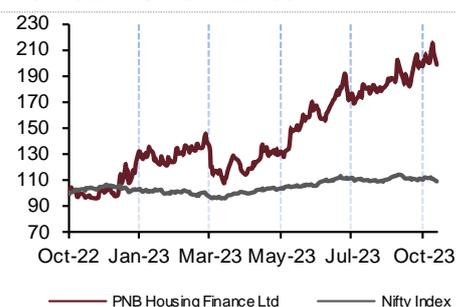
Rating	TP (Rs)	Up/Dn (%)
BUY	916	28

Market data

Current price	Rs	715
Market Cap (Rs.Bn)	(Rs Bn)	186
Market Cap (US\$ Mn)	(US\$ Mn)	2,233
Face Value	Rs	10
52 Weeks High/Low	Rs	785 /341
Average Daily Volume	('000)	532
BSE Code		540173
Bloomberg		PNBHOU1 .IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Sep-23	Jun-23
Promoters	28	28
Public	72	72
Total	100	100

Source: Bloomberg

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Q2FY24 Key Financial & Con call Highlights

- PNB Housing posted good set of numbers – Consol PAT (pre OCI) came in at INR 383 cr, up by 45.8% yoy and 10.3% qoq. Consol PAT (Post OCI) is up by 24.2% yoy and 17.2% qoq.
- Disbursements growth is picking up in retail segment which grew by 18% yoy vs. 8% yoy growth seen in Q1FY24. While on the corporate side, strategy is to have natural run-down of the book due to high NPLs faced in this segment earlier. Hence, disbursements in corporate segment was down by 77.6% yoy and 21.1% qoq to INR 15 cr. Total loan disbursements stood at 16.3% yoy to INR 4180 cr. Going forward, in FY24, it is expecting disbursement growth of 22-23% levels
- While the disbursement growth is picking up, loan assets growth is lower than disbursements growth due to higher run-downs (retail @17-18% and corporate >30%). Total loan assets grew by 5.2% yoy to INR 60852 cr.
- Retail loan assets (96% share) showed growth of 12.3% yoy (2.6% qoq). Management is confident to grow retail assets at the rate of 17-18% in the current fiscal. And also, it is not seeing any signs of slowdown in the affordable & prime segment home loans as witnessed by other couple of NBFCs. Currently, its strategizing to increase the share of salaried segment, build more prime and affordable low-ticket size loans rather than high ATS value loans and create more assets in southern geography.
- Affordable loans, part of retail loans, segment which is <1 yr old book, is showing strong trajectory of growth. Disbursements in this segment which stood at INR 137 cr in Q4FY23 has surged to INR 374 cr in Q2FY24. It has built a separate vertical for affordable lending; currently it has 89 branches exclusive for this segment. Also, incremental yields in this segment is at ~11.5% levels
- While corporate loans were down by 30% qoq and 58.8% yoy to INR 2381 cr which is pulling overall loan growth. Management highlighted during the call that it will start lending in construction finance segment, however, the strategy now will be different as compare to before. (It will have ATS of INR 150 cr, loans will be given to well-known developers and which can enable the NBFC to grow retail home loan assets).
- During Q2 FY23, there was a one-off of INR 160 cr on assigned loans due to benchmark rate resets, excluding one-off net interest income grew by 35% yoy.
- Total operating expenses grew by 25.2% yoy and 11.2% qoq to INR 170.2 cr which was mainly due to 1) higher branch expansion done for affordable loan segment 2) royalty fees paid to parent PNB amounting to INR ~8 cr (as latter holding in the company has come below 30%). And as per the agreement, the NBFC has to pay 0.2% of the revenue or 2% of PAT (but not exceeding INR 30 cr in any given year). This works out to be maximum 4 bps hit on ROA in any given year.
- On the asset quality side, the company recovered INR 784 cr from one residential large developer which was 100% recovery resulting in provision release of INR 199 cr during the quarter. Hence there was remarkable improvement in the GNPL ratios - corporate GNPL came down from 25% in Q1 to meagre 2.9% in Q2. Retail GNPL came down from 2.5% to 1.7% qoq. Release of the provisions was utilised to increase the provisions on retail & corporate loans and some write-offs on retail loans. Blended GNPL came down from 3.8% to 1.8% qoq. And similarly, net NPAs were down from 2.6% to 1.2%
- Total restructured book stood at INR 1844 cr (PL – INR 1738 cr and corporate finance INR 105.8 cr) as on Q4FY23. Over the last 6 months, INR 62.7 cr has slipped into NPLs, INR 33.4 cr has been written off in Q2 and INR 209 cr is paid by the borrowers. Currently, balance part of restructured book is classified as standard assets amounting to INR 1601 cr.

