

PNB Housing Finance | BUY

Strong Quarter

PNB Housing Finance reported 2QFY24 PAT at INR 3.8bn, ahead of our estimates of INR3.5bn (+10% JMFe) led by stronger than expected Nil of INR 6.5bn (+6.6% QoQ; +5% JMFe) which aided NIMs to inch-up +9bps QoQ at 3.95%. Steady PPOp (INR 5.5bn, +9% QoQ) and lower than estimated provisions (credit costs at 26bps vs 36bps QoQ) elevated the PAT to INR 3.8bn (+46% YoY, +10% QoQ, +10% JMFe). Almost entire disbursements in 2QFY24 came from the retail segment which grew +18% YoY to INR 41.7bn leading to retail loan growth of (+12% YoY, +2.6% QoQ). Corporate book rundown continued with -30% QoQ de-growth at INR 23.8bn (now only contributes ~4% of total loan assets). Management remains confident on delivering a 22-23% growth in retail disbursements and expect 17-18% AUM growth in the retail business with affordable housing loans forming more 10% of overall disbursements mix. Asset quality in retail segment improved significantly (-75bps QoQ) at 1.74% GNPA. PNBHF has delivered ROAs north of 2% over the last couple of quarters. RoE uptick will follow up as it raises leverage from current levels. We like PNBHF's reinvigorated strategy of focusing on prime+affordable segments and expect the stock to rerate driven by i) Healthy AUM growth led by retail book ii) Increasing proportion affordable housing offering higher yields and iii) Meaningfully lower credit cost compared to past cycle trends. We value the lender at 1.3x FY25E BV to arrive our TP of INR 825. Maintain BUY.

- Retail disbursement momentum continues; Scaling up affordable housing:** In 2QFY24, retail disbursements were at INR 41.7bn (+18% YoY, +14% QoQ) which formed almost entire disbursements (99.6%). The disbursements in affordable housing segment saw strong momentum (though on a lower base) and stood at INR 3.7bn (+64% QoQ). Overall loan assets grew +5.2% YoY, +0.8% QoQ aided by healthy growth in retail loans at INR 585bn (+12% YoY, +2.6% QoQ) while corporate book rundown continued with -30% QoQ de-growth at INR 23.8bn (now only contributes ~4% of total loan assets). Mgmt remains confident of increasing the proportion of affordable housing in the disbursement mix to more than 10% (from c.9% currently) by FY24. As retail disbursements scale up, we expect PNBHF to clock loan growth of 17% CAGR over FY23-25E.
- Strong operating performance:** Nil improved to INR6.5bn (+1% YoY, +4.2% QoQ) which aided NIMs to inch-up +9bps QoQ at 3.95%. Steady PPOp (INR 5.5bn, 9% QoQ) and lower than estimated provisions (credit costs at 26bps vs 36bps QoQ) elevated the PAT to INR 3.8bn (+46% YoY, +10% QoQ, +10% JMFe). As PNBHF expands affordable housing (higher incremental yields) in the overall mix and focuses on retail granular book we expect the NIMs to hold-up at current levels. We expect PNBHF to deliver ROA>2% for FY24-25E.
- Asset quality improves on recovery of corporate account:** In 2QFY24, PNBHF through resolution recovered a large corporate account, proceeds of which were used for a) strengthening ECL provisioning of retail and corporate book b) to write off a portion of retail NPA book. This has significantly improved the overall GNPA/NNPA which stands at



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	825
Upside/(Downside)	15.4%
Previous Price Target	750
Change	10.0%

Key Data – PNBHOUSI IN

Current Market Price	INR715
Market cap (bn)	INR185.6/US\$2.2
Free Float	39%
Shares in issue (mn)	259.5
Diluted share (mn)	
3-mon avg daily val (mn)	INR483.6/US\$5.8
52-week range	785/341
Sensex/Nifty	64,572/19,282
INR/US\$	83.2

Price Performance

%	1M	6M	12M
Absolute	3.9	66.7	98.9
Relative*	6.2	55.1	84.3

* To the BSE Sensex

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 Disclaimers and Research Analyst Certification.

