

PNB Housing Finance | BUY

3QFY24 - Soft quarter

In 3QFY24, PNB Housing Finance (PNBHF) missed our expectations as lower than expected NII (INR 5.9bn, -17% YoY, -8% QoQ, -10% JMFe) and elevated opex (INR 1.7bn, flat QoQ) resulted in less than anticipated PPOP (-20% YoY, -2% QoQ, -10% JMFe) and PAT (INR 3.4bn, +26% YoY, -12%QoQ, -11% JMFe). Lower adj. yields (-19bps QoQ) and stagnant adj. cost of borrowings (-1bp QoQ) resulted in sequential NIM contraction (3.65%, -19 bps QoQ). Elevated competition and recent RBI circular potentially mandating HFCs to keep higher liquidity buffer on deposits might result in continued pressure on margin in the near term. However, expansion of product suite in higher yielding affordable segment and incremental growth in emerging geographies (beyond prime) will provide levers to manage NIM aided by latest rating upgrade. Moderate growth in overall loan assets (INR 623bn, +7.4% YoY, +2.4% QoQ) was led by retail loans (INR 601bn, +13.2% YoY, +2.8% QoQ) while corporate book (INR 22.1bn, -7.3% QoQ) rundown continued, which now contributed only 3.5% of total loan assets. Asset quality remained stable for the quarter with GNPA/NNPA at 1.73%/1.14% (-5bps/-5bps QoQ) and mgmt. expects recoveries of up to INR 22bn (INR 17bn from corporates and INR 5bn from retail) starting 4Q24. The stock has outperformed NIFTY 50 over 3m/6m/12m by 6.4%/ 22.4%/72% as it clocked ROAs of around 2% over the last three quarters. We believe further upside will be contingent to i) strong loan asset growth led by retail book ii) continued expansion of the higher yielding affordable segment and iii) meaningfully lower credit cost compared to past cycle trends. We value PNBHF at 1.3x FY26E BV to arrive at a TP of INR 920. Maintain BUY.

- Moderate loan growth was supported by retail segment; scaling up affordable housing:** In 3QFY24, moderate growth in overall loan assets (INR 623bn, +7.4% YoY, +2.4% QoQ) was led by retail loans (INR 601bn, +13.2% YoY, +2.8% QoQ) while corporate book (INR 22.1bn, -7.3% QoQ) rundown continued, which now contributed only 3.5% of total loan assets. Retail disbursements were stagnant sequentially at INR 41.1bn (+22% YoY, -1.3% QoQ) while the disbursements in affordable housing segment grew to INR 4.1bn (+9% QoQ). PNBHF plans to expand its affordable housing product range, projecting a yield enhancement of around 100bps from 1QFY25 in this segment. However, mgmt. slashed its loan growth guidance from 17% to 15% for FY24, while maintaining 17% expected growth rate for FY25. We revise our avg. loan growth down to 16% over FY24E-FY26E.
- Lower NII leads to a less than anticipated PAT; NIM contracts:** Lower than expected NII (INR 5.9bn, -17% YoY, -8% QoQ) and elevated opex (INR 1.7bn, flat QoQ) resulted in a less than anticipated PPOP (-20% YoY, -2% QoQ) and PAT (INR 3.4bn, +26% YoY, -12%QoQ, -11% JMFe). Lower yields (due to reducing corporate mix, one time impact of mclr change on securitised book and higher competition) and stagnant cost of borrowings (adj. for one time ECB hedging cost) resulted in sequential NIM contraction (3.65%, -19 bps QoQ). Mgmt. aims to bring down CoB (owing to latest rating upgrade and NHB borrowings) and plans to introduce higher yielding "Emerging segment" in Q1FY25 (30-40 bps higher yields than prime) to combat NIM compression. Elevated competition and recent RBI circular potentially mandating HFCs to keep higher liquidity buffer on deposits might result in continued pressure on margin.



