

**CMP: Rs 563**

**Rating: Hold**

**Target Price: Rs 625**

**Stock Info**

INDEX	
BSE	540173
NSE	PNBHOUSING
Bloomberg	PNBHOU5I IN
Reuters	PNBH.BO
Sector	NBFC
Face Value (Rs)	10
Equity Capital (Rs cr.)	167
Mkt Cap (Rs cr.)	9,472
52w H/L (Rs)	1,040/372
Weekly Avg Vol (BSE+NSE)	11,75,150

**Shareholding Pattern**

(As on June, 2019)	%
Promoters	32.7
DII	7.1
FII	23.4
Public & Others	36.8

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
PNB Housing	-20.9	-19.3	-35.3
SENSEX	9.8	4.4	15.3

Source: ACE Equity, Arihant Research

**PNB Housing v/s SENSEX**



Source: ACE Equity, Arihant Research

PNB Housing Finance (PNBHFL) reported good set of numbers in terms of operating performance during Q2FY20. On the back of healthy AUM growth of 22%, NII during the quarter grew by 36% YoY to Rs 629 cr vs. our estimate of Rs 600 cr. Disbursements during the quarter fell by 41% YoY/35% QoQ, largely due to management's cautious stance on corporate portfolio. AUM growth was mainly driven by higher securitisation assets. Provisions during the quarter increased by 135% YoY to Rs 152cr, resulting in 14% YoY growth in Profit before tax. PAT for the quarter grew by 45% YoY to Rs 367 cr vs. our estimate of Rs 276, largely due to lower tax. Asset quality of the company was stable with GNPA/NNPA at 0.84%/0.65%. NIM of the company improved by 5bps to 3.19%. We maintain our Hold rating on the stock with a revised target price of Rs 625 per share.

**Key Concall Highlights:**

- Management continue to be cautious on corporate lending.
- The exposure to 5 developers account marked in watch list has reduced from Rs 908 cr in FY19 to Rs 833 cr in Q2FY20. The company is holding ~33% provision against these accounts. (Details in Exhibit 1)
- **Lodha Exposure:** Company's largest exposure is to Lodha developers, amounting to Rs 1250 cr, against two projects- Lodha World One and Trump Tower. PNBHFL is the sole lender in both projects. The company has more than 1.5x security cover along with promoter guarantee on this exposure.
- **Yields in various segments:** 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%. Management has guided spreads to increase by 13-14 bps in the next quarter with NIM more than 3.50%.
- Management expects to continue with current disbursement run rate for H2FY20.
- Board has capital raising plans for Rs 2000 Cr, which is expected by Feb 2020. The timeline has changed from Dec to Feb due to external volatility in the market.
- The Company has maintained adequate cash and liquid investments of Rs 4,557 cr as on 30th Sept 2019.

**Valuation**

The company has reported better than expected Q2FY20 performance with improvement in operating metrics and stable asset quality. However, with the challenging economic environment and ongoing concerns in construction finance book and management's cautious stance on corporate portfolio, we expect loan growth to be moderate going forward. We cut our loan growth estimate to 15% CAGR from 18% for the period of FY19-21E. We believe near term outlook to remain muted, on the back of moderation in loan growth and sluggish disbursements with concern over asset quality (primarily in corporate book). We have reduced our target multiple to 1.1x to its FY21E ABV & arrived at fair value of Rs 625 per share. We maintain our "Hold" rating on the stock.