Financial Summary						(INR mn)
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E	
Net Profit	9,309	8,365	10,460	14,488	17,949	
Net Profit (YoY) (%)	44.0%	-10.1%	25.0%	38.5%	23.9%	
Assets (YoY) (%)	-9.5%	-7.9%	1.7%	22.0%	14.2%	
ROA (%)	1.2%	1.2%	1.6%	2.0%	2.1%	
ROE (%)	11.0%	8.9%	10.0%	11.2%	11.5%	
EPS	55.3	49.6	62.0	55.8	69.2	
EPS (YoY) (%)	44.0%	-10.3%	24.9%	-9.9%	23.9%	
P/E (x)	12.9	14.4	11.5	12.8	10.3	
BV	530	586	652	571	633	
BV (YoY) (%)	11.5%	10.4%	11.4%	-12.5%	10.9%	
P/BV (x)	1.35	1.22	1.10	1.25	1.13	

Source: Company data, JM Financial. Note: Valuations as of 23/Oct/2023

1.78%/1.19% (-198bps/-140bps QoQ). PCR stands at 33.3% of GS3 assets. As the company continues to run down its corporate book and focuses on granular retail assets, we build in a credit costs of 51bps and 33bps for FY24-25E respectively.

- **Valuation and view:** PNBHF has delivered ROAs north of 2% over the last couple of quarters. RoE uptick will follow up as it raises leverage from current levels. We believe the stock should rerate driven by i) Healthy AUM growth led by retail book ii) Increasing proportion affordable housing offering higher yields iii) Meaningfully lower credit cost compared to past cycle trends. We value PNBHF at 1.3x FY25E BV to arrive our TP of INR 825. Maintain BUY.

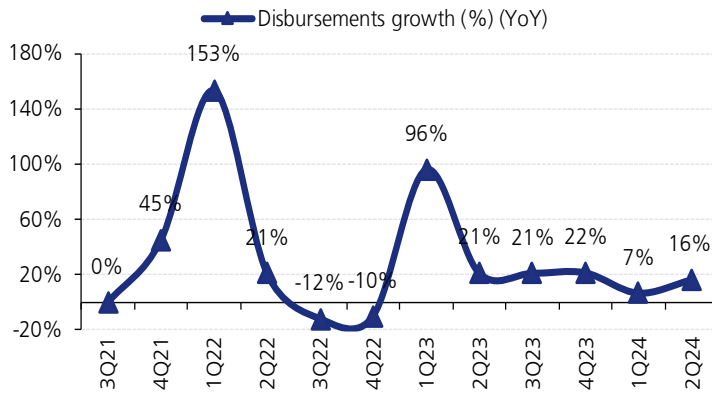
PNB Housing Finance: 2QFY24 highlights

Exhibit 1. 2QFY24 – key highlights

Earnings Table (INR mn)	Q2FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)
Net Interest Income	6,426	6,194	6,456	0.5%	4.2%
Total Non-Interest income	779	408	765	-1.8%	87.7%
Total Income	7,205	6,602	7,221	0.2%	9.4%
Employee Cost	684	807	855	25.0%	5.9%
Depreciation and Amortisation	132	126	113	-14.0%	-10.3%
Other expenses	537	562	709	32.0%	26.1%
Total Operating Expenses	1,368	1,530	1,702	24.4%	11.2%
Operating Profit (PPP)	5,837	5,072	5,519	-5.4%	8.8%
Total Provisions	2,432	606	448	-81.6%	-26.0%
PBT	3,404	4,467	5,071	49.0%	13.5%
Tax	778	994	1,241	59.5%	24.9%
Reported Profit	2,626	3,473	3,830	45.8%	10.3%
Loan Book (INR bn)					
Disbursements	35.9	36.9	41.8	16.3%	13.4%
Loans	578.5	604.0	608.5	5.2%	0.8%
Ratios Analysis (%)					
Cost to Income (%)	19.0%	23.2%	23.6%	4.57%	0.39%
Effective Tax Rate (%)	22.9%	22.2%	24.5%	1.62%	2.23%
Credit Quality					
Gross NPAs (INR mn)	35,020	22,700	10,860	-69.0%	-52.2%
Net NPAs (INR mn)	20,766	15,642	7,241	-65.1%	-53.7%
Gross NPA (%)	6.06%	3.76%	1.78%	-4.28%	-1.98%
Net NPA (%)	3.59%	2.59%	1.19%	-2.40%	-1.40%
Coverage Ratio (%)	40.7%	31.1%	33.3%	-7.4%	2.2%