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	920
Upside/(Downside)	7.0%
Previous Price Target	935
Change	-1.6%

Key Data – PNBHOUSI IN

Current Market Price	INR860
Market cap (bn)	INR223.3/US\$2.7
Free Float	39%
Shares in issue (mn)	165.6
Diluted share (mn)	
3-mon avg daily val (mn)	INR441.1/US\$5.3
52-week range	907/383
Sensex/Nifty	71,060/21,454
INR/US\$	83.1

Price Performance

%	1M	6M	12M
Absolute	10.9	24.7	86.6
Relative*	11.0	16.5	60.1

* To the BSE Sensex

Financial Summary

	(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Profit	8,365	10,460	14,342	17,568	22,089
Net Profit (YoY) (%)	-10.1%	25.0%	37.1%	22.5%	25.7%
Assets (YoY) (%)	-7.9%	1.7%	17.0%	13.3%	14.5%
ROA (%)	1.2%	1.6%	2.0%	2.1%	2.3%
ROE (%)	8.9%	10.0%	11.1%	11.3%	12.7%
EPS	49.6	62.0	55.3	67.7	85.1
EPS (YoY) (%)	-10.3%	24.9%	-10.8%	22.5%	25.7%
P/E (x)	17.3	13.9	15.6	12.7	10.1
BV	586	652	570	631	708
BV (YoY) (%)	10.4%	11.4%	-12.6%	10.7%	12.1%
P/BV (x)	1.47	1.32	1.51	1.36	1.21

Source: Company data, JM Financial. Note: Valuations as of 24/Jan/2024

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters,
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and

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- **Asset quality stable; expect recoveries:** Asset quality remained stable for the quarter with GNPA/NNPA at 1.73%/1.14% (-5bps/-5bps QoQ). PCR stands at 34.1% (vs 33.3% QoQ) of GS3 assets. Credit cost for 9MFY24 stood at 32bps. As the company continues to run down its corporate book and focuses on granular retail assets, mgmt. expects recoveries of up to INR 22bn (INR 17bn from corporates and INR 5bn from retail) starting 4Q24. We build in avg. credit costs of 34bps over FY24E-26E.
- **Valuation and view:** PNBHF has outperformed NIFTY 50 over 3m/6m/12m by 6.4%/22.4%/72% as it clocked ROAs of around 2% over the last three quarters. RoE uptick will follow up as it raises leverage from current levels. We believe further upside will be contingent to i) Strong loan asset growth led by retail book ii) Continued expansion of the higher yielding affordable segment and iii) Meaningfully lower credit cost compared to past cycle trends. We value PNBHF at 1.3x FY26E BV to arrive at a TP of INR 920. Maintain BUY.

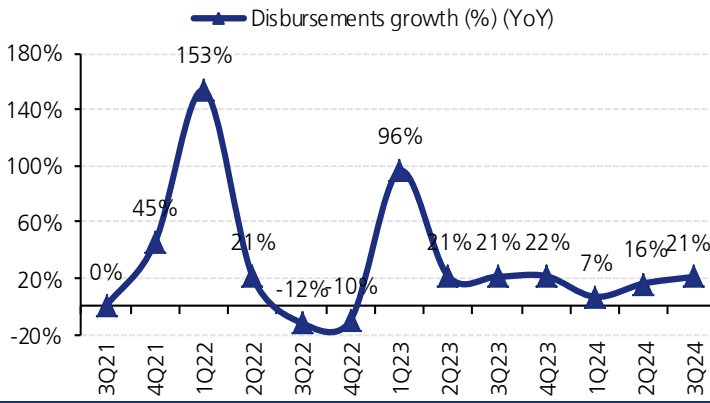
PNB Housing Finance: 3QFY24 highlights

Exhibit 1. 3QFY24 – key highlights

Earnings Table (INR mn)	Q3FY23	Q2FY24	Q3FY24	YoY (%)	QoQ (%)
Net Interest Income	7,173	6,456	5,929	-17.3%	-8.2%
Total Non-Interest income	829	765	765	-7.7%	-0.1%
Total Income	8,002	7,221	6,694	-16.3%	-7.3%
Employee Cost	582	855	806	38.4%	-5.7%
Depreciation and Amortisation	126	113	131	3.6%	15.2%
Other expenses	1,052	709	720	-31.6%	1.5%
Total Operating Expenses	1,785	1,702	1,700	-4.8%	-0.1%
Operating Profit (PPP)	6,217	5,519	4,994	-19.7%	-9.5%
Total Provisions	2,548	448	591	-76.8%	31.9%
PBT	3,669	5,071	4,403	20.0%	-13.2%
Tax	978	1,241	1,019	4.2%	-17.9%
Reported Profit	2,691	3,830	3,384	25.8%	-11.6%
Loan Book (INR bn)					
Disbursements	34.3	41.8	41.4	21.0%	-0.9%
Loans	580.3	608.5	623.4	7.4%	2.4%
Ratios Analysis (%)					
Cost to Income (%)	22.3%	23.6%	25.4%	3.09%	1.83%
Effective Tax Rate (%)	26.6%	24.5%	23.1%	-3.51%	-1.34%
Credit Quality					
Gross NPAs (INR mn)	28,240	10,860	10,790	-61.8%	-0.6%
Net NPAs (INR mn)	18,687	7,241	7,106	-62.0%	-1.9%
Gross NPA (%)	4.87%	1.78%	1.73%	-3.14%	-0.05%
Net NPA (%)	3.22%	1.19%	1.14%	-2.08%	-0.05%
Coverage Ratio (%)	33.8%	33.3%	34.1%	0.3%	0.8%