**Financial Snapshot:**

(Rs Cr)	FY19	FY 20 E	FY 21 E
Net interest income	2,064	2,063	2,452
Operating Profit	1,923	1,905	2,258
PAT	1,192	1,235	1,422
EPS (Rs)	71	74	85
P/E (x)	7.9	7.6	6.6
ABV	433	489	568
P/ABV (x)	1.3	1.2	1.0

**Q2FY20 Financial Snapshot:**

Reported Quarterly Results (Rs. Cr)					
Particulars	Q2FY20	Q2FY19	YoY(%)	Q1FY20	QoQ(%)
Interest Income	2016	1612	25.0	1979	1.8
Fees & Other operating Income	80	116	-31.3	92.8	-13.8
Net gain on fair value changes	24	18	33.3	39	-39.1
Income on derecognized (assigned) loans	110	62		119	-7.9
<b>Income from operations</b>	2230	1808	23.3	2231	0.0
<b>NII</b>	629	463	35.8	625	0.5
<b>Expenditure:</b>					
Finance cost	1521	1229	23.8	1513	0.6
Employee benefit expenses	71	81	-12.2	68	4.4
Fees and commission expenses	3	16	-82.7	4	-22.9
Other expenses	41	38	8.7	54	-23.7
Depreciation expense	17	8	112.4	16	2.4
Provisions and write - offs	152	65	134.3	164	-7.7
<b>Total Expenditure</b>	1805	1436	25.7	1819	-0.8
<b>Profit before Other Income</b>	425	373	14.2	412	3.2
Other Income	1	0		2	
Profit Before Tax	426	373	14.3	412	3.3
Tax Expenses	59	119	-50.5	130	-54.4
<b>Net Profit After Tax</b>	367	253	45.0	284	29.0
<b>Disbursements (During the quarter)</b>	4970	8405	-40.9	7634	-34.9
<b>AUM</b>	89471	73,482	21.8	88333	1.3
<b>Loan Assets</b>	74353	66,792	11.3	75933	-2.1
<b>GNPA(%)</b>	0.84	0.45		0.85	
<b>NNPA(%)</b>	0.65	0.35		0.67	
<b>NIM(%)</b>	3.19	2.72		3.14	
<b>Total CRAR (%)</b>	15.67	14.85		15.13	

**Exhibit1: Details of stretched accounts**

Project	Amount Outstanding (in Cr.)	Recovered as of Q2FY20	Stage of the Assets	ECL Provision
IREO Pvt. Ltd	111	39	Stage 3 with 2.5x security cover	37%
Supertech Gurgaon	244	-	Stage 2	36%
Ornate Mumbai	181	-	Stage 1	32%
Radius Group (Mumbai)	259	-	Stage 2	35%
IREO Waterfront (Ludhiana)	38	7	Stage 2 with 6-7x security cover	-

## Income Statement

Income Statement			
Year to 31st March (Rs.Cr)	FY19	FY 20E	FY 21E
Interest Income	7,230	9,037	11,658
Interest Expenses	5,166	6,975	9,207
NII	2,064	2,063	2,452
Non-Interest Income	453	567	697
Fee-based Income			
Operating Income	2,517	2,629	3,149
Operating Expenses	594	724	891
Gross Profits	1,923	1,905	2,258
Provisions	189	255	357
Profit Before Provision and Tax	1,734	1,650	1,901
Tax	543	415	478
Tax Rate (%)	31	25	25
Profit After Taxes	1,192	1,235	1,422
Profit Growth (%)	42%	4%	15%

## Balance Sheet

Balance Sheet			
As on 31st March (Rs. cr)	FY19	FY 20E	FY 21E
<b>LIABILITIES</b>			
Capital	167	167	167
Reserves & Surplus	7,376	8,611	10,033
Net-worth	7,544	8,779	10,201
Borrowings(Long term + Short term)	71,859	81,919	94,207
Other liabilities & provisions	4,467	4,650	5,069
<b>Total Liabilities</b>	<b>83,870</b>	<b>95,347</b>	<b>109,477</b>
<b>ASSETS</b>			
Investments	4,561	4,880	5,026
Cash	4,034	4,760	5,141
Advances	74,288	84,688	98,239
Fixed assets	108	114	119
Other assets	879	905	951
<b>Total Assets</b>	<b>83,870</b>	<b>95,347</b>	<b>109,477</b>

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**Stock Rating Scale**

	<b>Absolute Return</b>
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

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