

Company Overview

PNB Housing Finance Limited is promoted by Punjab National Bank and is a registered Housing Finance Company with National Housing Bank (NHB). The company's asset base comprises retail loans and corporate loans. The retail business focuses on organized mass housing segment financing for the acquisition or construction of houses. In addition, it also provides loans against properties and loans for the purchase & construction of non-residential premises. Corporate loans are mainly to developers for the construction of residential/commercial properties, corporate term loans and lease rental discounting. PNB Housing Finance is a deposit-taking Housing Finance Company. With over three decades of specialised experience in housing finance, PNB Housing has a robust network of branches spread across the country that help its customers to avail of financial services (loans and deposits) seamlessly. The company has 189 branches/outreach locations and 22 decision-making hubs. The affordable business presence has expanded to 82 branches/outreaches as of 31st March 2023.

Investment Rationale

Diversified Source of Funds and Improved Asset Quality to Improve Profitability

PNB HFL has a well-diversified funding profile comprising funding from banks, NHB, non-convertible debentures (NCDs) & bonds, deposits and external commercial borrowings (ECBs). The recent successful completion of the rights issue in May 2023 of Rs. 2,493.76 crores, with around 1.21 times subscription, will help the company to reduce its managed gearing further and support future growth while maintaining prudent capitalisation. There has been an improvement in the asset quality, evidenced by the decline in Gross NPA. The sharp drop in both GNPA (down 430bps YoY) and NNPA (down 230bps YoY) was supported by write-offs, resolutions, rundown and accelerated prepayments in the corporate book. The restructured book is majorly a COVID-restructured account and have already started making payments. Hence, we are of the view that recoveries have been sharp which will continue in the forthcoming quarters as well.

Entry Into Affordable Housing Segment to Aid Growth

The company has increased its focus towards the affordable housing segment since Q4FY23 and disbursed around Rs. 137 crores via dedicated affordable housing branches. We expect to see good contribution from this segment in the coming quarters. The company also raised capital via a rights issue of Rs. 2,494 crores which will be used for this growth. The company has increased its lending rates by 30bps in the March quarter whose impact will be seen in Q1FY24. The company has shifted its focus on the retail business over the corporate business as the yields are better and can maintain GNPA under control. As per the management, the corporate book will not grow over 10% of the overall book at any given point in time. PNB HFL has built a dedicated vertical concentrating on sales, collections and credit underwriting teams for the affordable housing business and its presence has been expanded to 82 branches.

Valuation and Outlook

PNB Housing Finance has significantly improved its position in the housing finance sector over the past few years. The company's gradual shift to focus on profitability while maintaining stable asset quality has been seen in the performance of the company. Also, the company has been able to achieve the highest retail disbursement and loan assets as an outcome of the ongoing efforts to build the retail business. With the appointment of Mr. Girish Kousgi as the MD and CEO of PNB Housing Finance who took charge in October 2022, there has been a transformation in the business that now focuses on degrowth in the corporate book and improving the retail book aggressively. A gradual increase in the rating due to capital raise will help the company to reduce the cost of funds by 40-50 bps. With the recent increase in capital and improvement in GNPA and NPA, the company will be able to raise cheaper funds from National Housing Bank. Also, the management has guided that there shall be disbursement growth of about 22%, primarily in the prime and affordable segment in the next 2-3 years. These factors will play out positively for the company in the foreseeable future.

On the valuation front, we assign a P/BV multiple of 0.8x of FY24E book value and arrive at a target price of Rs. 543 (Upside 15%). Thus, we are positive about the company and have assigned a "Buy" rating.

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook

Positive

Stock

CMP (INR)	472
Target Price (INR)	543
NSE Symbol	PNBHousing
BSE Code	540173
Bloomberg	PNBHOU IN
Reuters	PNBH.BO

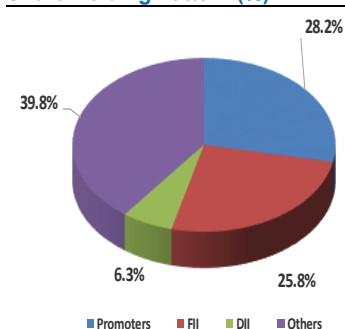
Key Data

Nifty	18,499
52WeekH/L(INR)	542 / 263
O/s Shares (Mn)	260
Market Cap (INR bn)	123
Face Value (INR)	10

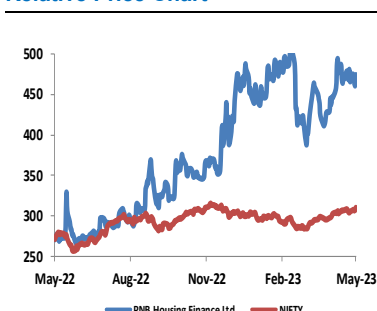
Average volume

3 months	11,48,418
6 months	13,73,858
1 year	9,49,222

Share Holding Pattern (%)



Relative Price Chart



PNB Housing Finance Ltd.

Key Financials (Standalone)

YE March (Rs. Crs.)	FY18	FY19	FY20	FY21	FY22	FY23
Net Interest Income	1,986	2,064	2,308	2,322	1,869	2,346
<i>Growth (Y-o-Y)</i>		3.9%	11.9%	0.6%	-19.5%	25.5%
Total Income	1,986	2,513	2,615	2,523	2,136	2,052
<i>Growth (Y-o-Y)</i>		26.5%	4.0%	(3.5%)	(15.3%)	(3.9%)
Profit After Tax	831	1,192	646	930	836	1,046
<i>Growth (Y-o-Y)</i>		43.4%	(45.8%)	43.9%	(10.0%)	25.0%
EPS	49.9	71.2	38.5	55.3	49.6	62.0
Profitability & Valuation						
NIM (%)	3.19	2.93	3.00	3.20	2.80	3.73
RoA (%)	1.6	1.6	0.8	1.2	1.2	1.6
RoE (%)	14.2	17.4	8.1	10.9	8.9	10.2
BV per Share (INR.)	393	394	451	476	586	652
P/E (x)	9.5	6.6	12.3	8.5	9.5	7.6
P/BV (x)	1.2	1.2	1.0	1.0	0.8	0.7

Source: Company, BP Equities Research

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Disclaimer Appendix**Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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