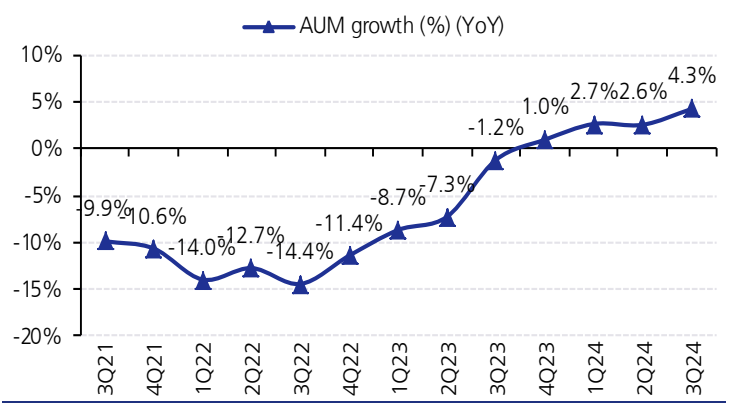
Source: Company, JM Financial

Exhibit 2. Disbursement trends



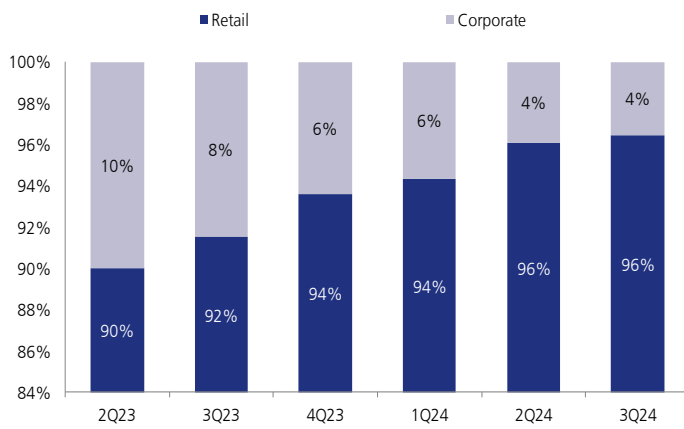
Source: Company, JM Financial

Exhibit 3. AUM growth trends



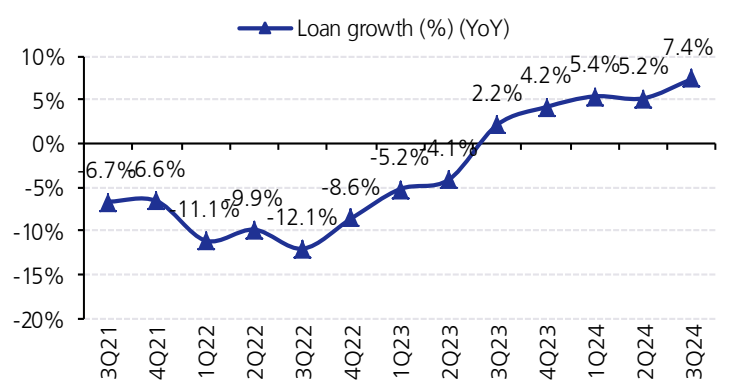
Source: Company, JM Financial

Exhibit 4. Loan book mix



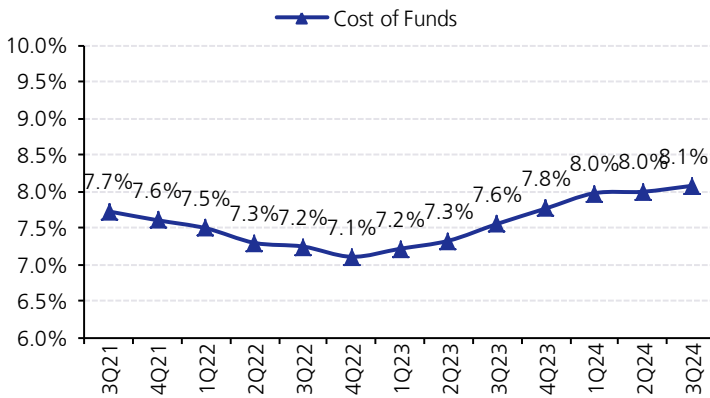
Source: Company, JM Financial; Stopped disclosure of LAP from 2Q24; NRPL, LAP & IH constitute retail

Exhibit 5. Loan growth trends



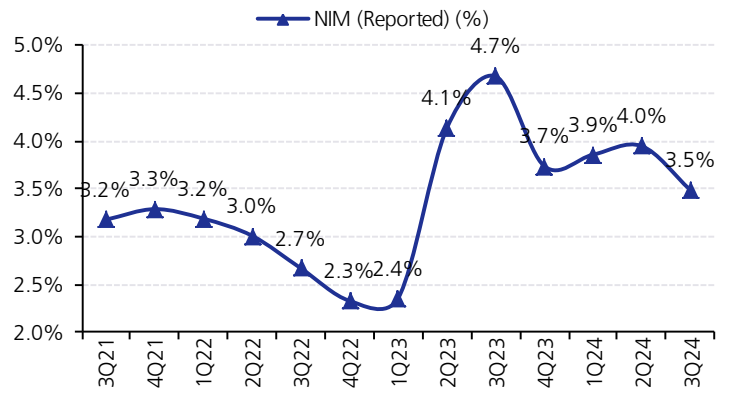