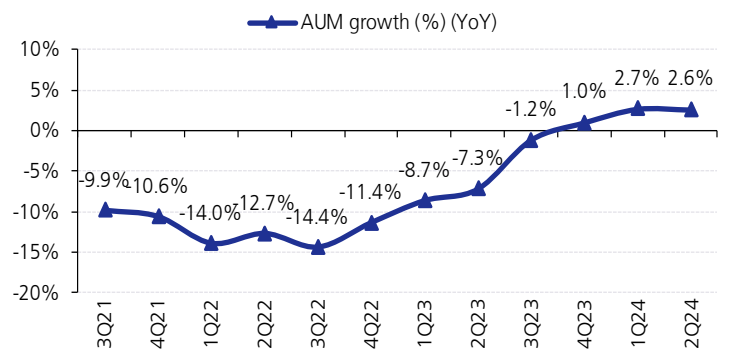
Source: Company, JM Financial

Exhibit 2. Disbursement trends



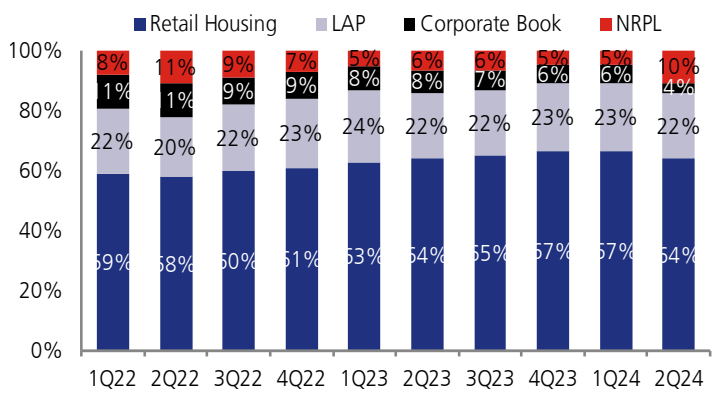
Source: Company, JM Financial

Exhibit 3. AUM growth trends



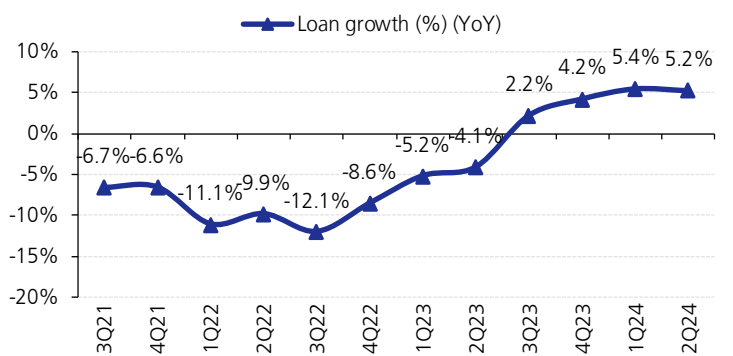
Source: Company, JM Financial

Exhibit 4. Loan book mix



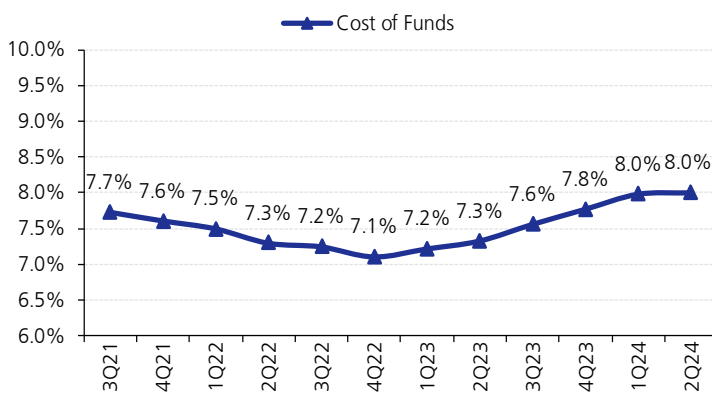
Source: Company, JM Financial

Exhibit 5. Loan growth trends



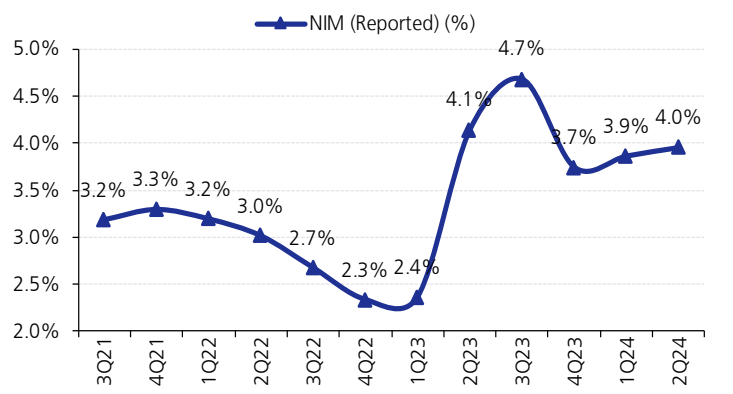
Source: Company, JM Financial

