

CMP : Rs 862

Rating : Accumulate

Target : Rs998

STOCK INFO

INDEX	
BSE	540173
NSE	PNBHOUSING
Bloomberg	PNBHOUSI IN
Reuters	PNBH.BO
Sector	NBFC
Face Value (Rs)	10
Equity Capital (Rs cr.)	167
Mkt Cap (Rs cr.)	14,514
52w H/L (Rs)	1444/694
Monthly Avg Vol (BSE+NSE)	4,86,230

SHAREHOLDING PATTERN

	%
(as on December, 2018)	
Promoters	32.8
FII	19.2
DII	9.8
Public & Other	42.0

Source: ACE Equity, Arihant Research

STOCK PERFORMANCE(%)	3m	6m	12m
PNB Housing	-4.6	-1.4	-35.9
SENSEX	6.9	11.0	13.9

Source: ACE Equity, Arihant Research

PNB Housing v/s SENSEX



Source: ACE Equity, Arihant Research

Recently we met with PNB housing finance (PNBHFL) to discuss the ongoing trend in real estate market and strategies going forward. Below are the key takeaways:

- The slowdown in real estate market is peaking now and there is enough demand seen in retail segment. Though, liquidity scenario has improved compared to Q3FY19, sector continues to see challenges due to higher funding costs resulting into pressure on margin (as compared to last year).
- In light of liquidity issue and lower demand in reality sector, PNBHFL finds itself in a sweet spot. Company has maintained Rs. 6000 cr liquidity in form of cash and investments as on 9MFY19 and expects to close year FY19 with enough liquidity.
- PNBHFL has well diversified borrowings profile. It borrows 17%, 30% & 17% from Banks, NCDs and deposits while its CP exposure stood at 11% as on 9MFY19, which was 17% in FY18. Spreads are expected to be in the range of 2-2.5% (2.27% as on Q3FY19) while borrowing costs are expected to be marginally higher in Q4FY19.
- PNB Housing Finance's entire loan book is secured by mortgages. Company expects medium term RoAs in range of 1.5-1.7% on basis of cost reduction. PNBHFL's 65% business comes from top 10 metro cities like Mumbai, Pune, Delhi, Hyderabad etc. In terms of loan book, housing finance business contributes 70% and rest is non- housing portfolio. It's AUM as on 9MFY19 stood at Rs 79737 cr out of which 78% AUM is in retail segment and 22% in wholesale. Wholesale book has Nil NPA.
- For PNB housing finance the brand PNB is a legacy and PNB holds 32.8% in PNB housing. After the recent stake sale announced by PNB, it will hold ~13.79% stake post transaction. Holdings of General Atlantic will increase from 9.9% to 16.5% and Carlyle will hold 32.4% stake. As per the regulations, PNB can't sell its further stake until the year, from the date of the deal.
- PNB housing finance Ltd works via different channel for sourcing customers. PNBHFL uses hub-and-spoke model for its operations and has effective risk management system. Its 85% of loans are approved by credit committee board (CCB) which are formed from subordinates (central support office, underwriter, legal operation, technical) to superiors (CCB). Its loan book is analysed every 6 months.
- With regards to recent guideline by NHB for HFCs for increasing the CAR and capping limit on net-owned funds, the circular is still under discussion and there is no further clarification. PNB housing finance has CRAR at 14.5% which is above the regulatory norms.

Outlook and Valuation

Demand environment for NBFCs is on revamp now and we believe going forward PNBHFL lending will improve compare to FY19. It has strong liability franchise and maintaining excess liquidity to avoid volatility in overall cost of funds, while pressure will be seen on margins. At CMP of Rs 862 the stock is available at its FY 20E P/ABV of 1.7(x). We value the stock at a FY20E target P/ABV multiple of 2x, which yields a target price of Rs 998 per share. We have an 'ACCUMULATE' rating on the stock.

(Rs Cr)	FY 18	FY19E	FY 20 E
Net interest income	1,552	1,708	2,220
Operating Profit	1,478	1,766	2,235
PAT	831	1,006	1,289
EPS (Rs)	50	60	77
P/E (x)	17.3	14.3	11.1
ABV	370	426	499
P/ABV (x)	2.3	2.0	1.7

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Stock Rating Scale

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

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