Source: Company, JM Financial

Exhibit 6. Cost of funds trend



Source: Company, JM Financial

Exhibit 7. NIMs trend



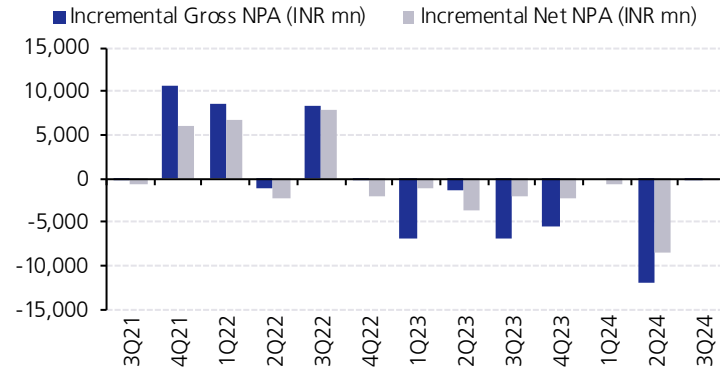
Source: Company, JM Financial

Exhibit 8. Trend in Spread

Spread Reported (%)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Yield on Advances (Q) (%) (Given by Co)	8.63%	10.70%	11.38%	10.41%	10.59%	10.58%	10.19%
Cost of Funds (Q) (%) (Given by Co)	7.21%	7.32%	7.55%	7.76%	7.97%	7.99%	8.07%
Spread (%)	1.42%	3.38%	3.83%	2.65%	2.62%	2.59%	2.12%