Exhibit 6. Cost of funds trend



Source: Company, JM Financial

Exhibit 7. NIMs trend



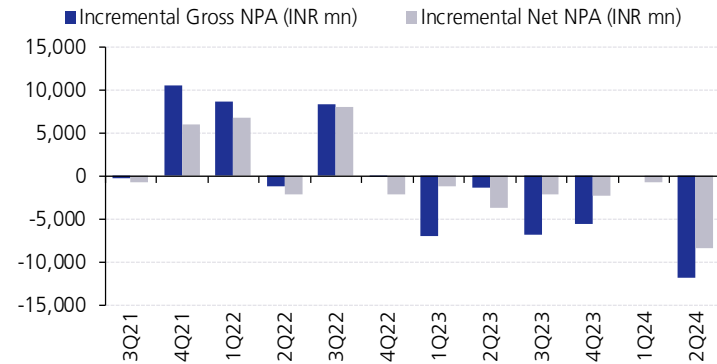
Source: Company, JM Financial

Exhibit 8. Trend in Spread

Spread Reported (%)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Yield on Advances (Q) (%) (Given by Co)	8.53%	8.63%	10.70%	11.38%	10.41%	10.59%	10.58%
Cost of Funds (Q) (%) (Given by Co)	7.10%	7.21%	7.32%	7.55%	7.76%	7.97%	7.99%
Spread (%)	1.43%	1.42%	3.38%	3.83%	2.65%	2.62%	2.59%

