

30<sup>th</sup> November 2023

## PNB Housing Finance – BUY

**CMP** : Rs. 794.0  
**Target Price** : Rs. 970.0  
**Upside** : 22%  
**Stop Loss** : Rs. 730.0

### Investment Thesis

- Double-digit growth from PNB Housing Finance (PNBH) in FY23, driven by a surge in retail disbursements of at least 20%. Soon, the affordable housing segment will also begin to contribute to the balance sheet, enabling PNBH to achieve sustainable growth. Furthermore, PNBH's recent capital raise through the Right Issue has enabled it to leverage its resources to grow and create a cushion of money.
- By concentrating primarily on retail and affordable loans, PNBH is developing a more granular and low-risk loan book. Its corporate book has also significantly diminished through deleveraging activities and lowering the amount of high-risk weight assets. These revolutionary efforts, in our opinion, will assist PNBH in developing a profitable and scalable sustainable housing financing business model.
- Most of the PNBH clean-up has been completed (primarily by downsizing to ARC at about 6% of AUM), as seen by the higher asset quality metrics. Additionally, PNBH has strengthened its technology to increase efficiency, strengthened its underwriting and collection vertical and concentrated on the specific retail loan market as corrective measures. In line with this expectation, now legacy worries have been resolved, PNBH will be able to return to its core competencies of growth and profitability.
- PNBH has a well-diversified liability franchisee with advantage of 'Deposit taking NBFC' license and these deposits contributes 1/3<sup>rd</sup> of its borrowings. Remaining borrowings are also well mix of bank borrowings (advantage of PNB Bank), NHB refinance, NCD and ECB. Moreover, rating agencies like CRISIL and ICRA have upgraded their outlook from stable to positive, indicating possible further rating upgrade on the cards which will help PNBH to bring down cost of borrowing.
- PNBH has adopted digital technologies, allowing it to provide consumers with individualized solutions and streamline processes. Increasing the effectiveness of the client acquisition process is one of the main goals of the PNBH's IT transformation journey.

### Financials

- Despite good NIMs (3.95%), Q2FY24 results were subdued due to a high base impact. PNBH posted a moderate YoY rise in NII/PPoP (+1.9%/-5.4%) due to one-time income in the base quarter. After accounting for this one-time event, NII/PPoP grew by 36%/30% YoY.

Particulars	FY21	FY22	FY23	FY24E	FY25E
NII* (Rs in Crs)	1,896.1	1,955.5	2,117.6	2,597.0	2,952.6
PPOP*(Rs in Crs)	2,068.9	1,660.3	2,052.2	2,166.8	2,580.5
PAT * (Rs in Crs)	929.9	836.5	1,046.0	1,425.4	1,795.6
ROA (Rs.) *	1.22%	1.24%	1.60%	2.03%	2.24%
BVPS (x)	439	485	540	575	645
P/BV (%)	1.6	1.5	1.3	1.4	1.5

### Stock Data

Market Cap (Rs. Crs)	20,622
Market Cap (\$ Mn)	2474.10
Shares O/S (in Mn)	260
Avg. Volume (3 month)	37592709
52-Week Range (Rs.)	825/348

### Shareholding Pattern

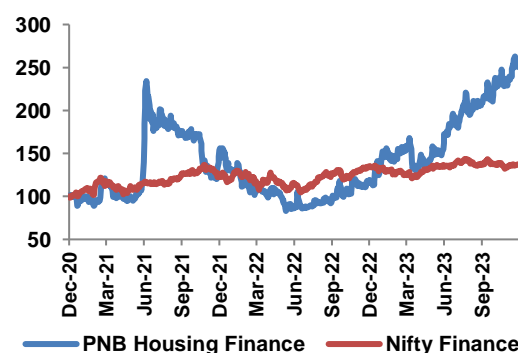
Promoters	28.14
FII's	24.81
Institutions	7.72
Others (incl. body corporate)	39.32

### Key Ratios

Div Yield	0.00%
TTM PE	15.74
ROE	10.2%
TTM EPS (Rs.)	49.8

### Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	6.0	19.8	113.3
NIFTYFINANCE	3.0	-0.3	2.6



- The retail portfolio sustained its growth momentum (+12% YoY) on the back of healthy disbursements (+18% YoY), even as continued shrinking of the corporate book (-58% YoY) restricted overall loan growth (+5.2% YoY). The management remains upbeat about loan growth guidance.
- Asset quality continued to impress with a sharp reduction in GNPA across both the retail and corporate portfolio (retail/corporate GNPA at 1.7%/2.9% vs. 2.5%/25% in Q1FY24).
- PNBH reported 46% YoY growth in 2QFY24 PAT to Rs.383Cr. This was aided by 90% QoQ increase in other income and 10bp QoQ decline in credit costs to 0.3%.