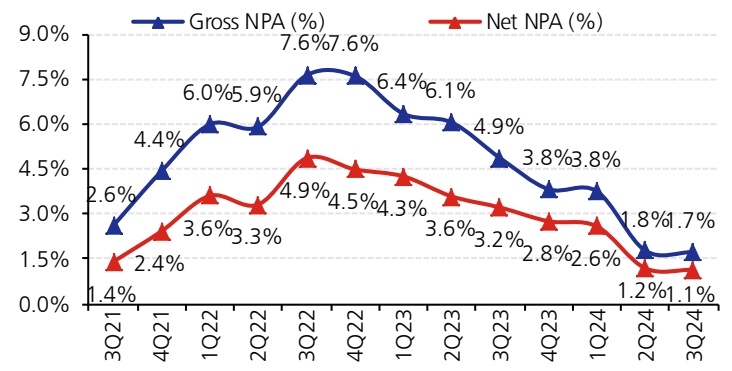
Source: Company, JM Financial

Exhibit 9. Trend in incremental NPA



Source: Company, JM Financial

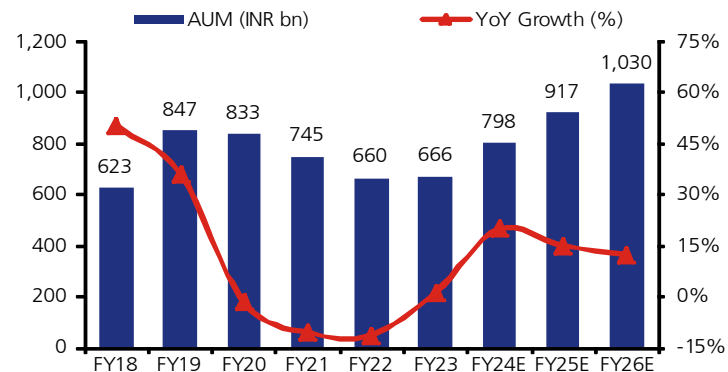
Exhibit 10. Trend in asset quality



Source: Company, JM Financial

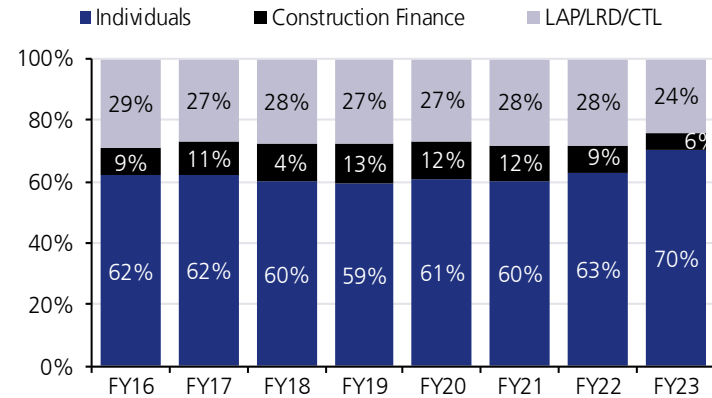
PNB Housing Finance – Annual trends

Exhibit 11. Trend in AUM growth



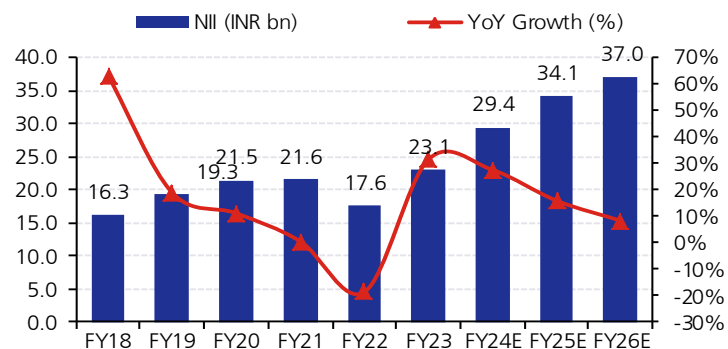
Source: Company, JM Financial

Exhibit 12. AUM mix



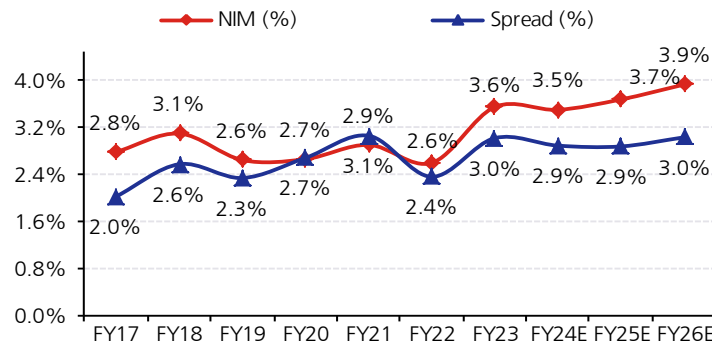
Source: Company, JM Financial

Exhibit 13. Trend in NII



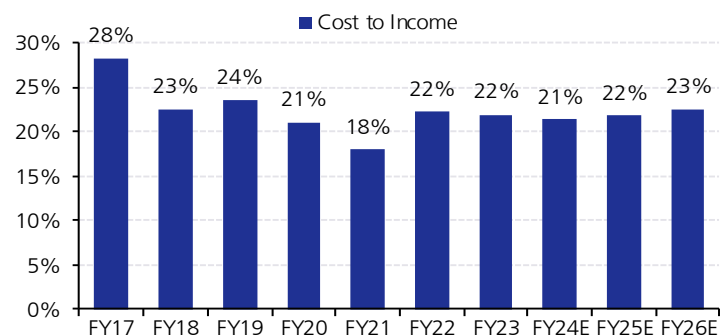
Source: Company, JM Financial

Exhibit 14. Trend in margins



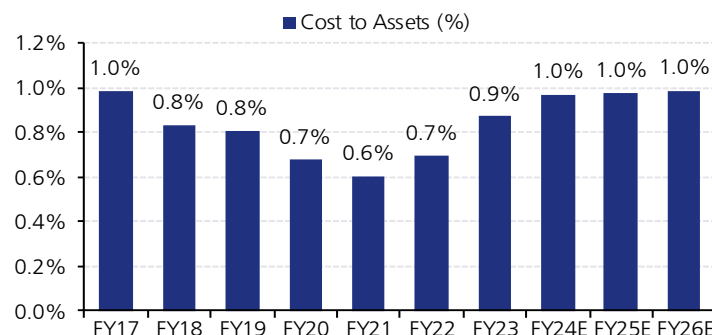
Source: Company, JM Financial

Exhibit 15. Trend in cost-to-income



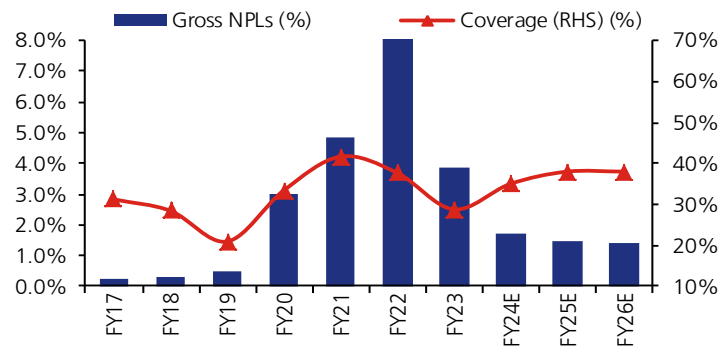
Source: Company, JM Financial

Exhibit 16. Trend in cost-to-assets



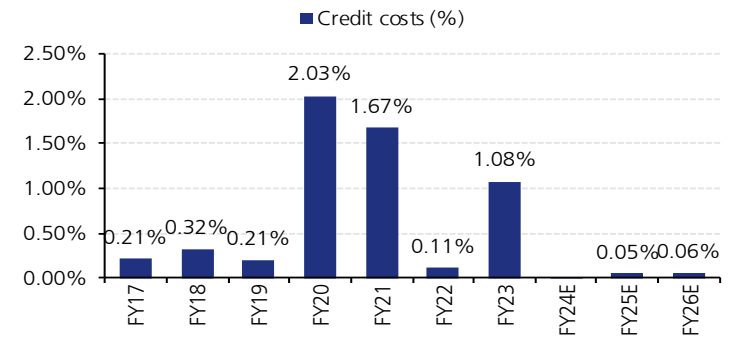
Source: Company, JM Financial

Exhibit 17. Trend in asset quality



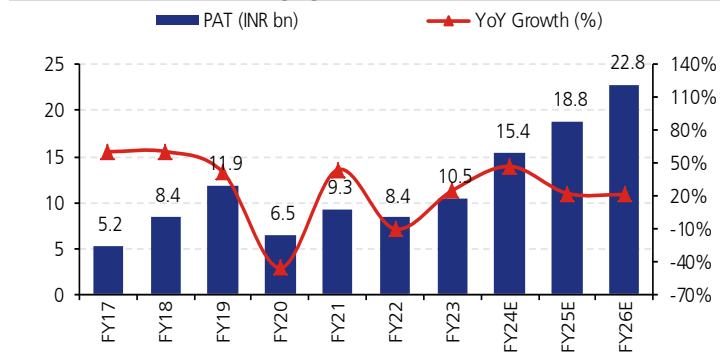