- Management expects credit cost is expected to be ~60 bps in FY24 and ~40 bps in FY25
- Yields and cost of funds were stable on qoq basis resulting in no change in the spreads which stood at 2.6% levels. While margins improved by 9 bps qoq to 3.95% levels during the quarter. It mentioned that most of the MCLR based repricing is done, NCD cost will remain the same and NHB drawdowns will increase in Q3 (as it borrowed minimal in Q2).
- Current leverage which is at 4x is likely to increase to 6-6.5x boosting ROE levels (@10-11% currently) as per the NBFC.

Outlook & Valuations

Currently, valuations of PNB Housing at 1.2x FY25e ABV is cheap as compared to peers. ROA is likely to see nearly 40 bps improvement from 1.6% in FY23 to 2.0% in FY25e led by lower credit cost and better loan growth. We assign a target price of INR 916, discounting its FY25e ABV multiple by 1.5x, giving upside of 28% from the current levels.

Quarterly Financials (Q2FY24)

Profir and Loss (INR Cr)	Q2FY23	Q1FY24	Q2FY24	YoY	QoQ
Interest Earned	1597.5	1666.9	1702.9	6.6	2.2
Interest Expended	963.9	1047.5	1057.3	9.7	0.9
NII	633.7	619.4	645.6	1.9	4.2
Other Income	85.9	40.8	76.5	-10.9	87.7
Net Income	719.6	660.2	722.1	0.4	9.4
Opex	135.9	153.0	170.2	25.2	11.2
PPOP	583.7	507.2	551.9	-5.4	8.8
Provisions	243.2	60.6	44.8	-81.6	-26.0
PBT	340.4	446.7	507.1	49.0	
Tax	77.8	99.4	124.1	59.5	24.9
PAT (Pre OCI)	262.6	347.3	383.0	45.8	10.3
PAT (After OCI)	313.7	332.4	389.7	24.2	17.2
Balance sheet (INR Cr)					
	Q2FY23	Q1FY24	Q2FY24	YoY	QoQ
Disbursements	3595	3686	4180	16.3	13.4
-Retail	3527	3667	4165	18.1	13.6
-Corporate	67	19	15	-77.6	-21.1
AUM	65730	67340	67415.0	2.6	0.1
Outstanding loan book	57832	60395	60852	5.2	0.8
-Retail	52049	56978	58471	12.3	2.6
-Corporate	5783	3416	2381	-58.8	-30.3
Product-wise break-up	57832	60395	60852	5.2	0.8
-Individual Housing Loa	37012	40454	42099	13.7	4.1
(a) Affordable housing	0.0	365.0	739.0	-	102.5
(b) Ex affordable hom	37012	40089	41360	11.7	3.2
-Retail non-housing loa	15036	16524	16372	8.9	-0.9
Deposits	17855	16395	16820	-5.8	2.6
Key Ratios (%)					
	Q2FY23	Q1FY24	Q2FY24		
Gross NPAs (Rs)	3502	2270	1086		
GNPA (%)	6.1	3.76	1.78		
-GNPA - Retail Segment		2.5	1.7		
-GNPA - Corporate Segment		25.0	2.9		
NNPA (%)	3.6	2.6	1.2		
-NNPA - Retail Segment		1.6	1.2		
-NNPA - Corporate Segment		19.5	1.0		
C/I Ratio (%)	18.9	23.2	23.6		
ROA (%) (Reported)		2.1	2.2		
EPS (Rs)	15.6	13.6	14.8		
Yield (%) (Reported)	10.7	10.6	10.6		
Cost (%) (Reported)	7.3	8.0	8.0		
Spread (%) (Reported)	3.38	2.62	2.59		
Margins (%)	4.14	3.86	3.95		
CAR (%)	24.1	29.9	30.4		

Source: Dalal & Broacha Research, Company

Financials

P&L (Rs cr)	FY21	FY22	FY23	FY24E	FY25E
Interest income	7,190	5,822	6,199	6,993	8,118
Interest expense	5,100	4,064	3,899	4,535	5,171
NII	2,090	1,758	2,301	2,458	2,946
Non-interest income	434	379	331	360	395
Net revenues	2,524	2,137	2,631	2,818	3,341
Operating expenses	429	468	531	616	712
PPOP	2,096	1,669	2,100	2,202	2,629
Provisions	889	584	739	375	438
PBT	1,207	1,084	1,361	1,827	2,191
Tax	277	247	315	420	504
PAT	930	837	1,046	1,407	1,687
<i>Growth (%)</i>	<i>43.9</i>	<i>-10.0</i>	<i>25.0</i>	<i>34.5</i>	<i>20.0</i>
Non-Controlling Interest	0	0	0	0	0
Net Profit (post NCI)	930	837	1046	1407	1687
<i>Other Comprehensive Inc</i>	<i>-20.7</i>	<i>97.3</i>	<i>77.1</i>	<i>70.0</i>	<i>70.0</i>
Consol PAT (post NCI & <i>Other Comprehensive Inc</i>)	909	934	1123	1477	1757
<i>Growth (%)</i>	<i>53.9</i>	<i>2.8</i>	<i>20.2</i>	<i>31.5</i>	<i>19.0</i>