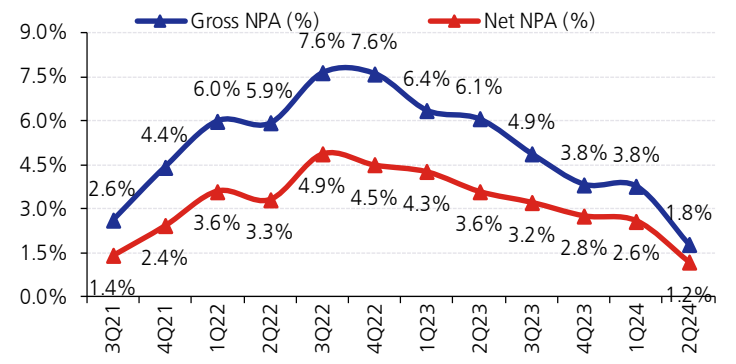
Source: Company, JM Financial

Exhibit 9. Trend in incremental NPA



Source: Company, JM Financial

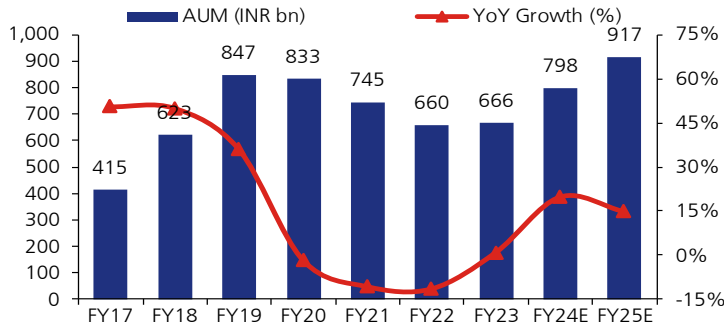
Exhibit 10. Trend in asset quality



Source: Company, JM Financial

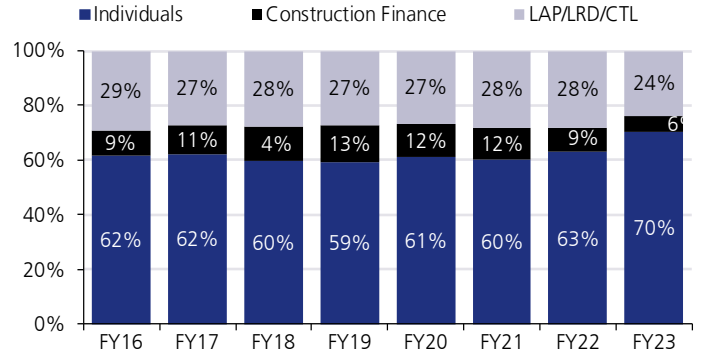
PNB Housing Finance – Annual trends

Exhibit 11. Trend in AUM growth



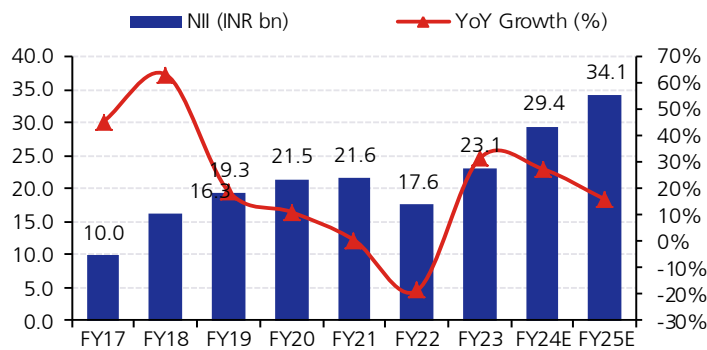
Source: Company, JM Financial

Exhibit 12. AUM mix



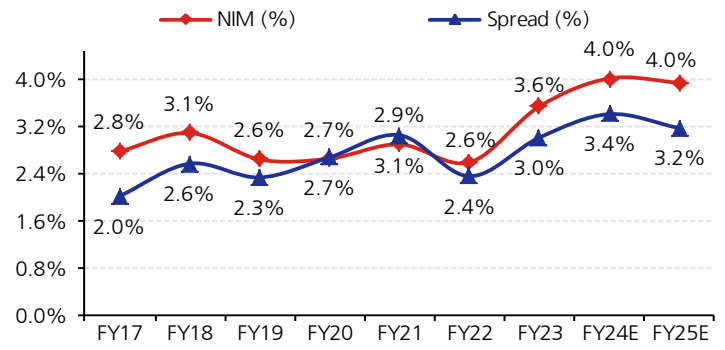
Source: Company, JM Financial

Exhibit 13. Trend in NII



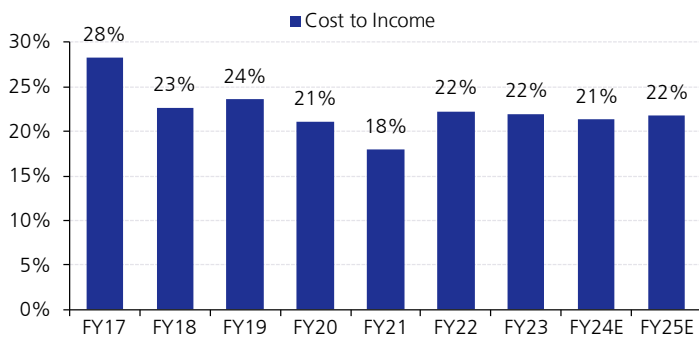
Source: Company, JM Financial

Exhibit 14. Trend in margins



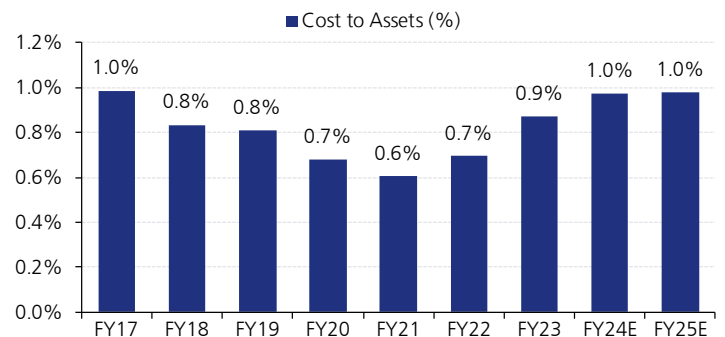
Source: Company, JM Financial

Exhibit 15. Trend in cost-to-income



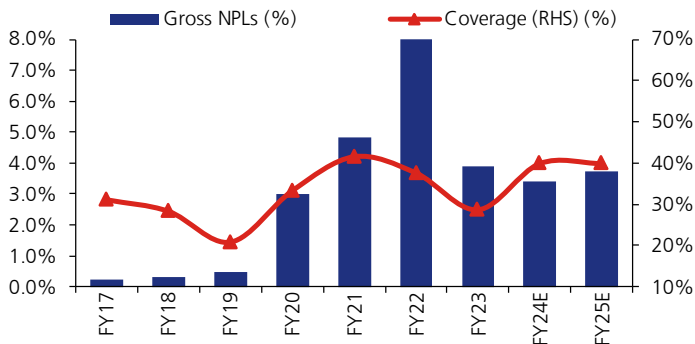
Source: Company, JM Financial

Exhibit 16. Trend in cost-to-assets



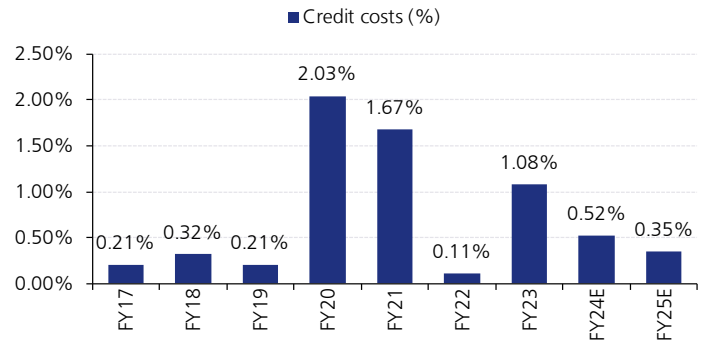
Source: Company, JM Financial