Source: Company, JM Financial

Exhibit 18. Trend in credit costs



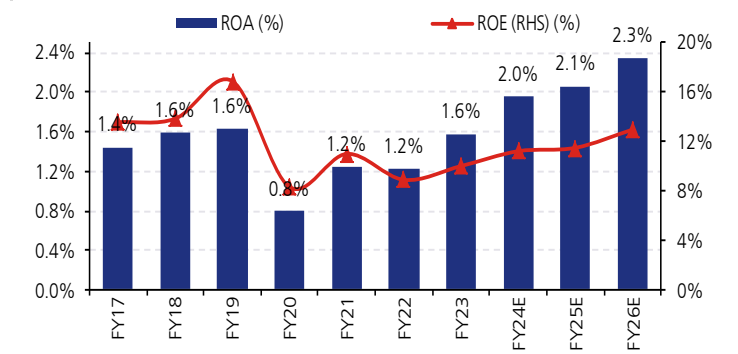
Source: Company, JM Financial

Exhibit 19. Trend in earnings growth



Source: Company, JM Financial

Exhibit 20. Trend in return ratios



Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement					
	(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Interest Income (NII)	17,571	23,100	24,724	30,043	37,017
Non Interest Income	3,787	3,197	3,020	3,711	4,541
Total Income	21,359	26,297	27,744	33,754	41,557
Operating Expenses	4,756	5,775	7,257	8,736	9,736
Pre-provisioning Profits	16,603	20,522	20,487	25,018	31,822
Loan-Loss Provisions	143	-11,255	-3,013	-232	874
Others Provisions	5,620	18,168	4,994	2,582	2,261
Total Provisions	5,764	6,913	1,981	2,350	3,135
PBT	10,840	13,609	18,506	22,668	28,687
Tax	2,475	3,149	4,164	5,100	6,598
PAT (Pre-Extra ordinaries)	8,365	10,460	14,342	17,568	22,089
Extra ordinaries (Net of Tax)	0	0	0	0	0
Reported Profits	8,365	10,460	14,342	17,568	22,089