Balanc Sheet (Rs. Cr)	FY21	FY22	FY23	FY24E	FY25E
Share capital	168	169	169	260	260
Reserves & surplus	8,755	9,703	10,845	14,725	16,482
Net worth	8,923	9,872	11,014	14,985	16,742
Borrowings	59,392	52,961	53,621	61,180	71,415
Other liability	3,077	2,897	2,238	2,015	1,813
Total liabilities	71,392	65,730	66,874	78,180	89,970
Cash & Bank Bal.	6,969	5,216	3,796	5,069	4,955
Investments	2,045	3,483	3,196	3,356	3,524
Loans	60,645	55,336	57,840	67,298	78,557
Fixed assets	320	263	149	187	235
Receivables	45	43	13	14	16
Other assets	1,369	1,389	1,879	2,255	2,683
Total assets	71,392	65,730	66,874	78,180	89,970

Ratios	FY21	FY22	FY23	FY24E	FY25E
Growth (%)					
NII	15.3	-15.9	30.9	6.9	19.9
PPOP	-1.1	-20.4	25.8	4.9	19.4
Consol PAT (post NCI & OCI)	53.9	2.8	20.2	31.5	19.0
Loan (Rs.cr)	60,645	55,336	57,840	67,298	78,557
Loans growth (%)	-9.0	-8.8	4.5	16.4	16.7
AUMs (Rs.cr)	75,403	66,983	66,617	68,765	74,834
AUM growth (%)	-10.4	-11.2	-0.5	3.2	8.8

Other Ratios (%)	FY21	FY22	FY23	FY24E	FY25E
Cost/Income ratio (%)	17.0	21.9	20.2	21.9	21.3
Branches	94	137	189	204	219

Spread (%)	FY21	FY22	FY23	FY24E	FY25E
Yield on advances	11.0	9.6	10.3	10.6	10.6
Yield on funds	9.8	8.7	9.6	10.0	10.0
Cost of funds	8.0	7.2	7.3	7.9	7.8
Spreads	3.0	2.4	3.0	2.7	2.8
Margins	2.8	2.6	3.6	3.5	3.6

Asset quality (%)	FY21	FY22	FY23	FY24E	FY25E
Gross NPAs (Rs.mn)	2,998	4,706	2,271	1,487	1,564
Net NPAs (Rs.mn)	1,749	2,931	1,618	852	906
Gross NPAs (%)	4.8	8.2	3.9	2.2	2.0
Net NPAs (%)	2.8	5.1	2.8	1.3	1.1
PCR (%)	41.7	37.7	28.8	42.7	42.0
Slippages (%)	2.0	6.4	1.3	1.2	1.1
Credit Cost (%)	1.4	1.0	1.3	0.6	0.6

Return ratios (%)	FY21	FY22	FY23	FY24E	FY25E
RoE	11.0	8.9	10.0	10.8	10.6
RoA	1.2	1.2	1.6	1.9	2.0

Per share (Rs)	FY21	FY22	FY23	FY24E	FY25E
EPS	54.0	55.4	66.5	56.9	67.7
BV	530.3	585.5	652.2	577.3	645.0
ABV	426.3	411.7	556.4	544.5	610.1

Valuation (x)	FY21	FY22	FY23	FY24E	FY25E
P/E	13.6	13.2	11.0	12.9	10.8
P/BV	1.4	1.3	1.1	1.3	1.1
P/ABV	1.7	1.8	1.3	1.3	1.2

Other Ratios	FY21	FY22	FY23	FY24E	FY25E
C/I Ratio	17.0	21.9	20.2	21.9	21.3
C/I ratio (incl. other income)	14.5	18.6	17.9	19.4	19.1
Opex to AuM	0.6	0.7	0.8	0.9	1.0
Opex to Avg. AUM (%)	0.5	0.7	0.8	0.9	1.0

ROA Tree (%)	FY21	FY22	FY23	FY24E	FY25E
Interest Income	9.6	8.5	9.3	9.6	9.7
Interest expense	6.8	5.9	5.9	6.3	6.2
Net Interest Income	2.8	2.6	3.5	3.4	3.5
Other Income	0.6	0.6	0.5	0.5	0.5
Net Income	3.4	3.1	4.0	3.9	4.0
Employee benefits expense	0.3	0.3	0.4	0.4	0.4
Other expenses	0.3	0.4	0.4	0.4	0.4
Total expenses	0.6	0.7	0.8	0.8	0.8
PPOP	2.8	2.4	3.2	3.0	3.1
Provisions	1.2	0.9	1.1	0.5	0.5
PBT	1.6	1.6	2.1	2.5	2.6
Tax	0.4	0.4	0.5	0.6	0.6
Tax Rate	0.0	0.0	0.0	0.0	0.0
PAT	1.2	1.2	1.6	1.9	2.0
Consol PAT (post NCI & OCI)	1.2	1.4	1.7	2.0	2.1

Source: Dalal & Broacha Research, Company

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