Exhibit 17. Trend in asset quality



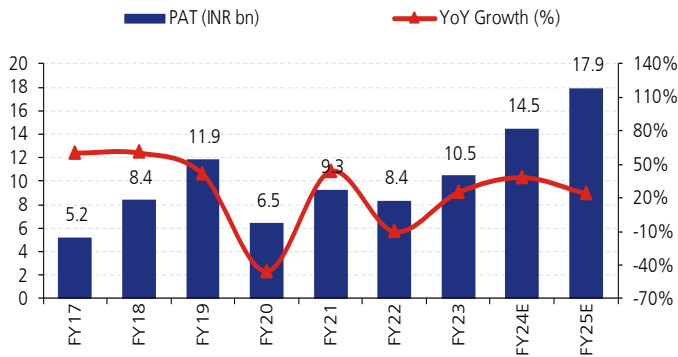
Source: Company, JM Financial

Exhibit 18. Trend in credit costs



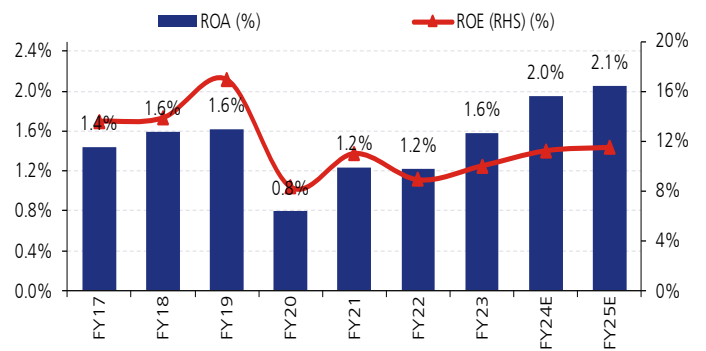
Source: Company, JM Financial

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	FY21A	FY22A	FY23A	FY24E	FY25E
Net Interest Income (NII)	21,594	17,571	23,100	29,448	34,120
Non-Interest Income	3,647	3,787	3,197	4,317	5,034
Total Income	25,242	21,359	26,297	33,765	39,154
Operating Expenses	4,542	4,756	5,775	7,209	8,533
Pre-provisioning Profits	20,699	16,603	20,522	26,555	30,621
Loan-Loss Provisions	7,788	143	-11,255	3,321	2,533
Others Provisions	831	5,620	18,168	4,540	4,928
Total Provisions	8,619	5,764	6,913	7,861	7,460
PBT	12,080	10,840	13,609	18,694	23,160
Tax	2,771	2,475	3,149	4,206	5,211
PAT (Pre-Extra ordinaries)	9,309	8,365	10,460	14,488	17,949
Extra ordinaries (Net of Tax)	0	0	0	0	0
Reported Profits	9,309	8,365	10,460	14,488	17,949
Dividend	0	0	0	1,449	1,795
Retained Profits	9,309	8,365	10,460	13,039	16,154

Source: Company, JM Financial

Balance Sheet					
	(INR mn)				
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Equity Capital	1,683	1,686	1,688	2,595	2,595
Reserves & Surplus	87,548	97,030	108,450	145,520	161,674
Stock option outstanding	0	0	0	0	0
Borrowed Funds	593,924	530,050	536,513	638,451	734,218
Deferred tax liabilities	0	0	0	0	0
Preference Shares	0	0	0	0	0
Current Liabilities & Provisions	30,767	28,530	22,086	29,374	33,553
Total Liabilities	713,922	657,296	668,737	815,939	932,041
Net Advances	606,447	553,359	578,398	714,086	819,348
Investments	20,448	34,827	31,963	35,704	49,161
Cash & Bank Balances	69,686	50,656	36,778	49,986	40,967
Loans and Advances	9,515	7,167	7,675	7,141	8,193
Other Current Assets	1,902	5,938	11,112	5,632	10,546
Fixed Assets	1,628	1,359	1,355	1,612	1,795
Miscellaneous Expenditure	0	0	0	0	0
Deferred Tax Assets	4,296	3,989	1,457	1,777	2,030
Total Assets	713,922	657,296	668,737	815,939	932,041