Dividend	0	0	1,434	1,757	2,209
Retained Profits	8,365	10,460	12,908	15,811	19,880

Source: Company, JM Financial

Balance Sheet					
	(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Equity Capital	1,686	1,688	2,595	2,595	2,595
Reserves & Surplus	97,030	1,08,450	1,45,389	1,61,199	1,81,079
Stock option outstanding	0	0	0	0	0
Borrowed Funds	5,30,050	5,36,513	6,06,260	6,91,136	7,94,807
Deferred tax liabilities	0	0	0	0	0
Preference Shares	0	0	0	0	0
Current Liabilities & Provisions	28,530	22,086	28,167	31,927	36,541
Total Liabilities	6,57,296	6,68,737	7,82,410	8,86,857	10,15,021
Net Advances	5,53,359	5,78,398	6,69,185	7,82,193	8,97,831
Investments	34,827	31,963	33,459	46,932	53,870
Cash & Bank Balances	50,656	36,778	46,843	39,110	44,892
Loans and Advances	7,167	7,675	6,692	7,822	8,978
Other Current Assets	5,938	11,112	22,981	7,161	5,336
Fixed Assets	1,359	1,355	1,546	1,708	1,904
Miscellaneous Expenditure	0	0	0	0	0
Deferred Tax Assets	3,989	1,457	1,704	1,932	2,211
Total Assets	6,57,296	6,68,737	7,82,410	8,86,857	10,15,021