## Key Business Highlights

- PNBH offers retail customers housing and non-housing loans, including individual home loans, loan against property, non-resident property loan, among others. It is promoted by Punjab National Bank.
- In FY23, PNBH has grown its book by 2% after de-growing its book between FY20-FY22 due to pandemic. However, PNBH has grown in double digit (20% YoY) in its focused retail loan segment led by 99% of the retail disbursements out of total disbursements done during FY23. The average ticket size for individual housing loans was Rs.29lakh, with the salaried segment representing 71% of the total.
- PNBH has guided for Rs. 1.0 trillion loan book size by FY27 which was Rs. 0.60 trillion in Q2FY24, led by Prime and Affordable disbursement mix to be at 90:10 (Ticket size in the affordable segment will be Rs. 0.16-0.17 Cr and in the Prime segment it will be Rs. 0.26-0.28Cr) and Salaried:Self-employed mix to be at 65:35 over a course of time.
- PNBH has a wide network across 138 cities and 20 states and UTs in India. As of 31st March 2023, the company has established a presence through 162 branches, 27 outreaches and 22 hubs for credit decision-making. In addition, with over 14,000 active channel partners for loans and deposits.
- To capitalize on the favourable market conditions for affordable housing, PNBH has strategically focused on expanding its offering in this segment. As part of this strategy, the company introduced a specialized division called 'Roshni', which is specifically designed to cater to the needs of individuals seeking affordable home loan solutions.
- PNBH started witnessing traction in the affordable space. In Q2FY24, it increased the affordable housing disbursements to Rs. 374 Cr (Previous Quarter: Rs. 228 Cr). Recorded retail loan book growth of 2.6% QoQ to Rs. 58,471 Cr while the overall loan book grew by 0.8% QoQ to Rs. 60,852 Cr.

## Valuation

PNB Housing Finance Ltd. (PNBH) is among top 3 HFCs in India. It has demonstrated improvement in asset quality and with a well-capitalized balance sheet, it is on a way to return to healthy growth trajectory and consistently delivering ROAs >2%.

**We recommend PNBH with a BUY rating which is currently trading at attractive PB of 1.4x and connoting a Target Price of Rs. 970 (1.5x P/BV multiple on FY25E BVPS) and a potential upside of 22%.**

## Risk & Concern

- Increasing interest rates can impact NIMs and overall profitability of PNBH.
- Decline in demand in real estate can impact the overall advance growth and profitability of PNBH.

## Graphs & Charts

Figure 1: Loan book & Growth (YoY)

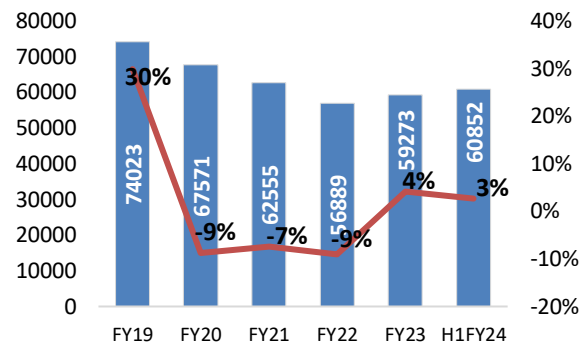


Figure 2: Increasing Retail advances proportion

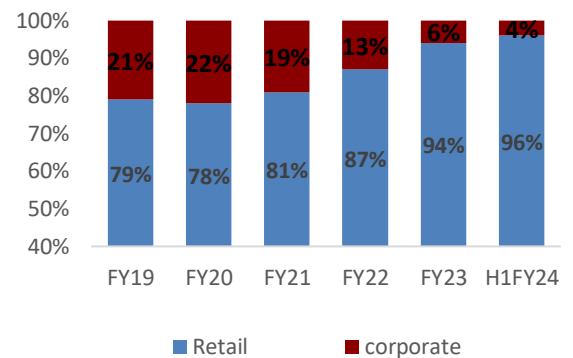


Figure 3: NII and NIMs

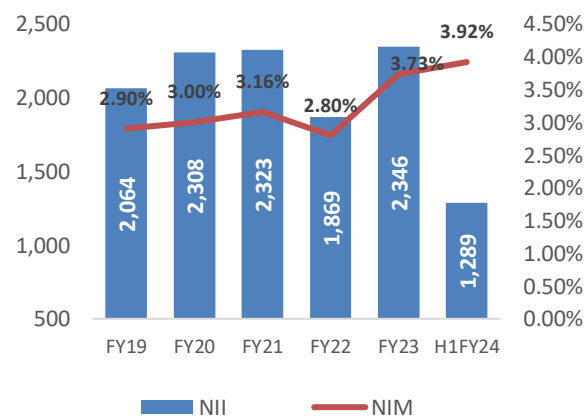
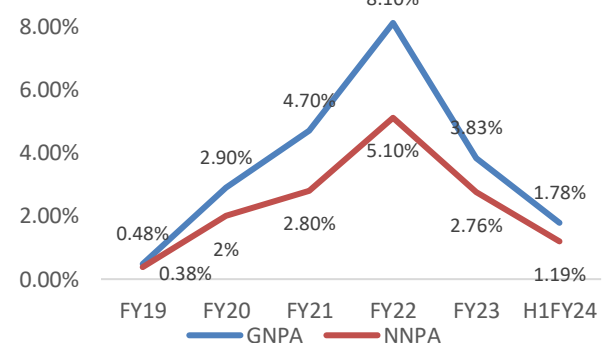


Figure 4: Improving asset quality



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