Source: Company, JM Financial

Key Ratios					
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Growth (YoY) (%)					
Borrowed funds	-12.3%	-10.8%	1.2%	19.0%	15.0%
Advances	-9.0%	-8.8%	4.5%	23.5%	14.7%
Total Assets	-9.5%	-7.9%	1.7%	22.0%	14.2%
NII	0.5%	-18.6%	31.5%	27.5%	15.9%
Non-interest Income	-21.6%	3.8%	-15.6%	35.0%	16.6%
Operating Expenses	-17.7%	4.7%	21.4%	24.8%	18.4%
Operating Profits	0.4%	-19.8%	23.6%	29.4%	15.3%
Core Operating profit	0.2%	-18.8%	30.3%	24.2%	15.0%
Provisions	-31.1%	-33.1%	19.9%	13.7%	-5.1%
Reported PAT	44.0%	-10.1%	25.0%	38.5%	23.9%
Yields / Margins (%)					
Interest Spread	3.06%	2.36%	3.02%	3.42%	3.18%
NIM	2.91%	2.60%	3.55%	4.03%	3.96%
Profitability (%)					
ROA	1.24%	1.22%	1.58%	1.95%	2.05%
ROE	11.0%	8.9%	10.0%	11.2%	11.5%
Cost to Income	18.0%	22.3%	22.0%	21.4%	21.8%
Asset quality (%)					
Gross NPA	4.84%	8.24%	3.88%	3.40%	3.72%
LLP	1.67%	0.11%	1.08%	0.51%	0.33%
Capital Adequacy (%)					
Tier I	15.53%	20.70%	22.40%	25.87%	25.44%
CAR	18.73%	23.40%	24.43%	27.53%	27.59%

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
NII / Assets	2.87%	2.56%	3.48%	3.97%	3.90%
Other Income / Assets	0.49%	0.55%	0.48%	0.58%	0.58%
Total Income / Assets	3.36%	3.12%	3.97%	4.55%	4.48%
Cost / Assets	0.60%	0.69%	0.87%	0.97%	0.98%
PPP / Assets	2.75%	2.42%	3.10%	3.58%	3.50%
Provisions / Assets	1.15%	0.84%	1.04%	1.06%	0.85%
PBT / Assets	1.61%	1.58%	2.05%	2.52%	2.65%
Tax rate	22.9%	22.8%	23.1%	22.5%	22.5%
ROA	1.24%	1.22%	1.58%	1.95%	2.05%
Leverage	8.0	6.7	6.1	5.5	5.7
ROE	11.0%	8.9%	10.0%	11.2%	11.5%

Source: Company, JM Financial

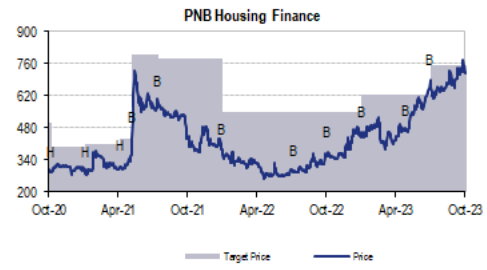
Valuations					
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Shares in Issue	168.3	168.6	168.8	259.5	259.5
EPS (INR)	55.3	49.6	62.0	55.8	69.2
EPS (YoY) (%)	44.0%	-10.3%	24.9%	-9.9%	23.9%
P/E (x)	12.9	14.4	11.5	12.8	10.3
BV (INR)	530	586	652	571	633
BV (YoY) (%)	11.5%	10.4%	11.4%	-12.5%	10.9%
P/BV (x)	1.35	1.22	1.10	1.25	1.13
DPS (INR)	0.0	0.0	0.0	5.6	6.9
Div. yield (%)	0.0%	0.0%	0.0%	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

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

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

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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.

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