Source: Company, JM Financial

Key Ratios					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Growth (YoY) (%)					
Borrowed funds	-10.8%	1.2%	13.0%	14.0%	15.0%
Advances	-8.8%	4.5%	15.7%	16.9%	14.8%
Total Assets	-7.9%	1.7%	17.0%	13.3%	14.5%
NII	-18.6%	31.5%	7.0%	21.5%	23.2%
Non-interest Income	3.8%	-15.6%	-5.5%	22.9%	22.4%
Operating Expenses	4.7%	21.4%	25.7%	20.4%	11.4%
Operating Profits	-19.8%	23.6%	-0.2%	22.1%	27.2%
Core Operating profit	-18.8%	30.3%	-0.5%	22.0%	27.4%
Provisions	-33.1%	19.9%	-71.3%	18.6%	33.4%
Reported PAT	-10.1%	25.0%	37.1%	22.5%	25.7%
Yields / Margins (%)					
Interest Spread	2.36%	3.02%	2.89%	2.88%	3.04%
NIM	2.60%	3.55%	3.50%	3.68%	3.93%
Profitability (%)					
ROA	1.22%	1.58%	1.98%	2.10%	2.32%
ROE	8.9%	10.0%	11.1%	11.3%	12.7%
Cost to Income	22.3%	22.0%	26.2%	25.9%	23.4%
Asset quality (%)					
Gross NPA	8.24%	3.88%	1.74%	1.31%	1.28%
LLP	0.11%	1.08%	-0.48%	-0.03%	0.10%
Capital Adequacy (%)					
Tier I	20.70%	22.40%	26.95%	26.65%	26.44%
CAR	23.40%	24.43%	28.68%	28.91%	29.05%

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
NII / Assets	2.56%	3.48%	3.41%	3.60%	3.89%
Other Income / Assets	0.55%	0.48%	0.42%	0.44%	0.48%
Total Income / Assets	3.12%	3.97%	3.82%	4.04%	4.37%
Cost / Assets	0.69%	0.87%	1.00%	1.05%	1.02%
PPP / Assets	2.42%	3.10%	2.82%	3.00%	3.35%
Provisions / Assets	0.84%	1.04%	0.27%	0.28%	0.33%
PBT / Assets	1.58%	2.05%	2.55%	2.72%	3.02%
Tax rate	22.8%	23.1%	22.5%	22.5%	23.0%
ROA	1.22%	1.58%	1.98%	2.10%	2.32%
Leverage	6.7	6.1	5.3	5.4	5.5
ROE	8.9%	10.0%	11.1%	11.3%	12.7%

Source: Company, JM Financial

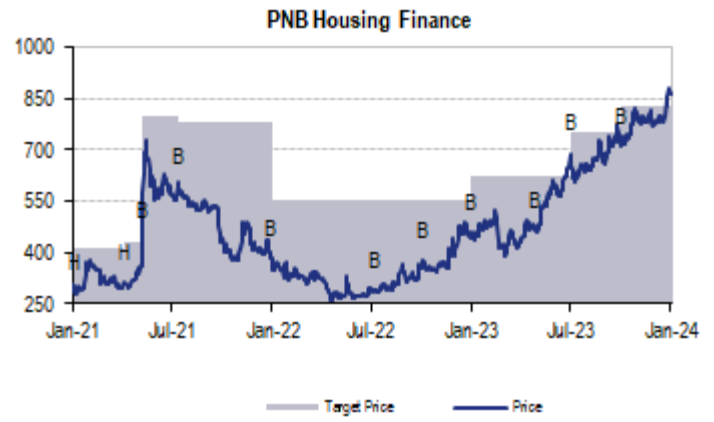
Valuations					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Shares in Issue	168.6	168.8	259.5	259.5	259.5
EPS (INR)	49.6	62.0	55.3	67.7	85.1
EPS (YoY) (%)	-10.3%	24.9%	-10.8%	22.5%	25.7%
P/E (x)	17.3	13.9	15.6	12.7	10.1
BV (INR)	586	652	570	631	708
BV (YoY) (%)	10.4%	11.4%	-12.6%	10.7%	12.1%
P/BV (x)	1.47	1.32	1.51	1.36	1.21
DPS (INR)	0.0	0.0	5.5	6.8	8.5
Div. yield (%)	0.0%	0.0%	0.6%	0.8%	1.0%

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
23-Jan-20	Hold	500	
29-Oct-20	Hold	400	-20.0
28-Jan-21	Hold	410	2.5
28-Apr-21	Hold	430	4.9
31-May-21	Buy	800	86.0
4-Aug-21	Buy	780	-2.5
21-Jan-22	Buy	550	-29.5
31-Jul-22	Buy	550	0.0
27-Oct-22	Buy	550	0.0
24-Jan-23	Buy	625	13.6
19-May-23	Buy	625	0.0
24-Jul-23	Buy	750	20.0
25-Oct-23	Buy	825	10.0

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

Research Analyst(s) Certification

The Research Analyst(s), with respect to each issuer and its securities covered by them in this research report, certify that:

All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and

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